ECONOMIC DEVELOPMENT & INSTITUTIONS

Appraising institutional challenges in the early stages of development

Chapter 3: Case studies on Benin and Tanzania

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François Bourguignon
Paris School of Economics

Jean-Philippe Platteau
University of Namur

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Chapter 3: Case studies on Benin and Tanzania

3.1 Benin

Defining the question behind the institutional diagnostic

The Republic of Benin (formerly known as Dahomey) is a country in West Africa that is bordered by Togo to the west, Nigeria to the east, Burkina Faso to the northwest, and Niger to the northeast. It is a rather small country, with a population of approximately 11.49 million people (2018 estimate) and it is about the same size as three of its neighbours yet is considerably smaller than one of them, Nigeria, which has a population close to 200 million.

There are several reasons why Benin is an interesting country to study, and some of them have no doubt contributed to making it an aid darling for many donors. First, although it is made up of an extraordinarily varied mosaic of peoples and ethnic groups, this does not seem to have created serious problems as in certain other parts of sub-Saharan Africa. Second, it is a place with a long legacy of all sorts of political entities, running from old kingdoms or empires to principalities and microstates (possibly born of the breaking up of kingdoms or empires), which have also coexisted with stateless areas dominated by non-hierarchised families and clans. Because over the last 10 centuries the country has been the locus of numerous waves of migration from neighbouring countries, it is a multi-national state with strong links to its neighbours, and has porous and flexible borders considered from the standpoint of human settlement. Relatedly, with its direct access to the sea in its southern part, Benin has long been a nexus of trade networks and routes actively engaged in regional and even external commerce. These seem to be ideal conditions for long-term development based on an open (small) market economy. Third, although it was subject to a long-enduring Marxist-Leninist military regime under Lieutenant-Colonel Mathieu Kérékou (1972–1990), Benin has proven able to transition to democracy peacefully and then to enjoy political stability through a long period of regular democratic elections. Fourth, being deprived of mineral and non-mineral resources, the country is apparently in a position to eschew the resource curse that has impaired growth and development in many African countries endowed with abundant such resources.

The picture appears less rosy, however, when completed by a number of hard facts. Ranked among the world's poorest countries at the time of independence (1960), Benin has barely succeeded in improving its position since then: although quite volatile, the annual growth of its GDP per capita hardly reached 1%, a disappointing performance partly explained by a very high population growth rate of close to 3%. In addition, improvements in the standard of living have been not only slow but also unequally distributed. The coastal cities of Porto Novo and Cotonou, together with their hinterland, constitute the growth pole of Benin's economy. It is in their tiny departments that poverty is kept under control, unlike in many other parts of the country, where it remains intolerably high. The northern and rather remote part of the country, in particular, suffers from neglect, in the form of a lack of critical public investments, and this is despite the fact that its political representatives have not been consistently deprived of access to the highest levels of state power. Not surprisingly, achievements on the poverty front are also dismal since there does not appear to have been a noticeable reduction in the incidence of poverty during the last decades. Moreover, there is evidence that the severity of poverty has increased significantly, as reflected in the decline of the real expenditures per capita of the bottom 40% of the population. Since the same holds true for income inequality, it can be confidently said that growth in Benin has not been inclusive, to put things mildly: the gains from growth have disproportionately accrued to the top of the living standard distribution.

As could be expected on the basis of the low per capita income growth performance, the economy of Benin is afflicted by low rates of labour productivity growth throughout most sectors. It is striking that capital per capita has contracted over the whole period since 1970. It thus contributed weakly to growth of per capita income, which largely resulted from total factor productivity (TFP) growth. In addition, the observed change in TFP largely reflects major changes in the sectoral structure of the economy, away from agriculture and towards manufacturing and, above all, services. Here, too, the situation is rather worrying: while most of the limited overall productivity gains can be attributed to labour movements from lower to higher productivity activities, they have come at the cost of decreasing productivity in many of the latter activities. In other words, no sector emerges as a genuine growth engine. A possible exception is perhaps the financial sector, but this has practically no impact on employment. From an examination of the evolution of the structure of output, employment, and productivity, it therefore appears that most TFP growth is due to net labour migration out of agriculture, with no autonomous productivity gains in the destination sectors.

The question that then arises is how Benin came to waste its development potential. Any institutional diagnostic of the country must attempt to provide an answer to that question. This is the task to which we now turn.

Two pseudo-engines of growth

A valid starting point is the observation that Benin's economy has rested on two pseudo-engines of growth: the cotton sector and the illegal cross-border trade with Nigeria. Cotton is the backbone of the formal Beninese economy, representing a large share of its export revenues, tax proceeds, manufacturing output, and (formal) employment. As for its contribution to GDP, it is of the order of 10% or more. It is well-known that the price of raw cotton is subject to wild world price fluctuations, hence the need to smooth their impact on producers and to diversify the sector by encouraging the production of cotton-based textile products. If the former requirement has been satisfactorily met, the same cannot be said of the latter, which raises the whole issue, to which we shall return, of the reasons underlying the weak performance of the manufacturing sector. Moreover, it appears that over long periods of time Benin's cotton sector has performed much more poorly than its two main rivals in West Africa, Burkina Faso and Mali. Thus, after substantial growth from 1980 to the mid-1990s, production did not grow for the next 20 years, and it even fell dramatically in the mid-2000s. It is only recently that production has been able to overtake its 1996 record level.

Because Benin did badly compared to its regional competitors during a prolonged period, we cannot account for the erratic performance of its cotton sector by simply referring to depressions in world prices or adverse weather conditions in the country. More structural factors specific to Benin must therefore have been at play. The first thing to note here is that the general organisation of the cotton sector does not essentially differ between the three main West African producer countries, and producer prices are also comparable. Activities ranging from the provision of inputs and credit to producers to the collection of cotton seeds and the purchase and ginning of their harvests are integrated under a monopolistic structure. Whereas in Mali a national company is in command of the whole sector (except production), in Burkina Faso and Benin an *Association Interprofessionnelle du Coton* (AIC) is in charge, which comprises several private or semi-private companies. In the case of Benin, however, the organisation of the cotton sector has been deeply unstable until recently. After the demise of Kérékou's Marxist regime, it was subject to periodic stints of privatisation, re-nationalisation, and re-privatisation. Behind all of these destabilising moves there has been a cutthroat competition between powerful men eager to control the sector and its juicy rents. And if some stability has eventually returned to the sector, allowing for its recent improved performance, it is only because it has now fallen under the indisputable control of a unique businessman who also happens to be the President of the Republic, Patrice Talon. Talon has been nicknamed the 'king of cotton' by the people.

By 2019, when Nigeria decided to close its land borders to goods movements, informal cross-border trade (ICBT) had developed into an important segment of Benin's economy. First, Benin had huge unofficial re-exports to Nigeria, and second, it fraudulently imported a sizeable share of key imports from its big oil-producing neighbour. The illegal nature of this cross-border trade, favoured by the porosity of the borders and the heavily protectionist policy of the Nigerian Government, needs to be stressed: goods re-exported to Nigeria, which were legally imported into Benin, faced stiff tariffs or were banned from import into Nigeria. At the port of entry in Benin (Cotonou), the destination of these goods declared at the customs was either a landlocked neighbouring country, for which import taxes and customs duties are low, or the domestic market. Once customs had been cleared, the goods were diverted to Nigeria via a network of informal intermediaries who organised their transportation and smuggled them over the border. Similarly, the large flow of goods imported by Benin from Nigeria, consisting mainly of products that are heavily subsidised in the latter country (oil, in particular), and of other consumer, intermediate, or capital goods, were smuggled into the former country. They thus escaped tariff duties and were sold on the domestic market through informal channels similar to those operating in the re-export sector. Quite evidently, the illegal character of this trade induced its informal organisation.

Dating back to the first oil shock in the 1970s, it is Nigeria's oil rent which fed ICBT: Benin's re-exports were driven by Nigerian demand, itself heavily dependent on oil revenues. On the other hand, Benin's cross-border imports were partly driven by the share of the oil rent that the Nigerian Government decided to allocate to the subsidisation of its domestic oil prices, thus creating a positive income effect for a large mass of the population. In this way, Benin shared the oil rent with Nigeria, including through low prices for fuel, and its institutions and policies were shaped by a sort of 'entrepôt state' strategy aimed at transforming the country into a regional trading hub centred on the port of Cotonou. Because there was full knowledge that goods imported into Benin in a fully official and legal way were to be *de facto* diverted to Nigeria in fraudulent ways (that is, by circumventing Nigeria's import tariffs), we can safely say that Benin's strategy was not only to tolerate but also to encourage the informal, fraudulent re-export trade.

That ICBT has been a major sector of activity in Benin can be judged from the following figures: at peak times of the trade, Benin's estimated gross value of imports of products typically destined to be re-exported to Nigeria represented more than 25 times the gross value of Benin's official exports to Nigeria (Golub and Mbaye, 2021). Still more strikingly, the contribution of ICBT to Benin's GDP is estimated to have been in the range of 10–12%, including customs and other tax revenues (6% of GDP). It has also been a major provider of informal jobs, a direct upshot of the labour-intensive character of many activities involved. Seen in this light, ICBT seems to have played an important role in the economic development of Benin. But there are several flip sides of all these achievements, which we mention now.

