Agence Française de Développement

# Working Paper

September 2007 | 46

## A new institutional DATABASE:

### "Institutional profiles 2006"

Nicolas Meisel, Research Department, AFD (meiseln@afd.fr)
Jacques Ould Aoudia, Treasury and Economic Policy Directorate General, French Ministry of the Economy, Finance and Employment (jacques.ould-aoudia@dgtpe.fr)

Département de la Recherche

Agence Française de Développement
Direction de la Stratégie
Département de la Recherche

5 rue Roland Barthes
75012 Paris - France
www.afd.fr

## Acknowledgements

We would first like to thank all those around the world who, in the French Ministry of the Economy, Finance and Employment's Economic Outposts and in AFD's Agencies, filled out the questionnaire.

We would also like to thank the members of the Scientific Committee that monitored the work elaborating the database: Chairman Guy de Monchy, Patricia Augier, Agnès Benassy-Quéré, Pierre Berthelier, Eric Brousseau, Martine Carré, Jean Cartier-Bresson, Denis Cogneau, Alain Desdoigts, Beatrice Hibou, Emmanuelle Lavallée, Bertrand Du-Marais, Charles Oman, Nathalie Roux, Jérôme Sgard, Akiko Suwa-Eisenmann, and Pierre Verdier.

For their support, advice and constructive comments, we extend our thanks to: Hervé Bougault, Reynold de la Boutetière, Philippe Bouyoux, Ambroise Fayolle, Ramon Fernandez, Pierre Jacquet, Dominique Lebastard, Robert Peccoud, and Julien Rencki.

The statistical analyses were carried out in collaboration with Till Grossmass and Baptiste Thornary, trainees at the Ecole Nationale de la Statistique et de l'Administration Economique (ENSAE), and Sébastien Lidy, trainee at the Ecole Polytechnique. We thank them for the high quality of their work.

Finally, we would like to thank Michel Boivin, Christian Hardy, Luc Heurtaux, Marie-Thérèse Pouliquen, Claudine Salvi and Jean-Pierre Souvais, who made it possible to gather, transmit and codify data, as well as Dominique Pianelli, who was in charge of access to the database on CEPII's website.

The ideas published in this document and any errors or imprecisions that may remain in the text remain the full responsibility of the authors.

Keywords: database, indicators, growth, development, informal, institutions.

JEL Classification Numbers: A0, K0, O1, O4, O57, P0.

## Disclaimer



**Director of the publication**: Jean-Michel SEVERINO

ISSN 1954-3131 – Registration of copyright: September 2007



**Keyboarding/layout**: Anne-Elizabeth COLOMBIER

# Contents

# Abstract

An institutional database focused on growth. Since the mid-1990s, the increasing pre-eminence of institutional themes in the analysis of economic development has raised the question of how to measure institutional phenomena. A large number of indicators have therefore emerged in the past 10 years, measuring the degree of economic freedom, observance of property rights, the level of corruption, press freedom, etc.

The "2006 Institutional Profiles" database offers a battery of 356 variables for 85 developing, in transition and developed countries, accounting for 90% of the world's GDP and population. A first version of the database, published in 2001, covered 51 countries. The next survey will take place in 2009. This document sets out the starting hypotheses, the method of compilation and the results of an initial statistical exploration of the database.

The "Institutional Profiles" database emanates from a number of choices that distinguish it from other institutional databases. First, it is oriented towards analysis of the link between institutions and development. It offers indicators that make it possible to explore what drives economic take-off or blocks growth. It aims to stimulate debate and inform decision-making; it does not aim to produce rankings. Second, it covers a very broad institutional field that goes beyond 'good governance'. Third, the "Institutional Profiles" database is built transparently: access to all of the data that make up the database is free[1]. The aggregation procedures are also transparent and can be modified at researchers' discretion. Finally, the "Institutional Profiles" database—no more than any other database dealing with institutions—cannot claim perfect "objectivity", but its potential biases are explicitly set out.

# Résumé

Une base de données institutionnelles tournée vers la croissance. La prééminence grandissante des thèmes institutionnels dans l'analyse du développement économique a posé depuis le milieu des années 1990 la question de la mesure des phénomènes institutionnels. Quantité d'indicateurs ont ainsi vu le jour ces dix dernières années, mesurant le degré de liberté économique, le respect des droits de propriété, le niveau de corruption, la liberté de la presse, …

La base de données « Profils Institutionnels 2006 » offre une batterie de 356 variables pour 85 pays en développement, en transition, et développés, représentant 90% du PIB et de la population de la planète. Une première version de la base, éditée en 2001, couvrait 51 pays. La prochaine enquête aura lieu en 2009. Ce document détaille les hypothèses de départ, la méthode d'élaboration et les résultats d'une première exploration statistique de la base.

« Profils Institutionnels » procède d'un certain nombre de choix qui la distinguent des autres bases de données institutionnelles. Premièrement, elle est orientée vers l'analyse du lien entre institutions et développement. Elle offre des indicateurs permettant d'explorer les ressorts du décollage économique ou des blocages de la croissance. Elle vise à susciter le débat, à éclairer la décision, et non à produire des classements. Deuxièmement, elle couvre un champ institutionnel très large, qui dépasse celui de la 'bonne gouvernance'. Troisièmement, « Profils Institutionnels » est construite de façon transparente : l'accès à l'intégralité les données qui la composent est libre[1]. Les procédures d'agrégation sont également transparentes et peuvent être modifiées à la discrétion des chercheurs. Enfin, pas plus qu'aucune autre base de données traitant d'institutions, « Profils Institutionnels » ne peut prétendre à une parfaite « objectivité » : les biais potentiels sont explicités.

[1] The "Institutional Profiles" database is available on CEPII's website (www.cepii.fr) and will soon be available on AFD's website. In English : http://www.cepii.fr/anglaisgraph/bdd/institutions.htm.

# Introduction[2]

*The many phases of the approach to development[3]*

The history of development theory and policy over the past 60 years has seen an evolution in the major factors regarded as being the key to development. First, it was the capital needed to offset the poor countries' saving deficit. Very low interest rates—even negative in real terms—then led to highly capitalistic investment fuelled by the massive indebtedness of developing countries. The second phase, which began following the disorder created by the first (unproductive over-accumulation leading to a repayment crisis), placed macroeconomic balance at the centre of development strategies during the 1980s. This was the period of the Structural Adjustment Programmes that restored economic balance in most developing countries. However, in general, growth failed to recover in developing countries. The third phase emphasised *greater market openness and liberalisation*. In the absence of sufficient regulation, this opening provoked severe financial crises in emerging countries and countries in transition.

Having formulated an independent development strategy, Southeast Asian countries achieved spectacular economic takeoff and recovered after the crisis in the late-1990s. Generally speaking, however, other continents had low and unstable growth. This was even true of countries like those in Latin America that had followed the latest prescriptions to the letter. Very few countries began to converge sustainably with the income levels of developed countries.

Then, in the mid-1990s, priority shifted to institutions, adding a new dimension to the need for capital, macroeconomic balance, and market openness and liberalisation. From then on, development strategies were redirected towards the institutional dimension of how economies function: institutional reforms, and notably good governance reforms, were then considered to be a priority for development strategies, encapsulated in the slogan "Institutions matter!" (see, in particular, Kaufmann et al., 1999; Aron, 2000; Rodrik *et al.*, 2002; Jütting, 2003).

*New arenas for economic research*

Several new fields of economic research then opened up. Do institutions matter? Yes, but which ones? What institutional reforms should be undertaken? How should they be scheduled over time? How should they be implemented? This led in turn to the question of how to measure institutions: what tools should be used to evaluate institutional characteristics so as to be able to modify them through reforms?

Whereas macroeconomic policies can use standardised measurement tools (national accounts, in particular), measuring institutions is still in its infancy.

*"Traditional" tools fail to provide an adequate response to these questions*

The major themes set out earlier (capital, balance, openness) had in common that they were able to use as instruments of observation of economic reality tools borrowed for the most part from the Keynesian inheritance of the 1940s: national accounts and a price vector. While these variables are indispensable for steering a country's macroeconomic policy, they remain powerless to explain long-term growth and what prevents it.

[2] This paper gives a presentation of the "Institutional Profiles" database. An initial version was presented at the "Measuring Law" seminar held in Paris on 15-16 December 2006 as part of the "Economic Attractiveness of Law" programme. During the seminar, the principal producers of institutional indicators - World Bank Institute (WBI), International Financial Corporation (IFC), Organisation for Economic Co-operation and Development (OECD), World Economic Forum (WEF), Millennium Challenge Account (MCA) and ourselves - compared approaches.

[3] In this document, we shall not be returning to the importance assumed by the question of institutions in economic analysis for both developed and developing countries.

Until now, institutional analysis has contributed without standardised tools of observation: there is no exhaustive and standardised framework to "grasp" institutions. This has led to a profusion of institutional indicators from a wide variety of sources with diverse motivations (International Financial Institutions, rating agencies, political foundations, non-governmental organisations, etc.), leading to a relative diversity of proposals in terms of objectives, elaboration methods, rigour and reliability.

*The creation of a database of the institutional characteristics of developing, in transition, and developed countries*

It was on the basis of reflections on the role of institutions in the development process that the French Ministry of the Economy, Finance and Employment (MINEFE) decided to build an original database of the institutional characteristics of a group of developing, in transition and developed countries. The purpose was to contribute to understanding and quantifying institutional phenomena in order to shed light on a blind spot in development policies, namely the role of institutions.

This database constitutes a new tool to illuminate reflections on development aid policies. It has been made freely accessible to research centres and development institutions, and provides the material on which future research can be based so as to make it possible to study in more depth the link between institutions and development.

