

Terms of Reference for a Research Programme

Economic Development and Institutions Research

DFID Research and Evidence Division
April 2015

Introduction

1. The project is a programme of research on the role of institutions in economic development, with the aim of identifying actionable solutions to the persistent problems of poor governance and unhelpful social norms that retard growth.

Objective

2. The objective of the research programme is to produce a body of evidence and insights into what practicable actions produce institutional changes that improve economic outcomes and increase growth.

Recipient

3. The purpose of the work is to influence debate around institutional reform amongst a wide audience in low income countries, therefore the recipients of the services are not only current policymakers and incumbent governments, but also opposition parties, social movements, NGOs, donors and civil society in developing countries more broadly.

Scope of work

4. DFID will provide funding for the establishment of a research programme to address the issues set out in its Business Case and summarised below. The programme will be undertaken by a Research Consortium (“the Consortium”) managed by Oxford Policy Management Ltd, which has been selected following an international competitive tender.

5. The research programme will be divided into four Research Activities over five years as set out in DFID’s Business Case and as described below in the Background section.

6. During its inception year the Consortium will focus on two key tasks:

- a. Research Activity 1: The Consortium will deliver 20 research papers reviewing the evidence on institutions and growth and developing questions for primary research. Topics for these papers are set out in the Consortium’s bid for the project and can be changed by mutual agreement between DFID and the Consortium. DFID’s expectation is that all papers produced will be of publishable quality, aiming for submission to top journals such as the *American Economic Review* and *Journal of Development Economics*.
- b. The Consortium will prepare detailed proposals/methodologies for the remaining activities (RA2 to RA4) to be submitted to DFID for approval at the end of the inception phase. The proposal for Research Activity 3 will be independently peer-reviewed and evaluated, as a normal research submission. The implementation phase will be subject to a break clause i.e. it will not proceed without a satisfactory evaluation. (Please refer to the paragraph titled ‘Outline of Research Agenda’ under section 9 below for details on the required Research activities)

7. Work in years 2-5 of the programme will include the further delivery of high quality research, including the bulk of the fieldwork under Research Activities 2-4. An indicative

schedule of work is set out in the Consortium's proposal but this will be further refined for DFID's approval at the end of the inception phase.

8. Emphasis will be placed on ensuring that research has clear operational relevance. There will be a strong practical focus on what has and has not worked and where, why and how and on the transferability of those results. It is expected to be of high quality and to have impact on policy and reform debates and initiatives in low income countries.

Outputs/Deliverables

9. Detailed descriptions of the inception year deliverables can be found in Annex B to these terms of reference.

10. The deliverables for years 2 to 5 will be defined by the Consortium during the inception phase and proposed for DFID's approval in the inception phase report.

Governance and Peer Review

11. The project governance and peer review mechanisms will be implemented as per the Consortium's technical proposal with two exceptions: 1) The Independent Advisory Group will report to the Programme Directorate, not the Steering Committee 2) the Research Directors will report to the Programme Director not DFID. These can be varied by mutual agreement between DFID and the Consortium.

Open Access

12. DFID is committed to strengthening demand for knowledge and improving access to research information. To this end DFID launched a new Open Access policy in 2012¹. The Consortium will ensure that the research undertaken and published abides by this policy, except where separately agreed with DFID. It should maintain a Data Access and Management Plan. With regard to author pays publishing, DFID expects the project to collaborate with researchers/authors in choosing where to place their research, and it is expected that Open Access fees will be paid for either by the project (most likely through the research uptake budget) or through arrangements that the host institution has on Open Access. It will be the project's responsibility to monitor the percentage of research outputs that are available under Open Access and to inform DFID of the details and the percentage in the programme's Annual Reports. It is expected that the vast majority of research output will be made open access. Non open access should be the exception.

13. DFID also encourages its research projects to archive quantitative and qualitative datasets, resulting from the research it funds, with appropriate data archiving repositories at the earliest opportunity. In any case, datasets must be retained by the research team and provided free of charge on request.

DFID Branding

¹ The full text of any articles and technical reports resulting from funding that are published in journals, conference proceedings or as RP working papers, whether during or after the period of funding, should be deposited, at the earliest opportunity, in an appropriate Open Access repository, and also with DFID's R4D, subject to compliance with publisher's copyright and licensing policies. Wherever possible, the article deposited should be the published version.

14. The public has an expectation and a right to know what is funded with public money. It is expected that the project and all research outputs will acknowledge DFID support in a way that is clear and explicit and will comply with DFID Branding Guidance. This will include ensuring that publications acknowledge DFID support. It is also expected that, as far as possible, all outputs are forwarded to DFID for inclusion on the R4D website.

15. If press releases on work which arises wholly or mainly from the project are planned this should be done in collaboration with DFID.

Annex A: Outline of the research agenda

Background

- 1.1. Douglass North, in his 1994 Nobel lecture, said that “...institutions form the incentive structure of a society and the political and economic institutions, in consequence, are the underlying determinant of economic performance”². North’s view has become uncontroversial – almost everyone accepts that politics and institutions underlie the reasons why some countries remain poor for centuries whilst others grow. The New Institutional Economics of the 1990s succeeded in providing a cogent explanation of *why* governance matters, but it offered little advice to development agencies and governments that wanted to make a positive change on *how* that could be achieved.
- 1.2. While research on the economics of institutions is increasingly sophisticated, the literature does suffer from limitations. At one extreme, some of the literature provides an extremely abstract account of institutions, where “institutions” is an amorphous term meaning anything from a building to a convention in monetary policy. Research on the historical development of specific countries’ institutions has been much better at describing specific contexts, and has gone beyond description to start to account for what causes success and failure. This research can be extremely valid but to the decision maker it can amount to “*you shouldn’t start from here...*” At the other end of the spectrum, the existing action-oriented research has often focused on marginal, rather than transformational, institutional changes.
- 1.3. The need, therefore, is for a cutting-edge research agenda that gets beyond diagnosing the problems of poor governance in a very general way, and gets to the specifics - and then builds evidence on what works: solutions that can be acted upon. Researchers agree that policy-relevant research is the current research frontier.
- 1.4. The research proposed should:
 - a. lay out the set of institutions it addresses at an early stage, eliminating inaccessible use of terms
 - b. provide evidence of how management/ governance/ institutional changes actually impact economic performance and outcomes
 - c. diagnose tractable problems and test solutions
 - d. provide advice on how reformers can achieve positive institutional change to increase growth and further development

2. Research Questions

DFID has developed 4 Research Activities set out in detail in the concept note accompanying the DFID Business Case. These questions are at the intersection of

² North, Douglass (1994), “Economic Performance Through Time,” American Economic Review, 84, 359-368.

those attracting most policy interest and those at the frontiers of existing research methods and knowledge.

3. Outline of Research Agenda (RA)

- a. RA1: A set of **20 path-finding papers** reviewing the current evidence on various aspects of institutions' relationship to growth.
 - b. RA2: A tool for growth-oriented **institutional diagnostics** that would identify the institutional reforms that would have the biggest growth payoff
 - c. RA3: A set of **co-ordinated trials (RCTs)** studying the effects of real institutional reforms
 - d. RA4: A set of **co-ordinated case studies** on the interactions amongst institutions.
-
- 3.1. The path-finding papers will be key to rounding out the scope of the programme and underpinning the remaining activities. The papers will review the existing theory and empirical evidence on the relationship between institutions and growth, the interaction between institutions and "traditional" growth determinants such as labour, capital, technology etc. as well as addressing a number of cross-cutting issues like gender.
 - 3.2. The growth-oriented institutional diagnostics would use existing knowledge to provide a tool that could be used for applied analysis on specific countries, identifying the biggest institutional constraints to growth in much the same way as the growth diagnostics framework³ seeks to establish the binding resource constraint.
 - 3.3. To be a tractable exercise, this diagnostic tool would necessarily focus on the immediate impacts of institutions on economic growth, but we know that institutions interact in important ways. One of the key lessons from the practical experience of transition in Eastern Europe in the 1990s was the importance of the sequencing and timing of institutional reforms. A more open-ended exercise would seek to trace some salient interactions by means of a series of case studies, linked in order to permit some amount of generalisation.
 - 3.4. Recently concluded governance research programmes have recommended just such an approach for future study: "we need to work a lot harder to identify what it is about governance that matters, and what doesn't matter, in getting very poor countries to the next stage in their development process... [C]omparative case studies are likely to contribute more to this endeavour than further work with cross-national statistics using conventional measures."⁴
 - 3.5. Finally, a co-ordinated series of randomised controlled trials (RCTs) will investigate the impacts of a selection of candidate reforms on the functioning of real institutions. Again, co-ordination will be key to overcome the limitations of conducting each experiment in a specific context. The complaint that programmes of reform are not effectively assessed and the possibility of overcoming this with

