Benefits and Costs of the Governance & Institutions Targets for the Post-2015 Development Agenda

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Post-2015 Consensus

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Introduction

Over the past decade, the Millenium Development Goals (MDGs) have been a highly visible part of the international development agenda. They arguably have galvanized new effort towards increased aid flows to developing economies, and more broadly, they have provided a framework for developing consensus and promoting action by aid donors and aid recipients towards broad development objectives. As the 2015 deadline for the accomplishment of the MDGs approaches, the international community has turned its attention to assembling a new set of goals to guide international development efforts in the coming decades, referred to as the post-2015 sustainable development goals (SDGs).

Compared with the MDGs, the proposed SDGs cover a much broader array of development topics (see United Nations (2014)). One key new area in the SDGs is governance: the proposed SDG-16 calls for UN member states to “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels”. In this "Perspective Paper", I share some personal views on the proposal to develop goals in this area of governance and institutional quality, together with associated quantifiable targets to measure progress towards these goals. In the short space available, I cannot do justice to the full breadth of the very rich discussions that have taken place around this issue over the past two years in the UN and other international fora. Rather, the scope of this paper is limited to a reaction to a few of the specific issues raised by Mary Hilderbrand in her stimulating "Assessment Paper" on a post-2015 development goal for governance, also prepared for the Copenhagen Consensus (Hilderbrand (2014)).

Hilderbrand (2014) raises a number of concerns with possible SDGs in the area of governance that are worth careful consideration, not just here, but by all participants in the process of articulating such goals. Drastically simplifying, these concerns can be summarized as follows:

- Governance is difficult define
- Governance is difficult to measure
- The effects of good governance on development outcomes are not well-documented
- The effectiveness of aid-financed interventions to promote good governance are not clear

Much has been written on each of these concerns in the extensive literature on institutions, governance, and development, and Hilderbrand (2014) nicely reviews and summarizes many of these debates. The question I address here is whether any of these objections are sufficiently persuasive that an SDG on governance is either infeasible or undesirable.

My argument in a nutshell is that they are not. I make this case by comparing the challenges facing a governance SDG with the objections that could be (and often have been) raised about the MDG to “eradicate extreme poverty” that was adopted in the early 2000s, and has been the most visible of all of the MDGs. While it surely also had conceptual and measurement challenges, this headline MDG has been a highly visible “flagship” for all of the MDGs and has played an important role in setting the development agenda and encouraging aid donors and recipients to work

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together towards the achievement of this goal. In my view governance SDG could serve the same purpose, providing renewed emphasis on the importance of good governance, both as intrinsically desirable and as a means to achieving other development goals.

**Conceptual and Definitional Issues**

It is not hard to imagine the conceptual and definitional challenges faced by advocates of the MDG to eradicate extreme poverty. Should “poverty” be viewed simply as low levels of monetary income? Should it be low levels of consumption? Should we seek to measure low income or consumption at one point in time, or over the lifetime of an individual? To what extent should a poverty measure reflect deprivation in dimensions other than low income or low consumption? For example, should a measure of extreme poverty also seek to directly measure poor health, or low educational attainment, or lack of access to basic infrastructure? Even if there is agreement on a particular set of dimensions in which deprivation is measured, further thorny questions arise. Below what threshold should deprivation be considered sufficient to count as “extreme” poverty? Is this threshold the same across countries and over time? How should we treat those “just above” a given threshold who might nevertheless be at risk of falling below the threshold in the near future? Is a threshold even appropriate, or should deprivation be measured as some weighted average across the entire distribution of outcomes, with successively lower weights on those who are relative less deprived? How should deprivation in different dimensions be combined to arrive at some overall level of deprivation?

This non-exhaustive list of questions gives a flavor of the significant conceptual and definitional challenges facing advocates of an MDG to eradicate extreme poverty. In the end, the international community operationalized this goal by setting three particular targets: to halve the proportion of people living on less than $1.25 per day between 1990 and 2015, to achieve “full and productive employment and decent work for all”, and to halve between 1990 and 2015 the proportion of people suffering from hunger. It seems clear that the particular targets chosen to operationalize the extreme poverty MDG did not address the plethora of conceptual challenges noted in the previous paragraph – in fact, it seems plausible that no single target used to measure progress towards this goal would have been able to satisfactorily address all of these conceptual challenges. But this did not prevent the international community from adopting both the broad goal and a few specific targets used to measure progress towards this goal.