Based on an economic approach, the database that has been created covers the widest possible institutional field. The variables have been built on the basis of indicators drawn up at the end of a process that was controlled at all stages by the same working team: from designing the overall framework, drawing up the questionnaire, guiding the collection of the raw data by the MINEFE's Economic Outposts and, for some countries, by the local agencies of Agence Française de Développement (AFD), the pivotal operator in France's official development aid, to the compilation of the database from the answers received. These answers were then centrally processed: they were compared to already existing institutional indicators in areas of common coverage in order to validate the answers, evaluate possible distortions in the data collected, and make adjustments.

*Two editions of the database: 2001 and 2006*

- An initial survey was carried out in 2001, covering 51 developing and developed countries.
- The second survey was carried out in 2006. The geographic coverage was extended to 85 countries (including the 51 countries in the 2001 survey), and the thematic coverage was 80% the same as for the first survey. It is planned to increase the frequency of the surveys. The next survey is scheduled for 2009.

*Geographic coverage*

The database covers all developing, in transition and developed regions (see Annex 1 for the complete list of countries), accounting for 90% of world population and GDP and presenting a wide range of economic and institutional trajectories.

The 85 countries are broken down as follows: East Asia and Pacific (11), Europe and Central Asia excluding OECD countries (12), Latin America and the Caribbean (11), Middle East and North Africa (11), South Asia (4), sub-Saharan Africa (21), developed countries (15).

The countries covered by the 2006 database are shown in colour

*The coverage in terms of institutional indicators*

The approach to drawing up indicators is discussed in section 2 (see annex 2 for a complete list).

We successively address the following subjects: in section 1, the foundations of the approach adopted to "measure" institutions; in section 2, the elaboration of the analytical framework for institutions and the data construction method; in section 3, a preliminary succinct exploration of the database; and in section 4, a presentation of the database's 2001-2006 data panel for the 51 countries appearing in both editions.

# 1. Measuring institutions

## 1.1 The difficulty of dealing with institutions in economics

Contemporary economics, in its social science approach, relies on measured, and hence quantified, elements. Economists therefore find themselves in a real predicament when it comes to tackling the question of institutions and, in particular, proposing how to measure them, for several reasons.

- First, this question involves disciplines other than economics: history, law, political science, sociology, anthropology, etc.
- Second, it touches on politics, and even religion, thus raising the issues of values and normativity (universal values versus identities), which require particular caution. For instance, in most of their publications, the Bretton Woods institutions use terms such as transparency, inclusiveness and accountability, which are presented as universal values, and thus make it possible to side-step the question of the universal or otherwise nature of the recommended institutions (modes of regulation, democracy, etc.).
- Third, faced with the difficulty of quantifying institutional phenomena, economists often find themselves obliged to build quantitative indicators from qualitative assessments involving a certain dose of subjectivity.
- Finally, and above all, in contrast to standard macroeconomics, which can rely on the set of instruments provided by national accounts, there is no framework to ensure the coherency of the institutional field. It is neither structured nor bounded in the way that accounts which measure all things through prices and quantities can be.

Here, we place ourselves in the framework of this approach aimed at quantifying institutional phenomena. The production of indicators "capturing" institutional characteristics implies the adoption of a definition of institutions and an overall approach leading to a relevant analytical framework that structures the institutional field observed. The structure of the field is that of the questionnaire that was used to collect the raw data.

## 1.2 Institutional reforms are long and complicated to implement

First, it is useful to situate the question of institutions in the operational field of public policy in order to have a clear vision of the objectives of these attempts at quantification. This point is illustrated by comparing the scope of macroeconomic reforms to that of institutional reforms. Public policy provides itself with the means of acting on both institutions and macroeconomic balance via reforms. However, these two areas of reform proceed from different approaches.

The levers for action applied by macroeconomic adjustment policies, which mobilise a limited number of actors for their implementation, are clearly identified (mainly monetary and fiscal policy) and relatively simple to implement in terms of the political economy. Indeed, the populations that will have to bear the burden are generally diffuse, ill-informed and poorly organised. As regards measurement, the effects of macroeconomic policy involve quantifiable variables (deficits, inflation, etc.) and are therefore relatively easy to evaluate and interpret.

"Institutional change" policies, on the other hand, are much more complicated to design, decide and deploy, since they profoundly modify societies' socio-economic balances. Policies of this kind require a high level of training on the part of the designers, and on the part of public and private relays. They mobilise a substantial number of actors; they run up against societies' culture of change (the weight of tradition); they often run up against concentrated and organised interests benefiting from situation rents; and they often require one to use old tools to forge new ones (for example getting a corrupt administration to apply anti-corruption measures).

Measuring the quality of an institution or the implementation of an institutional reform (passing a law does not ensure that it will be applied) and its effects, which are often diffuse and spread over time, implies grasping this complexity.

### 1.3 A broad definition of institutions

We adopted the definition of institutions used by the World Bank (1998), which in turn is based on that of Douglas North: institutions are constituted by a set of formal[4] and informal[5] rules that govern the behaviour of individuals and organisations, the latter being entities that bring together individuals pursuing common goals (enterprises, trade unions, NGOs, etc.). In this context, institutions structure the incentives that affect behaviours and provide a framework for economic exchanges (North, 1990).

This definition encompasses a very vast field. We have included in our indicators only those that have a link to the economy, economic policy, and the political economy.

### 1.4 A non-normative approach

The diversity of institutional frameworks in which the emergence process has operated invites one to take a non-normative approach.

***We do not assume a priori the existence of an institutional standard.*** The approach adopted to elaborate the analytical framework to "capture" institutions assumes that there is no single optimal institutional model that applies to all countries regardless of their levels of development and institutional heritage. Recently-developed models towards which developed economies are currently leaning are not to be projected unchanged on economies whose institutional heritages and levels of development are very different (North, 1994; Aoki, 2001).

Indeed, the numerous examples of economic takeoff in institutional frameworks that would today be regarded as "unorthodox" (the United States and Germany at the end of the 19th century, France in the 30 post-war boom years, post-war Japan, South Korea and Taiwan in the 1960s to 1980s, China, and Vietnam today, etc.) show that very different institutional configurations have been able to support periods of lasting rapid growth.

We therefore start with no normative a priori view of what constitutes "good" or "bad" institutions. At this stage in the exploration of the database presented in this document, we let the data speak for themselves through exploratory data analysis (EDA) - tools of descriptive statistics. These tools are neutral in that they involve no prior modelling of the relationship between institutions and development, and imply no standards for institutional efficiency.

***Nevertheless, all institutional frameworks are not equivalent.*** While we do not presuppose the existence of a single institutional optimum for all the countries considered, empirical examination suggests that certain institutional configurations are factors that block or, on the contrary, encourage economic takeoff.

***An institutional system's capacity to evolve in order to adapt to new risks and opportunities is central.*** An institutional configuration is characterised not only by its relevance at a given moment, but also by its capacity to be called into question or adapted along with the transformation of society and the economy, or when difficulties arise (Acemoglu, Aghion and Zilibotti, 2002). The malleability of institutions (measurable by the aptitude of reforms to produce change) is therefore an important variable in describing countries' institutions (Brousseau, 2000).

[4] Constitution, laws and regulations, political system, property rights, etc.

[5] Value systems and beliefs, customs, representations, social norms, etc.

# 2. The elaboration of the analytical framework for the institutional field and the method used to build the database

Based on the above considerations, we drew up the analytical framework for "Institutional Profiles" that structures the questionnaire for the survey carried out in the 85 countries covered.

## 2.1 Structure of the institutional field

The structure of the institutional field is obtained by the intersection of nine themes (describing the essential functions performed by national institutions) and four sectors (the arenas in which these functions are carried out).

Institutions are broken down according to nine themes:

1. **political institutions:** functioning of political institutions, public rights and freedoms;
2. **law and order:** safety of persons and goods, conflict management within society and between society and the State, external security;
3. **functioning of public administrations:** transparency and efficiency of public action, corruption, independence and level of application of the justice system;
4. **markets' operating freedom:** share of the private sector in the productive sector and financial system, share of non-administered prices (including interest rates), degree of flexibility of the labour market;
5. **co-ordination of actors and anticipations:** the State's capability to bring about convergence of interests and anticipations, authorities' strategic vision, capacity to absorb technology[6];
6. **security of transactions and contracts:** respect for property rights, contract law, handling of commercial disputes;
7. **market regulation and corporate governance:** competition on the markets for goods and services, capital and labour, arrangements for the regulation of competition, corporate governance, regulation and supervision of the financial system, instruments for social dialogue;
8. **openness to the outside world:** free circulation of goods and services, capital, persons and information;
9. **social cohesion and mobility:** social and regional balances, equality of treatment (according to gender, ethnic origin, etc.) by tradition and through formal institutions, social mobility, solidarity (traditional, institutional).

These nine institutional themes are intersected with four sectors (A-public institutions, civil society; B-market for goods and services; C-capital market; D-labour market and social relations).

In all, the institutional field can be summarised by the following analytical framework:

[6] Theme 5 was the subject of a significant addition in the 2006 database with the introduction of the coordination among actors dimension. Further additions are already being envisaged for the next edition of the database, notably to characterise the degree of openness of the "social order" following the approach taken by North, Wallis and Weingast (2006).

