Institutions and Development

The LDCs' perspective

Introduction

In recent years the role of institutions in promoting and sustaining economic change has been an issue of interest for both theoretical and empirical analyses in the social science literature. This interest arises from the awareness that in all actions we pursue as economic agents we are affected by institutions and them can be considered a useful tool to investigate the cause of development and underdevelopment.

The spur to treat this topic has come from a passage of the Nobel Lecture presented by Professor Muhamed Yunus at the Nobel Peace Prize Ceremony in December the 10th, 2006; he said:
"Poor people are like bonsai tree. When you plant the best seed of the tallest tree in a flower-pot, you get a replica of the tallest tree, only inches tall. There is nothing wrong with the seed you planted, only the soil-base that is inadequate. Poor people are bonsai people. [...]. Simply, society never gave them the base to grow on. [...].Once poor can unleash his or her energy and creativity, poverty will disappear very quickly "
This image resumes, at a glance, the philosophy underneath this essay: a right and aware institutional base, both economic, political and social, is the structure needed to support the development of both Developed and Less Developed Countries.

Moreover, the reasons why many of the attempts, almost equal for any country, both developed and underdeveloped, have failed their implementation are several: the results depend on the country, on its culture, on its history, on its social and economic and political structure. The most difference in background the less general the strategies. For several years the general recipe was to implement and spread around the capitalistic system and to install in a coercive manner the logic of self-regulating market which subordinated the whole concept of society to the economy: just one institution, the market. The neoclassical paradigm reigned as sovereign. But what happen if the market does not work as it should and if the capitalistic system is not able to support by itself? We know that an economic system aiming to the Economic General Equilibrium ensures homogeneity between micro level (studying the single agent's behavior, his motivations, and their interaction with those of the other agents) and macro level (studying the macro determinants of the system); it is the reign of the symmetry and the equilibrium. Whereas the capitalistic system does not maintain this symmetry, it produces disequilibrium at macro level and non homogeneity between the two levels.

Furthermore, both contemporary and historical development experiences suggest rather strongly that different economic, institutional and political processes are important in countries characterized by different economic and institutional initial conditions. Corollaries of this proposition are that a single theoretical framework or a single factory theory, unless highly non linear, are not likely to offer an equally good explanation of the development process over the entire range of development experience; moreover, different developing countries cannot be combined into a single sample for purposes of econometric analysis, since observations on institutional and economic development are drawn from different backgrounds; finally, standardized policy prescriptions based on generalization are seriously misleading.

Development theories, both old and new style, have suffered from misplaced universality and from tunnel vision. Development theories, indeed, must be changed to take full cognizance of historical and institutional relativism and of the multifaceted nature of the development process. Thus regarding to the LDCs a change in theory will lead to a change in strategies and practices, making them more effective and efficient than they ever have been.

The aim of this work is that to describe the historical and structural reasons of the backwardness of the LDCs countries and to shed light on the possible studying promotions of the topics. In order to reach the purpose our analysis moves away from the mainstream economical assumptions and tries to give a multilateral approach in which the economic actions are linked to the effects brought by social relations, cultural and religious beliefs. Coherently with this analysis, the work is divided in three chapter. The first is dedicated to a broader definition about development, to its different patterns put in action during the century and to underline the challenge of development and the role the institutions have in it. The second part focuses on the theoretical framework and the empirical evidence produced about the main topic. Thus, in the final chapter the LDCs countries are the main characters with their weaknesses and strengths defining which are the possible solutions to the institutional problem.

1. On The Principal Argument

The historical and social analysis of the Less Developed Countries is the basis for understand which are the determinants of the status quo (what is the Mediterranean rationality?) and once knowing them the political and economic studies could define feasible programs of development.
More fitted programs could avoid the negative consequences brought by 25 years of standardized recipes, or boiler plates as Jeffrey D. Sachs labeled them, and could limit to waste money in putting in place the wrong policies and in healing the economies harmed by former programs. Throughout these years characterized by some success, the donors – or Development Partners (DPs) as they now prefer to call themselves - have realized that trying to change incentive structures through externally induced policy reforms has its definite limits. The main concern has been that such reforms typically fail to get political traction in African social and political reality. What is the underlying power structure that determines outcomes? What are the real drivers of change in African countries? However, before going through the role and impact the institutions have on societies and its development, it seems required to try to define what it means for development and to carry out a comparative historical analysis of the development theories. The third part of the chapter relates about the inter-temporal links between different institutions. The fourth and fifth sections review, respectively, the challenge of development and the causes of the LDCs' failures.

1.1. On the concept of Development

We could argue that the historiography of economic development is as ancient as the development concept itself. The observation about the causes and the consequences over long run of the development process was the fulcrum of the classic period until the neoclassic period and it is taken back after the Second World War to find out a recipe to the backwardness of third world countries. The first phase of the debate was characterized by the attempt to define a unique model and to identify the main characteristics of the process, considered equal for every historical case. **W.W. Rostow** belongs to this vein, asserting that every advanced country has to pass through five phases. The model, inferred by industrial revolution researches, has influenced the following scholars who put themselves to the investigation of the *take-off* strategies and of the leading sectors. Since the results were unsatisfactory, the theory put more attention to the real and concrete historical analysis. **Gerschenkron** suggested the existence of different economic development process regarding the initial level of backwardness of each country. This approach was considered more useful fertile even if the single country analysis confirmed, just partially, the single hypothesis of the scholar.