The first shortcoming of the situation is the presence of effects akin to those of a Dutch disease. Strictly speaking, Dutch disease occurs when a boom in an export sector (for example, natural resources) causes a decline in other sectors (like agriculture or the manufacturing sector) as a result of an appreciation of the country's currency. The consequence is that the country's other exports become more expensive while its imports become cheaper. The latter effect causes the domestic production of importables to be less competitive. While Dutch disease is most often sparked by the discovery of new natural resources, it can also be caused by any development that results in large inflows of foreign currency, including a sharp surge in natural resource prices, in foreign assistance, and in foreign direct investment.

In the case of Benin, such Dutch disease-type effects can also be observed but, as seen above, the causes are rather different, consisting of a combination of policies based on trade quotas and tariffs, as well as high oil prices in Nigeria, coupled with the use of the resulting rents to illegally import re-exported goods from Benin. The latter thus benefits from effectively higher export prices in the sector of goods illegally re-exported to Nigeria, and from a stronger Nigerian demand for these goods than would be the case under a free international trade regime. It also enjoys lower prices for the goods which it itself illegally imports from Nigeria and which are subsidised by the Nigerian Government (oil products, in particular). Such price and quantity effects discourage domestic production, as epitomised by the fate of formal activities of gas distribution, cement factories, and breweries, which have been partly driven out of business.

A second shortcoming arises from the tax losses caused by the informal nature of trade transactions based on imports from Nigeria, and the taxes foregone as a consequence of the displacement of formal domestic activities sparked by these imports. As a third shortcoming, there is the fact that, because the illegal trade is carried out on a large scale, bribery and corruption are pervasive at each stage of the process. A critical level at which malpractices occur is the customs office at Cotonou port facilities: given that it can provide regular and considerable rents, powerful people strive to capture this key office and, given the high stakes involved, the struggle has been unsurprisingly fierce. It is actually revealing that the same man who succeeded in gaining control of the entire cotton sector also ended owning the customs office. Here is another facet of the resource curse problem that typically harms countries enjoying abundant and valuable natural resources. In this specific case, the valuable resource consists of imports that can be re-sold at much higher prices to a vast neighbouring country.

Finally, grounding growth in ICBT is highly risky as it requires two parties to play the game of undertaking illegal activities. The risk is especially high when the two parties are of significantly different sizes, so that the distribution of bargaining power between them is very unequal. Thus, when in 2019 the Nigerian Government abruptly and unilaterally decided to close its land border with Benin, the Beninese Government was taken off guard, and a critical source of the country's economic prosperity was disrupted overnight. To the extent that ICBT activities are nevertheless pursued, they now involve much higher risk premia, resulting in lower profits, lower employment, and business failures.

There are two immediate lessons to be learned from the above account: (1) Beninese growth has been anchored in two fragile sectors of activity, thereby calling into question the sustainability of the underlying development strategy; and (2) the concentration of economic power in the hands of a small clique, and even a single businessman, augurs badly for the possibility of a competitive environment. The first problem means that Benin is, and will remain, highly dependent on external financing, and on foreign aid in particular since its attractiveness for foreign direct investors is low. An ominous sign of its excessive external dependence is the rapid growth of its external debt as a percentage of GDP after the major debt write-off that took place in the early 2000s. As for the second problem, it is the more serious because of the close connection between business and politics, which is our next point.

Political instability and the confusion between business and politics

Politics in Benin has always been characterised by a deep intrusion of business interests. This was even true under the Marxist-Leninist regime of Kérékou, which was marred by numerous scandals resulting from the lust for private wealth accumulation among Kérékou's ruling inner circle. After the demise of this pseudo-socialist regime, came the *Renouveau Démocratique* (Democratic Renewal), with its promise of a more transparent and competitive political game that would put an end to kleptocratic practices and blatant favouritism. Unfortunately, these hopes were soon shattered as the old game continued to be played by new actors. In essence, the political system remained patrimonial, in the sense that wealth and power are narrowly intertwined.

At the root of the problem lies the critical role of private financing of electoral campaigns. As has been substantiated in the companion book on Benin, empirical evidence shows that firm owners tend to provide financial support to local politicians in exchange for policy concessions. The most important of these concessions are public procurement arrangements, policy commitments aligned with the firm's interests, and direct appointment to the bureaucracy of relatives and other acquaintances of the firm's owner. Interestingly, it appears that their order of importance varies depending on the degree of political uncertainty: when election results are more uncertain as a result of a higher number of candidates, business firms tend to lay more stress on the second and third types of demands. Moreover, their requests for influence and control over the recruitment of officers in all sections of the public sector increase. Finally, in the absence of what they consider to be a 'good candidate', the option of themselves running for elections, which amounts to direct state capture, becomes more attractive.

In such a context of pervasive attempts at direct and indirect state capture, it is not surprising that the number of political parties soared to reach the astronomical figure of 250 by the late 2010s. This number considerably exceeds the number of ethnic groups in the country, although the latter is quite large, testifying that many of these parties represented narrower factions inside ethnic groups or regroupings stretching across clans and based, for example, on local and regional identities. Far from being strong organisations articulated around programmatic and ideological platforms, political parties are patronage machines led by powerful and wealthy men. Because of the large rewards of political power (remember the juicy rents created by the ICBT and the cotton sector, in particular), these oligarchs or faction leaders (often called 'Big Men') are involved in nasty fights that cause a lot of political instability in the country. Especially destabilising is the opposition between the three main factions composing the dominant ethnic group (the Adja-Fon). Perhaps paradoxically, the other three main groups, namely the Yoruba, the Bariba, and the Atacora, have continuously played a mediating role which has sought to reduce the resulting tensions, whether in an authoritarian (the Kérékou regime) or a democratic setting. Behind this political instability are the constant manoeuvres and shifting alliances and loyalties (including party switching) in which Big Men indulge, depending on their interests as they perceive them at particular moments.

In addition to encouraging political instability, the Big Men system has had a demoralising effect on the population. People witness a succession of obscure political moves and subsequent institutional changes (think of the back-and-forth movements between the public and private status of the companies or agencies in charge of the cotton sector since 2000), as well as scandals whose most common manifestations are sheer favouritism, abuse of public positions, tax evasion, and the embezzlement of public resources. Accusations of embezzlement and rent capture concern not only prestigious construction projects but also programmes that are critical for the well-being of the population and the long-term development of the country (such as water, electricity, and other vital infrastructure projects). Given that most of the misdeeds and cases of extortion go unpunished or uncorrected, it is understandable that the population nurtures a deep mistrust of public institutions. This is especially true of the tax authorities and the judicial system, for which Benin exhibits worse trust indicators than many other African countries.

It is too early to tell how much the rise of Patrice Talon to the presidency is a game-changer. One thing is certain, however: his chaotic ascent to supreme power, itself a reflection of astute tactical moves based on coalitions and counter-coalitions, has been aimed at suppressing instability and establishing law and order in the country, at the price of sacrificing democratic principles. The difference with the experience of Rwanda, which Talon holds in high esteem, is that while Rwanda's leader is himself the richest businessman in his country he also has a reputation of being incorruptible. The story of Talon's rise to the presidency is so revealing of the way politics works in Benin that we cannot resist the temptation of telling it to the reader. In order not to break the continuity of our general argument, however, we have deferred the story to an appendix. Here, we want to stress that, in acceding to the presidency after having gained control of the most important sectors of the Beninese economy, Talon put an end to an era in which political leaders were frontmen acting at the behest of powerful businessmen, rather than these businessmen themselves. In this sense, the democratic façade behind which the latter could previously hide themselves has collapsed to reveal the true nature of Benin's political system.

Neglect of critical public goods

We have emphasised above some adverse effects of a political system that is penetrated by business interests: namely, political instability and the diffusion of a culture of corruption and cronyism. We now want to add a number of other, equally important, effects. To begin with, the patronage logic governing politics implies that priority is given to pork-barrel projects: transfers that do not typically benefit the poorest sections of the population, and the delivery of local public goods targeted at specific groups. General public goods, such as health, education, nationwide communication, and power infrastructure, tend to be neglected. It is true that efforts have recently been made to fill some of these gaps, yet they still do not reflect sufficient awareness of the critical role these factors play in sustained growth and development. Thus, while the construction of main roads is essentially financed by external aid (think of the two parallel highways linking the southern and northern parts of the country), the building of rural, farm-to-market roads in remote areas, which should be the responsibility of the national government, has not received the attention it deserves. Also, the costs of electricity and telecommunications services are generally higher in Benin than in other African countries, and their quality is often mediocre. Revealingly, access to electricity is the constraint most often cited by economic operators.

The education picture is dismal, as attested to by the catastrophic record for literacy achievements: on this front, Benin ranks among the worst performers in the world. Increasing enrolment at both primary and secondary levels has been actively pursued during the last decades, yet at the price of stagnation – and perhaps even deterioration – of schooling quality (as measured by learning outcomes). These disappointing results are less of a mystery when we learn that the activities of the teacher training schools in Benin were discontinued during the 1990s, which immediately caused a severe shortage of teachers in many parts of the country, particularly in the north. There, outsized classes (with classes reaching up to 120 pupils in Natitingou), teacher absenteeism, and substitution of poorly trained teachers for the missing qualified staff attained unprecedented levels, thereby increasing the inequality between the north and the south in terms of the quality of basic education. Drastic cuts in the budget of the Education Ministry actually followed a policy of fiscal restraint imposed by the IMF and the World Bank within the framework of three successive Structural Adjustment Programmes (1989–1999). More efficiency in the use of the diminished public resources available was expected by the World Bank, particularly in the form of training and upgrading of government staff, yet this did not come about. However blame is apportioned for the situation, the resulting discontinuation of teacher training schools has been disastrous and in blatant contradiction of the World Bank’s sectoral strategy.[1]

Being deprived of mineral and non-mineral resources, Benin needs to base its long-term growth strategy on the emergence and rapid development of sectors that create substantial added value, whether in the processing of agricultural goods, the production of simple manufactured goods, or the delivery of services. In the absence of serious investment in human capital formation and improvement of physical infrastructure, foreign investors will not be attracted to Benin and the country will remain heavily dependent on foreign aid.