3 Hausmann, Ricardo, Dani Rodrik, and Andrés Velasco. "Growth diagnostics." *The Washington Consensus Reconsidered: Towards a New Global Governance*. Oxford, UK: Oxford University Press, 2008b (2005): 324-355

4 Booth, David "Development as a collective action problem" (2012), institutions-africa.org

experimental methods goes back at least to Campbell (1969)⁵ who argued that “proper administrative decisions can lay the base for useful experimental or quasi-experimental analyses. Through the ideology of allocating scarce resources by lottery, through the use of staged innovation, and through the pilot project, true experiments with randomly assigned control groups can be achieved.” These methods have indeed been applied, but often piecemeal: co-ordination on this scale is at the bounds of feasibility and, more to the point, beyond the financial resources of most research funders. Therefore, this project will offer a rare opportunity to scale up Campbell’s advice.

4. RA1: Path-finding papers

- 4.1. An entry point to the programme will be the production of 20 path-finding papers: these would be review products, synthesising the existing evidence for the benefit of decision-makers while also identifying research gaps and opportunities for the rest of the programme. These will be key to rounding out the scope of the programme and underpinning the remaining activities. The papers will review both the existing theory and empirical evidence on the relationship between institutions and growth, the interaction between institutions and “traditional” growth determinants such as labour, capital, technology etc. as well as addressing a number of cross-cutting issues like gender.
- 4.2. Research should give as much coverage as possible to issues of conflict, gender, inequality, environmental damage, natural resources and structural transformation of the economy. The papers should not focus merely on high and sustained GDP growth as the ultimate outcome of interest, but also:
 1. Consider how growth translates into poverty reduction, and how it benefits different groups differently
 2. Explore the clearly relevant interactions between economic performance, institutions, the political settlement and the risk of conflict.
 3. Incorporate the value of natural assets and any environmental impacts

See cross-cutting issues, below.

5. RA2: Institutional Growth Diagnostics

- 5.1. This diagnostic tool would provide would-be reformers with a map, perhaps setting out the economic actors in a country and the institutions they interact with, diagnosing the institutional constraints to growth, and proceeding to identify tipping points and sticking points for institutional reform and finally a prioritised list of actions.
- 5.2. It will be for the researchers to adopt and develop a specific approach to this exercise, but the principal inspiration comes from the growth diagnostics of Hausmann, Rodrik and Velasco. Growth diagnostics seeks to give policymakers a way to prioritise policy reforms to increase the growth rate in a particular country

5 Campbell, Donald T. "Reforms as experiments." *American psychologist* 24.4 (1969): 409.

by identifying which of a range of constraints to growth is the most severe, based on an estimate of their *direct* effects.

- 5.3. In their original paper, HRV offer an alternative motivation for growth diagnostics. Rather than trade-offs amongst reforms resulting from offsetting distortions, they consider a political budget constraint whereby politicians can only “afford” a limited number of reforms (because achieving them involves expending their limited political capital).
- 5.4. As they say: “the presence of a political budget constraint introduces trade-offs among different types of reforms even when the second-best interactions of the type we considered ... above are insignificant. ... we still have to contend with the possibility that reducing distortion T_j results in too high a political cost (i.e. foregone benefits from reforms in other areas) relative to its direct economic benefits.”

6. **RA3: Institutional RCTs**

- 6.1. While wholesale changes to the institutional structure have to be investigated by other methods (referred to above) in the last decade economists have made increasing use of field experiments to investigate the impact of individual institutional changes holding the rest of the system constant. Randomised controlled trials (RCTs) in particular allow investigators to randomly assign individuals to a situation with either a reformed (treated) institution or unreformed (control) institution, allowing them to make the *ceteris paribus* assumption to isolate the effect of the reform from other factors.
- 6.2. These techniques have been employed fruitfully to examine the effects of police monitoring interventions on justice outcomes⁶; of community-driven development (CDD) interventions (roughly speaking grants for the provision of local amenities linked to participation of minorities in local decision-making) on incomes and collective action⁷, and the effects of contract design on access to health services⁸ to name just a few examples.
- 6.3. The difficulties these researchers have had to overcome are well summarised by the authors of *Reshaping Institutions*⁹: “Evaluating the effects of specific reforms is complicated by the lack of exogenous variation in the presence of institutions; the difficulty of empirically measuring institutional performance; and the temptation to “cherry pick” a few novel treatment effect estimates from amongst the large number of indicators required to capture the complex and multi-faceted subject.”
- 6.4. Moreover, the existing experimental literature suffers from problems of external validity: these costly experiments tend to be run at relatively small-scale and in a

6 See for example the Timap criminal justice programme in Sierra Leone, baseline evaluation available here or the annex to Deborah H. Isser, Stephen C. Lubkemann, Saah N'Tow, with Adeo Addison, Johnny Ndebe, George Saye, Tim Luccaro, Bilal Siddiqi and Justin Sandefur, "Looking for Justice: Liberian Experiences with and Perceptions of Local Justice Options". November 2009, Peaceworks. Full write-ups of both evaluations are forthcoming and will be available at: www.iig.ox.ac.uk

7 Casey, K., R. Glennerster and E. Miguel (2012), “Reshaping Institutions: Evidence on Aid Impacts Using a Pre-Analysis Plan,” *Quarterly Journal of Economics*, 127(4), 1755-1812

8 D Rajasekhar, Erlend Berg, Maitreesh Ghatak, R Manjula, Sanchari Roy, March 2011
Paper No' EOPP 025

9 Casey et al op. cit.

single context, limiting our ability to make robust generalisations based on their results. The key objective of the third activity is to begin to overcome this by establishing a series of co-ordinated RCTs for a given reform that would allow us to talk about how the effect of the reform is influenced (or not) by the broader institutional context¹⁰.

- 6.5. Standard research funding would not usually allow this sort of coordinated research so we expect a novel study to be produced. This part of the research should also be supremely relevant in terms of “what works” and, like all the research activities, is ultimately valuable for the guidance it can give real decision-makers on the ground. Like RA2, it will probably be produced later in the life of the research project, benefiting from the reviews of existing evidence and responding to the limitations of the diagnostic tool based on that evidence.

7. RA4: Case studies of interactions

- 7.1. The proposal refers mainly to the varieties of capitalism debate. There is also a fruitful body of theory to draw on from the transition economics literature, which considers potential reform scenarios given political constraints. In this case, it was largely taken to be understood *which* reforms were desirable – generally speaking liberalisation of the economy – but considered the speed of reform (whether they should be undertaken together in a “big bang” or the gradualist approach of piecemeal reform) and the sequence of different reforms. A key concern of this literature was the *status quo bias* against reform: the idea that individual uncertainty about the effect of reforms and the likelihood with which they will be enacted or reversed will mean that even desirable reforms may fail to build enough political support to be implemented¹¹. One avenue for investigating the interactions among institutions could be these interactions amongst institutional reforms.
- 7.2. This literature tended to assume the complementarity of different reforms i.e. better reform A *and* B than either one or the other. Other parts of the political economy literature tend to support this view. Acemoglu and Robinson extend the second-best approach of economics discussed in part 2 to political economy, discussing the example of an entrenched union in a society where power is concentrated in the hands of a small elite¹². They argue that while normally reducing union power would be expected to improve economic efficiency (by allowing the wage to fall towards market levels) in this case the union may be the only counterweight to the political power of the elite, and that weakening the union could lead to fewer checks and balances and more economic distortions in other areas. This application of second-best theory to political economy suggests another approach to considering the interactions amongst different institutions or institutional reforms.