Thus, from the end of the Sixties the historiography abandoned, progressively, the willingness to propose a unique solution and the discontinuity hypothesis, the latter wasn't even support by the data analysis of the national account of the different countries. The data showed wide cyclical fluctuations over the time, instead of discontinuity in a certain point of the time. This change in tendency was supported also by the general re-theorization of the economic theory, brought by the failures of Sixties policies. The theory grew in the awareness that generalizing problems caused a misrepresentation of the problems itself and of the solutions. The research focused on the single countries and, for each country, on the single problems making use of sophisticated economic model. The new idea was that of thinking to the development process in the historical comparative perspective. The forerunner of these researches was **S. Kuznets**: the general approach aimed to the search of a sort of regularity in the development process, it allowed to point out the differences among the evolutions of different countries leaving to the economic historian the duty of investigating the causes.

Hence, after having proposed a review of the main theories about the development process, it would be useful to understand how the concept of development has changed its meaning across the time.

According to the Latin meaning the word development is translated in *s-viluppo*, since viluppo means tangled, with the negative s in front the word means to untie or even better get free. Pope Paolo VI in his encyclical *Populorum Progressio* had a well-constructed idea of development: he stated that the word development defines the goal to bring all population out from the famine, poverty, endemic illness and illiteracy. From the economic point of view that meant to recognize them the possibility to participate actively and equally to the international economic process; from the social ground the development process aimed to the achievement of integrated societies; from the political perspective that meant the strengthening of democratization regime to ensure freedom and peace.

This interpretation refers to three integration models and three institutions: the exchange or market, the redistribution and the reciprocity. These represent the three hands of Michel Camdessus' theory when he was the general director of the IMF: "My theory is that of the three hands: the invisible hand of the market, the hand of the justice (the State) and the solidarity hand. […] It is required that all of them work together."

If the definition contains a lot of reasonable issues that make the development to be considered as a harmonic process of change, sometimes required and other wished, the policies put in place have had different results pointing very far from the original goals and sometimes reaching the worse conceivable outcomes. Producing a comparative study of the development process in different countries or following the historical evolution of the concept and the relative policies, we can easily see how much big these differences appear and how many problems they brought: why does the standard recipe, for spurring an economic development, become unaffordable and unfeasible? Several are the critics to development, to the real condition that economic development, where imposed, instead of improving the fate of mankind and of the planet it has worsened prominently the situation, deepening social unfairness and inequality, generating new exclusive mechanism, threatening the ecological equilibrium and imposing the western rationality which drags towards a rooting up of cultures and folks. Gilbert Rist says: *The essence of development is the general transformation and destruction of the natural environment and of social relations in order to increase the production commodities (goods and services) geared, by means of market exchange, to effective demand.* He defines the idea of development as a recent western belief, a faith invented by western capitalistic economy and exported in the third world countries where the western economic rationality (*lógos epistemonikós* o *ratio*) takes the upper hand on the reasonableness (*phrónesis* o *prudentia*). And his conjecture is explained, more clearly, by Serge Latouche, who criticizes the prevailing philosophy of "what is better is preferred to what is good" , underlines the difference between the homo oeconomicus, the rational fool who obeys just to the cool and stingy calculus of interests, and the African *phrónesis* of the *palabre* aiming to keep and respect the unity of the community. In these critiques result clears the motivation of African people in claiming the existence of an African rationality: a different concept of development, a different modernity, a different technique or economics or science which overcome the consumption-production paradigm and suggests and implements their own paradigm. [1]

On this basis, it becomes clearer the position held by Amartya Sen, who interprets the development as an integrated circuit in which the fundamental liberties expand and are interconnected between each other. This wide approach allows us to appreciate, at the same time, the important role that different institutions held in a development process: markets and organizations linked to it, governments, local authorities, political parties and civic institutions, education system and media and communication structures. The basic idea is that the practice of liberties is connected to the values, but the latter are subjected, in turn, to the political influence and to the social interactions, and the participation liberties affect them.

[1] An African proverb could help us to understand what it is meant by interpreting in different way these concepts:*"You are poor because you look at what you haven't. See what you own, what you are, and you'll find yourself extremely rich."*

Moreover, comparative history and comparative economic development provide four major lessons:

First, the process of economic development has been highly non linear and highly multifaceted;

Historically, one can discern at least four distinct development paths: the autonomous export-led industrialization path followed by the pioneers to the Industrial Revolution, Great Britain, Belgium and France; the government-led, inward-oriented industrialization path followed by the large latecomers to the Industrial Revolution, Germany, Italy, Japan and Russia, in which success of industrialization before WWI varied greatly; the balance-growth, open economy, limited government- intervention path pursued by few small European countries, Denmark, the Netherland, Switzerland and Sweden; the agricultural, primary- export orientated, sharply dualistic path, pursued by both land abundant (Australia, Argentina, Canada and New Zealand) and densely populated (China, Egypt and India) countries.

Second, Institutions: matter most in explaining which transitional countries became developed economically and which did not.

Third, the process of development has involved a significant variety of substitutions for incomplete, missing or underdeveloped domestic institutions, inadequate domestic factor supplies, and deficient domestic aggregate demand.

Fourth, among countries similar in institutional development, economic policies with respect to trade, agriculture, international factor movements and investments were critical in their relative effectiveness.

Hence, development history suggest that policies and institutions are context specific and do not transfer well across development levels characterized by very different institutional settings and initial conditions. The following section illustrates the impact the institutions have on the growth of societies.