[1] The World Bank actually developed a new sectoral strategy for education (and health) aimed at raising literacy and enrolment rates, restructuring the Ministry of Education, improving educational performance through the distribution of textbooks to pupils and students, encouraging parent–teacher associations, the recruitment of contract teachers (with a view to reducing dropout and failure rates), and better spatial distribution of teachers, between urban and rural areas in particular.

Low state capacity and weak public management

A political system captured by private interests can negatively affect state capacity in several ways. It can lead to the understaffing of administrative departments which are not considered a priority by these interests, and may even be seen as antagonistic. This seems to be the case for the tax collection department, whose size is clearly below that required to function effectively. Departments can also be captured through the appointment of ‘yes people’ or the exertion of strong pressure on the decision-making process. In Benin, this applies to the judiciary, whose officers comply with instructions coming from high-level politicians or officers belonging to the executive. It is therefore no wonder that people in Benin have a particularly deep mistrust of the representatives of these two institutions: tax collection officers and judges.

Moreover, under the influence of various lobbies, different parts of the administration and the government may make uncoordinated, divergent decisions that contribute to creating a chaotic and confused legal environment. Land laws and their implementation are an example that comes to mind here. In this matter, indeed, the reform process has been immensely complex, volatile, and non-monotonous. Many changes thus succeeded each other, involving backtracking, not only with respect to the provisions of the successive laws but also with respect to the institutions in charge of their implementation. Regarding the first source of instability, as a result of regular shifts in the relative bargaining power of various interest groups, the law has remained largely unpredictable. Uncertainty exists about (i) whether and to what extent the current law is going to be implemented, and (ii) about whether the current law will be replaced by a different law in the (near) future. Some provisions, such as the authorisations required to buy rural lands, the obligation to officially record rural land transactions, or the possibility of forcing the owner of uncultivated rural land to rent it out, are clearly unenforceable and people do not seem to care about them. Others, however, create a genuine uncertainty that can discourage investment, particularly in urban and peri-urban areas or in areas where migrants coexist with autochthonous populations. To some extent, the issue here is one of misalignment of the law with respect to state capacity: a complex law is enacted for which the state does not have the administrative resources required for effective implementation. Of course, if the provisions of the law are misguided or superfluous, it may turn out that this misalignment is of no direct consequence.[2]

Regarding the second source of instability, the fact is that many institutional choices appear to be the outcome of fierce struggles among rival administrative entities. This is particularly evident at the highest level of the state, where there has been constant wavering about whether to assign the responsibility for land regulation to the Ministry of Agriculture, the Ministry of Town Planning, or the Ministry of Finance. Another example is the strong resistance of rural municipalities to attempts to reduce their prerogatives in land matters. Their resistance paid off, since the right to deliver attestations of customary ownership, which belonged to the *Agence Nationale du Domaine et du Foncier* (best translated as

[2] For example, we ourselves could verify that informal land rights do not seem to have hindered the expansion of pineapple production in the southern part of the country. Active land sale and, above all, land rental markets have rapidly developed in response to the new export opportunity. The lack of more or less formal land certificates has not been a noticeable problem, and strictly informal land deals appear to satisfy the transactors in the area. The only serious reported constraint is that, when it is possible, women prefer to let their husband act in their name when seeking to access additional land (Broka *et al*., 2021).

National Agency for Land Administration) under the 2013 law, was shifted to municipalities under the 2017 law. Rural municipalities also successfully opposed the complete suppression of sale conventions, through the requirement that land transactions must be instantaneously registered by notaries. Finally, the professional bodies that earn incomes from land regulation – notaries, barristers, architects, and land surveyors in particular – played a decisive role in killing the provision of the 2013 law regarding the five-year confirmation period during which property rights must be verified.

Institutional diagnostic of Benin: a compact view

Having expounded the critical elements of the diagnostic, we can now take a comprehensive view in which the institutional weaknesses of Benin are traced back to their deep and proximate causes, and their economic consequences are brought into relief (see Table 1).

In short, five deep factors ultimately help to account for the key institutional weaknesses detected in Benin: (i) a political system that is characterised by a neo-patrimonial logic and where there are multiple contenders; (ii) a social landscape in which multiple ethnic groups have coexisted for a long time; (iii) a geographical/neighbourhood landscape in which small Benin has a long border with a big neighbour (Nigeria); (iv) a legacy of centralised management of key economic sectors (the cotton export sector, in particular) dating back to the colonial period; and (v) the heavy presence of aid agencies, which tend to shut their eyes to the dysfunctional aspects of the political system.

Table 1: A synthetic ordering of the institutional factors impeding Benin's long-term development

Deep factors	Proximate causes	Basic institutional weaknesses	Economic consequences
- Politics dominated by big business - Multiple ethnic groups and a regional divide - Geography: a small country with a big and resource-rich neighbour - Colonial legacy of top-down management of key economic sectors (cotton, in particular)- - Accommodating donors	- Policy instability (1): frequent changes in law - Policy instability (2): frequent changes in the organisation of key economic sectors (e.g. cotton sector) - Lack of long-term development planning - Elite capture of key state functions - Weak state, unable to control administrations, and with insufficient resources for an efficient management of the public sector - Existence of rent opportunities in illegal trade with big neighbour - Lack of genuine competition in the cotton sector	- Widespread corruption and cronyism - Weak law enforcement and legal instability - Weak regulation of key sectors dominated by big business - Low state capacity: understaffing or capture of key administrations; poor inter-department coordination - Neglect of critical public goods (e.g. education or power generation) - Opacity of policy decisions and economic management; lack of accountability of key public agencies - Outsized informal sector driven by ICBT	- Low quality of education - Low sustainability of the growth pattern: weak productivity growth; low diversification; low level and pace of industrialisation - Poor investment climate - High, rising inequality between people and regions; slow progress on the poverty front - Chronic aid dependence - Lack of citizens' trust in key institutions (the judiciary and tax collection) - Vulnerability to external shocks

Political instability and the lack of long-term economic planning are the result of unruly competition and factional bickering between Big Men who are uncertain about their political future. This competition is especially fierce, and uncertainty especially great, because of the division of the Beninese society into multiple ethno-regional groupings. Key state functions are captured by the dominating faction(s), resulting in a weak state that is unable to exert control over all its administrations, a difficulty that is compounded by a lack of administrative resources (skills, staff, and equipment). This situation of low effectiveness in the management of the public sector and unfair distribution of the country's rents is not adequately mitigated by the pressures emanating from external donor agencies or international (African) institutions. It is not mitigated either by pressures to open up key economic sectors (the cotton sector, in particular) to competition, owing to a long tradition of public monopoly that is easily transformed into private monopoly. As for geography, the presence of Nigeria at the border of Benin gives rise to considerable opportunities for rent that can be earned through illegal trade.

The main economic consequences are as follows: a spatially lopsided development pattern that is, moreover, precarious (subject to external shocks) and unsustainable; chronic dependence on foreign resources resulting from slow productivity growth and pervasive inefficiencies in the running of the state; and a bad investment climate caused by poor governance, widespread corruption, and confusing and loosely enforced laws and regulations. Since foreign direct investment is therefore deterred, foreign aid is the buoy that keeps the country's finance afloat.

Policy implications and recommendations

Priority attention in any reform process ought to be given to ways of breaking the link between politics and business, which is at the root of many institutional failures and economic problems. Since the financing of electoral campaigns provides oligarchs with a privileged channel for influencing politics, it should be regulated by law. Here we can think of capping the amount of financial contributions to politicians and imposing rules requiring transparency regarding the amount and the source of donations. The problem with such rules is that in weakly governed countries they tend to be ignored whenever they are enacted. This is illustrated by Benin, where they indeed exist but are not strictly enforced. The same restriction probably applies to all rules prescribing rigorous impact evaluations of public sector actions so as to achieve greater accountability of major actors at the state level. And it also applies to many laws, decrees, and regulations that ban day-to-day malpractices, such as the taking of bribes, petty corruption, and money extortion by local officials. Thus, although signboards warning against practices of bribery are displayed in local police offices, nobody really cares.

Clearly, attacking the key issue of the intrusion of business into politics upfront is unlikely to bear much fruit. This is especially true today since the richest businessman in the country holds supreme political authority. More feasible reforms should aim at radically transforming the Beninese economy so as to increase the average income per head of the population and to anchor growth in more sustainable sectors than cotton and the ICBT with Nigeria. Since Nigeria's borders have now been abruptly closed to flows of goods, the latter sector has ceased to be a reliable source of incomes and employment for Benin. The path forward must therefore be based on a sectoral transformation of the economy and strong measures to improve labour productivity in key sectors.

