

EDI INSTITUTIONAL DIAGNOSTIC

MAPUTO LAUNCH WORKSHOP: INTRODUCTION

François Bourguignon
Paris School of Economics

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The Economic Development and Institutions (EDI) Research Program

Objective of EDI

- Role of *institutions* (economic, social, political, cultural, ..) in economic development long recognized
 - State vs. market debate, protection of property rights, uncorruptness, trust, ...
- Yet, analysis has been unable to fully identify the nature and the mechanisms of that complex and diverse relationship
- EDI is an attempt to make progress in the understanding of the way institutions affect development and vice-versa
- But, what do we call institutions?

Defining Institutions

- Definition along the lines of Douglas North:

"Explicit or implicit rules of the games through which economic agents coordinate their actions"

- **Explicit:** law, custom, political systems, type of leadership, civil society, unions, functioning of the administration, market regulation, taxation principles,
 - Difference between institutions and policies
 - Difference between institutions and organizations
- **Implicit:** informal contracts (informal employment, personal loans), trust, culture, corruption (!), ...
- **Note:** implicit institutions may be unlawful and explicit institutions may be disobeyed in a coordinated manner

The components of the EDI program

Four research activities:

1. A set of stock-taking covering all institutional areas (forthcoming Handbook)
2. Institutional diagnostic
3. Field experiments of institutional reforms (legal sector, civil service)
4. Relationship between formal and informal institutions

The EDI Institutional Diagnostic research activity

- Objective: design tools and/or methodological recommendations to identify '*institutions*' most likely to slow down economic development
- Artificial parallel with 'growth diagnostics'
 - The definition of institutions and their multiplicity
 - The lack of a well-defined framework linking institutions and development
- Research strategy: 5 case studies combining conventional analytical tools and in-depth analysis of 'key' areas
 - Test the usefulness of standard tools: surveys, global indicator databases, growth diagnostics, open-ended interviews with top decision-makers, ..
 - Deep-dive into specific economic/institutional areas
 - Identify similarities and differences in the development/institution relationship across countries
 - Draw from those experiences recommendations about how to diagnose institutional weaknesses in a country

The five case studies

- Necessarily low-income countries (in Africa and Asia)
 - Studies undertaken sequentially so that each study may learn from previous ones
1. Tanzania
 2. Benin
 3. Bangladesh
 4. Mozambique
 5. Not decided yet

Defining Institutional weakness

- An institution may be 'weak' because:
 - It is fully enforced but leads to non-desirable outcomes (e.g. centralized decisions often are inappropriate because ignoring local information.)
 - It would be good a priori but is not fully enforced because of lack of resources, incentives, capacity, infrastructure, adequate monitoring
 - It is not enforced because of counteracting institutions, e.g. informal institutions blocking formal institutions or reforms as when informality allows to evade taxes or labor laws
 - Not an issue of enforcement but of mindsets (e.g. trust in government or in private sector)
 - Of course, an institution may be weak 'for all of the above!!!'

The common structure of case studies (Example of the Tanzania diagnostic)

Introduction by editors (FB and Sam Wangwe)

PART 1. General approach to the diagnostic

1. Political and economic development of Tanzania over last decades (FB)
2. Collecting insights for an institutional diagnostic (FB & F. Libois):
 - *Open-ended interviews of top decision- and policy-makers*
 - *The Country Institutional Survey: questionnaire survey*
 - *Institutional indicators: how 'different' is Tanzania*
 - *Institutional implications of 'growth diagnostics'*
3. Conclusion Part 1: 5 critical areas

Business and politics; Civil Service; State coordination (decentralization); Land rights; Regulation (power sector)

Tanzania diagnostic (ct'd)

PART 2. Thematic studies

3. Business and politics (Sam Wangwe, Hazel Gray discussant)
4. Civil Service (Rwekaza Mukandala, Jan Willem Gunning discussant)
5. Decentralization (Servacius Likwelile and Paschal Assey, Jan Willem Gunning discussant)
6. Land rights (Mramba Sist, Klaus Deininger discussant)
7. Regulation power sector (Anton Eberhard and Catrina Godinho, Antonio Estache discussant)

PART 3. Synthesis

8. The Tanzania Institutional Diagnostic (Francois Bourguignon and Sam Wangwe)

Some conclusions of the Tanzania diagnostic

- Identified institutional weaknesses for development:
 1. Ill-defined structure of public decision-making (*Overlapping responsibilities; Centralization bias; Law implementation gap*)
 2. Selective distrust of market mechanisms and private sector
 3. Under-performing civil service
 4. Rent-seeking and corruption (very much the consequence - or the cause of 1)
 5. Patronage and weak regulation of business
- Proximate causes:
 - Under-capacity, complexity of the law and administrative procedures, misaligned incentives, type of leadership
- Deep factors:
 - Political game (constitution, de facto distribution of political power, social structure, ideology, role of donors, trust)

Time now to talk about Mozambique

Thank you