Appraising institutional challenges in the early stages of development

Chapter 10: Conclusion

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François Bourguignon
Paris School of Economics

Jean-Philippe Platteau
University of Namur

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Chapter 10: Conclusion

In this chapter, we begin by summarising the central lessons of our whole exercise. We then address the thorny question of their implications for development assistance.

10.1 Major lessons

Two central lessons can be drawn from the foregoing analysis. First, many institutional failures are traceable to the way politics functions. Therefore, any diagnosis or understanding of the impediments to a country's long-term development that overlooks the country's political economy is doomed to yield mistaken or incomplete conclusions. Because almost all diagnoses are deficient in this critical respect, it is unsurprising that the hopes placed by Western donors in the development prospects of particular countries have frequently been dashed. Upon careful examination, disappointment is found to have been caused not so much by sheer ignorance of politics as by the influence of rather naïve views that underestimate the complexity of political economy mechanisms. This has recently been testified to by the poor impact of Western aid interventions in fragile countries, such as Haiti, Mali, Somalia,, and Afghanistan. Moreover, because political patterns are influenced by the historical path of a country, its geopolitical situation, and particular aspects of its social fabric and culture, any political economy analysis needs to be country specific. This does not mean that there are no features that are common to certain countries, but that these should not be assumed *a priori* on the basis of superficial examination, and specific features should be investigated.

The second lesson is that informal institutions, rules, and practices, as well as the way they interact with formal institutions, are another privileged angle through which a country's institutional functioning ought to be approached. Again, because informal institutions can vary from country to country, depending upon their particular history and culture, there is a need to go beyond any general approach based on stylised facts or simple categories. Here, details matter, as has been amply demonstrated by our discussion of the importance of informal land rights (Benin, Tanzania, and Bangladesh), and the role of personalised networks and their informal contract enforcement mechanisms in support of small and medium-sized enterprises (Taiwan). Our above conclusion that a one-size-fits-all model cannot succeed is thus reinforced.

As we see it, the present endeavour makes three important contributions. To begin with, we have proposed a methodology that aims to enable analysts to navigate their way through the data and information which need to be collected to form a sound institutional diagnosis. The approach proposed consists of two major phases: an exploratory phase, during which international databases are mobilised and local expert opinions collected; and an in-depth analysis phase that is intended to probe strategic sectors or domains where institutional obstacles appear to be especially salient. This meso-level institutional analysis is itself preceded by an economic diagnostic based on the twin concepts of a growth engine and structural transformation, the latter being itself rooted in the dual economy framework initially proposed by Arthur Lewis. As we have found, poor countries tend to be characterised by the absence of a clearly identifiable growth engine (Tanzania), an artificial or unsustainable growth engine (Benin), a misleading growth engine based on resource rents (Mozambique), or a working growth engine that is at risk of misfiring (Bangladesh).

Our second contribution lies in the lessons learned from the institutional analysis: if institutional hurdles and the sectors of the economy where they are manifested are not necessarily identical across countries, behind them stand generic issues or problem areas. The identification of these issues provides us with a privileged instrument with which to penetrate into the institutional territory of a country – and more particularly into those parts that matter for long-term development. Our attention has thus been drawn to institutional aspects which have been largely bypassed or generally under-estimated by economists and international experts to date: the role of initial conditions, with special attention to geographic and demographic conditions; the quality of political leadership and state autonomy; state capacity (including property rights); the nature of state–business relationships; the functioning of the judiciary; bureaucratic failures, with special attention to problems of coordination between its various parts; and land rights, with special attention to the role of informal rules and customs.

Moreover, crucial interlinkages between some of these core problems have been brought to light. For example, state capacity failures are often better understood when they are explicitly related to the political regime. This is typically the case when teacher absenteeism is caused by a political system of clientelism dominated by quasi-feudal local elites. Similarly, poor coordination between key administrative departments is more likely to be serious and difficult to remedy in contexts where these departments are viewed as political fiefdoms by the incumbent ministers and their close circles. To give a final example, formal property rights cannot be effectively enforced if the judicial system is dysfunctional and, in particular, if magistrates and judges are prone to corruption. In the latter instance, indeed, cash notes carry more value than a land title.

Our third contribution is our revisiting of the cases of two East Asian tiger countries, South Korea and Taiwan, with a view to looking at the findings emerging from our four case studies from a novel perspective. By confronting these findings with lessons from the successful cases of the two former countries at the time when they more or less at the same development level as the latter countries are today, the idea was to use South Korea and Taiwan not as benchmark cases that ought to be replicated but, more realistically, as guides that can focus our attention on important institutional dimensions of development. The aforementioned generic issues of the role of initial conditions, the quality of political leadership and state autonomy, and state capacity have thus come out as key entry points into the Taiwanese and South Korean experiences of successful development. Furthermore, the critical importance of state–business relationships, which emerged from our four case studies, has been fully confirmed by our review of these two experiences.