A similar case can be made regarding proposals for a new SDG in the area of governance. The economics and political science literature is replete with different definitions and conceptualizations of governance. As early as 400 BCE, the Arthashastra identifies the duty of the king to protect the wealth of the state and its subjects and to enhance, maintain, and safeguard this wealth as well as the interests of the kingdom’s subjects (Kautilya (1992)). North (2000) implicitly defines institutions as those features of society that “create incentives for people to invest in more efficient technology, increase their skills, and organize efficient markets”. In its 2001 World Development Report, the World Bank defined governance as “rules, enforcement mechanisms, and organizations”, while in its 2007 Governance and Anticorruption Strategy governance was defined as “the manner in which public officials and institutions acquire and exercise the authority to shape public policy and provide public goods and services” (World Bank 2001, 2007). The widely-used Worldwide Governance Indicators project defines governance as “traditions and institutions by which authority in a country is exercised. This includes the process by
which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kaufmann, Kraay and Mastruzzi (2011).

Despite the profusion of definitions, it is possible to identify a few common themes across these many definitions of governance in the literature. Most of them emphasize the importance of a capable state, operating under the rule of law, that is able to provide an array public goods and be held accountable for failures to deliver such public goods. These key elements can also be found in the proposed SDG-16 on governance. Without denying that there are definitional disagreements in the area of governance, it is not obvious to me that they are any worse than the definitional disagreements preceding the articulation of the extreme poverty MDG, or that they should preclude the articulation of governance SDG.

**Measurement Issues**

Agreeing to define “extreme poverty” in terms of the proportion of people living on less than $1.25 per day raises immense practical measurement challenges. A basic requirement is high-quality survey data that can capture consumption and/or income at the household level. When the World Bank first started calculating measures of global poverty in 1990, its measurement was based on just 22 household surveys. While the number of available surveys has increased dramatically over the next 20 years, still only about 50 new surveys per year are available across the developing world. Measuring income and consumption within a given survey present formidable challenges, ranging from imperfect recall of past consumption to the difficulties of attributing monetary value to in-kind transactions. Extrapolating poverty estimates from a survey to the entire population requires reliable census data and careful design of the sampling scheme for the survey. Making comparisons of living standards across countries also requires purchasing power parity adjustments to correct for price level differences across countries. Enumerating these many measurement challenges occupies much of a nearly 300-page recent World Bank report on that institution’s twin goals of eliminating global poverty and promoting shared prosperity (World Bank 2014).

Measuring governance similarly poses a wide range of practical challenges, many of which are reviewed in Kaufmann and Kraay (2009), as well as in several other surveys on governance measurement cited in Hilderbrand (2014). Rather than attempt to exhaustively summarize the full range of measurement issues, here I focus on two that I think are most important for the issue at hand. The first is to strike an appropriate balance between subjective measures of perceptions governance quality and corresponding objective measures of governance. To give a concrete example of these two types of data, one can consider assessing governance using survey-based perceptions of how widespread corruption is, or one can instead draw on objective measures such as the number of prosecutions for corruption, or an indicator noting whether the law of a country prohibits public officials accepting bribes.

Unfortunately, debate over the distinction between these two types of governance measurements has generated rather more heat than light, complete with the somewhat pejorative labeling of the former as “soft” and the latter as “hard” data on corruption. Doing so misses the point that both types of data can play an important role in capturing governance realities. In the case of formally
illegal activities such as corruption, finding convincing direct objective measures is rarely possible, and self-reported perceptions may be the only alternative. Moreover, perceptions themselves matter – if for example individuals believe the police or the courts are corrupt, they are unlikely to avail themselves of these vital public services. If voters believe the political system is corrupt, they are less likely to participate in elections, undermining this key accountability mechanism. In contrast, "hard" indicators such as laws or regulations regarding corrupt practices, although clearly-measured, may not be all that useful without an assessment of whether they are followed in practice. Rather than set these two types of data in opposition to each other, it is more productive to think about careful ways of combining them to arrive at more useful measures of governance. A great example of this in practice can be found in the Global Integrity Index and its successor African Integrity Indicators (www.globalintegrity.org). This project combines very specific factual questions about the legal and institutional environment relevant to various dimensions of public sector accountability with respondents’ subjective views on how well these specific rules are implemented in practice.