Cross-cutting Issues

¹⁰ This is not to say that the design should attempt to directly report the effects of interactions amongst different institutions, which would require an elaborate clustered design and very large samples, but a meta-analysis of the RCTs could take some account of major variations in the institutional environment.

¹¹ Fernandez, R., and D. Rodrik. (1991). “Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty.” *American Economic Review*, 81:1146–1155.

¹² Acemoglu, Daron and James Robinson (2013), “Economics versus Politics: Pitfalls of Policy Advice,” NBER Working Paper No. 18921.

8. Environment

- 8.1. There is growing consensus that it is both necessary and possible to achieve economic growth, reduce poverty and protect the environment at the same time. We can't look at problems or solutions in isolation as they all affect each other. There is scope for the research team to develop questions focusing on the nexus between institutions, growth and environmental sustainability and we would encourage the team to pursue any opportunities for this within the scope of the terms of reference.
- 8.2. Even where the research questions themselves do not address environmental issues, the programme must be sensitive to the environmental *consequences* ("spillovers" positive and negative) of any change in the quantity, type and distribution of output. This means, at a minimum, monitoring air, ground and water pollution (including carbon emissions) and the destruction of natural resources (both renewable and non-renewable).
- 8.3. There is a low risk that the research findings could encourage environmentally damaging policies and practices, including growth based on unsustainable resource extraction. For this reason it will be important for the programme not only to monitor the effects on the environment, but also to incorporate their valuation in the study design where appropriate. This way the research findings and any recommendations will not be "environmentally blind".
- 8.4. THE CONSORTIUM should identify specific plans for monitoring environmental aspects of the work, but the draft logframe also includes indicator 4.3, "Number of papers under outputs 3 and 4 incorporating the measurement and valuation of climate and environmental impacts (peer-reviewed articles)" as a provisional measure of progress.

9. Social Development

- 9.1. The research is all about the economic ramifications of institutions underpinned by politics, so the work is highly relevant to the long-term welfare of under-represented groups including the poor, women and disempowered ethnic groups.
- 9.2. Any intervention that succeeds in raising the rate of economic growth will also have an effect on the way that income is distributed. Most obviously it will affect the distribution of income between poor and non-poor – to achieve poverty reduction while the poor's share of income is declining would need even faster growth, while conversely poverty could be substantially reduced even with relatively little impact on growth if the reform leads to an increase in the poor's share. The magnitude of growth and the income distribution will both impact on how growth translates into poverty reduction.
- 9.3. Moreover, institutional change is likely to alter the "horizontal" distribution of income and power between different ethnic groups, regions and between men and women. There may well be quite a difference between a national growth process that is inclusive in the sense of achieving a high rate of poverty reduction overall

and growth that includes particular social and geographical groups and that is inclusive of women.

- 9.4. Much of the existing literature is concerned with equal opportunities – focusing on eliminating discrimination and achieving universal access to government services. However, it is not enough to be gender-blind, because even institutions that treat men and women in the same way may elicit very different behaviours from the two. Niederle and Yestrumskas¹³ find that even absent overt discrimination and controlling for ability, women are less inclined to take on a challenging activity than men due to greater risk aversion/lower confidence. They investigate institutional changes that make people more likely to opt for the task on the basis of ability rather than gender; as they say, “Only by understanding gender differences can we start to design institutions that will accommodate both genders. The papers show furthermore that simple changes in institutions can have a big effect on the self-selection of women and men.”
- 9.5. Moreover, a society where norms vary according to gender won’t just treat women differently – the whole society will look different: “It is increasingly recognized that gender patterns affect relations among men and among women, as well as relations between them.”¹⁴ Emerging literature finds that while gender barriers are pervasive, they are not (always) deliberate and systematic, opening up the possibility of change: “gender dynamics in policy making are not played out in a uniform and generalised way that stifles opportunities for resistance and change. Nor, however, are they random and contingent. There are various structures of gendered policy-making practice that suggest both possibilities for, and obstacles to, the advancement of gender equality in policy making.”¹⁵
- 9.6. It’s clear then that sensitivity to gender and other distributional concerns is central to the success of the programme and as such a logframe target on gender-related outputs should be included and all data collected by the project must be gender disaggregated where possible. While it is expected that the project will produce some research focused on questions of gender and social status (e.g. a paper in the first year on the family and cultural norms) these concerns and concerns about how growth is distributed across the population should be addressed throughout the programme. It should consider the impact of institutions and institutional change on different types of growth – what is needed in order to achieve high and sustained growth, and is that the same as what is needed for growth that is inclusive?

10. Conflict

- 10.1. This research concentrates on the economic impacts of institutions which are underpinned by a political settlement. Weak or unstable settlements are often characterised by violent conflict, normally with detrimental economic impacts. Complementary research links characteristics of the political settlement with the

¹³ Niederle, Muriel, and Alexandra H. Yestrumskas. Gender differences in seeking challenges: The role of institutions. No. w13922. National Bureau of Economic Research, 2008.

¹⁴ Raewyn Connell, “Glass Ceilings or Gendered Institutions? Mapping the Gender Regimes of Public Sector Worksites” Public Administration Review. 2006.

¹⁵ Toni Schofield, Susan Goodwin, Gender Politics and Public Policy Making: Prospects for Advancing Gender Equality, Policy and Society, Volume 24, Issue 4, 2005

likelihood of conflict. The relationship between conflict and growth has been explored extensively in the literature in recent years and has very much emphasized the importance of a failure to establish a peaceful political settlement and distribution of resources as a determinant of conflict. In particular there is a growing body of evidence on horizontal inequalities although vertical inequality as a driver of conflict remains less explored.

- 10.2. A naïve reading of the growth literature would predict a postwar boom in economic activity because destruction of capital would leave returns extremely high as the small amount remaining would be extremely productive. This optimistic prediction is totally at odds with the empirical persistence of conflict and low-income and the association of those two factors¹⁶.
- 10.3. A much better starting point for understanding the impact of conflict on growth is one that engages directly with the causes of conflict: ultimately a dispute over the distribution of power or resources. The so-called political settlement- a tacit agreement about the share that underlies the institutional structure- is thought to be the key to a peaceful society and the inability of institutions to adapt and mitigate the shifting distribution of underlying power a key causes of conflict¹⁷.
- 10.4. This research should consider both how institutions affect the distribution of power and resources across different groups in the population, how effective they are in resolving conflicts between these groups in a peaceful manner and how they shape the incentives for individuals to participate in violent activity. Moreover, the programme is encouraged to investigate how the institutions themselves are affected by conflict.
- 10.5. It is likely that fieldwork will be carried out in a fragile or conflict-affected state, so the Consortium will be required to produce a duty of care statement, set out specific mitigating measures appropriate to the situation. While it is unlikely in the case of research, any risk of exacerbating a conflict-affected situation and the “do no harm” principles should be given overriding consideration¹⁸.

16 See for example discussion in Collier, P. “On the economic consequences of civil war” Oxford Economic Papers (1999)

17 As just one example of this sort of discussion, Dani Rodrik considers institutions’ inability to peacefully mitigate conflict during economic shocks in “Where did all the growth go?” (1998)

18 “Working Effectively in Conflict-affected and Fragile Situations”, DFID (2010)

Annex B: Detailed research agenda and supporting activities - inception year only

Research Activity 1: Path-finding papers

I. Papers on set themes

Paper 1: ‘The theory of institutions and economic growth’, (Norwegian University of Science and Technology, Trondheim)

Recent literature has identified several dimensions of institutions that are key to understand why some countries have prospered while others have not. This paper starts out by giving an overview of which institutions are likely to contribute to growth in low-income countries. The crucial institutions for economic growth may differ between different countries. For instance, countries rich in natural resources may have other institutions crucial for growth than countries poor in natural resources.