1.2. The Arguments

Daron Acemoglu, Simon Johnson and James Robinson[2] state the following arguments:

Why do economic institutions matter for economic growth? Because they shape the incentives of key economic actors in society: they influence the investment in physical and human capital and technology, and the organization of production: In a nutshell, the current economic institutions

[2] Acemolgu, Johnson, Robinson, 2004

define the current economic performance of the society. Moreover they influence not only the size of the entire pie but also how this pie is divided among population in the future.

Are the economic institutions endogenous? They are determined as collective choices of the society. However, since it is likely that among different groups and individuals a conflict of interest could arise in choosing the better economic institutions, the political power will be the ultimate arbiter: whichever group has more political power, in a certain period of time, is likely to secure the set of economic institutions that it prefers under its mandate.

Is the political power endogenous? When we talk about political power we have to distinguish between *de jure* and *de facto* political power. The political institutions determine the constraints on and the incentive of the key actors in the political sphere; hence they define de jure political power. Political institutions are endogenous too. They allocate the de jure power and those who hold political power influence the evolution of political institutions, and they will generally opt to maintain the political institutions that give them political power. Hence the current political power determines the future political institutions. Whereas, the de facto political power is held by those individuals who, even they are not allocated power by political institutions, may nonetheless use it. The de facto political power has two resources: it depends on the ability of the group in question to solve its collective action problem and on its economic resources, which determine both their ability to use existing political institutions and also their option to hire and use force against different groups. The current distribution of resources determines the current de facto political power.

Hence, the framework above underlines that the institutional system reflects the dynamic world, that it refers to, and that works as follows: the political institutions and the resources distribution are the state variables, since they change slowly and they determine economics institutions and economic performances both directly and indirectly, working through the channel of de jure political power. The two sources of political power, in turn, affect the choice of economic institutions and influence the future evolution of political institutions. In turn economic institutions determine economic outcomes, including the future aggregate growth rate of the economy and the distribution of the resources. Thus, economic institutions are both the essential factor shaping economic outcomes and they are themselves endogenous.

Thus the system shows two sources of *persistence*: political institutions are durable and rigid to change, typically they need a sufficiently large change in the distribution of political power, such as a transition from dictatorship to democracy; original income inequalities bring particular group to increase and enhance their de facto political power and, consequently, to aim it to push for institutions, both political and economic, favorable to its interests; such institutions will tend to reproduce the initial inequality in the future. Moreover, the framework emphasizes the *potential for change:* since shocks tend to modify the balance of de facto political power, they can lead to major change in the institutional contest and economic growth. However the development of a country does not necessarily requires economic growth; many other aspects within the nation are worthy to be considered.

1.3. The challenge of development

Developed countries are the exception, not the rule. Increasingly research has shown that weak, missing or perverse institutions are the roots of underdevelopment. Even if next to them other two causes have been enumerated, geography and culture, the dynamic system, explained above, contain in itself all the other possible explanations bringing them back to the economic institutions. As completeness we are going to treat geography and culture causes before focusing on the institutional part.

In the contrast of cross-country differences in economic performance, the geographical approach emphasizes differences in geography, climate and ecology that could affect both the preferences and the opportunity set of individual economic agents in different societies. There are at least three main versions of this hypothesis.

Climate may be an important determinant of work effort, incentive and even productivity. Yet Montesquieu (1748) in his classic book *The spirit of the law* wrote: "The heat of the climate can be so excessive that the body there will be absolutely without strength. […] laziness there will be happiness, […] People are…more vigorous in cold climates. The inhabitants of warm countries are, like old men, timorous; the people in cold countries are, like young men, brave".

Technology available to the society, especially in agriculture, is determined by the geography. Exponents of this theory are Myrdal, Diamond and the recent one Sachs;

Burden of infectious disease, Sachs said, is similarly higher in the tropics than in temperate zones.

On its account, the cultural hypothesis emphasizes the idea that different societies have different cultures, because of different shared experience or different religions. Culture becomes the key determinant of the values, preferences and beliefs of individuals and societies and moreover it plays a relevant role in shaping economic performance. Avner Greif (1993) underlined in his work the central role of the culture in defining the institutional superstructure of societies. Weber (1930), before Greif, had argued that the origin of the industrialization of the Western Europe could be dated back to the rise of the Protestant reformation. The Protestant beliefs emphasized hard work, thrift, savings and where economic success was interpreted as consistent with being chosen by God. In opposition to this creed, Weber, put the Catholicism and Indian religion, both of them did not promote the capitalism development. Of course, the arguments supporting the idea that culture could influence economic growth are not linked just to the religion; a large literature looks at the culture as heritage.

Finally the institutional perspective proposing that societies need rules that are broadly accepted in order to function in a predictable manner and to meet the challenge of development countries need two distinct and not necessarily complementary sets of institutions: those that foster exchange by lowering transaction costs and encouraging trust, and those that influence the state to protect private property rather than expropriate it. In the first set we consider contracts and contract enforcement mechanisms, commercial norms and rules, and habits and beliefs favoring shared values and the accumulation of human capital. While for the second category we take into account constitutions, electoral rules, laws, governing speech and education, and legal and civic norms.

It is important to acknowledge, however, that in every society there are also a range of informal rules that operate side-by-side with the formal ones. These *informal* rules are typically norms that members of society consider important enough that they are legitimately treated as alternatives to the formal ones. Informal institutions exist in every society although their account varies. They tend to become salient especially in situations where formal ones are weak. They can help reinforce formal ones, complement them, or undermine them.

