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INSTITUTIONS AND ECONOMIC PERFORMANCE IN THE SOUTHERN MEDITERRANEAN PARTNER COUNTRIES:

A RENEWED POLICY AGENDA TO TACKLE INSTITUTIONAL FAILURE

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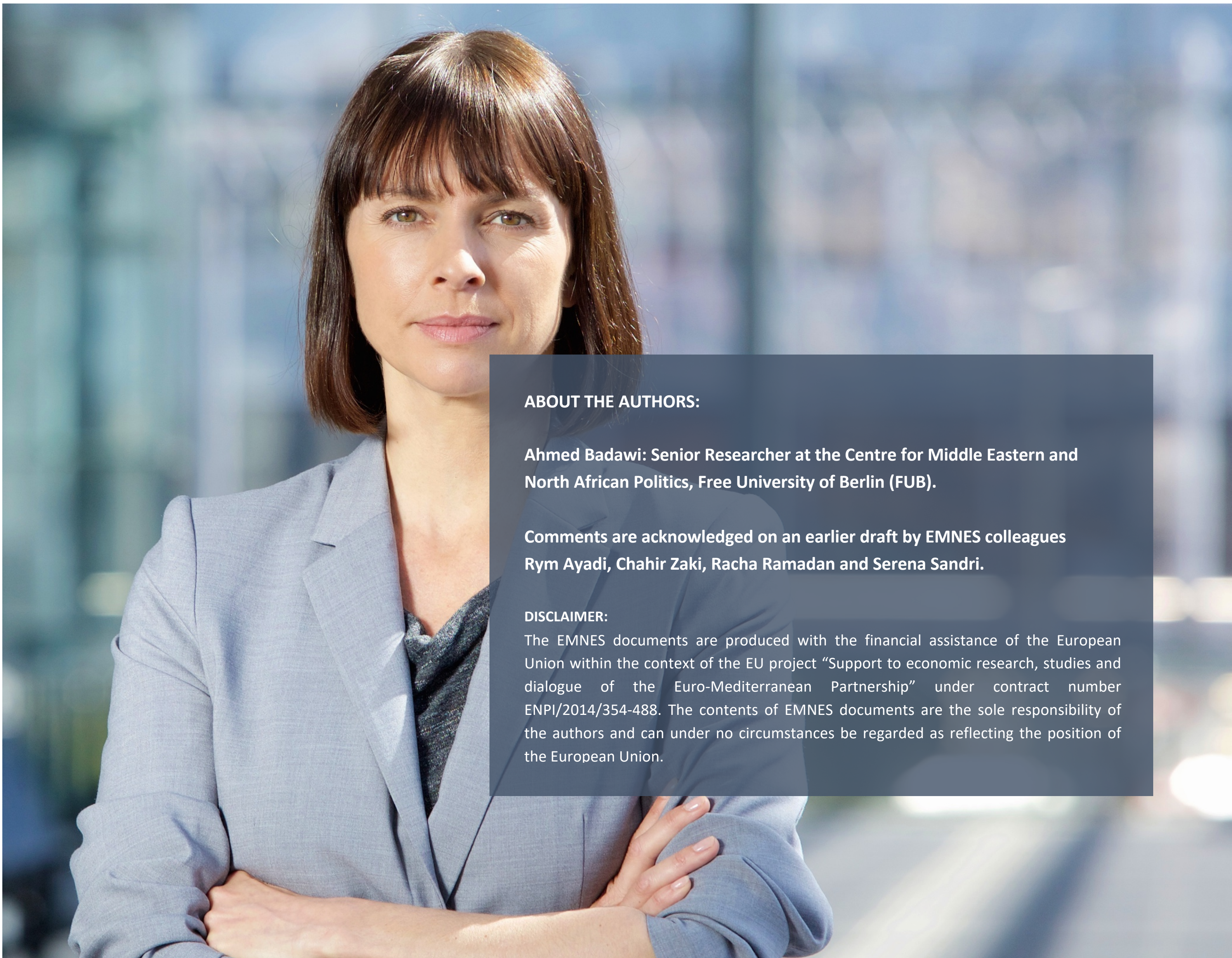

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ABSTRACT

This paper explores the problem of institutional failure in the Southern Mediterranean Partner Countries (SMPC). After reviewing the most recent empirical research on the effect that institutions have on economic performance, including research done in the framework of EMNES, the paper identifies two types of institutional failure pervasive in the region.

It concludes with the recommendation that while Type I failure could be remedied by piecemeal institutional reforms, the more pernicious Type II failure is not likely to be corrected without a structural transformation of the balance of political power in the affected country.