The paper then moves on to discuss what shapes institutions and how they evolve. Institutions allocate power. Those with economic and political power have the opportunity, and the incentives, to choose institutions that preserve their power. Therefore, institutions tend to reproduce, and they tend to be determined by history. But at the same time, institutions may change with changes in political power, changed economic conditions, or as a result of new insights or external advice. The paper aims to give an overview of the research on endogenous institutions. Finally, the paper moves from the positive theories of institutions to normative theory: how should institutions be reformed, and how is it possible to make such reforms constitute a political equilibrium?

Paper 2: ‘Formal institutions and economic growth’, (Stanford University)

The development of formal institutions is often seen as displacing informal ones. The logic of the argument is that informal institutions exist because they provide a service, but formal institutions can provide the same service more effectively — either because they are more efficient, more inclusive, or both. When formal institutions are put in place, informal institutions disappear since they are costly to maintain and are no longer needed. This argument carries some weight, but fails to recognize that economic exchange takes place between individuals and, as such, is nearly always embedded within a social context. The presence of a social context does not disappear with the introduction of formal institutions. Based on this, it is incorrect to imagine that the role of formal institutions is to substitute themselves for informal institutions. A more accurate view is to regard formal institutions as enabling informal institutions to perform better. For instance, marriage may help couples to stay together after a small quarrel, since they will invariably quarrel at some point or another. By making it easier to sustain cohabitation, marriage protects investment towards household public goods (e.g., raising children), thereby increasing efficiency. The same reasoning applies to market institutions. In the absence of formal institutions, market exchange is typically organized around long term relationships — e.g., between employer and worker, supplier and client, bank and customer. The truth is that any market is embedded in a social context, and interpersonal interaction is not eliminated by formal institutions. The role of formal institutions should be to reinforce those social interactions that lead to a more efficient, more inclusive outcome, and to discourage those interactions that reduce efficiency and ostracize certain groups and individuals.

The above observations form the organizing principle behind our critical examination of the literature and our derivation of policy implications for the introduction of formal institutions.

Paper 3: ‘Culture, family and religious institutions’

Paper 3 has been split into two parts: a paper on “Culture, institutions, and development”, and another paper on “Families and their transformation in developing countries”.

Paper 3 (i): ‘Culture, institutions and development’, (University of California, Berkeley)

A very active literature on the effects of culture on institutions and development has developed in the last 10 years. While previously economists abstained from analyzing the effects of culture, they increasingly recognize that differences in values and beliefs across the world have many economic implications, be it in influencing attitudes towards thrift, work and effort, the role of women, openness towards other countries and other cultures, or in affecting political and legal institutions. International data bases such as the world values survey have made it possible to examine cross-country differences in a large array of cultural values and beliefs. A major theme in the literature is that culture is extremely persistent and changes usually only very slowly. The main cultural variables that have been examined so far are 1) generalized trust, interpreted as a culture of generalized morality valid towards all (as opposed to limited morality valid only towards a limited in-group), culture of cooperation and political participation, 2) individualism, awarding social prestige to standing out and collectivism, awarding social prestige to conformity, and embeddedness within the community.

The individualism-collectivism distinction has been used a lot in cross-cultural psychology, a subfield from which many insights may be drawn. The main economic variables analyzed to be influenced by culture are innovation and growth, propensity to diffuse innovation and to trade, and the type of political institutions. An important part of the literature is based on cross-country studies, but many research papers have exploited the diversity of immigration in the US to compare the effect of the culture of origin of one's ancestors on economic choices and economic behaviour. A small but growing literature is based on controlled laboratory experiments done in different countries or across different cultures in the same country. Drawing policy conclusions from the research on culture is tricky but not impossible, and must take into account that culture changes very slowly and that we still do not understand very well how and why culture changes.

Paper 3 (ii): 'Family structures', (CRED, University of Namur) and (CRED, University of Namur)

Families have diverse functions, such as providing insurance and old age support to members, supplying credit and start-up capital for young entrepreneurs, transmitting wealth through inheritance and human and social capital (social connections, in particular), exploiting scale and scope economies in the production of local public goods, and constructing identity and inculcating norms and values. These functions tend to evolve depending upon changes occurring in the social, economic and political environment. Market integration and development provide alternatives that may substitute for some of these functions, the most obvious being credit and insurance. The same process of market integration, especially under the form of expansion of employment opportunities outside of the family, leads to preference changes that may promote individual emancipation from traditional family links. Moreover, public policies and state assertion may have an impact on the family by providing social safety nets and offering an alternative source of identity and values. In some instances, for example in contexts of inter-ethnic and inter-regional tensions, reliance on the family and its cultural and economic resources may be reinforced.

It is in the light of the above questions that we intend to critically examine the available literature and to think about policy implications. Recent contributions tend to call into question the common view according to which families are slow-moving institutions. New co-residence arrangements quickly adapt to changing economic incentives. Family functions and identities thus directly respond to policy environment and interventions.

Paper 4: 'The empirics of institutions and economic growth'

It is important that this paper does not duplicate recent studies such as, Olken, B., and R. Pande, 2013, "Governance Initiative Review Paper" or Olgivie, S. and A.W. Carus 2014. "Institutions and Economic Growth in Historical Perspective: Part 1 and Part 2", CESIFO Working Papers N° 4861 and 4862. OPM will identify an original subject and engage an author for a review paper falling under the theme of Paper 4.

Paper 5: 'Institutions, growth collapses and accelerations', Lant Pritchett (Kennedy School, Harvard University)

There are two strains of recent economic literature that to date are only loosely joined. One, is the large literature showing the significant impact of economic and political institutions on the level of economic output per worker. Two, there is a large literature showing that growth in developing countries is episodic with sudden shifts of growth from stagnation to boom or boom to bust. These episodes are of sufficiently large magnitude that they can double –or halve– GDP per capita. The difficulty in stitching these two elements of the literature together is that “institutions” are nearly always conceptualized –and measured empirically– in ways that suggest there are few sudden changes in “institutions.” This implies that in any simple linear formulation measures of “institutions” are not, and cannot be, good at explaining the timing or magnitude of growth acceleration and deceleration. Put more bluntly, while having good institutions might cause higher steady state income, getting good institutions is not predictive of higher growth (or, vice versa, as many episodes of rapid growth are initiated during periods of weak institutions).

The proposed paper will attempt to work out an empirics of the joint evolution of (a) growth episodes (building on the work of Pritchett, Sen and others to estimate for the first time the magnitude of growth episodes), (b) state capability for policy implementation (SCPI) and (c) political regime. We start with three working hypotheses. First, that growth accelerations can be created with weak SCPI with a regime shift from “disordered” to “closed ordered” deals – where a “deal” is an individual or firm based relationship to government. Second, these growth episodes begun with a shift to “closed ordered deals” can either (a) weaken SCPI further, or (b) lead to strengthening of SCPI. In case (a) we predict that the growth episode ends badly (e.g. soon and followed by a bust) whereas in case (b) they can end well (e.g. long and ending in gradual slowing). Third, whether or not growth episodes can be sustained depends on an interaction between a country’s position in the product space (in the Hausmann sense), the regime and SCPI in that countries in “sparse” parts of the product space will have an exceptionally difficult time enjoying prolonged favourable growth episodes. The second and third elements of the research also interact as the likelihood of SCPI enhancing moves during “closed ordered deal” growth episodes depends on the product space prospects (e.g. how easy it is for incumbents to be innovators).

Paper 6: Institutions and physical capital

This theme is divided into two components: “Infrastructure, institutions, and development”, and “Investment incentives and development”. A contributor for the second will be sought as a top priority.

Paper 6 (i): ‘Infrastructure and economic growth’, (ECARES, Université Libre de Bruxelles)

The main purposes of this paper are to review: (i) the evidence on the extent to which institutions shape the scope for improvements in the static and dynamic efficiency, the equity and the financial/fiscal viability of infrastructure and (ii) the extent to which these institutions have influenced the overall governance of the sector. Because there is evidence of a two-way causality between institutional change and infrastructure restructuring in developing countries, the paper will also discuss the extent to which infrastructure reforms have contributed to change the institutions in many countries. This somewhat underestimated reversed causality has been particularly obvious in non-Anglophone countries under the influence of reforms imported from Anglo-Saxon countries as suggested by Laporta et al (1999)) for instance.