Because institutions are reflective of values and norms that are backed by key groups of actors, they are only fully understood in the context of prevailing power structures and relations. Institutions do not come out of nowhere but mature over time; they may be introduced ore reformed at critical junctures. Historical institutionalism provides the ideal take-off point for an analysis of institutions as products of particular power configurations. It is relevant to Africa and to the other LDCs because it shows how the options that have produced development elsewhere are no longer available to the continent in the contemporary global context.

2. On the theoretical framework

Over recent years, the role of institutions in economic development has received steadily increasing attention from researchers, policy makers and development practitioners. In most of the recent articles, institutions are defined in a broader sense, linking various different measures of institutional quality to development outcomes from various angles and disciplines. However the literature has not settled on an overall accepted definition of institutions; quite divergent definitions and concept of "institutions" are given, ranging from the narrow definition proposed by Douglas North to definitions that include organizational entities.

In the work's point of view, this chapter represents the theoretical path we choose to follow to analyze the topic. The studies on LDCs' institutions are not limited to the analysis of those formal but even on the informal structures: the latter are more relevant than the former, because they are born with and within the countries themselves. An integrated analysis of both exogenous and endogenous factors seems to be the feasible path to be awareness about the complexity these countries are characterized. This is the topic displays in the following paragraphs. Moreover, once the researcher have taken in mind all these variables and interactions, then their works will be more fitted the reality. Unfortunately the empirical studies show this lack of fitting, and in the conclusive paragraphs, we underline the main methodological problems.

In order to understand the evolution of the definition and role the Institutions have had during the last thirty years, we are going to shed light on the three main orientations, following the order that goes from the less theory enhancing the role of institutions and then the others focused on recognizing their important role in a society.

2.1. Old Institutional Economy

Soundly influenced by the *German Historical School*, which proposed the *Historical Economics* as alternative to the classical and neoclassical theories based on historical materialism and economic geography, the Old Institutional Economy (labeled OIE over the work) underlined the importance of historical, social and institutional factors in social science framework. The OIE brought back institutions to be popular or at least to be considered again notwithstanding the fact that the first institutionalist ideas were considered as mere heterodox critiques to the neoclassical paradigm.

The theoretical pillars of the OIE find themselves in the main assumption that the economic word is a continuos evolutionary process where history influences, through institutions and society, the individual actions. Thus, the pillars are:

- Choices depend on human habits, generated from norms and accepted by the behaviors;
- Habit, beliefs and choices are the outcomes of a long evolutionary process aiming to the adaptation towards new circumstances;
- A change in values and beliefs systems affect slowly the evolution of individuals' habits and behaviors, and finally of their choices;
- The marginal utility maximization process is substitutes by the institutional one, according to which any decision an individual takes is determined by standard rules, institutional boundary and trust relationship, the ,so-called, Institutional Framework of a country or a society.

According to this view the *institutions are a settled of thought common to the generality of men*, as Veblen underlined: institutions are implied by the human habits. Thus, in this framework the institutions determine all the economic relations of individuals independently from the rational and maximization processes.

Among the economist embracing the new flow of thoughts, the most innovative and influent are ***Common*** and ***Veblen***.

Common gave a definition of institution linked to the concept of "collectives actions" stating that: *"we may define an institution as Collective Action in control, liberation and expansion of individual action".*

In the collective actions he meant to include not only all the organizational activities as unions, families, lobbies, banks and agencies, but also social habits and laws or behavioral models a society usually approves or sanctions; In this framework, the individuals' actions, so called *transactions*, produces incentives or disincentives for the formation of specific context rules and, hence, for the creation of institutions.

Veblen, on the same wavelength, tried to reform the economic basis through an institutional and evolutionary framework, where starting from the neoclassical faults he landed to the awareness that institutions represent the missing ring in the social and material reality.

Institutions arise to handle the relationships among individuals and the relation with the natural environment: once created, they are settled habits of thought common to the generality of men. In this way, the cultural factors of the human behaviors represent the nature of institutions and are considered as a constant to which individuals refer for their decisions: thus a well organized human behavior is defined as the interaction between cultural factors and the normative elements in the economic analysis. Hence the institutions represent the outcome of individuals' habit and follow a process in which the cultural elements create a cumulative series of customs, moods and beliefs used by people in a systematic way. At the same time, growth and changes in institutional structure are the products of the members' behavior and just from their experience and habits the institutions can evolve.

Hence the OEI emphasizes the importance of the institutional diversity among different Countries and historical-social context. In this local vision, the decisions of economic policy have to be *coherent* with respect to the context, *functional* to the previous economic institutions and *fitted* to the cognitive and learning abilities. In this vision, where general economic policies are worthless and useless, the only plausible solution is that to formulate *Path Dependence* economic interventions, in turn, interventions highly correlated with the agents' decision models and values system.

Hence the evolutionary approach proposed by the OEI identifies the groups' interaction and the social forces as the engine of the current institutional order and its reforms or change. The OEI adapts Darwin's evolutionary process to the social context: human habits, as the animals, are the 'institutions procreators' and every institution selected is the outcome of an adaptive and survival process. Finally, institutional change could just be endogenous process placing into the economic and social system.