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INTRODUCTION

Decades of theoretical and empirical research show that economic policy reforms would not achieve and sustain their desired outcomes without functioning institutions, simply defined as the politico-legal structure in which economic activity is embedded.

Functioning institutions create the appropriate social and political environment for engaging in profitable economic activity through performing, at least, three functions: 1) to induce the *commitment* of governments to uphold the rule of law and to ensure the continuity and consistency of policy; 2) to increase *coordination* by aligning preferences, beliefs and expectations, and 3) to enhance *collaboration* through incentivising voluntary compliance with rules and reducing free-riding (World Bank 2017: 30).

Institutional failure is the condition that occurs when institutions do not perform these three core functions of commitment, coordination and collaboration. Without them, opportunistic behaviour and uncertainty prevail, transaction costs become too prohibitive, and society gradually loses its capacity for effective collective action (Coase 1937, 1960; North 1981, 1990; Williamson 1996). Under such conditions, economic policy reforms would not succeed in achieving real productivity growth, generating employment and reducing social injustice.

Dysfunctional institutions are pervasive in the Middle East and North Africa. Recent history has shown that institutional failure can abruptly destroy the gains from years of economic policy reforms. In the decade prior to the eruption of widespread popular protests in the region in 2010-11, countries such as Egypt and Tunisia achieved impressive rates of GDP growth, peaking at 7.2% in 2008 in the case of Egypt and 6.7% in 2007 in the case of Tunisia. But this economic growth was taking place against a backdrop of poor institutional performance, especially in the Southern Mediterranean Partner Countries (SMPCs).[1] And it is precisely in these countries that the clearest impact of institutional failure in the region has manifested itself, in the form of explosions of popular anger. such as those seen in 2011.

This policy paper[2] explains the pervasiveness of institutional failure and proposes policies to overcome it. In the following section, some facts about the quality of institutions in the SMPCs will be

[1] Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia.

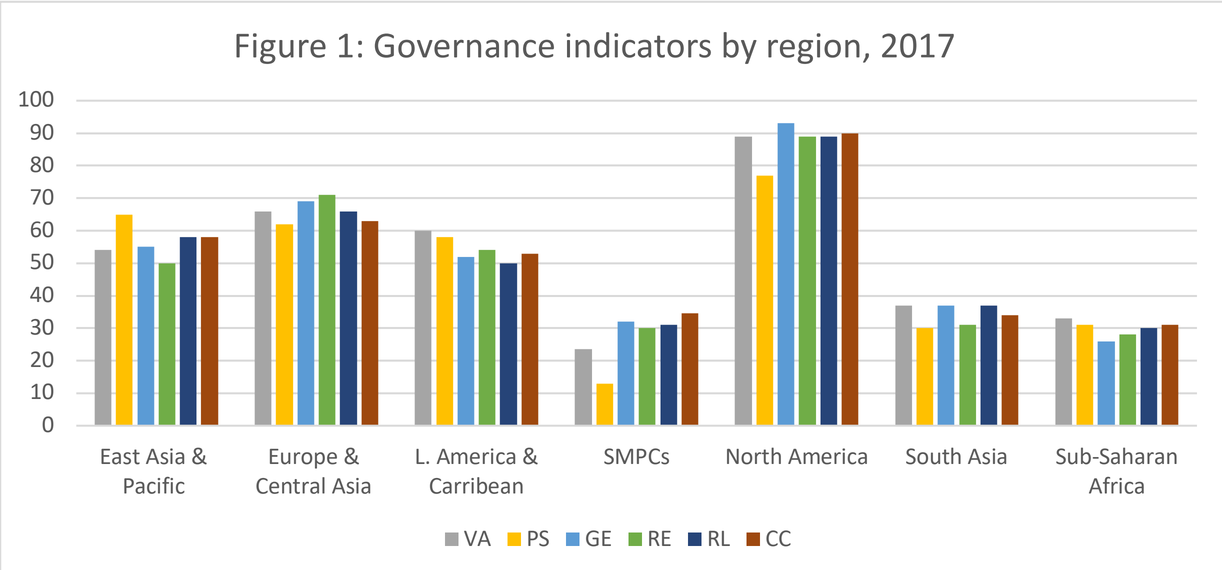
[2] This paper is a result of a participatory process in which EMNES researchers worked together in groups at two policy workshops held in Brussels in July 2018 and in Piran in October 2018 to combine the findings of research which has been