Regarding the first dimension, a realistic strategy consists of promoting agro-processing industries outside the cotton sector. This involves: (1) the identification of agricultural products for which the country's natural conditions are appropriate and which can generate enough added value; and (2) the integration of their producers and intermediaries into a value chain that includes input and credit supply; collection of the produce; and its transportation, storage, processing, packaging, and marketing up to the point of the final consumers in rich countries, if needed. In a country like Benin, where there are many experienced traders and middlemen (including those of Indian or Pakistani origin who criss-cross the country) this is best done through a great deal of market activation or facilitation. On the part of the state, the main tasks required are the construction and maintenance of rural feeder roads, which can be branched off into the main grid, and the effective suppression of all of the money-extorting posts on the routes used by producers and traders.

Valuable efforts in this direction have actually started to be made. Thus, for example, schemes for the production and export of pineapples and pineapple products (like juice or jam) have recently been launched under the impulse of the present government and with the financial and logistical support of several aid agencies and development cooperation programmes (French, Belgian, Canadian, etc). The organisation of the value chain up to a European food distributing company (the Carrefour chain of supermarkets in France), the high quality of the product, and the quick supply response from the farmers in the Allada region are important advantages for the success of this initiative. To the extent that fertiliser use is almost non-existent in the cultivation of pineapples in Benin, and provided that some logistical and other difficulties are overcome, a promising niche is the market for organically produced, fresh pineapples.[3] When pineapples are processed into juice or jam, expansion is mostly constrained by foreign competition, especially in the European markets, where Chinese and Thai exporters presently enjoy a price advantage. Beninese firms must therefore look for closer foreign markets, such as Burkina Faso and Nigeria, until they improve their competitiveness (through the development of by-products, for example).

Clearly, in the context of a competitive world market dominated by big value chains, the government has a key role to play in the detection of profitable opportunities, the organisation of effective linkages with distant markets, research and development destined to improve the quality of the product and uncover promising by-products, and the like. These are complex tasks requiring appropriate skills, learning by doing, exposure of management staff to foreign experiences, and well-functioning infrastructure (adequate harbour facilities, non-corrupt customs, good roads, reliable internet and mobile phone services, and a regular supply of electricity).

Increasing labour productivity in industrial ventures is another pressing challenge for Benin. This requires not only that more efficient production techniques and capital equipment are used but also that better management systems are put in place. The most effective way to attain this objective is to mobilise foreign direct investment, but that requires, in turn, that governance conditions are improved in the country, so as to reassure potential investors.

Finally, one of the most pressing challenges confronting Benin is education. If significant efforts have been made to increase enrolment, much remains to be done to improve educational quality to reach decent standards, starting with the primary school level. Furthermore, technical and professional schools must be created to help fill the prevailing skills gaps in the labour market. In the absence of significant improvements in educational quality, it is difficult to see how labour productivity can be raised, technical and organisational innovations adopted, and foreign direct investment attracted so as to gradually move Benin to the status of an economy with an intensive degree of skilled labour, as befits a country that is deprived in terms of mineral and non-mineral resources.

Benin is endowed with entrepreneurial people and well-experienced traders and merchants, as well as a good climate and fertile agricultural lands in certain parts of its territory. It has a comparative advantage not only in traditional products such as cotton but also in new agricultural products that can be processed and sold at remunerative prices in the international, regional, and domestic markets. In sum, Benin has a strong potential for development that can be unleashed if only the right institutional and policy environment can

[3] In particular, pineapples grown in Benin have a shape and a colour to which European consumers are not accustomed and they are more difficult to transport and conserve than pineapples from competing countries (Costa Rica, for example).

be established. Whether this can be done while the link between business and politics remains unbroken is a pivotal question. What needs to be stressed is that Talon's accession to the presidency has perhaps changed the rules of the game by ending the noxious competition for political leverage between a few oligarchs. It will therefore be especially interesting to see how far his regime will go towards transforming the economy, controlling corruption, and improving the country's human capital and infrastructure.

It cannot be denied that the main planks of Talon's reform programme closely match our own recommendations. Think of his reforms of the education system (with an emphasis on the creation of technical schools and training institutions), his plans for infrastructure expansion (including the improvement of the generation and distribution of electricity, considered as a critical constraint on industrialisation), and his measures intended to diversify the economy in the sense of adding value to agricultural and raw material (e.g. cotton) products. However, given the concentration of economic and political powers in his hands, it is legitimate to ask how he will be motivated to bring more competition to key sectors of the economy and fight 'grand' corruption, rather than only petty corruption and small-scale bribery. In addition, in a country where freedom of expression is highly valued and where free elections and changes of incumbents became a regular feature of the political scene during the last decades, the question arises as to how sustainable his undemocratic regime will prove to be.

Appendix: the career of Patrice Talon

Patrice Talon's business career started with the provision of inputs in the cotton sector, where he quickly acquired a dominant position. His control over the cotton industry was followed by the creation of ginning factories at the time the sector was liberalised in 1990, and later by the acquisition of the factories initially operated by the national company (SONATRA) at the time it was dismantled in 2008. The success of the former operation owed much to the support he brought in 1991 to the election of President Nicephore Soglo, previously a World Bank official, and the success of the latter to his shift of allegiance in favour of President Thomas Boni Yayi, a former governor of the West African Bank for Development. Since Yayi was opposed to Soglo in the 2006 presidential election, Talon's move amounted to a betrayal – the more so because he had close links with the Soglo family. His calculation was presumably that Yayi's chances of winning the election were higher, therefore providing a more secure way to expand his control over the cotton sector. The plan worked according to expectations, since several competitors (foremost among whom was Sefou Fagbohoun) were politically eliminated at the behest of the newly elected president.

In the meantime, Sébastien Ajavon, another outsized businessman who accumulated wealth in the cross-border trade with Nigeria, threw his weight behind Adrien Houngbédji, the natural leader of the rich Ouémé region, who was defeated by Yayi. Ajavon nonetheless succeeded in becoming the president of the powerful employers' association (*Association du Patronat*), which transformed him into the most prominent rival of Talon. The next presidential campaign, in 2011, created the stage for a new but faked about-turn on the part of Talon. At stake seems to have been the management and control of the juicy rent opportunities opened up by the new Programme for the Inspection of Imports (*Programme de Vérification des Importations*, or PVI), an agency in charge of assessing the value of imported goods. Talon made approaches to Ajavon and Houngbédji, thus betraying his alliance with Yayi, at least upon a first reading of the event. His tactic was more subtle, though, as it consisted of playing Yayi off against Houngbédji in order to extract from the former the concession that he was seeking. Once more, his political stratagem paid off, since he was awarded the contracts of Benin Control, the new private agency in charge of implementing the PVI, as well as other highly profitable business deals. The big loser was Ajavon, who was indicted by Yayi for alleged tax evasion. Surprisingly, only one year after the election, disagreements about how to share the spoils of state power drove Talon into a poisonous conflict with President Yayi (Yayi actually accused Talon of having attempted to poison him), following which he was forced into exile in France. In essence, Yayi found Talon to be too greedy. In this way, even though it was Talon who bankrolled two successful campaigns for Yayi, the two men became involved in what has been called 'one of the more bizarre fall-outs in West African politics in recent years' (Corey-Boulet, 2019).

Talon did not give up, however. He clinched a deal with Dossou, a businessman with interests in the railways, and with his old enemy Ajavon. Determined to return to his country and to regain his business privileges, he discreetly prepared his campaign for the presidential election of 2016. This move disturbed Ajavon and Dossou, who considered it a violation of their tacit agreement according to which the supreme state power should remain in the hands of politicians. In reaction, Ajavon decided to apply himself as a candidate for the presidency. As a result, the two individuals with the highest net worth in Benin started to confront each other openly on the political terrain. The saga did not end there because, upon reflection, the two men understood that the priority lay in breaking Yayi's system. Talon took the lead over Ajavon but made serious concessions that included the reimbursement of all the state debts owed to Ajavon's commercial companies. Talon became president. However, he quickly came to the conclusion that the demands of his partner-rival were impossible to meet. Ajavon responded angrily and, in due course, became the number one enemy of the regime. Interestingly, Benin Control, whose operations had been suspended in 2012 as a result of public outrage over its bad performance and the excessive pricing of its services, was reinstated by the new government of Talon, who had also been the successful tenderer of the PVI in 2011. The opacity of the procedure that was followed, particularly regarding the new contract and the extent of fiscal exonerations provided, again raised a public outcry.

3.2 Tanzania

The following pages summarise an in-depth study of the relationship between institutions and development in Tanzania conducted following the methodology set out in Chapter 2. Only the essence of the original study is reproduced in this summary, but it is hoped that its main lessons for the understanding of the economic challenges faced by Tanzania, and the way they depend on institutional weaknesses, are truthfully presented here.

The summary is organised in the same way as the original study except for the thematic studies, which provided detailed examples of the way the nature and functioning of institutions affect Tanzanian development. Instead of summarising these, the summary focuses on what was learned from these studies about possible institutional obstacles to an acceleration of development.

Geographical and demographic context

Today's United Republic of Tanzania results from the union of Tanganyika – a large area a few degrees below the equator on the shores of the Indian Ocean – and the Zanzibar archipelago off its coast. Tanzania is the biggest of the eastern and southern African countries, excluding South Africa. Except for the coastal area and Zanzibar, it consists of extensive rolling plains, interrupted by the Great Rift Valley, which cuts across the east of the African continent from north to south. The Rift crosses Tanzania in its western part, where it is interspersed by Africa's three great lakes – Victoria, Tanganyika, and Malawi (or Nyasa) – the shores of which are shared with neighbouring countries. Four major ecological regions are usually distinguished because of their highly differentiated climates: the mountain lands in the north (home to Kilimanjaro) and in the southwest receive generous amounts of rain; rainfall is also satisfactory in the lakeshore regions, especially lake Victoria's; however, the high plateaus that fill the centre of the country are semi-arid, whereas the coastal area is both hot and humid.