**Structural Grid of the Institutional Field**

INSTITUTIONAL FUNCTIONS

| | INSTITUTIONAL SECTORS | | | |
|---|---|---|---|---|
| | Institutional environment - A - Public institutions, Civil society | Markets - B - Market for goods and services | - C - Capital market | - D - Labour market |
| 1- Politcal Institutions | public rights and freedoms | | | trade union freedom and pluralism |
| 2- Safety, law and order | safety of persons and goods | | | |
| 3- Functioning of public administration | transparency, corruption control, efficiency of administration, independence of the justice system | business start-ups | | |
| 4- Markets' operating freedom | | share of the private sector, privatisation, price distortions due to the government | share of the privater sector, freedom of interest rates,, independence of the central bank | share of public-sector employment flexibility of the formal labour market |
| 5- Co-ordination of actors and anticipations | Government capacity for autonomous decision-making, co-ordination between public institutions, dialogue between actors, innovation, authorities' strategic vision | businesses' technological environment | venture capital | vocational training |
| 6- Security of transactions and contracts | security of property rights and contracts, commercial justice, bankruptcy laws | information on the quality of goods, the situation of firms intellectual property | guarantee systems, disclosure requirements | observance of labour laws |
| 7- Regulation and corporate governance | | regulation of competition, corporate, governance | regulation of competition, prudential rules, supervision | social dialogue |
| 8- Openness and corporate governance | circulation of persons, and information | trade openness | financial openness | circulation of workers |
| 9- Social cohesion and mobility | social equilibrium equality of treatment, social mobility, solidarity | | micro-lending | market segmentation, social mobility |

*A database focusing on growth*

The "Institutional Profiles" database, as can be seen in this analytical framework, was focused from the start on the issues of long-term growth and development[7]. The questions asked during the surveys deal in fact with the effectiveness of institutional arrangements (*de facto* approach) more than with their existence and precise form (*de jure* approach).

This point is a fundamental characteristic of the "Institutional Profiles" database, as it touches on the issue of **enforcement of and compliance with rules**, which lies at the heart of the relationship between institutions and development: the existence of rules does not in and of itself guarantee that they are effectively applied and followed. The *de facto* quality of institutions depends on compliance with rules, and it is this dimension that the database seeks to capture.

Among other things, this emphasis on long-term growth explains why the chosen thematic scope goes far beyond simple (public) "governance". In other words, public governance, whether narrowly defined (the functioning of public administrations) or broadly defined (to include the functioning of political institutions), is one of the essential but non-exclusive aspects of the institutional field.

As regards the nature of the phenomena described, the variables deal with institutional phenomena (for example, corruption or segmentation of the labour market), the arrangements emanating from public policy (for example, regulation of competition), and the outcome of these policies (for example, the quality of basic public goods, schooling and healthcare). Research using the information in the database will be able to take into account these different levels within an overall institutional system as needed.

*A broad institutional field*

The full field is covered by 356 elementary variables for which replies to the questionnaire have been received[8]. Aggregated at a first level, these variables produce 132 indicators, of which 110 concern the state of institutions ("stock" indicators) and 22 are indicators of reform ("flow" indicators). The database accessible to the public provides detailed results for the 356 elementary variables as well as for the indicators resulting from this first aggregation. Eighty per cent of the indicators in the 2001 questionnaire were included unchanged in the 2006 survey, so as to be able to have a comparative basis for evaluation on a panel basis of institutional evolutions between 2001 and 2006.

To illustrate the extent of the institutional field covered by the "Institutional Profiles" (IP) database, we compare the IP database to the six governance indicators used by the World Bank Institute (WBI), using two principal components analyses (PCAs).

In graph 1, which represents the circles of correlation that capture most of the information contained in the two sets of indicators, the extent of the field covered by the IP database can be estimated by the fact that the arrows (each arrow represents one indicator) spread in nearly every direction, whereas those from the WBI database are highly concentrated around only one direction: the horizontal axis to the right.

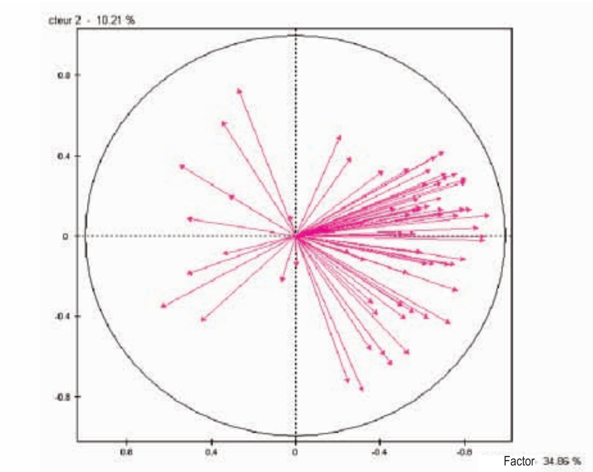
Among other things, one notes that of the WBI's six indicators, five show a strong correlation to each other (the angles formed between them by the arrows representing them are very acute). The information provided by these six indicators is, therefore, very little diverse.

[7] Other databases have different focuses. For example, the non-governmental organisation Freedom House provides an institutional database focusing on the evaluation of freedom in the world. See: http://www. freedomhouse.org.

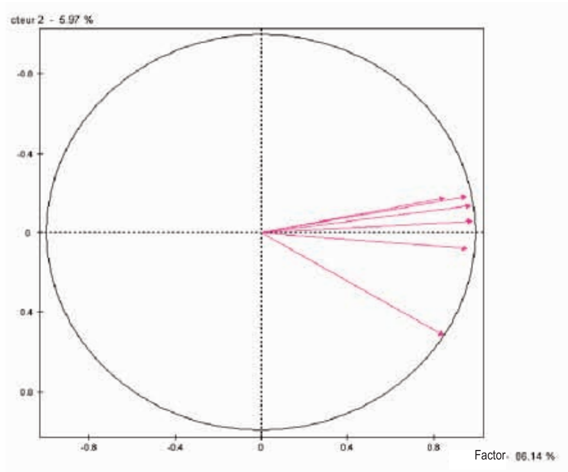
[8] Some of the 2001 variables were dropped in 2006 because there was very little information for them in the database. In 2006, questions were added dealing with agriculture (property systems), public-private partnerships, different types of corporate shareholding, and the functioning of processes to coordinate actors and arbitrate their interests.

**Graph 1.** Projection of Two Sets of Indicators on the Circle of Correlation[9]

I.P. database indicators



WBI governance indicators



*Sources: "Institutional Profiles" and WBI. SPAD Software.*

In all, the IP database therefore covers a much vaster institutional field than the field of governance described by the WBI's indicators.

## 2.2 The organisation of the questionnaire and the rating system do not force a relationship between institutions and economic performance

The answers to the questions asked in the survey are recorded in the form of values from 0 or 1 to 4. Overall, the grading system is similar to that generally adopted by international bodies. Its orientation (the direction of ranking) reflects the widespread perception (not necessarily confirmed by economic science) of the link between a given institutional theme and growth (for example, it is generally supposed that greater openness goes hand-in-hand with growth, meaning that a higher degree of openness will result in a higher rating). However, the adoption of this orientation does not prejudge the nature of the relationship between the institutional system as a whole and economic performance.

Indeed, we formulate the hypothesis that it is above all the combinations of institutions, rather than their individual characteristics, that influence economic performance. This means that a country's institutional profile cannot be interpreted in additive fashion. The aim of the exercise is not to add together the different variables such as openness, security of transactions, competition, etc., but to reason on the basis of the composition of these variables using a multi-criteria approach. We therefore do not aggregate all the elementary indicators in the database to form a single composite indicator supposed to represent the overall quality of each country's institutions that could be ranked.

As tools aiming at depicting countries, the institutional profiles as a whole cannot be placed in a strict order, and do not aim to produce country rankings[10]. Doing so would be a meaningless exercise.

[9] In these two PCAs, the analysis covers the 85 countries present in the "Institutional Profiles" database. We have reduced the 110 'stock' indicators in the IP database into 71 aggregated indicators. For the WBI database, we have analysed the 6 governance variables.

[10] We chose to give the database the name "Institutional Profiles" because of this essential characteristic.

## 2.3 The nature of the survey and the rating system

Three types of tools can be used to "measure institutions":
a) Obtaining experts' assessments of the institutional situation of the country considered. These assessments, which are subjective by construction, are given values on a grading scale and form ranked qualitative variables. As such, they can be treated as quantitative variables.
b) Surveys of a representative population to obtain responses to a battery of questions. In most cases, the questions concern the respondents' own situations or that of their businesses, in contrast to the consultations of experts (above), which provide an assessment for the country as a whole.
c) In addition to these subjective indicators, one can identify orders of magnitude in the economic and social field that can be used as "proxies" for institutional characteristics.
Our data-gathering mainly uses the first method, drawing occasionally on the third[11].

- is from 1 to 4 when the question relates to the assessment of a phenomenon (for example, the level of corruption);
- or from 0 to 4 when the question relates to the existence of a particular arrangement (with 0 indicating non-existence) and the quality of its functioning (where 1 corresponds to low quality of application and 4 to high quality of application). One example is the existence of arrangements to regulate competition and how effectively they are implemented.

In order to reduce the subjectivity of the responses, the questions have wherever possible been broken down into elementary items that are as objective as possible. For example, the question on the "transparency of public action in the economic field" is broken down into six elementary variables.

*Extract from the questionnaire*

**Transparency of public action in the economic field**

if no publication, put 0

if publication, grade from 1=unreliable to 4=totally reliable

| | | 0 or grade from 1 to 4 |
|---|---|---|
| 1 Government budget | | |
| 2 Extra-budgetary funds | (if there are no extra-budgetary funds, put 4) | |
| 3 Accounts of state-owned enterprises | | |
| 4 Accounts of public banks | | |
| 5 Basic economic and financial statistics (national accounts, price indices, foreign trade, money and credit, etc….) | | |
| 6 Is the IMF consultation under Article IV published? | (no=0, yes, partially=2 yes, totally=4 | |

The "transparency of public action in the economic field" indicator that we finally choose is obtained by aggregating the above 6 elementary variables.

*The method used to aggregate the variables.* In much the same way as for the previous point, the aggregation initially uses the elementary variables to compile relevant indicators on the basis of replies to the questionnaire.
As regards the methods of aggregation, there is no universally accepted solution (OECD, 2005). For this presentation of the database, we have preferred a solution that increases the dispersion of the indicators in order to better differentiate countries. The aggregation operator used for this purpose is **the sum of the elementary items weighted by their respective standard deviations** (for all countries). This means that an elementary item having an equal score for all the countries (absolutely non-discriminatory) would have zero weighting in the aggregated indicator.
If necessary, other aggregation methods can be adopted by users of the database on the basis of the elementary variables available (multiplicative method, with chosen weightings, using EDA instruments, etc.) in function of the purpose of the research. The availability of the variables in all their detail makes all other methods possible.