presented, drawing on the country governance scores provided by the World Bank's World Governance Indicators (WGI). The data from this and other indices proxying institutions are usually used in econometric studies to identify plausible causal links between institutions and various aspects of economic performance. Section II introduces one type of institutional failure, Type I, when the current set of institutional arrangements does not fulfil the three main functions mentioned above. The section will then review some of the studies that provide evidence of the pervasiveness of this type of institutional failure in the SMPCs and the wider Middle East and North Africa region. Section III presents a second type of institutional failure, namely the failure of the current set of dysfunctional institutional arrangements to provide sufficient incentives to build more efficient institutions. The key problem here is the nature of a society's balance of social power that enables those who benefit from the institutional status quo to block any meaningful attempt at institutional reforms. A final section recommends a set of strategies to overcome institutional failure in the SMPCs, including some suggestions for recalibrating the development policy research agenda for the region.

formulated into policy options and recommendations. The group included EMNES researchers: Moez ben Tahar, Mathias Busse, Mohamed Goaied, Taghrid Hassouba, Dorra Hmaied-Mezzez, Racha Ramadan, Serena Sandri, Nesreene Selim, and Chahir Zaki.

THE QUALITY OF INSTITUTIONS IN THE SOUTHERN MEDITERRANEAN PARTNER COUNTRIES

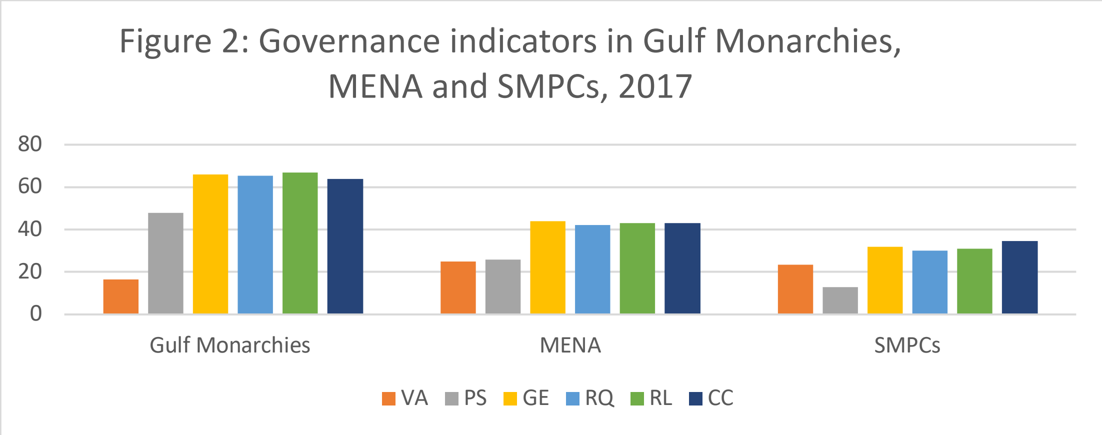
According to Figure 1, in 2017 the group of SMPCs has performed relatively poorly on all six dimensions of governance included in the WGI[3]. In two dimensions, Voice and Accountability and Political Stability, it lies at the bottom of the league. And in the four other dimensions, it performs only slightly better than Sub-Saharan Africa.



Source: WGI (2017)