2.2. *New Institutional Economy*

The debate about Institutions was recovered during the '60 by the New Institutional Economy (NIE): an interdisciplinary enterprise combining economics, law, organization theory, political science, sociology and anthropology to understand the institutions of social, political and commercial life. Its goal is to explain what institutions are, how they arise, what purposes they serve, how they change and how they should be reformed. The term 'new institutional economics' was originated by Williamson in 1975. NIE traces its origins to Coase' s analysis of the firm, Hayek' s writing on knowledge, and Chandler' s history of industrial enterprise, along with contributions by Simon, Arrow, Davis and North, Williamson and others.

Like its counterpart, the NIE is interested in the social, economic and political institutions that govern everyday life. However its approach is holistic, it appreciates social phenomena like corporate culture, organizational memory, and so on.

To organize the various strands of the NIE, it is useful to begin with Davis and North's (1971) distinction between the institutional environment and the institutional arrangements: the former refers to the background constraints, or 'rules of the game', that guide individuals' behavior. These can be both formal, explicit rules (constitutions, laws, property rights) and informal, often implicit rules (social conventions, norms).

The **Institutional Environment** creates the framework in which human actions take place:

"*Institutions reduce uncertainty by providing a structure to everyday life. […] In the jargon of the economists, institutions define and limit the set of choices of individuals. Institutional constraints include both what individuals are prohibited from doing and, sometimes, under what conditions some individuals are permitted to undertake certain activities. […] They are perfectly analogous to the rules of the game in a competitive team sport."*

Regarding the formal institutions, the legal environment has received the most attention. Economists have long been interested in the economic effect of laws, but only in the last few decades has economics been applied to the design of legal rules and the legal system itself. Economics, beginning with the early literature on the efficiency of the common law (Rubin and Priest 1977) has been used to study not only the character and the effects of law but the mechanism by which legal rules change. NIE has shown particular interest in contract law and property law.

For what concerns the informal structure, North says:

"Formal rules […] make up a small […] part of the sum of constraints that shape choices; […] the governing structure is overwhelmingly defined by codes of conduct, norms of behavior and conventions"

Such rules, once established, form constraints for individual actors. Yet, how can the rules themselves be explained in terms of purposeful individual choices?

The new paradigm proposed by NIE started from a critique to the neoclassical perspective. First, the assumption that evolution of societies follows a *non–ergodic* process, and that uncertainty plays a strategic role in human phenomena knocks over the behavioral assumptions based on the rationality approach and substitutes it by the concept of ***intentionality***, namely motivations other than the wealth maximization one, while individual choices are often guided by altruism or by institutions in the form of self-imposed constraints. This hypothesis relies on cognitive science support which proves that mental models are the 'internal representations that individual cognitive system create to interpret the environment'; the brain works on patterns matching resulting from the interactions of genetics, cultural heritage and experience. Thus, together, ideology and institutions form a framework for economic activity under conditions of uncertainty. Moreover the non – ergodic assumption implies that the process of institutional change is ***path dependence***:

Saying that we can easily argue that history and culture of a country are the main explanations why some economies continue to perform poorly for long periods.

Thus, the New Institutional Economics offered at that time a new answer to the age-old question why are some countries much poorer than others? For North and Thomas (1973) the fundamental explanation of comparative growth is differences in institutions. Many follower scholars, like Avner Greif, Daron Acemoglu or Mary M. Shirley, have supported this path, giving their contributions by summarizing or extending the topics or focusing it on certain geographical studies. But, how do institutions operate on society? And which are the links between economic and political institutions? In order to answer to these questions we are going to expose the basic arguments about institutions, and then we are going to investigate the possible causes of the LDC's performance failures. The last part will be focused on the relative existing empirical works.

Avner Greif's extension. The analytical framework Greif proposes, classical and experimental game theory enriched by insight from sociology, cognitive science, and earning, represents not only a consistent tools of complete and deep analysis but also facilitates comparative institutional analysis over time and across societies. He combines the structural[3] and the agency[4] view of institutions. He emphasizes the importance of studying institutions as equilibrium phenomena in which they constitute the structure that influence behavior, while the behavioral responses of agents to this structure reproduce the institution. The perspective taken here responds to the challenge of studying endogenous institutions, those that are *self-enforcing.* However, this perspective enables the author to study also the *historical process*. Institutions can remain stable in a changing environment, and can change in the absence of environmental change, while past institutions can influence the details of subsequent ones.

Hence, Greif 's contribution could be summarized saying the analysis of institutional dynamics as a historical process is evolutionary in capturing the impact of the past on the rate and direction of

[3] Structural view emphasizes that institutions transcend individual actors and are immutable cultural features of societies that determine behavior; it is common in sociology and old institutionalism.

[4] Agency or functionalist view emphasizes that individuals create institutions to serve various functions, they are responsive to interest and need; it is widespread in economics and neo-institutionalism.

change. Indeed, it highlights the micro-foundations of evolutionary process in institutional development. Existing institutions affect the process of learning, imitation, and experimentation that lead to new ones; influence the costs and benefit of introducing new institutional elements; and bias new institutions toward ones that interrelate with and do not depart greatly from their elements. In a nutshell his approach results to embody the previous two, he proposes a more complete and multi-subject framework of analysis open the door to a sort of social science melting pot.