Overall, the country enjoys a high agricultural potential, which is presently far from being fully exploited. Only 30% of the land suitable for cultivation is being farmed, often under harsh conditions, despite numerous rivers and lakes, which offer a huge potential for irrigated agriculture. Other natural resources include minerals like gold, some other metals, and gemstones, and fuels (essentially coal and gas), of which abundant reserves have recently been discovered offshore. Another natural resource is the beauty of the country’s mountainous, sea, and savannah landscapes, as well as its world-famous reserves of wild animals, which altogether attract a considerable flow of tourists.

Tanzania is home to some 60 million people. Given its size, it is sparsely populated. However, as in most African countries, its population is growing very quickly and will reach 100 million before 2040. Because of the pace of demographic growth, the fast increase in the degree of urbanisation has not prevented the population density doubling in rural areas over the last 30 years, making land progressively less abundant.

The ethnic composition of the population is somewhat remarkable for its diversity, which is thought to have had a favourable influence on the early development of this part of Africa. 120 different ethnic groups, most with their own language, cohabited for two centuries before colonisation, without any of them trying to dominate the others or to control the whole area. Still today the largest group represents only 13% of the population and the second largest only 4%. Such an ethnic diversity is without any doubt due to the size of the area, the variety of its habitats, and the relative impracticability of travelling long distances. There is no doubt either that this demographic feature of Tanzania partly explains the political stability of the country once those heterogenous groups were integrated into a single nation with a common language – the Swahili – and political institutions after independence. It also explains why Tanzania differs from its neighbouring countries and most sub-Saharan countries, where ethnic rivalry is frequent and has caused friction and conflicts which have proved harmful to development.

The presence of non-African racial minorities is another element in the heterogeneity of the population, with rather different implications. Arabs and Indians had always been present in the coastal area, the former being especially powerful when Zanzibar was the home of the Sultanate of Oman and controlled the whole East African shore from the late seventeenth to the late nineteenth century. More Indians arrived during the period when both Zanzibar and the mainland were under a British Protectorate. Like Arabs, Indians were especially active in trading, and more recently in light manufacturing. Both groups remain small minorities today, but their early business specialisation gave them economic power that is out of proportion to their demographic weight. The social distance between these groups and Tanzanian Africans is still detectable nowadays.

The European presence goes back to colonial times in the late nineteenth century, when Germany colonised the interior part of what is today mainland Tanzania, under the name of Tanganyika.

A short account of Tanzania’s history up to independence

German rule did not last long since the Germans were forced to leave after being defeated in World War I. Yet, despite fierce hostility from the indigenous population, the German colonisers were able to develop major export crops (sisal, coffee, cotton), to start the construction of a railroad network, and to lay the foundations of an administrative structure, as well as an educational system.

After the German defeat in 1918, Great Britain was entrusted with the Protectorate of today's mainland Tanzania. The country was then in a state of extreme underdevelopment, which had even worsened as a consequence of the fierce battles fought in that part of Africa between German, British, and Belgian colonisers, during the war. Yet two major factors prevented an economic development comparable to what could be observed in neighbouring British colonies. One was the relative lack of fertility of a large area in the interior of the country which was invaded by the tsetse fly as a consequence of the war. The other was the limited attractiveness for European settlers of a territory whose political status was uncertain – being neither a colony nor an independent state. These may also be the reasons why the British administration was initially rather unambitious in its management of the country, mostly perpetuating the German colonial policies.

Things started to change after World War II as the newly created United Nations strengthened its control over territories with Protectorate status and pushed for more participation by the indigenous population. British 'indirect rule' was replaced by formal local governments with a multi-tier structure and increasing African involvement, while the Legislative Council of the Protectorate was progressively opened up to elected African members.

Independence was obtained peacefully. Under the leadership of Julius Nyerere, the Tanganyika African National Union (TANU) won practically all the seats on the Legislative Council open to election in 1958, and again in 1960. The British colonial secretary then acceded to TANU’s demand for a ‘responsible government’ by Africans. One year later, independence was declared, with TANU as the party of government and Nyerere as prime minister. Three years later, the new Republic united with Zanzibar, where a violent revolution against the Arab minority, which ruled the islands, had just brought to power an African-dominated party. Together, they formed the United Republic of Tanzania, with Nyerere as president.

A synthetic view of Tanzania's history since independence

- *The socialist era*

Very much marked by neo-colonialism, development during the first years after independence was disappointing; an alternative strategy was called for. The President spelled out such a strategy in his famous 'Arusha Declaration' in 1967. It was a socialist-oriented development programme adapted to the African context under the label 'Ujamaa' ('familyhood' in Swahili). It comprised three dominant approaches: (i) an emphasis on the agricultural sector and the urgent need to improve its productivity, most importantly through regrouping dispersed subsistence farms into Ujamaa villages, which involved displacing part of the population; (ii) state control of the means of production and exchange, and thus nationalisation of a major part of the non-agricultural sector; and (iii) addressing the social demand for education, health, equality, and participation in public decision-making.

Ten years later, the results of this strategy were far from spectacular. Nationalisation did not deliver on its promises because of mismanagement by bureaucrats, interference between managers and politicians, and mounting corruption at the head of nationalised companies. The results were especially bad in the agricultural sector. Although some productivity gains were achieved in the extensive cultivation of some export crops, the collective farms proved disappointing and villagisation essentially disrupted production processes. In a few years, Tanzania passed from being a net exporter to being a net importer of food crops. GDP growth slowed down, and income per capita started to fall after 1976, while severe balance of payment problems developed due to the poor outcomes of the Ujamaa strategy, a costly war with Uganda after the latter invaded the north-western part of the country, and strongly adverse changes in the terms of trade.

A National Economic Survival Programme was launched in the early 1980s but it came too late and the international development community was called in to rescue the country. Nyerere resisted the pressure of donors and the IMF, which made their aid conditional on his amending his socialist strategy and implementing a return to market mechanisms. As the economic situation of the country continued to deteriorate, however, he was finally forced to accept a stand-by agreement with the IMF in 1985, having broken off relations with the Fund a few years earlier. This agreement prefigured the Structural Adjustment Programme signed later with the World Bank, whose aim was to see Tanzania transition back to a market-led economy and, as a matter of fact, to undo much of Nyerere's efforts to build a socialist economy. Nyerere then decided not to run for a new presidential mandate and left to his successor the task of managing the transition.

If the economic achievements of the Nyerere era were disappointing, the same cannot be said in the non-economic sphere. The nation-building project, which Nyerere embarked on notably by disbanding the multiple chiefdoms existing in the country and promoting Swahili as the lingua franca, brought about national unity and deep cohesion. This successful national integration drive was complemented by major social investments in literacy, education, and health programmes. In comparison with many other African countries, Tanzania is exceptional in the political stability it has experienced since independence, under the influence of Nyerere's probity and respect for constitutional rules. It is thus not surprising that, despite a failing development strategy, Nyerere is considered by a large majority of the population as the father of the nation.

- *The return to a market economy*

At the time of Nyerere's retirement in 1985, Tanzania was among the poorest economies in the world and faced a double challenge: to reduce poverty and to transition to a market economy regime.

If the disorder caused by the transition was particularly noticeable during the first five years after the Nyerere era, it took substantially longer for this process to be completed and fully consolidated. Judging from the rate of inflation it was only slightly before the turn of the new millennium – that is, roughly 15 years later – that the economy seems to have stabilised. The adjustment to a new regime indeed required major changes, from reactivating the price system and the agricultural distribution network to privatising the multitude of state-owned enterprises, including in the banking sector, to dismantling privatised monopolies, and to downsizing and reforming the civil service. Overall, this heavy agenda was successfully and rather peacefully managed by the administrations that succeeded Nyerere.

Advances were also made on the front of political institutions, with two major constitutional changes taking place. The first change limited to two the number of five-year terms that a president can serve consecutively. The second change, common to many African countries, abolished single party rule. While the dominant single party, which had morphed from TANU to Chama Cha Mapinduzi (CCM) after the union with Zanzibar, remained foremost, opposition parties started to play a significant role in the political debate.

Quite remarkably, all of these changes in both economic and political institutions took place peacefully. The three presidents in command since the launch of the Structural Adjustment Programme in 1985 each ruled for two consecutive terms before leaving the political scene and letting new general elections – usually considered to be fair by outside observers – to take place in a rather quiet atmosphere (the elections to the autonomous government of Zanzibar being an exception). It is only in the last two presidential elections that serious accusations of vote-rigging have been put forward, at the same time as open political tricks appeared. In 2015, CCM nominated John Magufuli as its candidate, instead of former prime minister Edward Lowassa, who was the frontrunner but who had been involved in a big corruption scandal. The latter then defected from CCM and ran for president as the candidate of the main opposition party, which suggests that little ideological differentiation exists across the political scene. Lowassa was defeated and unsuccessfully charged the government with rigging the election. The situation was considerably worse in the 2020 election when Magufuli was re-elected with a suspicious lead over the other candidates, commonly attributed to harsh repression, manipulation, and widespread fraud. Magufuli died – probably from COVID, after having denied the reality of the pandemic – shortly after his apparently fraudulent re-election and was replaced at the helm of the country by his vice-president. It is thus too early to know whether his move towards authoritarianism and away from the democratic practice which had prevailed since independence will persist.