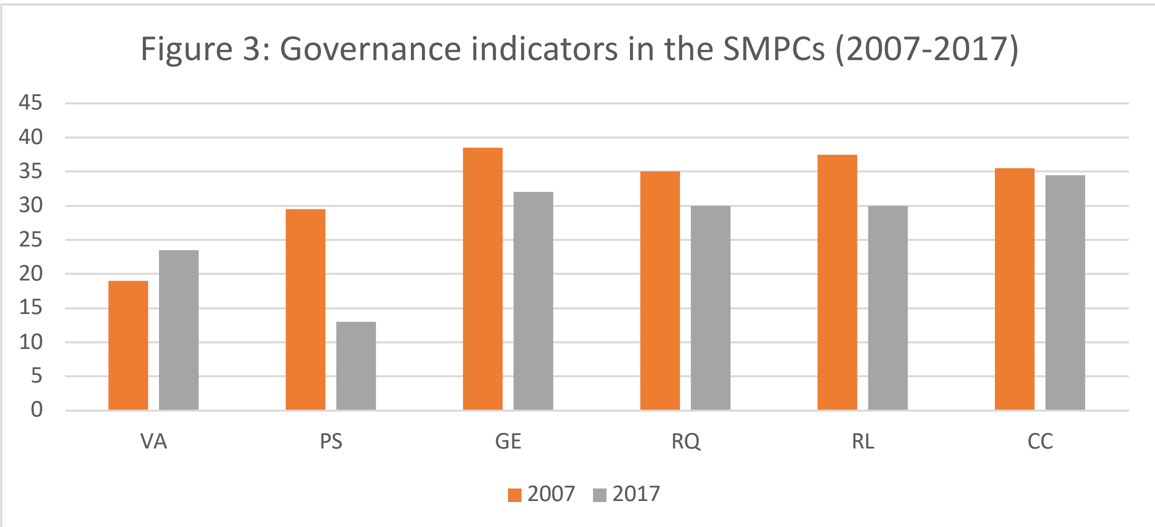
Moreover, Figure 2 shows that the average score for the SMPCs is lower than the average score for the Middle East and North African region as a whole, and even lower than another group of countries in the region, the six resource-rich Gulf monarchies. This is true on all dimensions of governance, except for Voice and Accountability, where the SMPCs score slightly better, mainly due to the huge democratic gains made recently in Tunisia. It is worth noting here that the poor performance of the SMPCs relative to the monarchies is rather puzzling, given the predictions made at the dawn of national liberation in the 1950s and 1960s that the traditional monarchies of the region were doomed to extinction and that the future of the more progressive post-colonial republics such as Egypt, Tunisia and Syria was seen to be much more promising in comparison (Anderson 1987, 1991).

[3] VA: Voice and Accountability; PS: Political Stability; GE: Government Effectiveness; RE: Regulatory Quality; RL: Rule of Law, CC: Control of Corruption.



Source: WGI (2017)

These figures make it clear that all is not well with the quality of institutions in the SMPCs. And as Figure 3 shows, the historical trend is negative. Between 2007-2017, a period punctuated by the events of the "Arab Spring" of 2011, there has been a decline in institutional quality on all dimensions of governance, except Voice and Accountability. The most dramatic decline has been in Political Stability, from a score of 29.5 in 2007 to a score of 13 in 2017.



Source: WGI (2017)

The story could be made even more nuanced by looking at the scores of the individual countries in the group during this 10-year period (see Table 1). On the Voice and Accountability dimension, there has been modest to significant deterioration in four cases: Egypt, Lebanon, Syria and Palestine. On the other hand, there has been a significant increase in the case of Tunisia, from 9 points in 2007, to 53 points in 2017, which confirms the optimism felt by many about the prospects for democratic consolidation in this North African country. However, during the same period, Tunisia has seen a significant deterioration in its Political Stability score, down to 14 points in 2017 from 48 in 2007, which should serve as a warning against complacency, especially by Tunisia's foreign backers. The other dramatic deterioration in Political Stability has been recorded in Libya, from 71 points down to 3, in Syria from 34 to 1 and, perhaps most worrisome, in Egypt, the most populous Arab state and a source of a potential tidal wave of migrants to Europe, where the score for Political Stability deteriorated from 27 points in 2007, already quite low, to the even much lower score of 9 in 2017.

Table 1: Governance indicators in the SMPCs, 2007-2017

	VA		PS		GE		RQ		RL		CC	
	'07	'17	'07	'17	'07	'17	'07	'17	'07	'17	'07	'17
Algeria	20	23	14	15	33	30	27	11	25	19	34	30
Egypt	15	13	27	9	43	29	43	17	48	33	24	34
Jordan	29	27	35	28	62	58	61	58	61	61	64	64
Lebanon	34	32	3	9	45	33	47	41	29	21	19	15
Libya	2	9	71	3	9	2	15	1	19	2	15	2
Morocco	28	29	28	31	51	48	49	45	46	49	45	53
Syria	4	2	34	1	22	2	8	3	23	1	12	2
Tunisia	9	53	48	14	68	51	54	36	56	56	50	54
Palestine	28	22	4	8	14	37	12	56	32	37	55	56

Source: WGI (2017)

Table 2 draws a mixed picture of the quality of institutions in the SMPCs. Countries such as Libya and Syria, devastated by external military invasions and civil wars, have become virtually ungovernable. Other countries, such as Tunisia and Palestine, the two best performing countries in this group, have seen progress on some dimensions and decline on others. Finally, countries such as Algeria and Egypt have seen a gradual decline on all dimensions, despite the moderate gains by the former in terms of Voice and Accountability and by the latter in terms of Control of Corruption. All SMPCs, including the best performers, lie in or close to the bottom half of the league and many have some of the worst scores in the world, especially on the dimensions of Voice and Accountability and Political Stability.