2.3. The analysis of Institutional matrix

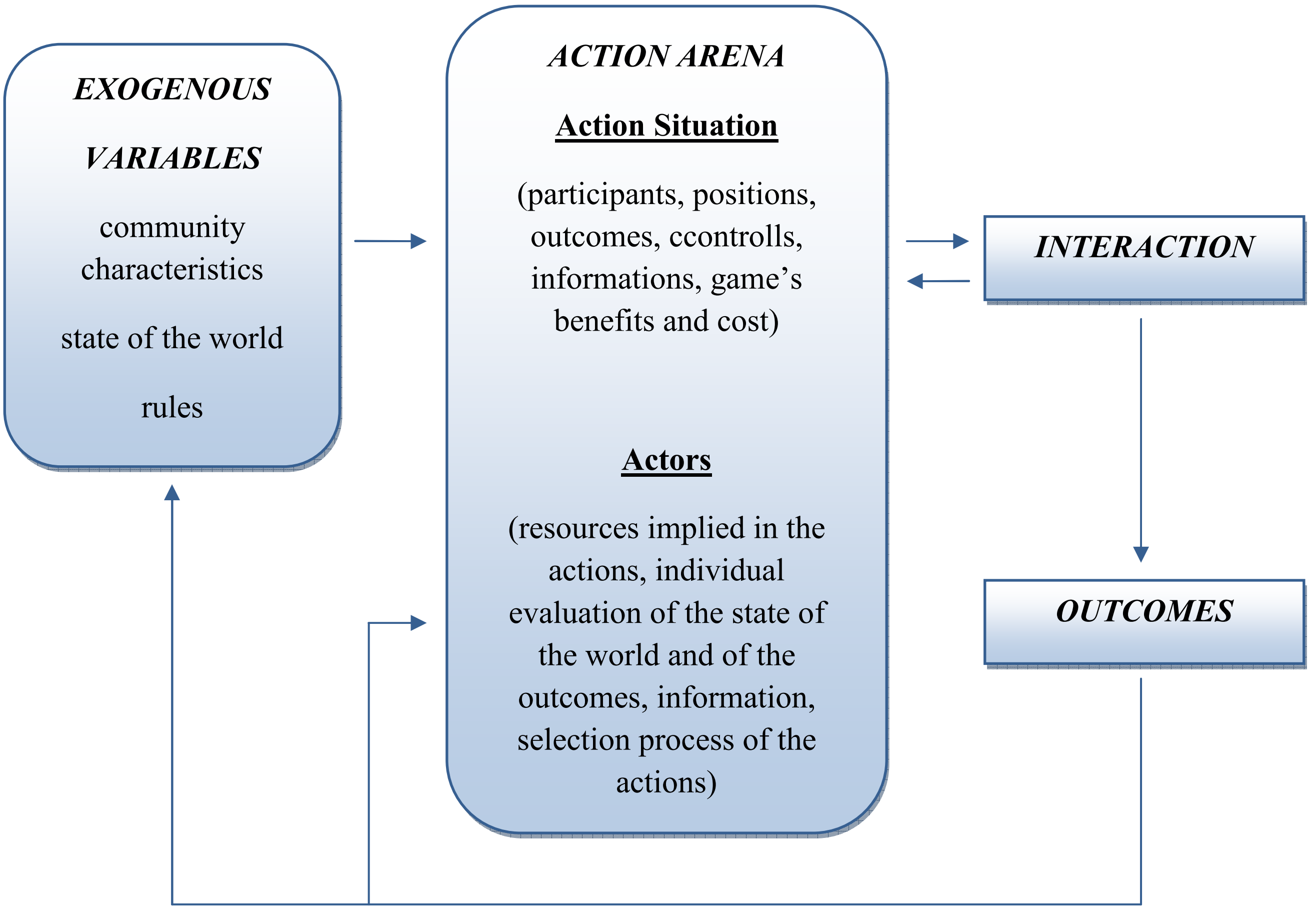
The proposition that 'institutions matter' for economic growth and development has received intense attention. However, the formal structures alone do not shape human behavior, and in the LDCs' perspective the informal institutions play a huge role in modeling the society's development path. Ostrom and Jutting, the former by the *Institutional Analysis and Development framework* and the follower by the *flow scheme,* focus their works in answering to three broad questions:
How do informal institutions contribute to development outcomes? How do informal institutions interact with formal ones, and what determines their emergence and change? Who and what could be the drivers of change?
Understanding how institutions shape outcomes is particularly useful for policymaker's development agenda. The underlying idea, in both the authors, is that they distinguish between endogenous and exogenous institutional factors and present in their schemes the formality and the transmission channels through these factors influence the economic incentives of the agents who, interacting like a repeated game, reach a given growth level. Once the ' institutional regularities' are surveyed in a certain economic context, it is possible to distinguish the mechanism leading to a faster growth and an institutional change.

2.3.1. Elinor Ostrom's IAD

The IAD scheme is the result of several years of studying the relationship between institutions and development. Starting from the NIE's definition of Institutions, in Ostrom's view ***strategies*** are plans of actions that individuals adopt primarily for prudential reasons to achieve preferred outcomes in light of expectations of the likely strategies of others. ***Norms*** represent shared prescriptions known and accepted by most of the participants themselves involving intrinsic costs and benefits rather than material sanctions or inducements. And finally ***rules*** linguistic statements similar to norms but assigning sanctions if forbidden actions are taken and observed by a monitor.
In analogy with the Aoki's mechanism, Elinor Ostrom formalizes the human interactions by inserting these in an "action arena" where the participants compare and choose their actions on the

basis of their preferences, available information, possible results and cost/benefit calculations. Each individual insert these elements in his own choice mechanism and by the common interaction, the result, in terms of institutional change or economic growth, is reached. Out of this mechanism, there are ***exogenous factors*** that influence human behavior; those are: community characteristics, material and biophysical conditions or state of the world, rules.