[11] See also Nicoletti et al. (2000) for a similar approach to collecting indicators on the regulation of the markets for products and labour in OECD countries.

Transparency of the database. The database is freely available to researchers (in Excel format). All the elementary variables used to elaborate it are available and the aggregation methods used are clearly explained.
Ultimately, all the options adopted in our approach aim to reduce the biases inherent in any "measurement" of institutions. As is the case with all the institutional indicators proposed by other institutions, those emanating from the "Institutional Profiles" database are merely "proxies" making it possible to evaluate the state of institutional phenomena in function of a pre-determined objective - in this case, long-term growth and development.

## 2.4 Comparison of the variables in the "institutional Profiles" database with other existing indicators

We have carried out tests comparing the data in our database to a certain number of the available institutional indicators: with the World Bank Institute's 6 governance indicators (Kaufmann et al., 1999 to 2005), Transparency International's corruption indicator, *Reporters sans Frontières*' press freedom indicator, and Freedom House's political freedom indicator.
Tests on this limited number of common variables showed very strong convergence between the data, as had already been the case for the tests carried out on the data in the "Institutional Profiles 2001" database (Berthelier *et al.*, 2004).

## 2.5 "Stock" variables and "flow" variables

The bulk of the questions deal with the state of institutions at the time of the survey (the 110 "stock" indicators). To these were added questions relating to the perception of changes in the past 3 years (the 22 "flow" indicators). Two types of flow indicators are presented.

a) When the reform arrangements relate to clearly identifiable public policies (tax reform, privatisation, commercial openness, financial openness), detailed questions were asked about their various aspects, constituting a corresponding number of elementary variables.

*Extract from the questionnaire*

**in the past 3 years, tax reforms aimed at...**

if none, put 0

if there has been reform, grade from 1= no impact to 4 = substantial impact — 0 or grade from 1 à 4

| | |
|---|---|
| … improving recovery within the framework of existing arrangements (strengthening of tax discipline) | |
| ... reducing exemptions (tax distortion) | |
| … broading the income-tax base, the VAT base, etc. | |
| ... simplifying arrangements | |
| Consistency, continuity and predictability of these tax reforms (from 1 = low consistency etc, to 4 = high) | |

As previously, the tax reform indicator is compiled by aggregating the five elementary variables using the method described above.

b) In other cases, attempts were made to measure recent tendencies in overall fashion, for example in regard to "public liberties and autonomy of civil society".

*Extract from the questionnaire*

**in the past 3 years, do you consider that these liberties and this autonomy have in general …** — grade from 0 to 4

| | |
|---|---|
| ...considerably improved (4), moderately (3), remained unchanged (2), deteriorated (1) sharply deteriorated (0)? | |

## 2.6 The database makes it possible to create numerous indicators by aggregating elementary variables

The database provides a set of 356 variables and 132 indicators from which one can build, by aggregation, new *ad hoc* indicators, on condition that this aggregation is economically relevant. By way of illustration, we present a few examples of the construction of new indicators from the variables in the database.

*Institutional proximities*. This indicator was built and used by Benassy-Quéré *et al.* (2005) as a determinant of bilateral foreign direct investment, based on the differences in institutional characteristics between the investing country and the host country.

*Construction of an indicator of non-monetary capabilities*. With the help of the notion of "capabilities", Amartya Sen (2005) has extended the notion of poverty beyond monetary poverty. Ould Aoudia (2006) built an indicator of non-monetary capabilities that aggregates the basic indicators for three sorts of freedom (see Reboud, 2006): political capabilities, social capabilities, and capabilities for dealing with the administration.

*Construction of four confidence indicators* evaluating both agents' "static confidence" in each other and in public institutions (static confidence lowers transaction costs), and the "dynamic confidence" of all agents and households in the future (dynamic confidence or reduction in temporal uncertainty makes anticipations more secure) (Ould Aoudia, 2006)[12]. These indicators enable us to identify the institutional factors that play a role in economies' long-term growth (Meisel, 2004).

[12] The indicator of "static" confidence in public institutions is compiled by aggregating the following variables: transparency and comprehensibility of public action in economic activity, control of corruption, efficiency of public action in general, efficiency of tax and customs administrations, enforcement of contracts by the State, and efficiency of the justice system. The indicator of "static" confidence among economic agents is compiled by aggregating the following variables: respect for formal property rights, security of transactions between private agents, information on the situation of enterprises, and information on the quality of goods and services. The indicator of society's "dynamic" confidence is compiled by aggregating the following variables: aptitude for innovation, authorities' strategic vision for development, education, regional integration and protection of the environment, and quality of the technological environment in businesses and in the financial system. The indicator of households' "dynamic" confidence is compiled by aggregating the following variables: the population's investment in the future, social mobility based on merit, and the level of unemployment among young graduates.

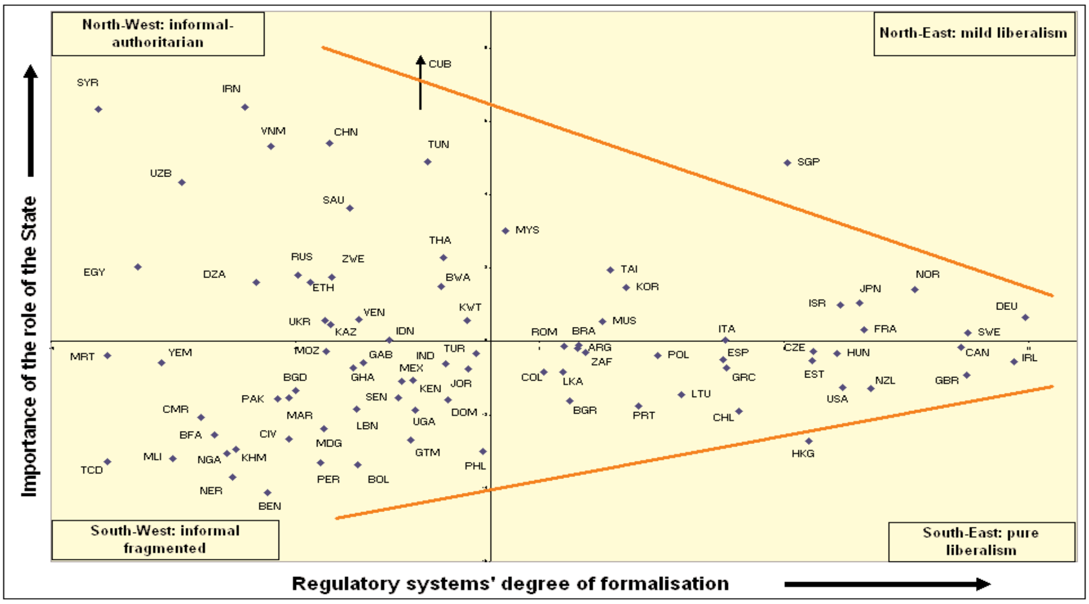
# 3. A preliminary exploration of the 2006 database

In conformity with our chosen options, in this preliminary exploration of the database, we have adopted a multi-criteria approach involving no inference, letting the data "speak for themselves". The use of exploratory data analysis (EDA)[13] statistical instruments corresponds to this option (Lebart et al., 1997; Robin, 1999).

## 3.1 Description of institutional profiles

We start by exploring all the data in the database[14] using multi-criteria analysis so as to bring out the most significant institutional characteristics of the countries covered. This exploration of the data is first carried out using principal component analysis (PCA). The first two axes of variable dispersion revealed by the PCA (which contain the most information from all the variables) form the first factorial plane on which all the countries are projected (graph 2). These two axes capture 44.3% of total variance, that is to say the information contained in the entire database.

**Graph 2.** Countries projected on the first factorial plane of the PCA (85 countries, 71 active stock variables)




*Source: "Institutional Profiles 2001-2006".*

[13] Exploratory data analysis (EDA), or multi-dimensional descriptive statistics, is a statistical method applied to a group of individuals characterised by a large number of variables. Its aim is to obtain as faithful a description as possible of a set of observations that are too numerous and too interdependent to be capable of interpretation at first sight. This technique of data representation necessitates neither statistical hypotheses on the joint distribution of data nor reference to a particular model. It involves neither modelling nor inferential procedures: the data are allowed to "speak for themselves" (Lebart, Morineau and Piron, 1997). In the analyses developed here, this means that we do not take as an *a priori* starting point a model of the link between institutions and development.

[14] The base formed by these 110 stock indicators was then reduced by successive aggregations (see the method used in Berthelier *et al.*, 2003) to a set of 71 institutional indicators used for the various exploratory data analyses presented here (see annex 2 for a list of the indicators used).

| | |
|---|---|
| Nord-Ouest : informel-autoritaire | North-West: informal authoritarian |
| Sud-Ouest : informel fragmenté | South-West: informal fragmented |
| Nord Est : libéralisme tempéré | North-East: mild liberalism |
| Sud-Est : libéralisme pur | South-East: pure liberalism |
| Degré de formalisation des systèmes de régulation | Regulatory systems' degree of formalisation |
| Importance du rôle de l'Etat | Importance of the role of the State |

- **On the first axis** (35% of total variance) the variables assessing the method of establishing and level of security for property rights and transactions, the functioning of administration, the level of corruption, the level of market regulation, the operation of solidarity mechanisms (health, unemployment, old age) and the functioning of political institutions are projected. It compares:
    - to the left, the systems **in which these functions are essentially fulfilled informally**, based on interpersonal relationships; and
    - to the right, the systems **in which these functions are systemically fulfilled in a formalised**, written and objective mode based on impersonal relationships.