While this section has presented some snap shots of the quality of institutions in the SMPCs (see also Badawi and Harders 2017), the following section distinguishes between two types of institutional failure prevalent there and in the wider MENA region, and presents some studies linking the quality of institutions to various aspects of economic performance.

INSTITUTIONAL FAILURE AND ECONOMIC PERFORMANCE IN THE MIDDLE EAST AND NORTH AFRICA: TYPE I

Dysfunctional institutional arrangements are a malaise. Institutional failure reflects the lack of *commitment* by governments to uphold the rule of law, the existence of endemic corruption and the overall low level of regularity quality. It eventually undermines the effectiveness of the state in fulfilling its crucial welfare functions which leads to chronic political instability. Under these conditions, expectations become negative and opportunism increases in a way that undermines the capacities for *coordination* and *cooperation* in the economy. Poor institutional quality has a significant negative impact on economic performance in the countries of the Middle East and North Africa region. This has been largely responsible for the popular uprisings that have toppled regimes and led to deteriorating political stability and economic performance in countries such as Tunisia, Libya, Egypt, and Syria.

This leads directly to the problem of institutional failure. Khan (1995: 73) distinguishes between two types of failure. Institutional failure Type I is a structural failure, which “occurs if a particular formal institutional structure results in lower net benefits for society compared to an alternative structure.” To put it in other words, a dysfunctional politico-legal structure negatively affects economic performance, thus leading to lower net welfare for society. Recent econometric studies, using scores from the WGI and other indices, have shown a significant correlation between various dimensions of institutions, on one hand, and different aspects of economic performance in the MENA region, on the other hand.

Many studies have found that institutions play a key role, as an intermediary variable, in spurring economic growth. For example, Zghidi et. al. (2018) argue that remittances have a positive and significant effect on economic growth in their study of Algeria, Egypt, Tunisia and Morocco; and that the impact is more pronounced when an institutional variable is included in their model. They conclude that countries with sounder institutions would realise a net payoff from remittances to economic growth. In a similar study, Kratou and Gazdar (2016) examine a sample of 12 MENA countries over the period 1984-2011. They report that remittances have a positive effect on economic growth in the long run and a negative effect in the short run. The short run effect of remittances on economic growth is conditional on the level of financial development and institutional quality and that they both play a complementary role. They conclude that remittances can promote economic growth only in countries with sound financial rules and regulations.

Financial development is a key factor in explaining economic growth. Cherif and Dreger (2016) examine the institutional determinants for the performance of the banking sector and the stock market in the region. They find that functioning institutions are important for the development of both sectors: for the banking sector, corruption seems to be most decisive, whilst for the stock market, the impact of corruption and law and order appear to be relevant. They also argue that openness to foreign trade is crucial for all areas of financial development, and that effective law enforcement, including anti-corruption practices, are requisite strategies to encourage economic integration. A similar conclusion, that high quality institutions promote financial development and thus economic growth, has been reached by Kutan et. al. (2016)

Looking more closely at the two main channels for global economic integration, namely trade and foreign direct investment (FDI), Karam and Zaki (2017), for example, find that Control of Corruption has the highest positive impact on the probability of exporting manufactured products from MENA countries, followed by Regulatory Quality, Rule of Law and Political Stability. As for the export of services, Political Stability and Rule of Law appear to be the most significant dimensions.

Regarding FDI, Roy and Roy (2016) study a sample of 18 MENA countries in the period 2006 to 2012. They find a positive and significant role for FDI in economic growth when there is transparent government, less risk in operating business, and judicial independence in these countries.

Leaving economic growth aside as the dependent variable and focusing on unemployment and poverty - two of the significant public ills in the SMPCs and the wider MENA region - many studies have suggested plausible causal links between institutions, on one hand, and the levels of unemployment and poverty, on the other hand. For example, Assadzadeh and Pourqoly (2013) examine the effects of FDI and institutional quality on poverty reduction in 21 MENA countries in 2000-2009. Their findings show that institutional quality, mainly proxied by Rule of Law and Political Stability, boosts the amount of FDI which, in turn, increases employment and thus contributes to decreasing poverty.

The link between institutions and employment generation has been further explored in two recent working papers published by the EMNES network. The first paper (Sandri and Alshyab 2018) focuses on institutional uncertainty, citing its definition as the "uncertainty arising from the institutional environment". As the authors explain, when formal institutions are perceived as weak, unstable or selectively enforced, this hampers the business environment, discourages investment and reduces productivity growth. More concretely, widespread institutional uncertainty provides a disincentive for firms to grow, in terms of employment creation.