The second key area in governance measurement is the importance of acknowledging and quantifying measurement error in governance indicators. This measurement error arises from two sources: (i) difficulties in measuring very specific dimensions of governance – for example, sampling variation in surveys, as well as (ii) discrepancies between the objects that are feasible to measure and the broader concepts of governance that we may want to measure – for example, even a carefully-designed and well-executed audit of financial irregularities in a particular public spending project will only provide an imperfect signal of broader public sector corruption.

While the existence of such measurement error seems uncontroversial, it is still unusual to see it recognized explicitly in empirical measures of governance. One exception to this pattern is the Worldwide Governance Indicators project (www.govindicators.org), which reports explicit margins of error together with point estimates, for all countries, indicators, and years included in this dataset. These margins of error reflect the inherent difficulties in measuring governance and institutional quality. Reporting such margins of error and taking them seriously helps users of governance indicators to avoid spuriously-precise comparisons of governance across countries and over time. For example, the standard errors reported in the WGI allow users to assess the probability that the actual (but unobservable) level of governance in one country is the same as that in another country, or at another point in time. However, such statistical formalism is not essential, and many simpler ways of documenting imprecision are also possible. For example, in the case of governance assessments that are the result of scoring by a small number of experts, it should be routine to report not just the average score assigned by the experts on a specific question, but also the range of responses across experts.

Acknowledging limitations on precision in measurement should be an integral part of identifying target indicators that can be used to track progress towards a governance SDG. In fact, this might be one way in which a governance SDG could improve over the measures used to monitor the extreme poverty MDG, which did not explicitly acknowledge measurement error even though it surely was present in global poverty indicators as well.
Effects of Good Governance on Development Outcomes

As noted in Hildebrand (2014), it is possible to question the case for an SDG focused on governance on the grounds that the empirical evidence linking better governance to growth or other development outcomes is inconclusive. While my own take on this literature is somewhat less pessimistic, in my view this issue is somewhat beside the point. Again, the comparison with the extreme poverty MDG is useful. In my reading of the literature, neither in the early 2000s when the MDGs were formulated, nor today, is there a strong empirical consensus that that countries with a low headcount measure of poverty grow faster. Nor is there evidence that having a smaller proportion of people who are malnourished has a causal effect on faster growth. Yet this lack of evidence of a growth benefit from reduced poverty or reduced hunger did not disqualify reductions in both from being two of the three key targets used to monitor progress on the extreme poverty MDG.

One way to interpret this is to view the extreme poverty MDG as an aspirational target, reflecting the consensus that economic deprivation and hunger are intrinsically undesirable, and that the development community should work together to reduce both. If anything, a possible critique of the extreme poverty MDG is that it was insufficiently aspirational, in the sense that it aimed at targets that were too narrow (purely income poverty, and measured only in terms of the fraction of people below the threshold) and too low ($1.25 per day corresponds to a very austere living standard, and it is difficult to argue that those living on even several multiples of this poverty line are “not poor”).

If we think of a governance SDG as a broad and aspirational objective, then it similarly is important to keep the associated targets broad and ambitious. Doing otherwise risks “defining development down” in the words of Kenny and Pritchett (2013). This has implications for the type of indicators one might use to measure progress towards a governance SDG. For example, one important dimension of governance that deserves monitoring in the context of an SDG is corruption. A narrow and unambitious target might focus on efforts to fight low-level corruption (such as prosecutions in the police or the bureaucracy). On the other hand a more ambitious target might focus on survey-based perceptions of corruption in the public sphere more broadly, including at the highest levels. Similarly, another important dimension of a governance SDG is greater accountability. An unambitious target might focus on the presence of elections to some relatively unimportant local level, while a broad and more ambitious target would seek to measure the extent to which national level elections are perceived as free and fair and reflecting the will of the voters.