More fundamentally, the same experiences illustrate in a stark manner that countries may have their own path towards development, especially – yet not exclusively – in regard to the way politics works and the way the state is organised. The fact that countries as apparently similar as Taiwan and South Korea, two showcases of developmental states, exhibited some significant differences in their mode of structural transformation further reinforces this point. Western development models – in the plural since there is no unique Western model – are not unique recipes for development, even though they contain useful lessons for latecomer countries. Thus, the developmental role of the authoritarian political regimes of the two above countries cannot be easily dismissed. It is probably not coincidental that they are inspiring the present regimes of President Kagame in Rwanda and President Talon in Benin, although in the latter instance the profile of the autocrat somewhat differs from the profiles of

Taiwan's and South Korea's political strongmen at the time of independence. The short-lived regime of President Magufuli in Tanzania is another possible illustration of the authoritarian way to development. An apt warning, however, is suggested by the case of Pakistan, where the rule of Ayub Khan held the promise of state-directed development, yet was succeeded by regimes which destroyed the autonomy of the state by politicising the administration and subordinating civil servants to elected politicians. Clearly, the institutional foundations must be stable enough, at least during the critical take-off period (when the growth engine is set in motion), to make long-term progress possible.

The role of the state in directing and stimulating development obviously varies across countries but one lesson is universally valid: to be effective, development requires that sufficient space be created for market forces to exert their competitive pressures. This is the indisputable conclusion that must be drawn from our assessment of the so-called socialist regimes in all our case study countries. It is also derived from the experiences of Taiwan and South Korea, where, like in present-day China, economic planning and the centralisation of politics in the form of single party rule have never implied the removal of private incentives. On the contrary, the governments of the latter countries have shown great skill in mobilising private initiative and devising performance-based contracts in their relations with the private sector.

Another respect in which Taiwan and South Korea are extremely inspiring is by suggesting that an educated workforce and a competent administrative staff are major prerequisites of growth and development. The distressing education records of most poor countries in the developing world, measured not so much by admission or graduation rates as by learning outcomes, need to be urgently remedied if sustainable development is to be achieved.

10.2 Implications for development assistance

At the end of the day, we must inevitably raise the question of the lessons to be learned by the international donor community. The first lesson is that the donor community needs to have good knowledge of the countries it deals with, particularly with respect to the dimensions on which our study has shed light. Examples abound where interventions were made without sufficient information about their potential adverse effects, such as when financial support for basic education was abruptly reduced, despite its pivotal importance for development. Second, since politics strongly affects development results, a donor cannot ignore the role of governance, and this implies that aid allocation decisions must necessarily be made on the basis of a needs–governance trade-off. In addition, the donor must decide whether the aid awarded is going to be effectively monitored, with inevitable sanctions when fraud is detected. We have seen that in some cases – Benin, for example – donors have shown a lot of laxity in the presence of a series of well-published scandals, which creates the suspicion that they are pursuing other aims than aid effectiveness. Also, their readiness to use *ad hoc* measures to bypass the implications of governance indicators is to be questioned.

As shown in Bourguignon and Platteau (2021a, 2021b), the advantage of using donor monitoring is that it increases the chance that poor and badly governed countries will be eligible for aid, provided, however, that the initial gap between their governance quality and the quality observed in other poor but better-governed countries is not too large. Budget aid, grounded in the idea of partnership between donor and recipient, is evidently not recommended when conditionality needs to be imposed by the former on the latter. By contrast, when a donor deals with poor and badly governed countries whose populations are crying out for external assistance, project aid, and to a lesser extent programme aid, seem advisable. The reason is that such aid modalities are more easily monitored, in part because they may be implemented by non-governmental organisations or private companies contracted by the donors. An extreme case is the mode of intervention favoured by China, which involves financing and building infrastructure facilities in Africa. Because, following the argument developed in Bourguignon and Platteau (2021), monitoring intensity may be tailored to the specific governance situation of each recipient country, recourse to project aid need not be systematic: appropriate for so-called fragile countries, it may be largely dispensed with in poor and better-governed countries.

Devarajan and Khemani (2016: 21) make the point that, when government failures are the result of politics, priority ought to be given to aid modalities in which citizens' ability to hold the state to account is maximised. In short, aid should primarily aim to promote citizen engagement and transparency (p. 21). Along the same lines, Wade (1985: 488) stresses the need to strengthen the rules of public disclosure or accountability in order to curtail corruption. This prescription raises the question as to whether aid should aim to improve governance directly or, rather, to lay out the infrastructural basis of long-term growth, promote better education, health, and technical training, and reduce poverty. We submit that the latter option should be followed but strict conditions and rigorous monitoring should be attached to the disbursement of aid so as to make it as effective as possible. Moreover, whenever people's participation and self-assertion are an important prerequisite of success, like in many rural development programmes, donors must encourage the underlying processes. In many cases, this may require that on-the-ground interventions are entrusted to non-government organisations, or similar types of associations, both local and international.

Our main point, however, is that general governance in recipient countries cannot be exogenously modified, whether by demanding public transparency or otherwise. Placing great hope in the ability of foreign actors to initiate changes in governance is bound to lead to disillusionment, and it may even happen that such attempts will trigger nasty backlash effects. On the other hand, as the Taiwanese historical experience testifies, improvements in state accountability and the promotion of a civil society evolve gradually and are the outcome of development, rather than its pre-condition. Also, if economic liberalisation was largely undertaken under foreign pressure in the case of Taiwan, political liberalisation was to a great extent an endogenous process, in which even the authorities eventually participated. The problem is of course more complicated when the political leadership is deficient, say because the clique in power is corrupt or the ruler has unrealistic views regarding the country's growth potential. It is in this sort of especially hard circumstance, however, that effectiveness in aid use should arguably be a major preoccupation of the donor community.