To examine the impact of institutional uncertainty on the employment decisions made by firms, the paper uses a survey that captures different dimensions of uncertainty generated by three broad types of institutions, or "institutional pillars". The first is the Regulatory Pillar that contains two dimensions: government policies and law enforcement. The second is the Normative Pillar with its two dimensions of political stability and the relationship between the private sector and the state. And, finally, the Cognitive-Cultural Pillar. Whereas the former two pillars capture proxies for formal institutions, this latter pillar captures informal norms, represented by the two elements of social capital, namely trust and social networks.

The survey was conducted on a representative sample of 319 Jordanian private firms. The responses show that Jordanian companies perceive institutions to be uncertain and reveal that this uncertainty is reflected in their investment and job creation decisions. More specifically, the results indicate that government policies, corruption and the quality of the judiciary all contribute to higher levels of uncertainty, whereas informal institutions, i.e. trust and social networks, are perceived to be important for doing business in Jordan.

As for the connection between institutional uncertainty and the employment decisions of firms, the statistical analysis in the paper provides convincing evidence that, overall, institutional uncertainty discourages employment creation by firms, with interesting variations among the three institutional pillars used by the authors. For example, the authors estimate that uncertainty due to a weak judiciary discourages employment creation in 38% of Jordanian firms and the percentage increases to 41% and 45% in the cases of uncertainty due to political instability and corruption, respectively. On the other hand, social networking has been shown to increase positive employment creation expectations by 54% of the firms and trust by 55%.

In another contribution, Ezzat, Nazier and Ramadan (2018) examine the impact of institutions on informal employment in Egypt, Jordan and Tunisia. As the authors explain, informal employment is a term that denotes all persons (wage earners, employers and the self-employed) who work without written contracts in both formal and informal enterprises, and who enjoy no formal social security protection.

In most of the developing world, including the Middle East and North Africa region, up to half of the active labour force is informally employed. This has both positive and negative implications. On the positive side, in the absence of formal employment opportunities, informal employment can represent a vital source of income and social inclusion. Also, in the context of a dysfunctional institutional environment, informal economic activity in general might be a rational strategy to escape corruption and sub-optimal, cumbersome regulation.

On the other hand, informal economic activity is not included in national accounts and informal firms do not pay taxes, which reduces the potential revenue of the state and hampers its ability to perform its welfare role. More significantly, informal employment is often characterised by poor working conditions, weak remuneration and insufficient protection against loss of work due to economic shocks, work-related accidents, poor health and/or old age. Informal employment is a major factor that creates a sense of social injustice, one of the key underlying causes of political and social unrest in SMPCs and the wider MENA region.

The authors rely on data from the most recently available Labour Market Panel Surveys for Egypt, Jordan and Tunisia covering 22,026 individuals from the three countries, about 50% of whom are informally employed. In addition, they use data from the World Value Survey and the World Governance Indicators as inputs to their model. They explore the relationship between proxies for formal institutions (Rule of Law and Control of Corruption) and informal norms (cheating on taxes, willingness to pay a bribe and willingness to fraudulently claim government benefits), on one hand, and the dependent variable of informal employment, on the other.

The results show a robust correlation between institutions and informal employment. Positive, market-friendly norms make it less likely for individuals to be informally employed. Conversely, in countries where weak rule of law and corruption are more widespread, it is more likely for individuals and firms to resort to informal employment. This increases subjective perceptions and objective incidents of social injustice. A good case in point is Egypt. Of the three countries examined in this contribution, it has the lowest rank on these two indicators of Rule of Law and Control of Corruption and the highest levels of informal employment. The link between informal employment, social justice and political stability is yet to be qualitatively and quantitatively further explored in the context of the Middle East and North Africa region.

These two contributions provide additional evidence that a dysfunctional institutional environment can have a negative and serious impact on employment generation and social justice. Moreover, as the extensive literature on the subject clearly indicates, institutional failure is generally detrimental to sustainable economic growth. But then the question begs itself: if institutions perform poorly, why not simply replace them with better functioning rules for the political and economic game? This leads to the second type of institutional failure identified in the literature.