Corruption has always been behind most Tanzanian politics and may be considered an inherent weakness of the country. Yet over time scandals have tended to become more frequent and to involve larger amounts. This has sometimes reached such an extent that donors, who are particularly important in the funding and designing of Tanzania's development strategy, have in various instances suspended their assistance. Magufuli was chosen as the CCM candidate in 2015 mostly because the party had been badly discredited due to a series of high-profile corruption affairs, and he was elected thanks to his anti-corruption image, acquired while he was Minister of Public Works in the previous government. Some considered his authoritarianism necessary to fight corruption and there are indeed some signs that corruption has receded. It remains to be seen whether this will be confirmed in the coming years.

Economic development challenges

It would be tempting to say that the development of Tanzania over the last 20 years – that is, after the transition to a market economy was fully achieved – has been a success story. On average, GDP grew at the rate of 6.2% a year but, because of fast population growth, the growth rate of GDP per capita was only 3.4%. Income per capita almost doubled over the last two decades, and Tanzania recently graduated from low-income to lower middle-income status in the World Bank's country classification. However, a careful review of the Tanzanian economy suggests that maintaining past rates of growth may raise serious challenges.

The first cause for concern is the uncertainty about what could be Tanzania's long-run engine of growth. To a large extent, growth during the last two decades was pushed by the demand side of the economy, itself fed by increasing export revenues arising from improving terms of trade, and foreign financing. A sign of that bias is given by the exceptional dynamism of the construction sector, which grew twice as fast as the whole economy over the whole period. On the supply side, manufacturing has done slightly better than the rest of the economy, especially on export markets, but it is presently too small – less than 10% of GDP – to significantly pull the economy forward. Agricultural exports have not over-performed either. Overall, it turns out that a good part of overall productivity gains over the last 20 years was due to a net reallocation of labour away from low-productivity agriculture to the rest of the economy. However, instead of being in favour of the high-productivity sectors, as in the celebrated Lewis model, the reallocation has concentrated on low-productivity sectors like retail trade or social and personal services. That such productivity gains are not sustainable in the long run is exemplified by the fact that productivity in these sectors has fallen, precisely because of the net influx of workers from agriculture. As high-productivity sectors absorbed only a tiny share of the net migration of workers, there is a risk that, without a powerful engine of growth in high-productivity sectors, labour will remain highly concentrated in the low-productivity part of the economy, thus contributing to slow overall economic growth, a slow reduction of poverty, and increasing inequality.

A second related challenge is precisely to selectively improve within-sector productivity – not to save on labour, the absorption of which is per se a major challenge, but, quite the contrary, to increase competitiveness in tradeable and reasonably labour-intensive sectors where autonomous development looks possible. Maintaining the investment rate at the 35% of GDP level observed today should significantly contribute to this goal by drastically improving the infrastructure needed to achieve this objective. But such a high investment rate is itself a challenge. Exploiting untapped sources of efficiency gains is also needed. For instance, the difficulty of establishing firm land rights is often mentioned as a disincentive for innovation and investment in modern agriculture and agroindustry. The same is true of the lack of some skills in manufacturing, or rent-seeking by bureaucrats.

The third challenge lies in freeing the economy from its strong dependency upon foreign financing. Even though it has declined over the recent years, foreign financing has always been sizeable. Official development assistance still represents 5% of GDP – that is, a bit more than a quarter of the government budget and 14% of gross investment. On various occasions, donors have mentioned their wish to reduce their support, arguing that this would be an incentive for the economy to become more autonomous. The Tanzanian Government has explicitly concurred with this view. Yet it is unlikely that the current growth trend would be maintained if this flow was to dry up. Private foreign funds are not negligible either. Over the last 10 years, foreign direct investment amounted to a little more than 3% of GDP.

An important unknown for the future development of Tanzania is the fate of its huge offshore natural gas reserves, which were discovered in 2017. These could provide Tanzania with substantial additional revenues for 20 to 30 years after a five-year investment period. Their extraction cost is apparently high so that profitability requires an export price higher than has been observed throughout the 2010s. Negotiation with foreign companies for extraction, liquefaction, and export of gas broke down a few years ago, but they have just been reactivated. There is still much uncertainty about the extra income flow Tanzania could get in the long run from its gas reserves, even though earlier estimates suggested it could be modest if prices stay on their long-run trend.

A final cause for concern relates to the social side. Inequality has been increasing and poverty has receded at an unexpectedly slow pace. That growth has not trickled down more vigorously to all segments of the population is a challenge for the future. Increasing inequality may have adverse effects on future development through the demand side of the economy, by reducing the aggregate propensity to consume, and more fundamentally by undermining the social and political climate. The same remark applies to the stagnation of school enrolment, which is somewhat below universal primary schooling, and the low quality of the educational system in general, which may put future growth, poverty reduction, and the social equilibrium at risk.

More direct diagnostics of development challenges and firm manager surveys in Tanzania point to the lack of infrastructure, notably in electricity, the limited supply of skilled labour, and the low quality of the civil service and public service delivery as obstacles to accelerating, or even maintaining, the pace of economic growth. These obstacles are common to most low-income or lower middle-income countries, however, so that the real issue is whether Tanzania is successful in progressively overcoming them.

The perceived quality of institutions

The capacity of the country to address the development challenges summarised above depends on the quality of its institutions, which themselves will determine the effectiveness and inclusiveness of the policies that must be put in place. This is the goal of the in-depth study of Tanzania that is being summarised here. Before synthesising its conclusions, however, it is worth recalling the results of the thorough review of institutional indicators, and of opinion surveys undertaken in Tanzania, with the objective of getting a first idea of possible obstacles to future development.

According to several international databases on governance indicators, the most fragile institutional areas in Tanzania are the control of corruption, on the one hand, and government effectiveness, or administrative capacity, on the other. What is remarkable, however, is that in these two dimensions, as well as others, the quality of Tanzanian institutions turns out to be fully comparable to, and sometimes better than, its neighbours' – except Rwanda for the business environment – and even than institutions among low-income countries which have done significantly better over the last three decades. Opinion surveys among the Tanzanian population and among various types of decision makers also point to corruption as a severe institutional weakness, and further stress several institutional factors that may hinder future development. These include land rights issues, ineffective checks and balances on the executive, weak regulation of big business and utilities, a poor investment climate, and an inefficient civil service.

Of course, the institutional indicators and the preceding list of shortcomings are mixed bags. Yet the general picture they draw of economically relevant institutional challenges in Tanzania is consistent with a cursory review of Tanzania's political and economic history over the last three decades or so. It should also be noted that, when gathering personal opinions on the matter, we often heard that the control of corruption or state capacity are not worse in Tanzania than in comparator countries, and therefore cannot be considered as specific problems hindering Tanzanian development. This is not a convincing argument, though. Of course, these institutional weaknesses may have a negative impact in the other countries too. That they are present elsewhere does not mean that making progress at home on those institutional dimensions would not yield substantial benefits.

Identifying major institutional weaknesses

Having reviewed the main challenges of economic development, as well as the current political context of Tanzania, it is now time to focus more closely on institutional issues. Following the methodology set out in a previous chapter, the next step is to consider several thematic areas where development challenges are most apparent and are likely to provide evidence or hints on the way institutions help or hinder those changes that make development. Five such studies were conducted in the case of Tanzania. They focussed on the following topics: (i) business and politics; (ii) state coordination and decentralisation; (iii) the civil service; (iv) land management; and (v) the regulation of the power sector. The main institutional weaknesses revealed by these studies are succinctly analysed in what follows.

The relationship between big business and politics has shaped Tanzanian development ever since independence. It is thus crucial to understand the nature of the forces that shape it, and their outcome.

A word about the players, first. On the business side, most European capitalists left at the beginning of the socialist era and business was then essentially in the hands of Tanzanian Indians and, later, Arabs, a natural extension of the control they had very early on in trade activities. As a matter of fact, indigenous entrepreneurs at the head of medium and large firms or groups have always been a minority in Tanzania, to such an extent that there is only one African Tanzanian name in the list of the 12 richest businessmen in the country. On the political side, the government should be the main actor. However, the dominant party (CCM) has also played an important role because of the fragmentation of political power within the party – that is, the presence of several groups with major influence and with possibly diverging views on the 'right' policy. Nyerere was able for some time to control them, so that political power was reasonably centralised in the hands of the President, yet his grip had started to loosen by the end of his last term, possibly because of the disorder created by the nationalisation process and the multiplication of sources of rents linked to the expansion of parastatals and resulting from increasing disorganisation. Things became worse during the transition back to a market economy. On top of the opportunities arising from the privatisation drive, politically powerful individuals within CCM were able to make deals with businesses for their own interest, and then to impose them on the party and on the executive, using the prospect of party dismantlement as a threat. Deals could be of varying kinds. They could involve conceding competitive advantages to a business group against campaign financing, other indirect electoral benefits, or personal enrichment, or syphoning public resources through schemes involving private business. Major corruption scandals arose in those days, to such a point that donors suspended their aid on various occasions. A climax seems to have been reached at the end of the second term of Kikwete, Magufuli's predecessor. The dominant party's popularity was thereby severely damaged, and the party had to opt for an openly anti-corruption candidate to have a chance of winning the election. Over the last few years, the new president tried to turn the tide by attempting to regain the full control of the party, partly through internal politics, and partly by working to dry up those sources of rents originating in deals with the private sector, a strategy that led him to be particularly tough with both domestic and foreign big business.

Whether this strategy was successful, and whether it will be maintained, is still to be seen. Yet several interesting lessons can be drawn from this sketchy history of business and politics in Tanzania.