Among other things, by choosing the *de facto* approach to gathering information that led to the elaboration of the database (see Section 1), the indicators evaluate the **effective application** of institutional systems (enforcement of and compliance with rules). Axis 1 therefore distinguishes between countries according to the degree **of formalisation of and compliance with rules.**

The first factor that differentiates countries thus concerns two modes of establishing social rules, that is to say two modes of **producing confidence in compliance with rules**, either based on informal and interpersonal rules or on formal and impersonal rules (i.e. separate from people). It describes, from left to right, the situation in countries **according to the degree to which their systems of economic, political and social regulation are formalised.**

Today's developed societies have also followed this long march from social systems in which confidence is built on the basis of interpersonal relationships on limited scale to systems in which confidence is more systemic and based on impersonal law-based relationships. For example, the rights and status attached to birth abolished during the French Revolution (in the night of 4 August 1789) came from personal links and not from formal rules independent of individuals.

- **The second axis** is, by construction, the one that comes in second place in regard to the quantity of information captured in the database (9.3% of total variance). It compares:
    - on top, variables marking the presence of the State in the political, institutional and economic arenas; and
    - on the bottom of the axis, variables characterising political and social liberties, and weak involvement of the State in the economy and society.

The second factor therefore differentiates countries according to the relative weight of the State in economic, political and social regulations. The primary orientation of this vertical axis compares societies in which the State's influence over society is considerable (and can even take authoritarian forms: Cuba, Syria, Iran) with societies in which economic and civil liberties are more extensive, and in which the State is not very active, or even failing, notably in sub-Saharan Africa.

*Two general remarks can be made concerning this representation of countries:*

- Along the horizontal axis, one can see a strong correlation between the degree of rule formalisation and the level of development: to the right of the graph one finds all developed countries, and to the left one finds all developing countries. This will be analysed below.
- One can note that the point cloud captured on this first plane is funnel-shaped, broad to the left where informal rules prevail (corresponding to low levels of development) and narrow to the right where rules are formalised and the level of economic development is high. This suggests that, as the level of wealth rises, there is a relative stabilisation of institutional profiles around formalised and properly-

applied systems of rules that are typical of developed countries, rules that they promote through their manifold relations with the rest of the world. However, one can also see the extreme diversity of institutional systems in developing and emerging countries (to the left of the graph). Analysis of this institutional diversity should enable us to deepen our understanding of the phenomena that favour (or hinder) economic takeoff.

*Four major families of institutional systems emerge*

The projection of countries on the first two axes (graph 2) describes a distribution of countries into four institutional system families identified in the graph's four quadrants.

The names given to the four families designate the extreme institutional characteristics of each of the four quadrants (the countries located near the corners of the graph):

- **"informal-authoritarian" systems** combine a predominance of informal relations and strong influence of the State in society;
- **"informal-fragmented" systems** combine a low degree of rule formalisation and larger arenas of freedom, which may be due to State failings;
- **the "pure liberal" systems** combine a high level of freedom and a high degree of rule formalisation; and
- **finally, the "mild liberal" systems** combine a high degree of rule formalisation and public provisions to protect citizens.

*• The institutional profiles in the north-west quadrant can be called 'informal-authoritarian'*

In these countries, institutions combine the force of tradition and security for the inhabitants with substantial but not always effective public intervention. This does not mean that the State is weak. On the contrary, it keeps a tight control over its citizens or subjects: civil society has very limited autonomy; the movement of persons and the plurality of information are at a minimum. The State also controls the functioning of the markets, which are relatively little open. The weight of tradition hampers social mobility in uneven fashion.

Within this quadrant, the strong presence of the public authorities in fact reveals two types of authoritarian State grasp on society. States derive their legitimacy either from the redistribution of rents (Syria, Uzbekistan, Iran, Saudi Arabia, Egypt, Algeria, etc.) or from their capacity to trigger the country's development (China, Vietnam, Tunisia, Botswana, Thailand, Malaysia, etc.).

*• The institutional profiles in the south-west quadrant can be called 'informal-fragmented'*

These States are little present in economic life and not very effective. Solidarity below the level of the State or unrelated to the State plays an active role in the countries furthest to the left of the quadrant, providing a form of security that partly makes up for the State's shortcomings. Political, economic and social rights are not guaranteed to citizens, but the most dynamic of them can benefit from openings, opportunities and arenas of freedom.

The countries that are emblematic of this configuration are in sub-Saharan Africa, notably Benin, Niger, Mali, Chad, Cameroon and Burkina Faso, but Cambodia also belongs to this group. Yemen and Mauritania, present in this quadrant but close to the horizontal axis, are characterised by a greater degree of informality and less freedom. Conversely, the Philippines, Bolivia, Peru and Guatemala (close to the vertical axis) show a higher level of freedom and less informality. In these latter countries, the population is faced with large social risks (disease, unemployment, old age): traditional forms of solidarity have been eroded while formal types of solidarity are still very limited.

*• The institutional profiles in the south-east quadrant correspond to "pure liberalism"*

Societies are open to the outside world and enjoy high-quality public institutions. Public systems are relatively unprotective.

The countries in this quadrant are heterogeneous, ranging from highly effective States (the United States, New Zealand, Hong Kong) to States that are much less effective in societies where opportunities are relatively open and risks are high since the State provides only limited protection for its citizens (Argentina, Brazil).

*• The institutional profiles in the north-east quadrant correspond to "mild liberalism"*

These States are involved in social life. They ensure security and protection for their citizens through good application of the law. Social mobility based on merit prevails. Security of transactions and ownership rights go hand-in-hand with generally efficient public administration. Society looks to and invests in the future. This corresponds to the European social model (France, Germany, Norway and Sweden, and also to Japan), as well as to countries with different profiles such as Israel and Singapore. Taiwan, Mauritius and South Korea come close to this model.

Moreover, the relatively high degree of institutional stabilisation seen on graph 1 minimises the differences between the institutional systems in the north-east (mild liberalism) and south-east (pure liberalism) quadrants.

## 3.2 What reform trends are underway?

Alongside the variables describing the state of institutions ("stock" indicators), which constitute the bulk of the indicators in the database, there are also "flow" indicators consisting of two types of data: those that measure the evolution over the last three years (2004-2006) of a phenomenon as perceived by respondents to the questionnaire (for example, the evolution of corruption or of transaction security) and those which evaluate, over the same time period, the intensity and quality of reforms (for example, tax reform, financial liberalisation, privatisation).

*Public governance reforms are taking over from market liberalisation reforms*

Generally speaking, from the point of view of the institutional dynamic during the period examined (2004-2006), the countries fall into three groups: those that have experienced major reform trends; those that, on the contrary, have shown great resistance to institutional dynamics; and those - the vast majority - that have seen an average, relatively low degree of change. It is relatively difficult to discriminate within this group of countries, but certain trends can nevertheless be discerned:

- Countries are generally more (or less) dynamic with respect to all the chosen indicators (the variables are on the whole positively correlated): the principal axis differentiating these countries can be defined as that which distinguishes them according to the intensity of reform dynamics.
- The second tendency makes it possible to distinguish between countries according to the direction taken by the reforms: those countries which, over the 2004-2006 period, moved in the direction of public governance and those which moved more towards the liberalisation of market institutions (for goods and services, capital, and labour).
- The projection of the flow variables on the set of stock variables[15] makes it possible to shed greater light on the question of the direction of reforms. A grouped bundle of governance reform variables emerges. Conversely, the market reform variables are projected in all directions, demonstrating their retreat from the reform agenda, manifested by relatively weak and dispersed application.

In all, the database reflects the convergence of reforms towards public governance or, in other words, the progressive movement of reforms that shifted from market liberalisation in the 1980s and 1990s to governance in the 2000s.

[15] In the PCA used for this analysis, the stock variables are active, while the flow variables are illustrative. The graph of this analysis is not given in this document.

# 4. Presentation of the 2001-2006 data panel from the database

As was pointed out in the introduction, there have been two versions of the database, one for 2001, covering 51 countries, and the other for 2006, with coverage extended to 85 countries. Overall, the thematic structure was identical and the majority of the indicators are to be found in both versions. The result is that a data panel is available to indicate institutional trends from 2001 to 2006.

## 4.1 Preliminary remarks

A certain number of data in the 2001 database were modified following remarks made between 2001 and 2006 by users who pointed out inconsistencies in the elementary variables or provided additional information making it possible to modify the data. We therefore introduced a small number of rectifications in the new version of the database. Furthermore—and this is the most important point—we must stress the difficulty of interpreting dynamic evolutions. Assessments of institutional characteristics, which are by construction subjective, can depend on the evolution in the views of the group of respondents to the questionnaire.

This may introduce two types of bias:
1- First, for a given country, the economic situation or a vigorous movement (or clear blockage) of institutional reform can introduce a bias in the evaluation of the state of the institutions. For example, the institutional characteristics of a country that has experienced strong (weak) growth could be overrated (underrated). Similarly, a determined reform movement (or, on the contrary, a curb on reforms) could lead to over-positive (over-negative) assessments of the state of institutions measured by 'stock' variables.
2- Second, the priorities of development policy, and notably those of the international financial institutions that shape the overall view taken by development actors, have evolved between the two dates. In 2001, we were at the end of the period during which market liberalisation was the main thrust of prescribed policies. In 2006, the priority had become reforms to improve governance, the result of which was to modify the views of those completing the questionnaire. This second type of bias tends to distort the assessments for all countries in a given year in the same direction. Comparisons between countries therefore remain valid for this particular year, as the bias should only emerge in dynamic comparisons between two dates.

These reserves, added to those inherent in any "measurement" of institutions, are cause for considerable prudence when using the database for the purpose of identifying dynamics from a data panel.