INSTITUTIONAL FAILURE AND ECONOMIC PERFORMANCE IN THE MIDDLE EAST AND NORTH AFRICA: TYPE II

The second type of institutional failure identified by Khan (1995) is a failure of transition: "[It] occurs when the process for changing the structure of institutions attains a lower cumulative set of net benefits for society compared to an alternative process over a given period." Examples of this type of failure include many of the attempts, whereby foreign aid is used for undertaking institutional reforms in the developing world, including SMPCs, that have had no lasting effect or, worse, had led to a deterioration of institutional quality in the recipient countries. Many studies have reached such conclusions. For example, Islam and Coveillo (2006) and Askarov and Hristos (2015) find that foreign aid has had no impact on the quality of institutions in recipient countries. Other studies have, in fact, found a negative impact: Knack (2001) and Brautigam and Knack (2004) have concluded that aid leads to a deterioration of institutional quality because it increases corruption and reduces local accountability. A more recent study, using a panel of 116 countries from 1970 to 2010, (Young and Sheehan 2016) have reached a similar conclusion, whilst Deaton (2013) finds that aid affects institutions negatively when the volume of aid is large, relative to the size of the domestic budget. Islam (2018) provides an overview of these and other studies as illustrations of this second type of institutional failure.

But why do these efforts to design and manage institutional change fail? This leads to the central difficulty in understanding the failure of institutional reforms, namely power. Institutions have distributive outcomes (Knight 1992) and any attempt at fundamental institutional change would inevitably create winners and losers. If the losers are sufficiently powerful, they would successfully block institutional reforms. According to the World Bank (2017), this reality has not been duly acknowledged in what it calls the "traditional approach" to governance reforms, an approach that was championed by the World Bank itself until recently. In its new approach, the World Bank advocates a move away from thinking only about building the capacity of institutions to implement policies into also thinking about power asymmetries (World Bank 2017: 29).

When actors have enough power to block reforms, the World Bank advocates that the policy arena needs to be reshaped in order to 1) increase contestability, i.e. by allowing more actors to participate in the policy-making process, 2) change the incentives of the more powerful actors to make them credibly commit to reforms, and 3) alter the preferences and beliefs of the decision makers to make the more powerful actors choose more growth-enhancing policy goals (World Bank 2017: 12-13).

According to the World Bank, these are the three levers for correcting power asymmetries, and they could be brought about by *elite bargains, citizen engagement* and *international interventions*. Once successful, there will be a level playing field, effective policies could be designed and implemented, and institutions could perform their three crucial functions of commitment, coordination and collaboration (World Bank 2017: 19).

This is an elegant model, as elegant as the traditional approach, and it will likely be as ineffective. The reality in the southern Mediterranean region is far more complex than that. Events in Tunisia, Egypt and Syria in the aftermath of the "Arab Spring" are good illustrations of the simplicity of this approach.

The Tunisian case shows that even successful *elite bargains* might not be enough to overcome institutional failure. As we have seen in Table 1, there has indeed been a remarkable improvement in Tunisia's score on the dimension of Voice and Accountability, usually seen as a proxy for democracy. But this has been coupled by a marked deterioration in Tunisia's Political Stability, a significant decrease in its Government Effectiveness and Regulatory Quality, no change in Rule of Law and only a modest increase in Control of Corruption.

In the case of Egypt, *citizen engagement* and social mobilisation have succeeded in toppling the regime of Hosni Mubarak. But this success has not radically affected the balance of power in the country and, most importantly, it has not managed to dislodge the power of the so-called deep state, represented by the traditional alliance of the military, the judiciary and the domestic security apparatus that has been monopolising political authority since 1952. The outcome has been a swift restoration of authoritarianism and a deterioration in institutional quality, as could be seen from Table 1 above.

And the case of Syria highlights the destructive impact that *international interventions* can have on a country. In its discussion of international intervention, the World Bank has only focused on one aspect of it, namely foreign aid. But this is the least significant form of international intervention when other factors, such as economic interests and geo-political calculations, are at play.

It is commendable that the World Bank has finally decided to acknowledge the problem of power asymmetries as the ultimate explanation for institutional failure, an argument advanced many years ago by, for example, Khan (1995, 2002). This is a step in the right direction. But more research is needed to subject this new approach to a comprehensive critique, and to analyse more rigorously and in more detail this last piece of the theoretical puzzle, namely power asymmetries and how they could be changed, as the necessary first step to build new, more efficient institutions in the SMPCs and the wider MENA region.

POLICY IMPLICATIONS AND RECOMMENDATIONS

This policy paper is particularly targeted at the policy making community inside the EU. The institutional meltdown that followed the uprisings of 2011 and the ongoing political conflict and instability in these republics is of urgent policy relevance, not least due to the massive waves of migrants fleeing these failed republics and wishing to start a new life in Europe. This exodus to Europe has created significant social and political disruption on the continent. As a result, there has been a counter-movement by disgruntled Europeans who are swiftly shifting to the far right of the political spectrum, in a way that might undermine democracy itself. "Terrorism" is another serious threat caused by two of the deleterious effects of institutional failure, namely, lack of employment and social exclusion, especially for youths in countries with Muslim majorities. It is no longer confined to the region, but is increasingly spilling-over to claim lives in major European cities.