The challenge of this paper is to synthesize and to try to reconcile a very broad range of literature. The transaction costs economics literature applied to the regulation of infrastructure sector strongly influenced our collective understanding of the extent to which institutions constraints reforms in the sector. It was then, and still is, largely advocated by Spiller and his followers and influenced by Williamson and North. Contract and agency theory, under the initial stimulus of Laffont and his followers has opened additional perspectives on the complexity of institutional design when information asymmetries dominate and multiple agency problems characterize complex institutions. Much of this research as applied to development economics owes a lot to Laffont and Martimort joint research as summarized in Estache and Wren-Lewis. E. Ostrom and some of her followers have provided further insights in particular in the context of rural infrastructures which are

important to recognize as they complement our collective understanding of how incentives for the delivery of key infrastructure services can be influenced by social norms and culture. The role of culture and norms has enjoyed quite a broad recognition among development economists for almost 20 years now but is currently being revisited by development economists and behavioural economists using (quasi) experimental methods. A growing number of the applications of this research is starting to influence infrastructure policy as well although only a relatively modest share of the research has focused specifically on infrastructure. More recently, Acemoglu and Robinson or Rodrik have provided additional insights and perspective which has not really yet been tested in many details in the context of infrastructure but which have provided. Their research and some of its implications is however so influential that it is necessary to assess its importance in the context of infrastructure in developing economies.

Paper 6 (ii): 'Institutions, investment incentives and economic growth'

To be assigned.

Paper 7: 'Institutions and Finance', (Cass Business School, London)

For better or worse, the financial sector has a critical role in modern market economies. While it can be a force for development, by providing basic payment and transaction services, intermediating society's savings to its best uses, offering households, enterprises and governments risk management tools, it can also be a source of fragility, as we have been reminded during the recent Global Financial Crisis and the ongoing Eurozone crisis, but also by numerous banking crises in emerging and developing markets.

This paper will summarize the recent literature on the effect of financial development on economic development and its interaction with institutional development. While theory is ambiguous, there is strong empirical evidence that economies with deeper financial systems grow faster and reduce poverty at faster rates. There is equally strong evidence, however, that this relationship is non-linear and conditional on some factors. The paper will discuss the different channels and mechanisms through which finance and development interact, but also the open questions and challenges. It will focus on low-income countries, which often have the most shallow financial markets, with few providers, few and costly products, and short maturities.

The paper will also discuss the role of institutions in the relationship of finance with economic development. The interaction of finance with institutions, defined as the "rules of the game in a society or, more formally...the humanly devised constraints that shape human interaction" (North, 1990), and its impact on development, are threefold. First, given its inter-temporal nature finance is one of the most "institutions-intensive" sectors, and its development has been shown to depend critically on a conducive institutional framework, including effective contractual framework and transparency. Second, the outreach of the financial system and, ultimately, its impact on economic development, increase in governance and trust, as this will allow to expand the financial system to lower-income population segments and small and medium-sized enterprises. Third, an effective and competitive financial system can also improve institutions; by increasing competition in the real sector, it can allow new entry and fosters entrepreneurship, which can increase demand for effective and accessible institutions, with ultimate positive repercussions for economic development.

Paper 8: Institutions, labour and human capital

This theme is split across two papers: one dealing with labour markets and the other with education.

Paper 8(i): 'Skills, firms and labour markets', (UCL)

The aim of this paper is to study the interplay between firms and workers in the optimal allocation of resources in labour markets in developing countries. From the worker side, the paper will study the returns to workers of receiving various forms of training. These will include vocational and life skills targeted towards those transitioning from school into the labour market, packages of skills bundled with asset transfers than enable individuals to become self-employed through establishing some form of basic entrepreneurship, as well as more traditional vocational skills training for those already in the labour market. On the firm

side, the paper will cover the labour constraints small and medium sized enterprises face in hiring workers, and compare these to the importance of other constraints related to capital and infrastructure for example. Finally, from the perspective of the labour market as a whole, the paper will review the evidence on the matching process between firms and workers, to identify sources of inefficiency in this process. We will also study the institutional constraints and market inefficiencies that impinge on the allocation of talent into occupations. Emphasis will be placed on what are the policy-driven changes in labour markets that can improve outcomes for workers and firms and that can be most beneficial in terms of economic growth.

Paper 8(ii): ‘Education, institutions and development’, (Stockholm School of Economics)

A key problem that most of the RCT studies have not really addressed, and the interventions cannot really address them either, is the fact that primary schools across Africa are staffed with teachers with very little knowledge and ability. In many cases they do not know much more than their students and have basically no skills to teach what they actually know. Simple incentive programs to increase effort will not do much if the problem is real ability of the teachers. The paper will therefore look at the literature not only from the viewpoint of the impact of school enrolment rates (the easy-to-quantify aspect) on development but also from the viewpoint of quality of schooling, especially at the primary level of education curricula. This distinction is critical because access to sufficiently attractive employment is conditional upon having acquired an education of minimum quality. Policy implications also differ much if the diagnosis emphasises qualitative rather than quantitative aspects of schooling. Interesting questions that arise are how can a government upgrade the quality of its teaching staff and how can it incentivise good teachers to live in remote and backward communities.

Paper 9: ‘Institutions, technology, and trade’

As with the previous theme, we intend to partition Paper 9: one paper approaching the issue of the long-term impact of technology on institutions from a (European) historical perspective, and the other dealing with the interactions between technology, trade, and institutions in the context of present-day poor countries.

Paper 9(i): ‘Technological change, Marxist contradictions, and institutional revolutions: a historical perspective’, (University of Oxford)

Marx has argued that changes in technology lead to changes in institutions. In a famous formulation, he wrote: “At a certain stage in their development, the material productive forces in society come in conflict with the existing relations of production, or, what is but a legal expression for the same thing, with the property relations within which they have been at work before. From forms of development of the productive forces these relations turn into their fetters. Then begins an epoch of social revolution.” The aim of this paper is to examine to what degree this abstract formulation corresponds to the actual development of the English economy from the Middle Ages through the Industrial Revolution. While Marx’s theory that society progressed through stages of slavery, feudalism, and capitalism has been often dismissed as erroneous and over-generalized, I shall argue that there is considerable truth in his view that ‘contradictions’ developed between technology and its social organization, and that the contradictions were resolved through institutional change. The enclosure of the open fields and the transition from cottage mode of production to the factory will be examined in detail to interrogate Marx’s views. Particular attention will be given to the incentives that were causes and consequences of technical progress and the way those incentives led to contradictions and institutional evolution.

Paper 9(ii): ‘Technology, trade and institutions’, (University of Geneva) and (University of Geneva)

This survey will address the state of knowledge on the two-way links between institutions (formal and informal) and trade (volumes, gains or losses, from trade and specialization), with a special focus on low-income countries and taking into account that sectors differ in terms of their institution-intensiveness. The importance of institutional development and other factors (e.g. geography) as a prerequisite for participation in off-shoring activities of global supply chains (agriculture and manufactures) will be examined as a potential explanation of the lack of participation by low-income countries.

In the absence of operational formal institutions in low-income countries, private-sector solutions have been found to help solve market and government failures in international markets. This is done by reducing information asymmetries, improving enforcement of contracts and property rights, thereby putting constraints and adding accountability to policy-makers decisions. Private sector-solutions include rating mechanisms on online platforms, intermediaries, or pre-shipment inspection in the exporting partner. Among the more formal institutions, Regional Trade Agreements in low-income countries provide opportunities to help limit the discretion of governments subject to time-inconsistency problems as well as to reduce conflicts. The paper will inform on the evidence regarding the extent to which informal institutions, private sector driven solutions and trade agreements can be a substitute to formal institutions, as well as the impact of formal and informal institutional quality at different levels of development.