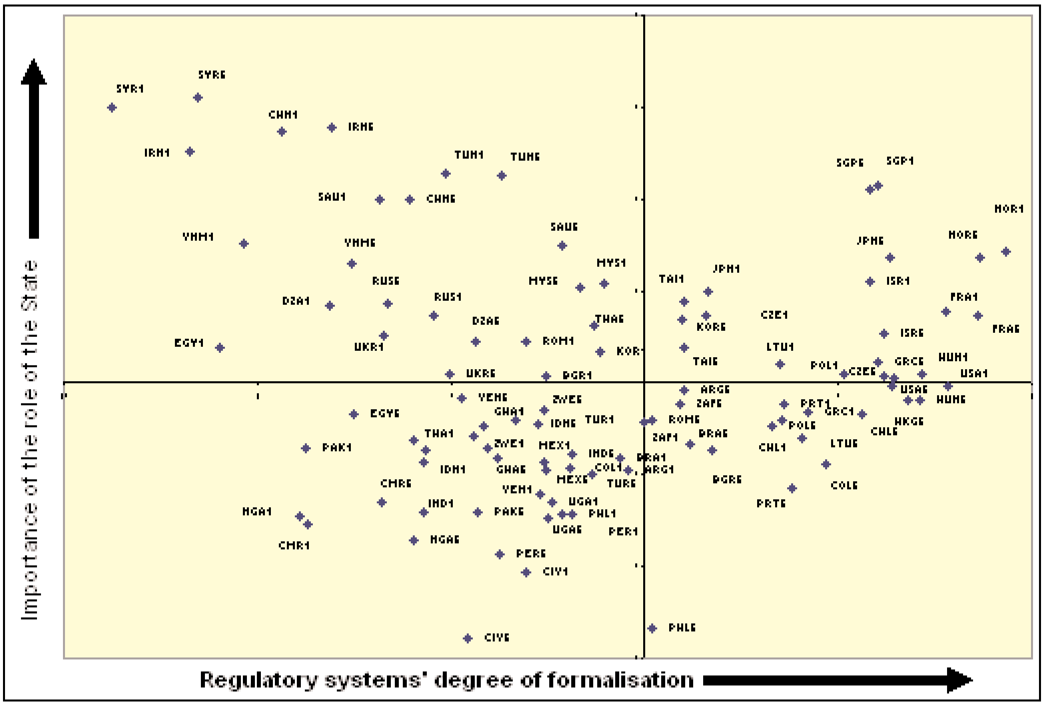
## 4.2 Succinct presentation of the 2001-2006 data panel through principal component analysis (PCA)

To illustrate the content of the database as a data panel for 2001-2006, we carried out a PCA on the indicators and countries that are common to both versions. We included in this analysis the 51 countries at two different dates, once for the year 2001 and once for the year 2006 (e.g. ARG1 for Argentina in 2001 and ARG6 for Argentina in 2006).[16] The data panel involved 79 variables.

The two axes of the first factorial plane, onto which 44.6% of total variance is projected, represent the same major families of indicators as those in the PCA of the 85 countries in the 2006 database. Based on an examination of the projection of active variables on the axes 1 and 2 examined earlier, one finds, horizontally and from left to right, an increasing formalisation of rules and, vertically, the greater or lesser importance of the State's role in society.

The respective positions of a given country identified with suffix 1 (for 2001) and suffix 6 (for 2006) indicate the institutional tendency followed by the country between these two dates.

**Graph 3.** Countries projected on the first factorial plane of the PCA
(2001-2006 data panel – 51 countries, 79 active stock variables)




*Source: "Institutional Profiles 2001-2006".*

[16] In the PCA presented here, the axes are determined by the active variables for 2006, the 2001 variables being illustrative. This means that we chose to project the institutional situation of countries in 2001 onto the 2006 institutional space (in other words, the 2001 variables did not contribute to the definition of the factorial axes).

# Conclusion

With its two versions, for 2001 and 2006, the "Institutional Profiles" database aims to become one of the main sources of institutional indicators available and participate in the debate on "measuring institutions".

This database allows one to analyse the links between institutions and economic development. Thanks to the transparency of its compilation methods, the free availability of the source data, the reduction of a large number of biases, and the extent of the institutional field covered, it is an original tool for the research community and, more generally, for all those who produce and use institutional indicators. The designers of the database welcome constructive criticism to improve the next edition, planned for 2009.

# Bibliography


Acemoglu D., P. Aghion and F. Zilibotti (2002), *Distance to Frontier, Selection, and Economic Growth*, NBER Working Paper 9066.

Aoki M. (2001), *Toward A Comparative Institutional Analysis*, MIT Press.

Aron J. (2000), *Growth and Institutions: A Review of Evidence*, The World Bank Research Observer, 15(1), pp. 99-135, February.

Bénassy-Quéré A., M. Coupet, and T. Mayer (2005), *Institutional Determinants of Foreign Investment*, CEPII, Working Document no. 2005-05.

Berthelier P., A. Desdoigts and J. Ould Aoudia (2004), "Profils Institutionnels : Présentation et analyse d'une base de données originale sur les caractéristiques institutionnelles de pays en développement, en transition et développés", *Revue Française d'Economie*, vol. XIX.

Brousseau E. (2000), "Processus évolutionnaires et institutions", *Problèmes Economiques* no. 2693.

JÜTTING J. P. (2003), *Institutions and Development: A Critical Review*, OECD Development Centre, Paris.

Kaufmann D., A. Kraay and P. Zoido-Lobaton (1999), *Governance Matters*, World Bank Working Paper no. 2196.

Kaufmann D., A. Kraay and P. Zoido-Lobaton (2002), *Governance Matters II*, World Bank Working Paper no. 2772.

Kaufmann D. and A. Kraay (2002), "Growth without Governance", *Economia*, vol. 3 (1).

Kaufmann D. (2003), *Governance Redux: the Empirical Challenge*, World Bank Institute, World Bank.

Kaufmann D. (2004), "Corruption Matters: Evidence-Based Challenge to Orthodoxy", *Journal of Development Policy and Practice*, Canadian International Development Agency.

Kaufmann D. (2005), *Click Refresh Button: Investment Climate Reconsidered*, Development Outreach, World Bank Institute, World Bank.

KHAN M. H. (2006), *Governance and Development*, workshop on governance and development organised by the World Bank and the Department for International Development (United Kingdom), Dhaka, 11-12 November.

Meisel N. (2004), *Culture de gouvernance et développement: intérêt de l'expérience française pour la gouvernance des entreprises et la gouvernance publique dans les pays en développement*, OECD Development Centre, Paris.

Meisel N. and J. Ould Aoudia (2007, forthcoming), *La 'bonne gouvernance' est-elle une bonne stratégie de développement ?,* Working Paper, Agence Française de Développement, Paris.

Nicoletti G., S Scarpetta and O. Boylaud (2000), *Summary Indicators of Product Regulation with an Extension to Employment Protection Legislation*, OECD Working Paper no. 226.

North D. C. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, UK.

North D. C. (1994), "Economic Performance through Time", *American Economic Review*, 84 (3).

North D.C., J.J. Wallis and B.R. Weingast (2006), *A Conceptual Framework for Interpreting Recorded Human History*, NBER Working Paper no. 12795.

OECD (2005), *Handbook on Constructing Composite Indicators: Methodology and User Guide*, Paris.

Ould Aoudia J. (2006), *Croissance et Réformes dans les pays arabes méditerranéens*, Notes and Documents no. 28, Agence Française de Développement, Paris.

REBOUD V. (2006), *Amartya Sen : un économiste du développement ?*, Notes and Documents no. 30, Agence Française de Développement, Paris.

RODRIK D., A. SUBRAMANIAN and F. TREBBI (2002), *Institutions Rule: The Primacy of Institutions over Geography and Integration Economic Development*, IMF Working Paper 02/189.

WORLD BANK (2003), *MENA Development Report: Better Governance for Development in the Middle East and North Africa: Enhancing Inclusiveness and Accountability*, Washington D.C.

WORLD BANK (1998), *Beyond the Washington Consensus: Institutions Matter*, World Bank Latin American and Caribbean Studies, Washington D.C.

Annex 1: The 85 countries in the 2006 database

"2006 Institutional Profiles": List of countries by grouping

| | | | | | |
|---|---|---|---|---|---|
| 1 | CHN | China | 46 | BGD | Bangladesh |
| 2 | HKG | Hong Kong | 47 | IND | India |
| 3 | IDN | Indonesia | 48 | LKA | Sri Lanka |
| 4 | KHM | Cambodia | 49 | PAK | Pakistan |
| 5 | KOR | Korea, Republic of | 50 | BEN | Benin |
| 6 | MYS | Malaysia | 51 | BFA | Burkina Faso |
| 7 | PHL | Philippines | 52 | BWA | Botswana |
| 8 | SGP | Singapore | 53 | CIV | Ivory Coast |
| 9 | TAI | Taiwan | 54 | CMR | Cameroon |
| 10 | THA | Thailande | 55 | ETH | Ethiopia |
| 11 | VNM | Vietnam | 56 | GAB | Gabon |
| 12 | BGR | Bulgaria | 57 | GHA | Ghana |
| 13 | CZE | Czech Republic | 58 | KEN | Kenya |
| 14 | EST | Estonia | 59 | MDG | Madagascar |
| 15 | HUN | Hungary | 60 | MLI | Mali |
| 16 | KAZ | Kazakhstan | 61 | MOZ | Mozambique |
| 17 | LTU | Lithuania | 62 | MRT | Mauritania |
| 18 | POL | Poland | 63 | MUS | Mauritius |
| 19 | ROM | Romania | 64 | NER | Niger |
| 20 | RUS | Russia, Federation of | 65 | NGA | Nigeria |
| 21 | TUR | Turkey | 66 | SEN | Senegal |
| 22 | UKR | Ukraine | 67 | TCD | Chad |
| 23 | UZB | Uzbekistan | 68 | UGA | Uganda |
| 24 | ARG | Argentina | 69 | ZAF | South Africa |
| 25 | BOL | Bolivia | 70 | ZWE | Zimbabwe |
| 26 | BRA | Brazil | 71 | CAN | Canada |
| 27 | CHL | Chile | 72 | DEU | Germany |
| 28 | COL | Colombia | 73 | ESP | Spain |
| 29 | CUB | Cuba | 74 | FRA | France |
| 30 | DOM | Dominican Republic | 75 | GBR | United Kingdom |
| 31 | GTM | Guatemala | 76 | GRC | Greece |
| 32 | MEX | Mexico | 77 | IRL | Ireland |
| 33 | PER | Peru | 78 | ISR | Israel |
| 34 | VEN | Venezuela | 79 | ITA | Italy |
| 35 | DZA | Algeria | 80 | JPN | Japan |
| 36 | EGY | Egypt | 81 | NOR | Norway |
| 37 | IRN | Iran | 82 | NZL | New Zealand |
| 38 | JOR | Jordan | 83 | PRT | Portugal |
| 39 | KWT | Kuwait | 84 | SWE | Sweden |
| 40 | LBN | Lebanon | 85 | USA | United States |
| 41 | MAR | Morocco | | | |
| 42 | SAU | Saudi Arabia | | | |
| 43 | SYR | Syria | | | |
| 44 | TUN | Tunisia | | | |
| 45 | YEM | Yemen | | | |

