Chapter 44
The Inter-Linkage Between Governance and Poverty:
Evidences from SAARC Countries

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ABSTRACT

This chapter aims at assessing the impact of governance on the country's economic and human well-being in the selected South Asian countries. The study finds that for the countries-India, Pakistan, Bangladesh, Sri Lanka and Nepal, over the years 1990-2012, the growing rate of GDP per capita (PPP) and growing employment to population ratio has a significant negative impact on the Global Hunger Index as expected. Also the panel regression run for the eight SAARC countries over the period 2007-13 to find out the impact of each of the six governance indicators on the per capita GDP showed that political stability and absence of violence, government effectiveness and regulatory quality have very strong and significant role in augmenting the economic output besides the remaining indicators. The trends for each of the indicators across countries over time show that except Bhutan, none of the countries are exhibiting good performance of the governance indicators.

INTRODUCTION

It is undeniable that governance is an indispensable regulatory parameter in upbringing the health of an economy. The public expenditures made in the past periods have a positive correlation with the human development index in the current period (UNDP, 2013). Likewise, efficient governance is a precondition for any nation to benefit from the various development programs taken up for the mass human development. Over the past few decades, policy measures have been taken up in the developing and underdeveloped countries all over the world through provision of certain basic entitlements necessary for a decent living like providing food, education, health services, safe drinking water, besides several

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other entitlements which in turn enables the people to work and earn their living thereby promoting human and economic development.

The target of a state is to maximize the welfare. This act of maximizing the welfare is successful if the welfare is inclusive: that which involves all the sections of the society irrespective of economic class, topography, age, gender, caste, creed, political affiliation, education etc. and the public services that the state provides should percolate equally to all the targeted beneficiaries. The public welfare entwined with the welfare of the state thus depends on how efficiently the state runs its administration for implementing the various schemes taken for the well-being of its stake-holders (public). It also depends on the level and extent of participation of the public in the decision making process and in policy framework for those specific beneficiaries. The Government should be maintaining a transparent system which would involve an active participation of the stake-holders (both providers and beneficiaries) thereby promoting public confidence on the Government. The stronger the public confidence on the Government, the larger is the scope for the state to receive foreign and domestic investment, which, if sustains, would further promote production.

Several outcomes act as parameters for a sustained growth and development. Higher investment occurs due to sustained increased consumption which augments labor employment and hence better job prospects. Thus proper resource allocation, distribution and utilization are very important aspects for a sustained development. When public resources are privately used up by the public servants for their personal gain, there appears the failure of strong governance, resulting in corruption. International confidence on the concerned domestic countries is very much dependent on the perception of corruption. If the beneficiaries and stakeholders of the public services perceive and express satisfaction about good functioning of the government thereby facilitating all the stakeholders equally and justly, there is said to exist good governance. Thus growing and sustained international confidence in an economy invites more of foreign investment and aid which promote development. So, a good governance results in higher economic growth, better redistributive policies implying equitable distribution of wealth and resources, increased employment opportunities, rising income, production, consumption, investment and economic growth. In economies where the inequality is high, the differences between the rich and the poor are demarcated well; there exists poverty among the lower sections of the society. If inequality is high, the aggregate demand made by the consumers in the society as a whole lowers which in turn affects production. As production goes down due to reduced demand, the producers cut short their production expenses, as a result of which, unemployment occurs resulting in loss of earning opportunities. Thus, in an economy with persistent inequality and poverty, there is less equity in all the sectors of the economy. The sectors may be economic, social or political. So a welfare oriented state which always aims at good governance reduces poverty, lowers economic inequality and promotes equitable distribution and participation.

The international organizations and regulatory bodies like the World Bank and the IMF are concerned with the issues of governance and institutions in the developing economies, particularly with corruption. Evidences are there which say that good governance and institutions help in accelerating development and in reducing poverty in the developing countries. Thus good governance impedes corruption and poverty in developing economies.

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