**Paper 10: ‘Institutional change and external actors’,
Content to be agreed during Inception**

II. Cross-cutting papers

Paper II.1: ‘Civil conflicts, ethnicity, and development’, (Graduate School of Economics, Barcelona) and (New York University)

The emphasis on economic inequality as a causal correlate of conflict, intuitive as it might seem, it does not receive emphatic empirical endorsement. Lichbach (1989) mentions 43 papers on the subject providing a thoroughly mixed evidence. recent research seems to have given up on this front. In our view, there is no clear-cut correlation because economic demarcation across classes is a two-edged sword: while it breeds resentment, the very poverty of the have-nots separates them from the means for a successful insurrection. This might explain why we are observing more ethnic than class conflict. In addition, emphasis has been placed on violent civil wars rather than on social unrest, which is the primary expression of “class conflict”. The latter is the approach of Besley and Persson (2011) and Pasarelli and Tabellini (2013).

A major open question is to explain the mechanisms through which in many countries the social cleavage has shifted from class to ethnicity [or nationalism, religion, and so on]. In Esteban and Ray (2008) we study the salience of class or of ethnicity. To this effect, we develop a conflict model with endogenous coalition formation and show that under symmetry class conflict cannot occur. The aim of the paper was conceptual, not empirical. We assumed that there is a government budget that is divided between ethnic specific and class specific expenditures. There are two ethnicities and two income classes. Each ethnicity would like to divert the entire ethnic budget towards their most referred type of expenditure and so do the income classes relative to the class budget. We assume no correlation between ethnicity and class. Then we show that when the two budgets are of equal size, if utility functions are locally linear around the equilibrium values, we can have either peace or ethnic conflict, but not class conflict. This result does not exclude class conflict if there is sufficient bias in the type of expenditures, or if the utility function is sufficiently concave, or if there is correlation between ethnicity and class. This is what we want to explore: how much bias in the budget, how much correlation between class and ethnicity, or how much concavity in the preferences there has to be to shift the social cleavage from class to ethnicity. Then we want to empirically test the implications of the model.

Paper II.2: ‘Gender inequalities in education and employment, and their impact on economic growth’, (University of Göttingen)

There has been a growing recognition that gender inequalities, particularly in education and employment, can have a significant impact on economic growth (e.g. Knowles, 2002; Klasen, 2002; Klasen and Lamanna, 2009; Esteva-Volart, 2004). While gender gaps in education are rapidly closing in most parts of the developing world (and in fact, gaps favouring females in attendance rates, completed years of schooling, and test scores are emerging in an increasing number of developing countries), gender gaps hurting females in employment as well as occupational and sectoral segregation are much more persistent (World Bank 2011). In a world undergoing rapid demographic change and rising skills shortages, the ability of women to actively participate in the labour market will, however, have a substantial impact on

economic performance in a growing number of countries. But growth will also depend on integrating males that are currently performing poorly in the education system and are not able to transition to productive employment.

There is a growing recognition that deep-seated institutional issues are particularly affecting women's employment opportunities (e.g. Gaddis and Klasen, 2014; Klasen and Pieters, 2013). Some of these barriers relate to social institutions, such as those captured by the OECD's Social Institutions and Gender Index (e.g., Branisa et al. 2014), which indeed predict gendered development well (Branisa et al. 2013). At the same time, much remains poorly understood in this linkage between gendered institutions and their impact on development outcomes. After surveying the literature on gender, institutions, and economic growth, the paper will particularly identify gendered institutional features that have an important impact on economic growth. A special focus will be put on institutional features affecting female activity rates.

A second aim could be to identify key institutional constraints and impact of the rising problem of gender gaps hurting males in educational performance in an increasing number of countries. There is hardly any research on this issue which is likely to grow in importance as a growth as well as equity and social stability issue. An important goal of this analytical research program is to also identify gendered institutional constraints that can also be used in an 'institutional diagnostics' framework and could also help develop a forward-looking policy agenda that addresses these gendered institutional constraints to promote economic growth and gender equity at the same time.

Paper II.3: 'Environment, institutions and development', (CRED, University of Namur) and (Indian Statistical Institute, Delhi)

Environmental problems may be classified by the scale of the relevant externalities. Some externalities are primarily local, for example, those concerning the management of resources like forests, pastures and inland fisheries, or local air and water pollution. Others are mainly regional or national like river and air pollution that is carried over longer distances. Still others like ozone depletion and global warming are global. Institutions that can address issues at these different scales may be quite different in their genesis and structure. For example, community management that may work well for local commons under some circumstances is ineffective at larger scales, where state institutions are required.

Environmental economics in the developed countries has largely focused on regulatory institutions like Environmental Protection Agencies. The much greater diversity of environmental problems and sources of pollution in the developing world means that a much greater variety of institutions are important for environmental protection (Somanathan and Sterner 2006). For example, the functioning of institutions such as local governments that could provide public goods like piped filtered water and sewage disposal, and public health authorities that could monitor environmental threats to public health must be understood. The paper will draw on the literature in environmental economics, development economics, and institutional economics to provide an assessment of our understanding of the role of institutions in the environment-development nexus.

III. Additional papers

Paper III.1: 'Inequality, institutions, and development', (Santa Fe Institute)

In this paper, I will develop a synthetic model of the ways that economic institutions affect economic disparities. This model will serve as the basis of a short survey of alternative approaches. I will then use the same model along with both historical and current data to describe the dynamics of economic inequality in alternative institutional settings. Included will be analysis of a new dataset on inequality in material and other forms of wealth over the past six millennia. The approach will be dynamic and over the long run, focusing on distributions that are stationary in a process that includes intergenerational wealth transmission. In the penultimate section, I will provide conditions under which the institutional framework itself will be stationary. The focus will be on economic institutions (rather than on state structures), and on national (or at least sub-global) inequalities.

Paper III.2: ‘Group Inequality in democracies: Lessons from cross-national experiences’, (Delhi School of Economics)

Most democracies have acknowledged the injustice of large group inequalities and economic and social policy in these countries has attempted to bridge gaps across castes, races and ethnicities. The nature of policies adopted and the legal framework on which they are based varies enormously across countries. For example, two of the world’s largest democracies, India and the United States, have both made repeated commitments to equalizing opportunities across groups. Yet India has consistently expanded the ambit of affirmative action policies while the United States Supreme Court has ruled many existing affirmative action programs as unconstitutional. These differences are intimately related to alternative notions of secularism, equal opportunity and disadvantage that have emerged in these societies. This paper would use a comparative perspective to better understand the source of these differences and the potential of group-based preferential treatment in addressing inequality.

Paper III.3: ‘Migration, institutions, and development’, (University of Cambridge)

The migration process has historically been characterized, and continues to be characterized, by the movement of groups of individuals drawn from the same community. Depending on the context, the community could be defined by kinship (caste, clan, tribe) or geography (village, neighbourhood). The first section of this paper will describe the movement of groups of individuals in a number of important historical episodes; European immigration to the U.S. in the nineteenth century, the movement by African-Americans to northern cities in the first half of the twentieth century, and the internal caste-based migration that accompanied the growth of Indian cities under colonial rule. The continuing importance of migrant networks in the Indian and U.S. economies will also be discussed.

Although there is a wealth of evidence linking community networks to migration, formally identifying their role in this process is a challenging statistical problem. The second section of the paper will describe alternative strategies that can be used to identify migrant network effects. One role for these networks is to support their members in the short-run by providing jobs, credit, and insurance. A second role is to support permanent occupational mobility, allowing communities to bootstrap their way out of low-skill traditional occupations into more remunerative occupations, like business. At the same time, community networks can restrict the mobility of individual members once they are established. Section 3 of the paper will discuss these different network dynamics. Section 4 will build on this discussion by describing how networks could be incorporated in models of growth and development. Implications for inequality, within and between communities, will be considered. Section 5 concludes.