# Annex 2: Presentation of the 132 indicators in the 2006 institutional profiles database (110 stock indicators and 22 flow indicators)

### I/ The 110 'stock' indicators dealing with the state of institutions

| | SECTOR A: Public institutions / Civil society (49 indicators) |
|---|---|
| A100 | Political rights and functioning of political institutions |
| A101 | Public freedoms and the autonomy of the civil society |
| A102 | Concentration of the media |
| A103 | Centralisation - decentralisation: devolution of local authorities |
| A104 | Centralisation - decentralisation: autonomy in tax matters |
| A200 | Internal public security |
| A201 | External public security |
| A300 | Transparency of public action in the economic field |
| A301 | Transparency of economic policy (fiscal, taxation, monetary, exchange-rate, etc) |
| A302 | Corruption |
| A303 | Government-citizen relations |
| A304 | Effectiveness of public action: tax system |
| A305 | Running of the customs administration |
| A306 | Award of public procurement contracts and delegation of public service |
| A307 | Running of the justice system |
| A308 | Quality of the supply of public goods: education and basic health |
| A502 | Concentration of organisations within the major actors |
| A503 | Formal or informal organisations |
| A504 | Representative organisations |
| A505 | Dialogue structures headed by the political authority to find a common interest among actors |
| A506 | Government capacity for autonomous decision-making |
| A507 | Transparency of the dialogue process |
| A508 | Co-ordination between ministries and within the administrations |
| A509 | Polarisation of the ministries and administrations towards the Executive |
| A510 | Capacity of the political authorities |
| A511 | Society's aptitude for adaptation and innovation |
| A512 | Long-term strategic vision of the authorities |
| A513 | The authorities' strategies |
| A514 | The priorities of the local elites |
| A515 | Investment in the future of the population |
| A600 | Security of traditional property rights |
| A601 | Security of property rights: formal property rights |
| A602 | Form of contracts between private agents |
| A603 | Security of contracts between private agents |
| A604 | Government respect for contracts |

| | |
|---|---|
| A605 | Settlement of economic disputes: justice in commercial matters |
| A606 | Law on bankruptcies |
| A607 | Application of law on bankruptcies |
| A800 | Free movement of persons, information, etc |
| A801 | Emigrants and diasporas of nationals abroad: role in the economic life of the country of origin |
| A802 | Immigrants in the country: economic role |
| A803 | External pressure |
| A900 | Equality of treatment: segregation based on traditions and beliefs |
| A901 | Access without discrimination to healthcare and public and private employment |
| A902 | Subsidies for primary products (social safety net) = B4030 and B4031 aggregated and inversed |
| A903 | Traditional forms of solidarity |
| A904 | Institutional solidarity |
| A905 | Equity in access to basic public goods: education, healthcare, water and electricity |
| A906 | Educating the elite |

| | **SECTOR B: Market for Goods & Services (26 indicators)** |
|---|---|
| B300 | Administrative business start-up formalities |
| B400 | Share of public sector in GDP in 2001 |
| B401 | Share of public sector in GDP in 2006 |
| B402 | Share of public sector in public utility services |
| B403 | Administered prices and market prices |
| B500 | Technological environment, dissemination of technology |
| B600 | Information on the situation of firms |
| B601 | Information on the quality of the goods: national norms and standards |
| B602 | Information on the quality of the goods: international norms and standards |
| B603 | Intellectual property |
| B604 | Arrangements for the protection of intellectual property |
| B605 | Agricultural sector: traditional collective property |
| B606 | Agricultural sector: public property |
| B607 | Agricultural sector: security of rights and property transactions |
| B700 | Competition: productive sector: ease of market entry for new firms |
| B701 | Competition in distribution (household consumption) |
| B702 | Competition between businesses: competition regulation arrangements |
| B703 | Agricultural sector: concentration of agricultural land |
| B704 | Interpenetration of local capital (private and/or public) |
| B705 | Shareholders: weight of institutional investors |
| B706 | Shareholders: weight of the government |
| B707 | Shareholders: weight of family shareholders |
| B708 | Shareholders: Weight of dispersed shareownership |
| B709 | Multisector groups (of Korean Choebol type) |
| B710 | Information on the structure of shareholdings in local firms |
| B800 | Convertibility and WTO membership, rules for granting of import licences |

| | SECTOR C: Capital market (17 indicators) |
|---|---|
| C400 | Share of banking sector in private hands in 2001 |
| C401 | Share of banking sector in private hands in 2006 |
| C402 | Level of government intervention in allocation of lending |
| C500 | Dissemination of technology, innovation |
| C501 | Innovation: venture capital |
| C502 | Insurance companies, pension funds |
| C600 | Traditional credit systems (informal or quasi-informal) |
| C601 | Information on the situation of the banks |
| C602 | Lender guarantees: banking system (mortgages etc) |
| C603 | Compulsory publication of information by firms at the time of share issues |
| C700 | Competition within the banking system |
| C701 | Regulation of competition in the banking system |
| C702 | Prudential rules: difference between local and international standards |
| C703 | Banking and financial supervision |
| C704 | Internal control of banks |
| C800 | Openness to foreign capital and loans |
| C900 | Micro-lending |

| | SECTOR D: Labour market (18 indicators) |
|---|---|
| D100 | Freedom of association |
| D101 | Trade union plurality and autonomy |
| D400 | Proportion of workforce in civil service and public-sector enterprises |
| D401 | Rigidity of the formal labour market (private and public) |
| D500 | Adult vocational training |
| D600 | Informal labour market |
| D601 | Existence and observance of labour legislation and measures |
| D602 | Employment contract protection |
| D603 | Labour inspectorate, labour courts, etc |
| D700 | Wage bargaining for non-managerial staff |
| D701 | Social dialogue |
| D800 | Openness to employment of foreign executives |
| D801 | Balance of migration for movements of UNSKILLED individuals |
| D802 | Balance of migration for movements of SKILLED individuals |
| D900 | Segmentation of the labour market |
| D901 | Social mobility: recruitment and promotion in the public and private sectors |
| D902 | Social mobility: young graduates from higher education |
| D903 | Child labour |

## II/ The 22 'flow' variables: the reforms in the 4 sectors A, B, C, D

| | Sectors A, B, C and D: reform variables (22 indicators) |
|---|---|
| A150 | Evolution of political rights in the past 3 years |
| A151 | Evolution of freedoms and civil society autonomy in the past 3 years |
| A250 | Evolution of security in the past 3 years |
| A350 | Evolution of transparency of public action in the past 3 years |
| A351 | Evolution of petty and large-scale corruption in the past 3 years |
| A352 | Evolution in the effectiveness of public action as a whole in the past 3 years |
| A353 | Tax reforms in the past 3 years |
| A354 | Evolution of the efficiency of the tax system in the past 3 years |
| A355 | Evolution of the independence and efficiency of the justice system in the past 3 years |
| A356 | Public administration reforms in the past 3 years |
| A650 | Evolution of the security of transactions in the past 3 years |
| B450 | Reforms: non-financial enterprise privatisations from 2001 to 2006 |
| B451 | Implementation of the privatisation programme |
| B452 | Openness of the privatisation programme |
| C450 | Reforms: bank privatisations from 2001 to 2006 |
| C451 | Reforms: implementation of the bank privatisation programme |
| C452 | Reforms: de facto openness of bank and financial establishment privatisations |
| C453 | Reforms to liberalise the credit sector in the past 3 years |
| C750 | Reforms of the regulation of the financial system in the past 3 years |
| C850 | Reforms to open up the financial system in the past 3 years |
| D450 | Reforms to make the formal labour market more flexible in the past 3 years |
| D950 | Reforms aimed at de-segmentation of the labour market in the past three years |

## Série Documents de travail / Working Papers Series

N° 1 *A Poverty Forecasting Tool: A Case-Study of Senegal*
Thierry Latreille, AFD - Janvier 2005.

N° 2 Les OMD et l'aide de cinquième génération
Jean-David Naudet, AFD - Mai 2005.

N° 3 Biens publics mondiaux et développement : De nouveaux arbitrages pour l'aide ?
Sarah Marniesse, AFD - Septembre 2005.

N° 4 Agir en faveur des acteurs et des sociétés fragiles. Pour une vision renouvelée des enjeux de l'aide au développement dans la prévention et la gestion des crises
*Beyond the Fragile State: Taking Action to Assist Fragile Actors and Societies*
Jean-Marc Châtaigner et François Gaulme, AFD - Septembre 2005.