Yet another example comes from the latest draft of the post-2015 development goals, which proposes universal provision of legal identity documents to all by 2030 as one of the targets used to monitor progress towards the governance goal. Providing legal identity is an important public good that can facilitate a wide range of private sector transactions (such as ensuring accuracy of data in credit registries) and public sector transactions (such as identifying beneficiaries of public assistance programs). However, it is important not to conflate this worthy technocratic success with the broader goal of improved governance. Doing so again risks “defining development down” from, in this case, the ultimate goal of capable, effective and accountable public sector governance.
Effects of Aid to Promote Good Governance

Hildebrand (2014) discusses at length the decidedly mixed evidence on the efficacy of aid in promoting governance reforms in developing countries. To the extent that the post-2015 development goals are intended as a call to action for aid donors to provide more development assistance, this objection is worrisome. Put bluntly, why should developed countries subscribe to a governance goal if their main policy instrument, aid, cannot influence progress towards this goal? There are once again two useful parallels with the earlier extreme poverty MDG that can help to address this objection.

The first parallel is that largely the same criticism arguably could have been leveled at the extreme poverty MDG when it was first proposed. A very robust stylized fact is that sustained per capita GDP growth is the key ingredient in reducing headcount poverty. For example, Kraay (2006) documents that over 90 percent of the variation across countries in trends in poverty reduction is due to cross-country differences in average growth performance. Yet even now, and certainly at the time when the poverty MDG was first formulated, the jury still is out on the effects of aid on growth, and through this channel contributing to poverty reduction. Although a profusion of papers have tackled the question of the effects of aid on growth, little in the way of robust conclusions has emerged from these efforts. However, this lack of strong evidence on the links from aid to growth did not prevent the development community from adopting the goal of halving extreme poverty.

The second parallel is that some barriers to poverty reduction also reflect purely domestic policy failures and distortions that could be corrected by purely domestic interventions. Examples of this include poorly-targeted fuel subsidies that mostly benefit the middle class but could be much more pro-poor if better targeted, as well as the tendency to concentrate health or education spending in major facilities in urban areas even when shifting resources to rural schools and clinics might be more pro-poor. Such distortions that prevent poverty reduction can in principle be addressed by countries on their own, and with relatively little external aid. In short, the extreme poverty MDG was not just a call for action on the part of aid donors. It also was a call for developing country policy responses towards the same goals.

The same could be true of a post-2015 governance SDG. Articulating an SDG focused on improved governance does not imply that poor governance is a purely technocratic problem that can be “fixed” by some combination of outside money and outside expertise provided by aid donors. If this were all that were required, many of the governance challenges facing developing countries could have been addressed long ago. Rather, a governance SDG could better be viewed as setting a challenge for developed and developing countries alike to work together towards a broad aspirational goal.

Concluding Observations

As the 2015 deadline for attaining the MDGs approaches, focus has shifted to defining the next set of post-2015 SDGs. One of the more controversial areas for the SDGs is improved governance, and as summarized in Hilderbrand (2014), there has been much discussion over whether governance can even be defined or measured, let alone whether improvements in governance will lead to better development outcomes and whether aid can foster better governance. All of
these are important questions worthy of further investigation and research. However, when considering an SDG in the area of governance, it is important to view these challenges in the context of challenges facing the developers of the original MDGs. The analogies between the potential objections to a governance SDG and past objections to an MDG focused on the reduction of extreme poverty are striking. I have argued that the very considerable conceptual and measurement challenges in the area of governance may be no more severe than those in the area of global poverty. Similarly, in both areas, the state of the empirical evidence on the links from aid to either lower poverty or better governance, and from there to faster growth and development, leaves much to be desired. Yet all of these challenges did not prevent the international development community from articulating an MDG for poverty reduction that has proved to be a very powerful tool for encouraging greater effort on the part of aid donors and aid recipients to work together towards this goal. Similar objections need not prevent the formulation of a post-2015 SDG in the area of governance.
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This paper was written by Aart Kraay, Economist in the Development Research Group at the World Bank. The project brings together 60 teams of economists with NGOs, international agencies and businesses to identify the targets with the greatest benefit-to-cost ratio for the UN’s post-2015 development goals.

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