Paper III.4: ‘The impact of media on development’, (Bocconi University, Milan)

A large literature in political science and economics has stressed the role of the media for accountability: by providing information on candidates ex ante, and on politicians’ performance ex post, an independent media can allow the system of checks and balances embedded in a democracy to work, ensure that electoral threat incentivize governments, and ultimately improve the functioning of institutions. The first part of the paper will briefly review this literature and highlight the limits that emerge in weak institutional contexts, where the media may be captured by powerful interests or by the ruling elite.

The second part of the paper will stress a different angle that has been much less explored, at least in the economics literature: the media can be used to change citizens’ preferences and values, as an intermediate step to changing institutions. In fact “manipulating” institutions in the short run may not have long term effects if individuals do not change their way of thinking, what they demand of their peers, their families and their policymakers. While changing values is intrinsically a complex process, often marked by historical transitions, recent research suggests that the rapid spread of mass media in developing countries can be a powerful tool to change poor people’s preferences. The paper will therefore: (i) review the psychological basis for the role that mass media (and in particular television) can play in changing attitudes and behavior; (ii) summarize the existing empirical studies, with a focus on rigorously identified ones; (iii) highlight methodological challenges for estimation of these effects, and proposed solutions; and (iv) discuss policy implications.

Paper III.5: 'Clientelistic politics and economic development', (Boston University and (University of California, Berkeley)

One of the most distinctive characteristics of political economy of underdevelopment is clientelism or vote-buying, which involves an implicit quid pro quo between discretionary benefits delivered by elected officials to narrow swing groups of voters in exchange for their votes. The pervasiveness of clientelism among less developed countries across Asia, Africa and Latin America, as well as its historical prevalence in the US and UK has been widely documented by political scientists (Kitschelt and Wilkinson (2007)).

This phenomenon has begun to attract increasing theoretical, empirical and experimental research in recent literature on political economy of development. This essay will provide a perspective on this literature, organized around the following questions: (a) descriptive accounts of various forms of clientelism across different countries and historical periods; (b) theoretical models explaining (i) methods of enforcement of the quid pro quo in democracies with secret ballots, (ii) distinctive features of clientelism in contrast to other key political distortions such as elite capture, (iii) empirical predictions, (iv) welfare and policy implications; (c) Empirical and experimental evidence; and (d) Emerging new questions, such as the dynamics of clientelism and its interaction with the development process.

Research Activity 2: an 'Institutional Diagnostic'

The terms of reference for this programme presents Institutional Diagnostics (ID) as a "tool (which) would provide would-be reformers with a map...diagnosing the institutional constraints to growth, proceeding to identify tipping points and sticking points for institutional reform and finally a prioritized list of actions."

Practically, it will proceed in two steps. First, the growth diagnostics methodology would try to identify economic areas, or parameters, responsible, directly and indirectly, for slow growth. In a second step, the goal would be to identify which institutions or institution failures may be responsible for those economic constraints i.e. boxes have been highlighted in green in Figure 1, below.

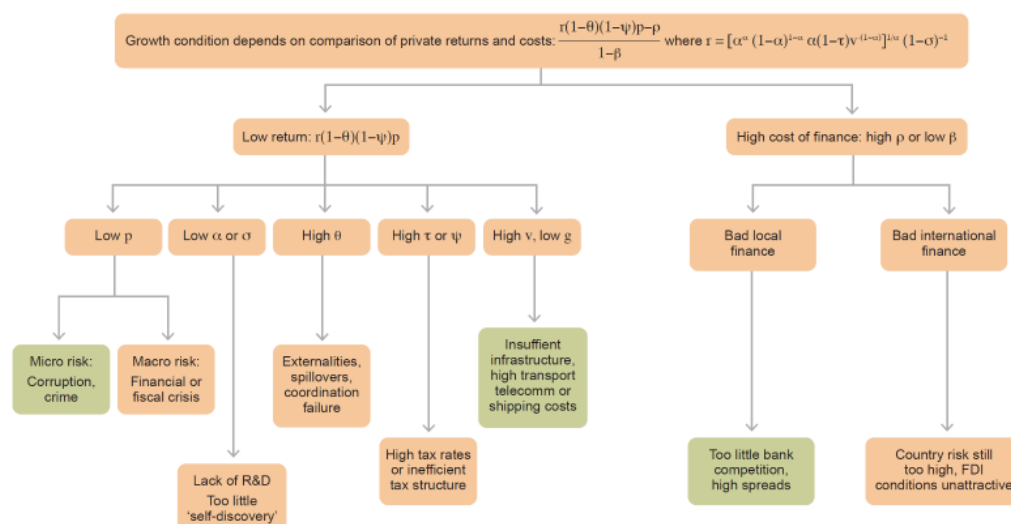


Figure 1: Example of growth diagnostic methodology taken from HRV (2008): green boxes are where institutions may directly matter.

In that way, we see that the mapping of economic constraints into institutional constraints or institutional failures is not necessarily one to one. If it were to stop at that level of generality, it is not clear that this ID extension of the Growth Diagnostics tool would be extremely useful. The reason is simply that the diagnostic

may take place at a rather high level of aggregation where only general features of institutions matter, thus giving little grip to practitioners and policy makers for reform.

There are two ways of overcoming this difficulty. The first one is obviously to proceed at a more disaggregated level. Instead of considering the whole economy, an analysis of the type described in Figure 1, could be conducted at the sector level: agriculture, manufacturing, various types of services and, in many sub-Saharan countries the sector of primary commodities for export. It might also be undertaken by investment areas, infrastructure in particular. By doing so, it is likely that a finer level of disaggregation may be obtained at the institutional level. This is particularly obvious for agriculture where land ownership, sharecropping practices, decentralization of public spending, village organization, and the management of commons play a huge role in explaining productivity and gains in productivity. In many low-income countries, agriculture is still a strategic sector for growth, the potential of which, as measured by yields, is still huge. In the primary commodity sector, the problem is not so much the rate of investment but most likely, the use made of export revenues and the way they may feed domestic savings. The key institutional issue there is the accountability of governments.

A second way of getting closer to particular institutions instead of generic qualities of institutions or governance indicators like the familiar 'rule of law' or 'corruption' is to rely on the Institution and Development Compendium (ICD). In that compendium, single institutions – or institutional reforms – are described in part by what their economic consequences may be and whether they may be important at the aggregate growth level. Once completed, the ICD should thus be a useful complementary tool to ID, which would allow for a more precise identification of the institutions or institution failures responsible for some economic inefficiency. In particular, the information synthesized in the ID should be helpful in going from generic qualities of institutions or governance indicators to more specific institutions.

Once an institutional constraint has been identified, the next step is to identify the levers most likely to be available to modify existing institutions. This raises the issue not only of the particular channel through which corruption is detrimental to growth but also of the instruments available to curb it in that channel and, therefore, of the political economy of intervention. Thus the ID diagnostic tool cannot abstract from the *political economy* of institutional reforms.

Another issue that needs to be considered is the balance between a focus on 'growth' and on 'development', the distinction being the inclusiveness of growth – the distribution of the benefits from growth in the population. Clearly, when establishing a growth diagnostic, it matters very much whether one focuses only on GDP per capita or on a more inclusive definition of social welfare. This distinction is extremely important when thinking of the relationship between institutions and growth. If an inclusive definition of growth is used, as it should of course, then many institutions which were of minor importance when focusing on growth per se become highly relevant. In particular, it is possible that a non-inclusive growth strategy becomes inclusive when pursued with institutional reforms that contribute to equalizing the distribution of standards of living. Redistributive institutions then become crucial. This will undoubtedly considerably broaden the scope of the ID tool.

An Approach Paper will be developed during inception by a core team from the Scientific Committee, with practical support from OPM and ADE.

Research Activity 3: A coordinated set of RCTs

The coordination of a set of RCTs offers an exceptional opportunity for innovation. Coordination has several dimensions. There is scope to return to the data and findings

from earlier rigorous studies, an opportunity to develop panel data, and the opportunity to run a sequence of experiments. This opportunity for coordination means not only controlling the format and context for experiments, but also designing them to provide answers in the search for levers to trigger development-oriented institutional change.