A first lesson is the utmost importance of the structure of political power. In Tanzania, the business–politics issue is not a 'government versus private sector' story only: it also comprises the control of the president over the dominant party. It is because the unity of the party is decisive at election times that it is difficult for the president to openly sack powerful party members who use their influence to sell competitive advantages to big business. This is a game with a bad equilibrium, where no player has an interest in making clean moves, with some entering into illegal deals and others not sanctioning departures from good conduct. At the end of the day, the personality, legitimacy, and authority of the leader is determinant.

A second lesson concerns the ineffectiveness of industrial policies, or even their fuzziness in a country where firms can buy direct competitive advantage through political friends. In Tanzania it has long been the case that 'traders' have an advantage over 'industrialists' because they are able to generate more resources and so to convince policymakers to maintain low tariffs on some strategic goods the imports of which they control. Sugar and rice are typically goods which need some initial protection to generate the economies of scale that would make their cultivation and industrial transformation competitive. Absent this protection, they would be outcompeted by the imports favoured by the traders.

A third consequence of the varying relationship between business and politics since independence, and possibly of the dominance, until now, of big business by Tanzanian Asians and Arabs, is some heterogeneity or hesitation among policymakers about the latitude to be left to the market with respect to state authority. This situation creates some uncertainty, which is necessarily harmful to the economy.

Having established such a diagnostic, two questions should be asked. First, if vertical industrial policies fostering specific activities that are against the interests of dominant business groups are politically difficult to implement, why not promote horizontal policies that simply consist of improving the investment climate for all businesses by getting rid of numerous administrative frictions and burdens, whose main function is often to provide rent opportunities to certain bureaucrats? The point here is that corruption is contagious: it cannot be stopped in the middle range of the bureaucracy when illegal deals continue at the top. Also, it is not clear that dominant business interests could get a better investment climate than the one they enjoy through their partial control of politicians.

Second, can it be argued that the Tanzanian economy is doing relatively well, so that the business–politics collusion issue may not really be a big problem after all? Maybe, but the key question is whether it is possible to accelerate the present trend and, most importantly, to make it more sustainable and less uncertain in the future, when the external context may change and become less favourable? The relative weakness of tradeable sectors like agroindustry and manufacturing was underscored above, and it may be the case that the nature of the business and politics relationship bears some responsibility here. Yet progress has been made and it is unlikely that big business would not seize opportunities if they existed in these areas. On the other hand, choices may have been made that have curtailed these opportunities: think of the case mentioned earlier of the capture of some import markets which may have outcompeted domestic production.

This issue of central control, which is so clearly illustrated by the inherent difficulty faced by the executive in regulating big business groups, despite their crucial role in the dynamics of the economy, is present in other aspects of public management. Paradoxically, successive administrations have apparently been strongly determined to centralise decisions and control, even though such a move was not justified in some cases, while a deficit of coordination exists between the executive and various decentralised administrative units and public agencies. That lack of control gives some leeway to civil servants operating in those entities – and therefore provides rent-seeking opportunities, which they are happy to exploit.

There are various reasons for such a situation. First, it is objectively the case that some sectoral administrations are simply ill-structured, which sometimes results in overlapping responsibilities, inefficient management, and possibly rent-seeking. Examples include the following: land management, with a National Land Use Planning Commission that is redundant due to the presence of the Direction of Urban and Rural Affairs in the Ministry of Agriculture; the lack of coordination between the Tanzanian Revenue Authority, responsible for tax collection, and the Minister of Finance, which decides about tax schedules; confusion of mandates between local government executives and central government-appointed officers; or the intricate set of relationships between local government authorities, the Prime Minister's Office, the Minister of Finance, and various other ministries. Likewise, firm managers insist they must obtain the agreement of an abnormally high number of government agencies before they can market a new product or service, when only a couple of them could do the same job.

A second reason for coordination failures may be found in the complexity of various laws. The laws that govern the acquisition of land rights are especially intricate and require a heavy administrative apparatus, from central government to local village level. It is tempting for those in charge, and who are supposed to know the law, to take bribes from those who do not, or who are confused about certain aspects of the law. This is true at all levels: from an investor wishing to develop a large plantation to villagers concerned with the implications of leasing some of their land. The sensitivity of land rights in a country where a sizeable proportion of the land is cultivated by small farmers and is exchanged or transferred according to local customary laws is high. Hence the need for safeguards designed to avoid awkward situations in which villagers come to lease part of their land to a big company without knowing all the implications of such a transaction. The complexity of the existing law has been abundantly stressed and commented upon. Several reports have been commissioned which make suggestions for improving it, and successive governments have declared they would follow suite. Yet nothing has been done for the moment. The same complexity and procrastination is observed in the relationship between the central and local governments: a reform was voted on in the late 1990s and was supposed to be implemented by 2008, yet it is still pending to this date.

Both the intricacy of the structure of public management and the complexity of the law may be related to another specificity of the Tanzanian economic culture: a selective distrust of market mechanisms. Such an attitude may be inherited from the socialist era, although the generation that had some responsibility during that time is now retiring. It is more likely due to the multiple cases of corruption which took place during the period of the return to a market economic regime, a period which was nicknamed *Mzee Riukhsa* ('everything goes') by Tanzanians. Likewise, in the 2010s, the leaders of CCM were afraid they would lose the coming election because of their tarnished image due to multi-million-dollar scandals. It is striking, too, to see how, in some respects, land laws appear to be reminiscent of the planning era and its deep suspicion of market mechanisms, and this despite the fact that the law was voted well after the end of the socialist regime. There may be good reasons for this, but too rigid a process of land allocation entails various types of costs and leads to missed economic opportunities that would benefit the whole country. Moreover, since market mechanisms will become more pervasive in the not-so-distant future, it may be good policy to quickly engineer a smooth transition to a more market-friendly environment.

The will to maintain electricity production and distribution as much as possible as a vertical public monopoly also betrays this bias against market mechanisms. It may be a holdover from the socialist era and the view that such critical goods as power should be publicly managed. However, it is more likely a reaction to earlier corruption scandals linked with the subcontracting of power generation to private firms. Despite such scandals, a public monopoly continues to be seen by the public, and by many policymakers, as a guarantee against private providers charging exorbitant prices. But it also provides influential politicians with rent-seeking opportunities, particularly in procurement operations, including with private power providers.

Institutional weaknesses in Tanzania's public sector are also observed at a more basic level. Comparative institutional indicators, opinion surveys among ordinary people and various types of decision makers, and most policymakers converge in considering the under-performance of the civil service as a serious development impediment. The lack of resources, due to both the low level of income per capita and the limited share of recurrent public expenditures devoted to this service, certainly bears some responsibility for such a situation. But the overall setup of the delivery of public services plays a role too. The misalignment of civil servants' incentives, the lack of effective monitoring and evaluation capacity, the high degree of corruption, as well as under-skilled staff and weak management of administrative units and government agencies, have also been regularly denounced. Two Public Service Reform Programmes have been carried out, which were supposed to make recruitment more rigorous and to introduce a dose of performance-based staff management. Improvements were noted, but serious challenges remain, and several observers felt – a few years ago – that some progress had even been reversed.[4] The culture of promotion based on seniority or partisan links, rather than merit, of recruitment based on other grounds than capacity, of shirking, of diverting resources, and of taking bribes is said to be still very present today.

All of these failings are difficult to quantify. Measurement of their economic consequences is still more of a challenge, except maybe in a few sectors. Because of the service it delivers and the size of the staff it employs, the education sector has been subject to more quantitative evaluation exercises than any other. There, the picture is far from favourable. On the supply side, teachers have long been castigated for their absenteeism – found to be as high as 31% in a survey conducted in 2014. They are also frequently under-qualified, with a minority of them achieving the required standard in maths or English tests. The result is that even though school enrolment has progressed – though it is not yet fully universal – learning outcomes are poor. Half of Grade 4 children were not able to carry out two-digit subtraction in 2016. Although progress has apparently been made over recent years, a report by the World Bank concluded in 2018 that a 'learning crisis remains in Tanzania'. Even though this kind of quantitative evaluation can hardly be performed in other areas of public sector activity, there is no reason to believe that their outcomes do not suffer from the same deficit of quality.

Results of surveys about the relationship between firms and the public administration, and anecdotal evidence, confirm the foregoing statement. They also suggest that corruption, in the form of giving and accepting bribes, is widespread. It has already been mentioned that Tanzanian political life has been interspersed with increasingly frequent and large corruption scandals, which are probably just the tip of the iceberg. The concern here is about ordinary corruption that is taking place between middle-tier civil servants with some rent-seeking power and firms or citizens. The root cause lies in weak or ill-defined institutional rules. Here, too, the perception is that progress has been made recently thanks to the energetic anti-corruption policy launched by President Magufuli. Judging from the absence of big scandals in recent years, this is probably accurate. At the ordinary level, however, data are not available to know whether Tanzanian society is in the process of moving away from this equilibrium whereby corruption has become a kind of social norm.