N° 5 La filière riz au Mali : compétitivité et perspectives de marché
Pierre Baris, Jean Zaslavsky, Serge Perrin - Septembre 2005.

N° 6 Turquie : Risque systémique bancaire et vulnérabilités macro-financières
François-Xavier Bellocq et Vincent Caupin, AFD - Octobre 2005.

N° 7 La Tunisie et le marché euro-méditerranéen du tourisme
Jean-Raphaël Chaponnière, CEPN et AFD et Marc Lautier, CARE, Université de Rouen - Septembre 2005.

N° 8 Le développement, une question de chance ? A propos du rapport sur le développement dans le monde 2006 « Equité et Développement »
*Development, a Question of Opportunity? A Critique of the 2006 World Development Report: Equity and Development*
Jean-Pierre Cling, Denis Cogneau, Jacques Loup, Jean-David Naudet, Mireille Razafindrakoto, François Roubaud, DIAL - Septembre 2005.

N° 9 *Aid Selectivity According to Augmented Criteria*
Jacky Amprou, AFD, Patrick Guillaumont, Sylviane Guillaumont Jeanneney, CERDI - Novembre 2005.

N° 10 Le Cambodge rural face à la pauvreté : contribution à la réflexion sur les dynamiques agraires et le changement social
Julien Calas, AFD Phnom-Penh - Janvier 2006.

N° 11 Vietnam : les vulnérabilités macro-financières associées au processus d'émergence.
*Vietnam: Macro-Financial Vulnerabilities Associated with the Emergence Process*
François-Xavier Bellocq et Jean-Raphaël Chaponnière, AFD - Janvier 2006.

N° 12 Chine : la croissance et ses déséquilibres
François-Xavier Bellocq et Jean-Raphaël Chaponnière, AFD - Janvier 2006.

N° 13 Legs colonial et gouvernance contemporaine (Note de synthèse)
Jean-François Bayart, Romain Bertrand, Thornike Gordadze, Béatrice Hibou et Françoise Mengin, FASOPO (Fonds d'analyse des sociétés politiques) - Mars 2006.

N° 14 Apprendre pour vivre et travailler : contribution du GEFOP au Rapport sur le développement dans le monde 2007 de la Banque mondiale
*Learning for Life and Work : GEFOP Contribution to the World Development Report 2007*
Réseau GEFOP (Synthèse rédigée par R. Walther) - Mars 2006.

N° 15 La formation professionnelle en secteur informel (Note de problématique)
*Vocational Training in the Informal Sector - Issue Paper*
Richard Walther, consultant ITG - Mars 2006.

N° 16 La formation professionnelle en secteur informel - Rapport sur l'enquête terrain au Maroc
*Vocational Training in the Informal Sector - Report on the Morocco Field Survey*
Richard Walther, consultant ITG - Juin 2006.

N° 17 La formation professionnelle en secteur informel - Rapport sur l'enquête terrain au Cameroun
*Vocational Training in the Informal Sector - Report on the Cameroon Field Survey*
Richard Walther, consultant ITG, avec le concours d'Ewa Filipiak et de Christine Uhder, AFD - Juillet 2006.

N° 18 Rapport sur le risque-pays du Maroc
Jérôme Sgard, Cepii et Université de Paris-Dauphine - Juin 2006.

N° 19 La formation professionnelle en secteur informel - Rapport sur l'enquête terrain au Bénin
*Vocational Training in the Informal Sector - Report on the Benin Field Survey*
Richard Walther, consultant ITG, avec le concours d'Ewa Filipiak et de Christine Uhder - Juillet 2006.

N° 20 Institutions, développement et pauvreté
*Institutions, Development and Poverty*
Alice Sindzingre, CNRS, EconomiX, Université Paris X-Nanterre ; School of Oriental and African Studies (SOAS), Université de Londres - Juillet 2006.

N° 21 La formation professionnelle en secteur informel - Rapport sur l'enquête terrain au Sénégal
*Vocational Training in the Informal Sector - Report on the Senegal Field Survey*
Richard Walther, consultant ITG, avec le concours d'Ewa Filipiak et de Christine Uhder - Juillet 2006.

N° 22 Les fondations philanthropiques américaines, acteurs émergents de la mondialisation et piliers du dialogue trans-atlantique.
*American Philantropic Foundations: Emerging Actors of Globalization and Pillars of the Transatlantic Dialog*
Benoît Chervalier, German Marshall Fund of the United States, et Joseph Zimet, AFD - Juillet 2006.

N° 23 L'AFD et ses partenaires : La dimension culturelle
Philippe d'Iribarne, CEREB - CNRS - Août 2006.

N° 24 Secteur de l'eau au Sénégal - Un partenariat équilibré entre acteurs publics et privés pour servir les plus démunis ?
Aymeric Blanc, département de la Recherche, AFD, et Cédric Ghesquières, consultant junior, AFD - Août 2006.

N° 25 Décentralisation et politique de l'eau gratuite en Afrique du Sud: Quelle place pour le secteur privé ?
*Vocational Training in the Informal Sector - Report on the Senegal Field Survey*
Aymeric Blanc, département de la Recherche, AFD, et Cédric Ghesquières, consultant junior, AFD - Août 2006.

N° 26 L'intégration des programmes d'aide alimentaire aux politiques de développement du Niger : le cas de la crise alimentaire 2004-2005.
*The Integration of Food Aid Programmes in Niger's Development Policies: the 2004-2005 Food Crisis*
Dorothée Chen et Nicolas Meisel, département de la Recherche, AFD, en partenariat avec DIAL - Septembre 2006.

*N° 27* Proposition d'organisation des outils de gestion du risque de marché au bénéfice des filières cotonnières africaines
Jean Cordier, Agrocampus Rennes - Septembre 2006.

N° 28 Les privatisations en zone franc – synthèse des travaux du groupe de travail MINEFI/AFD
Aymeric Blanc, département de la Recherche, AFD - Septembre 2006.

N° 29 *Out of the financing trap? Financing post-conflict countries and LICUSs*
Marc Raffinot, Université-Dauphine, et Christine Rosellini, DIAL, Paris - Octobre 2006.

N° 30 La formation professionnelle en secteur informel - Rapport sur l'enquête terrain en Afrique du Sud
*Vocational Training in the Informal Sector - Report on the South Africa Field Survey*
Richard Walther, ITG Consultant, Ewa Filipiak, département de la Recherche, AFD, et Christine Uhder, AFD - Octobre 2006.

N° 31 *The Brain Drain: What Do We Know?*
Frédéric Docquier, FNRS and IRES, Université Catholique de Louvain and World Bank - Khalid Sekkat, DULBEA, Université Libre de Bruxelles - Octobre 2006.

N° 32 Les délocalisations françaises vers la Turquie
Julien Gourdon, CERDI, Université d'Auvergne - Décembre 2006.

N° 33 Capital naturel et développement durable en Afrique
*Natural Capital and Sustainable Development in Africa*
Pierre-Noël Giraud, CERNA, Centre de recherche en économie industrielle, Ecole nationale supérieure des Mines de Paris, Denis Loyer, AFD - Décembre 2006.

N° 34 La formation professionnelle en secteur informel Rapport sur l'enquête terrain en Ethiopie
*Vocational Training in the Informal Sector - Report on the Ethiopia Field Survey*
Richard Walther, Consultant ITG - Novembre 2006.

N° 35 La formation professionnelle en secteur informel Rapport sur l'enquête terrain en Angola
*Vocational Training in the Informal Sector - Report on the Angola Field Survey*
Richard Walther, Consultant ITG - Novembre 2006.

N° 36 Les accords de partenariat économique : des accompagnements nécessaires
*Economic Partnership Agreements: Accompanying Measures Are Needed*
Anna Lipchitz, département de la Recherche, AFD - Janvier 2007.

N° 37 Energie du Mali, ou les paradoxes d'un « échec retentissant »
Béatrice Hibou, CNRS - CERI, Olivier Vallée, Consultant, AFD - Janvier 2007.

N° 38 *Public Private Partnerships in Water and Electricity in Africa*
Emmanuelle Auriol, ARQADE and IDEI Toulouse Sciences Economiques, Aymeric Blanc, département de la Recherche, AFD - Janvier 2007.

N° 39 *Economic Partnership Agreements and Regional Trade Flow Dynamics: The ECOWAS Case*
Benoît Faivre Dupaigre, Vanessa Alby-Flores, Borgui Yerima, Ann Vourc'h, Anna Lipchitz, Philippe Chedanne - Mars 2007.

N° 40 La Régie des eaux de Phnom Penh : un modèle de gestion publique efficace
Aymeric Blanc et Alain Riès, département de la Recherche, AFD - Mai 2007.

N° 41 Répartition des gains dans les partenariats public-privé : effets comparés des modalités d'assiette d'une redevance de concession
Olivier Ratheaux, AFD - Juin 2007.

N° 42 *Potential Financial Frameworks for a Sustainable UNEO*
Helle Husum, COWI, Erik Brander, COWI, Suzanne A.K. Steensen, COWI, et Emmanuelle Lachaussée, AFD - Juin 2007

N° 43 La concession des aéroports de Madagascar : une privatisation en trompe-l'œil ?
Aymeric Blanc, département de la Recherche, AFD, et Olivier Gouirand, AFD - Août 2007.

N° 44 La concession du chemin de fer du Cameroun : les paradoxes d'une réussite impopulaire
Aymeric Blanc, département de la Recherche, AFD, et Olivier Gouirand, AFD - Août 2007.

N° 45 Analyse rétrospective de la crise alimentaire au Niger en 2005
Jean-Pierre Olivier de Sardan, LASDEL, avec la participation de M. Ali Bako, E. Guillermet, O. Hamani, Y. Issa, M. Koné et M. Moha - Septembre 2007.