The EU is well aware of the turmoil taking place in its southern neighbourhood. Following the upheaval in the Arab world, it revised its flagship policy framework for the region, the European Neighbourhood Policy (ENP). This revision was contained in three key documents produced by the European Commission and the EU's High Representative for Foreign Affairs and Security Policy: the first is a joint communication on a "Partnership for Democracy and Shared Prosperity" issued in March 2011. The second, published only two months later, in May 2011, is entitled "A New Response to a Changing Neighbourhood". And the last one, published in November 2015, is a "Review of the European Neighbourhood Policy (European Commission 2011, 2011a, 2015). But as many analysts have noted (e.g. Asseburg 2013; Teti 2015; Abdallah 2016), whilst the first two documents indicated the readiness of the EU to revise its policy in the region, the last document reverts to the pre-Arab Spring EU objective of wanting to ensure stability in the region, whilst downplaying the need for radical political reforms for fear of undermining this stability.

The EU and other international development organisations are facing a real dilemma in the region. Authoritarian stability has proven to be unsustainable and, without far-reaching institutional reforms, the political and economic factors that led to instability before would probably lead to similar instability in the future. On the other hand, there is only very little that external powers could do to influence political conditions inside sovereign states. In fact, even a wealthy and powerful country, such as Germany, has almost no leverage in a country such as Egypt, as recently argued by Badawi (2018: 18-19).

Where to go from here? The first step is to acknowledge that we do not know enough about institutional change. Building new institutions does not happen in a vacuum, but takes place in a context of already existing dysfunctional institutions. This requires a deeper understanding of why existing institutions in the developing world have failed in the first place and why this failure persists. As Evans (2005: 101) correctly remarks: "Getting out from under bad institutions is likely to be the most difficult part of trying to develop new ones." This is an urgent task for researchers. Other urgent tasks highlighted in this paper include a thorough examination of the interplay between formal institutions and informal rules from both historical and comparative perspectives, as well as developing a better understanding of the problem of enforcement failure in each separate case. Finally, the problem of power needs to be placed at the centre of the new research agenda. The question here should be: if a change in relative power is a prerequisite to fundamental institutional change, then how can a change in relative power be achieved? As has been argued above, the answer to this question provided by the World Bank is elegant, but not sufficiently nuanced and it does provide a good guide for policy design and implementation.

But it is unlikely that the development policy and practice industries would stop spewing forth new country projects pending the findings of research. However, they should proceed with caution: as this paper has shown, most institutional development interventions have not produced desired outcomes. Because of the embeddedness of institutional levels in one another (see Williamson 2000), it is not probable that interventions at the lower levels would succeed without prior changes at the higher levels. One possibility here is to pinpoint these interventions at the lower levels with far more precision than has been the case so far.

This could be done in two ways:.the first is to focus on "pockets of institutional efficiency". These are "social niches within a larger institutional field, distinct yet embedded subsystems characterised by practices inconsistent with—although not necessarily subversive to—those of the dominant [institutional environment]." (McDonnell 2017: 478). Such efficient bureaucratic units exist almost everywhere and it would be useful to identify the reasons behind their existence in otherwise barren institutional terrains, then try to replicate these conditions in other bureaucratic units in the same country. This kind of "institutional transplantation" might have a better chance of success, if the transplanted systems of rule are home grown and not imported wholesale from elsewhere.

The second is to focus on reforming those bureaucratic units that have higher chances of being reformed. The crucial factor here is leadership. According to a World Bank report published in 2008 (quoted in Islam 2018: 26-27), institutional reform initiatives supported by the Bank have been successful in bureaucratic units that have strong, reform-minded leaders. Identifying such leaders, dialoguing with them and tailoring the intervention based on their actual needs and not the presumed needs identified by a policy advisor living elsewhere, should be manageable tasks.

Over the long run, however, it is clear that there can be no short cuts. Without transforming the constitutional framework and the balance of social forces underpinning it, it is unlikely that piecemeal institutional reforms, even if successful in the short-term, would contribute much to the performance of the overall institutional structure in a sustainable manner. How to achieve such engineered cultural and political transformations is a question that so far does not have an adequate answer and the main message of this paper is that finding such an answer should be placed at the centre of the research agenda of the international development policy community.

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