Infrastructure development, electricity in particular, is another area where the score of public management is pretty low by all standards, despite its crucial importance for economic development. The production and distribution of electricity are managed by a public monopoly, TANESCO. This national company produces around half of the electricity it distributes, the other half being provided by private producers – after, occasionally, resounding corruption scandals relating to the way they were selected. Electricity has long been priced at a rather low level, which has prevented the public company expanding production and meeting demand, a situation that has resulted in economic growth not being as fast as it could have been with a proper power supply. The sector is regulated in parallel by the Ministry of Mining and a regulation agency, EWURA, in another case of overlapping

[4] See Mukandala (2018).

responsibility. A few years ago, EWURA endorsed an increase in the electricity prices charged by TANESCO, which was long overdue in view of inflation. Recently, the late President Magufuli opposed that increase. Despite the measure being fully justified and EWURA being internationally praised for its impeccable professionalism, its director was sacked. This was possible because in Tanzania the President has the power to singlehandedly appoint and fire the managers of public agencies, including EWURA, but also the Fair Competition Commission, the Central Bank, and the Commissioner Auditor General. The reason invoked for the sacking was that the price increase would hurt poor people and the ensuing social cost would allegedly be worse than stagnating production capacity in the future. This may well have been the opinion of the leadership, whereas the regulators thought differently. The institutional failure here may originate in either of the two following sources: the social criteria applied by the leadership were inadequately specified in its mission order, or the late President took the liberty of ignoring, and even criticising, legal expert opinion.

There thus seems to be a paradox in regard to the type of leadership exerted in Tanzania. Centralisation appears extreme, and probably excessive, in some areas, whereas in areas where it would be most needed it meets obstacles arising from the fragmentation of political power.

The institutional diagnostic

We could continue to review evidence of institutional weaknesses in Tanzania, but the main conclusions to be derived from the thematic studies undertaken as part of our in-depth diagnostic methodology should be clear by now. Summarising as much as possible the points made in the preceding pages, the institutional challenges in Tanzania come under the few general headings shown in the right-hand-side column of the diagnostic table shown in Figure 1. In reading the table it must be borne in mind that its entries are not independent. For instance, rent-seeking and corruption, which are seen to be ubiquitous in Tanzania, are partly caused by the inadequate structure of decision-making and the weak regulation of business, as much as they are partly responsible for the under-performance of the civil service, including business regulation. Also, the order of appearance of the various headings is not necessarily related to the severity of the corresponding institutional challenges. As a matter of fact, their mutual dependency prevents us from establishing such a ranking.

Taken together or separately, these institutional weaknesses explain the economic challenges confronting Tanzanian development. For instance, it is easily understood that the difficulty of diversifying exports through appropriate industrial policies is related as much to the uneasy regulation of business, given its relationship with politics, the lack of coordination across administrations, and the poor investment climate created by the under-performance of the civil service. The same factors – and others – may explain the slow productivity gains in agriculture, or the lagging development of infrastructure – at least until the last few years. This relationship between institutional weaknesses and economic challenges is analysed in more detail in the original Tanzania case study.

Identifying and recording institutional challenges is one thing. However, a diagnostic would not be complete without an analysis of the factors that are responsible for them. The identified weaknesses are the symptoms, while the underlying problem may lie elsewhere.

Most causal factors have been alluded to in the preceding pages and are listed in a summary way in the middle column of Figure 1. In reading it in connection with the column to its right, it is important to note that items at the same level in the two columns are not necessarily to be associated one to one. The misalignment of incentives in the public sector directly weakens the performance of the civil service, either directly through absenteeism or loose monitoring and evaluation, or indirectly through rent-seeking. At the same time, the poor delivery of public services may result in large part from the lack of skills or resources. Likewise, the nature of the leadership and, most importantly, its control over powerful factions within the party in power is essential to understand the structure of decision-making, the extent of rent-seeking and corruption, and the difficulty of regulating business.

This control of the party is partly influenced by voters' support, since political allies will defect if they expect a defeat in the next election. In turn, voters' support depends on the trust inspired by the leadership through the transparency and accountability of its actions. The ability of a leader to oversee the public administration and the whole public decision-making process thus strongly depends on his/her personal capacity to control the political scene and to inspire trust in the population. Needless to say, the nature of the leadership item among the proximate causes of institutional weaknesses also includes the very motivation of the leader. In most preceding points it is implicitly assumed that the leader pursues the common good more than his/her personal interest or that of his/her clique, which indeed seems to have been the case in Tanzania since independence.

Figure 1: Institutional diagnostic for Tanzania

Deep factors	*Proximate causes*	*Basic institutional weaknesses*
Political game - Rules (constitution) - Structure of political power	Under-capacity (skills, resources, technology)	Ill-defined structure of public decision-making - Overlapping responsibilities - Centralization bias - Law implementation gap
Social structure - Ethnicity - Rural-urban - Education..	Misaligned incentives in public sector (remunerations and careers, monitoring and evaluation, ..)	Under-performing civil service
	Imprecision and complexity of the law	Patronage and weak business regulation
Historical legacy (Ideology, government credibility, trust, ..)		Selective distrust of market (Land management, Power sector,..)
Donors' views and leverage	Nature of leadership - Party control - Transparency - Accountability	Rent-seeking and corruption

Finally, the issue arises of what could be done to combat those proximate causes of the identified institutional weaknesses. Getting more resources to improve the quality of public services, realigning incentives in the public sector, simplifying laws that are felt to be unnecessarily complex, and promoting transparency and accountability through more systematic monitoring and evaluation of the public administration and agencies are obvious measures that would improve the institutional framework of development. They are discussed in some detail in the Tanzania volume. They may raise trade-offs with economic efficiency, however, particularly when they require the collection of additional public resources. Most importantly, they generally generate both winners and losers, at least in the short and medium run, so that their implementation heavily depends on political economy factors. Beyond the proximate causes of the institutional weaknesses, there are deep factors which make the effects of these causes more or less easy to reduce. They appear in the left-hand column of Figure 1.

The nature of the political game which is played out in the society is the first of these deep factors. On the one hand, the constitution sets the rules, assuming of course it is strictly applied and cannot be easily modified. For instance, it may be the case that it gives too much power to the executive in some areas – for instance, in appointing and suspending people in key positions. On the other hand, in any period there is a structure of political power which evolves only slowly over time – possibly as a function of the pace and structure of economic development – and which makes some reforms possible or impossible. After Nyerere in Tanzania, the fragmentation of the dominant party (CCM) into several factions made it difficult for the executive not to satisfy the demands of powerful factions since the risk would be the dismantlement of the party and the loss of power. As factions were often associated with business interests that provided them with political, if not monetary, benefits, the state was partly captured by business interests and, in some areas, unable to implement policies that would be detrimental to some of them although beneficial to the country. Modifying this equilibrium involves pure political confrontation between the main actors rather than policy reforms. Magufuli wanted to achieve such a change in the deep factors. It is not clear that he succeeded.

The ethnic structure of the population, including the concentration of big business in non-indigenous hands, or the presence of ethnic cultures and customary laws that sometimes conflict with the statutory law, and the historical legacy in terms of culture, ideology, religion, or trust among citizens, call for the same type of observation. These are deep factors which may affect the proximate causes of institutional weaknesses and may be subject to changes, most notably as a result of development itself, progress in education, or contacts with the rest of the world, but only over a long period.

Among the deep factors, the reference to the role of donors deserves some remarks. In the past, donors have clearly played a huge role in triggering major institutional changes in the way the Tanzanian economy works. This was obviously the case with the Structural Adjustment Programme, which caused the return to a market economy in the second half of the 1980s, but it has also been the case on several other occasions since then. The weight of donors in pushing reforms derives from the sizeable contribution of aid to the public budget and the domestic economy in general. For instance, the World Bank, which has always pushed for an ambitious decentralisation programme, suspended part of its funding in an effort to impose the decentralisation of the collection of the property tax in 2014 – which was nevertheless re-centralised a few years later. Likewise, donors have cancelled payments several times to protest against big corruption scandals involving government officials, and successfully requested that the latter resign from their positions. Outside these extreme cases, project and programme financing by the World Bank and other donors gives them the opportunity to express their views about the direction in which some institutions like the judiciary or tax collection authorities should be reformed. Even though it is up to the government to decide whether to accept such programmes or not, the funding provided by donors is not a feeble argument.

Conclusion

The preceding remarks about the deep factors behind the proximate causes of the identified institutional weaknesses may be deemed overly pessimistic. They seem to imply that, at the end of the day, reforming institutions to make them more development-friendly is essentially a matter of politics, or possibly the endogenous consequence of development itself, or the long-run effect of educational progress. This pessimism must be somewhat tempered, though.

First, if big reforms are politically hard to impose, smaller reforms addressing some of the weaknesses detected at a minor level of political sensitivity might be consensual. It is probably in everybody's interest that the educational system is run more effectively, bureaucratic services are competently and honestly delivered, and land management is more efficient. A lot of experimental work has been done in these areas in the economic development literature, which might be a source of inspiration for the design of these reforms. It is not the purpose of the present diagnostic to delve deeper into that kind of detail and it is sufficient to recognise that institutional improvement is now possible in specific sectoral areas.

Second, the Tanzanian economy has done rather well over the last two decades despite the institutional weaknesses uncovered in this in-depth institutional diagnostic exercise. We have stressed the fact that the weaknesses that were identified concerned the acceleration of the present pace of growth and its sustainability in the case of substantial changes in the international context. It cannot be excluded that the deep factors which are found to be obstacles to substantive institutional reforms may be progressively altered with the continuation of present development trends in the coming one or two decades. If this happens, some of the reforms suggested by the diagnostic might become more feasible, especially so if the political elite undertakes its own institutional diagnostic along the lines of the present exercise.

Instead of pessimism, lucidity is the right attitude to adopt in the face of the complex relationship between political economy institutions and development uncovered by the present diagnostic.