Within this project, experimentation is a way of improving our deep knowledge on how to impulse institutional changes favourable to development rather than part of a haphazard exploration of the infinite set of policies able to influence institutions and development. Defining the questions the RCTs will answer, rather than having to deal with a pre-determined field of intervention is an opportunity for experiments to help answer fundamental policy questions.

The research strategy we should follow will proceed in three different steps.

1. A focused review of existing rigorous impact evaluations of institutional reforms in low- (and middle-) income countries as a key input for the RA3 Research Proposal. This activity would be part of the 'Institutions and Development Compendium', the very early activity in the inception year, described in the framing section, above. The pure RCT part of this compendium could be the basis of a 'white paper' on experiments in the field of institutions and development.
2. Theoretical modelling will be undertaken of the potential effect of reforms bearing on some specific type of institutions. The objective would be to predict the likely effect of institutional reforms or institutional shocks in a given area based on the value of a (preferably small) number of behavioural and contextual parameters. The theory would then inform the design of experiments to estimate these parameters in various country or regional contexts. This approach is common in lab experiments, but is not as frequent in field experiments. Yet it is the only way to ensure the 'external validity' of the conclusions to be drawn from the experiments across different contexts and reform designs, which is an essential requirement of such experiments. Put differently, this theoretical modelling step is meant to make the set of RCTs to be undertaken true 'structural models' rather than the 'reduced form' as is most often the case with stand-alone RCTs.
3. The third step would then be a set of fully coordinated experiments, with the help of the theoretical model to choose informative intervention designs and the countries of application.

The first activity will be to conduct a thorough literature review. Following a kick-off meeting, the RA3 Scientific Committee will commission a survey of the RCT-based evidence on institution building or institutional reforms and development. This will be part of the Institution and Development Compendium, described above. It will identify advances in methodology and theory, and summarize what is known, and what is not known from RCTs about the relationship between institutions and economic outcomes and the effectiveness of interventions and reforms in various institutional areas. By identifying high-priority institutions and gaps in the literature, this review will inform the selection of institutions, countries and interventions for the coordinated RCTs that will be presented in the Research Proposal at the end of the inception year. The paper will be written with supervision and peer review from members of the RA3 Scientific Committee.

A second paper will develop a theoretical framework for coordinated RCTs. Eminent theorists in the Scientific Committees will inform the design of experiments to help make the set of RCTs to be undertaken true 'structural models' rather than the 'reduced form' as is most often the case with stand-alone RCTs.

The literature review and modelling will contribute to a ‘summit’ meeting. This will likely be held around the middle of the inception year, and will be closely synchronised with the presentation of intermediate findings from the RA1 papers, as well as with the workshops for development of Approach Papers for RA2 on the Institutional Diagnostic, and RA4 on case-studies. The intention is both to draw in experts from a range of disciplines and fields, as well as to be able to cross-fertilise ideas – and hence coordinate – across the other streams of thought and work under this programme: in effect, a “crowd-sourcing” of inputs for the development of our approach.

Following this ‘summit’ meeting, the RA3 Scientific Committee will start developing criteria for selecting countries, more precise institutional reforms, countries and treatments, to ensure that the resulting RCTs will both address high-priority development challenges and garner a surplus of high-quality research proposals.

A second, smaller workshop meeting will be held later in the inception year to make a final decision on the two or three institutional reforms to focus on. Then the theorists and members of the Scientific Committee will have a few months to define in a more precise way the nature of the parameters to be identified through experiments and the nature of the interventions.

The final research proposal will be peer-reviewed by the Scientific Committee for RA3 and finalised by the end of the inception year. This will detail a new theoretical framework that will outline the clear mechanisms which can be tested through an RCT, with a specific attention to heterogeneous treatment effects that will allow, among other ways of disaggregation, greater gender-sensitivity to ensure compliance with the International Development Gender Equality Act.

The RA3 Scientific Committee will submit a proposal for the coordinated RCT activity to external reviewers, detailing the criteria and selection process, and identifying research questions.

Research Activity 4: Institutional case studies

Methodology

Before turning to the central questions, there is a practical matter of methodology for RA4. The ToR and background paper for this programme suggested a clear and well-established sequence in which (i) a theory is produced with a view to yielding precise assumptions, and (ii) these assumptions are then put to test through appropriate empirical procedures. This logical approach cannot be followed here, however, because we don't have the time. Roughly speaking, the sequential approach would need a minimum of seven years, which greatly exceeds the time horizon set for this project.

Therefore, we must adopt a realistic alternative approach in which the theoretical endeavour and the empirical case studies are developed in parallel over the course of the project. **Theme Lead, will take responsibility for developing a new theoretical framework in collaboration with a selected number of co-authors drawn from within and without the Scientific Committee. The selection of the case studies will be one of the central tasks of the Scientific Committee.** It will have to reflect the judgement and expertise of the commission members, with the close collaboration with DFID, with those working on other research areas, and with the engagement with policymakers and other stakeholders, including through the 'policy group', which we describe below.

Key questions

A number of central questions to be considered under RA4 are the following:

Q1. To what extent should existing informal institutions be left free to evolve endogenously as market integration proceeds? When and how should they be partly or completely formalised? Should they sometimes be restricted?

Q2. What formal institutions, or group of institutions, should be first established, in general as well as in specific contexts, and how should they be designed for maximum impact?

Q3. What are the interactions between political and economic institutions, and how could economic institutions be protected against the adverse effects of weak or worsening political institutions?

Q4. How are cultures and associated identities reflected in specific institutions, and how can one work toward making cultures more amenable to growth-inducing forms?

Relatedly, when minorities exist, how can their mode of living, their sources of income and their culture be protected against threats coming from dominant groups

Q5. When informal institutions are significant, is a more decentralised mode of economic and political governance preferable to a more centralised one?

Q6. What are the institutions most or least susceptible of being usefully influenced by outside interventions such as conditionalities set by donors?

Research Uptake

There are two main elements to the approach to policy engagement that will reflect policy 'demand' in the development of the research agenda during inception:

1. The Scientific Committee for RA2 includes two of the foremost African policymakers, , **Deputy Governor of the Bank of Uganda**, and, **Governor of the Bank of Tanzania**, who both combine academic excellence, previous work on the board and staff of multilateral development banks in addition to their current policy responsibilities.

2. **A policy group** – a corollary of our Scientific Committees – will meet as part of the inception year, and then on an *ad hoc* basis usually on the margins of the international meetings that policymakers attend anyway (which offers value for money). In addition to and, we have approached (former Minister of Finance in Senegal and former Vice-President for Africa at the World Bank), (Governor of the Reserve Bank of India), and (former Chief Statistician of India and Principal Adviser, Power and Energy, at the Planning Commission, and currently Country Director for the IGC in India). In addition, on the strength of existing engagement with BRAC and GNGN, we would expect to include a senior representative in this group.

As this research programme develops, the communications strategy in support of research uptake will move through four phases:

1. **The initial phase will involve the building of an on-line presence.** There will be two purposes: (i) to register the existence of the programme on-line; (ii) to provide a virtual hub for the research team, who are otherwise spread around the world.

2. **The second phase will face outwards, initially to provide a platform for publication of working papers**, as they emerge from RA1, and from the preparatory work on the Approach Papers for RA2 and RA4, and the Research Proposal for RA3. Working papers, which have always been more important in economics than in most other disciplines, dominate discussion at the research frontier; accessible summary versions are often available through multi-author blogs like Vox; and their findings are hotly debated through the wider economic 'blogosphere' and on Twitter. Those academic publications will be complemented by non-technical summaries across the themes covered by each Research Area, which will provide the basis for projecting the work of the programme into social media.

3. **The third phase will focus on high quality publications**, both in targeted journals as well as books, as appropriate.

4. **The fourth phase will be driven by on-going policy and research engagement with our audience of key stakeholders.** Building on the networks of our partners – ISI, DSE, and AERC this will also have strong elements of capacity-building. And our outreach will also be carefully targeted, based on the strategic advice of, and the work of the OPM Communications Team. We also anticipate sustained development of our web and social media presence, led by ADE.