The scheme, as we can see below, works through different levels of analysis: in the ***action arena*** (*the social space where individuals interact, exchange goods and services, solve problems, dominate one another, feel guilty, or fight)* the individual choices interact with the exogenous factors and, when they are in contact with the other agents' decisions, generate an interactive mechanism in which the final output represents a determined economic growth level.

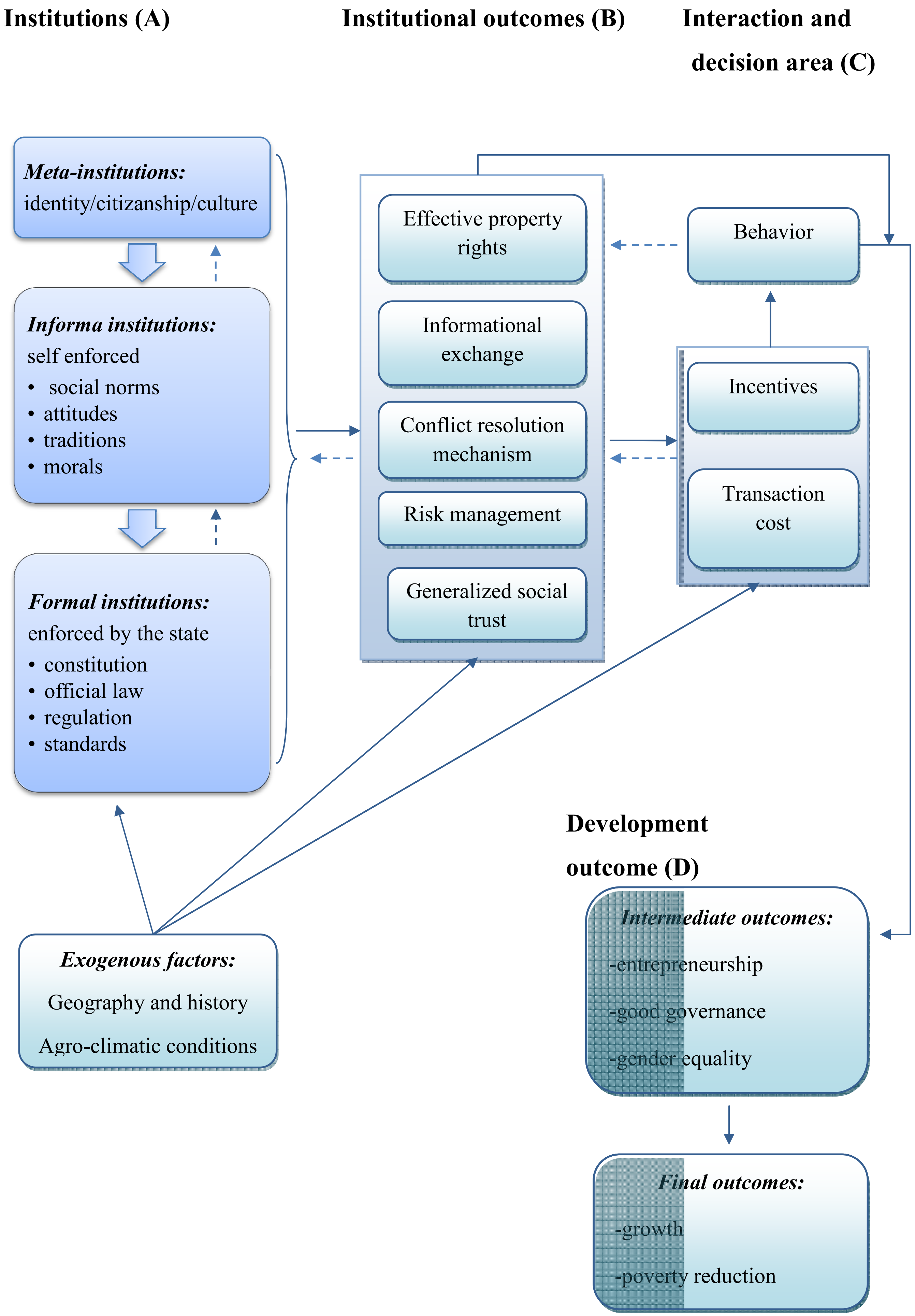


However, as in the case of Aoki's analysis, the rational interaction among the Africans in their communities is not so usual, and moreover, in this kind of mechanism the bounded peer effect of communities, the reciprocity and solidarity principles have no place and not reason to be taken in account. By the way, the presence of the exogenous factors is quite important and interesting for our critical review.

2.3.2. Johannes Jutting's model

Jutting tries to point out and to define in a broader sense the informal institutions: what are informal institutions?

Informal institutions are a behavioral regularity based on socially-shared rules, usually unwritten, that are created, communicated, and enforced outside of officially-sanctioned channels. They are largely self enforcing through mechanism of obligation, such as in patron-client relationships or clan networks, or simply because following the rules is in the best interest of individuals who may find themselves in a 'Nash Equilibrium' where everyone is better off from cooperation. Generally the rules are not codified but it is normally widely accepted as legitimate and are considered 'rules in operation' or 'rules in force' rather than just rules on the books. The following flowchart illustrates a basic framework for understanding how institutions affect development outcomes: for example, it shows that in order to achieve 'growth and poverty reduction' as development outcome, the result is tricky and depends on context and external factors like individuals' behavior, institutional outcomes, geography, good governance.


Institutions (A)
Institutional outcomes (B)
Interaction and decision area (C)
Meta-institutions: identity/citizanship/culture
Informa institutions: self enforced
• social norms
• attitudes
• traditions
• morals
Formal institutions: enforced by the state
• constitution
• official law
• regulation
• standards
Effective property rights
Informational exchange
Conflict resolution mechanism
Risk management
Generalized social trust
Behavior
Incentives
Transaction cost
Development outcome (D)
Intermediate outcomes:
-entrepreneurship
-good governance
-gender equality
Final outcomes:
-growth
-poverty reduction
Exogenous factors:
Geography and history
Agro-climatic conditions

2.3.3. Institutions and institutional outcomes

As it has been shown the effectiveness of formal rules, such as penal codes, the rule of law, and democratic governance, depend on informal institutions, such as norms and attitudes and existing levels of social capital, hence, understanding where informal institutions come from and how they change is crucial to understand how the interaction between formal and informal institutions can be harnessed to effect desirable policy goals.

Thus, according to this view, it seems useful studying how informal institutions interact with formal ones as they affect outcomes. The following tab shows their relations:

Outcomes	***Effective Formal Institutions***	***Ineffective Formal Institutions***
Convergence	Complementary	Substitutive
Divergence	Accommodating	Competing

An example of *Complementary* could be a scenario in which state decides to adopt better anti-corruption laws. The content of the specific laws may mater very little if in fact pre-existing norms already form informal checks and balances on public officials. Both might reinforce the check on corruption, or the formal laws may hinder the informal checks in place. Yet again, the formal law may evolve to be an event better check than previously existed, since the informal 'norm' might have evolved only as a second best solution.

In an *Accommodating* scenario the informal coexists with the formal institution and drives the outcome that is not entirely intended by the formal rules. An example: the hiring practices of many universities, where departments ted to hire each other students despite formal search committees that go through the motions of interviewing other candidates and writing reports. Committee are set up, they meet, they review applicants etc, but the spirit of the law is violated because the committee has already agreed informally on the outcome. Formal committees might spend time and money debating candidates. Thus, even if the informal institution may be identified as corrupt, it might be more efficient. The desirability of the rules depends on the criteria for judging (efficiency versus fairness).

Furthermore, informal institutions *compete* with formal ones when formal law is poorly or simply ignored by authorities. An example of these occurs in a legal pluralism situation where competing laws and norms operate at various levels, particularly where inherited legal systems after colonial rule operate side by side with customary laws. This situation exists because states do not feel the

need to enforce the laws (the ignore it) or they do not necessarily have the capacity to enforce (costs are too high).
Finally, the informal institutions are *substitute* of the formal ones when the formers try to achieve what formal institutions should be doing.

From this findings we can easily consider that the complementary and accommodating institutions include the informal rules presented in Developing Countries, whereas the remaining two types are better inspirations for the Developed Countries' situations.
However, we have to keep in mind that the informal institutions are far from being defined by rigid categories and that they, above all in LDCs, are the outcomes of the adaptive and path dependence mechanisms.

3. On the LDCs perspective

3.1. The Causes of LDCs' Performance Failures

The usual questions are: Why have so few countries been able to create and sustain the rules and norms that foster growth and social progress? Which institutions must function effectively if countries are to develop? How can poorer countries attain well functioning institutions? Can outsiders promote institutional development?

The NIE answers to the first questions producing the following reasons:

Colonial Heritage

Since some richer countries were also colonized, the condition of having been a colony is not itself inimical to institutional development. At this point it seems required to ask what features of colonial heritage might cause institutional failings. To give a consistent answer to the question we have to take into account, first the reason why, within the same countries, colonizers have put in place an institutional differentiation, and then in order to better understand the differences in performance of LDCs, we have to make a comparison, across countries, on the basis of the different administrative orientation.

First of all we have to underline that the consequence the European colonialism in Africa has brought, is that to lead to an institutional reversal, in the sense that the previously-richer and more-densely countries (the African countries) settled places ended up with worse institutions[5]. Namely, the explanation for the reversal is one in which the economic institutions in various colonies were shaped by Europeans to benefit themselves. Thus, in dense-settled and relatively- developed places it was in the interest of Europeans to have institutions facilitating the extraction of resources thus not respecting the property rights of the majority. This typically meant areas controlled by a small group of white people, and areas offering resources to be extracted like gold, silver, valuable agricultural and people. In these places, inhabited by a large indigenous population, colonizers could exploit the human resources: this type of colonization was incompatible with institutions providing economic or civil rights to the majority of the population. While in the sparsely- settled areas where the Europeans themselves became the majority of the population, it was in their interests to develop institutions protecting property rights. These incentives led to an institutional reversal.

Second, the colonialism had effect on the cultural shape and on the political awareness of these countries under two channels: the administrative orientations, on one hand, and the legal heritage, on the other hand. North (1990) emphasized that colonial power created institutions that mirrored their own institutional endowment. Indeed, when after the first world war the colonies became provinces of the motherland, the first arising problem was how do manage the colonies and the administrative apparatus differed from one colonizer to another regarding the motherland's legal heritage. Leaving out the Portuguese and Belgian colonialism, whose goals were just of mere exploiting the subdued countries, the French and English colonies were administrated in opposite ways. The former created a sort of local administrator system, namely a co-opted system; whereas, the English colonizers aimed to a federal administration, they sent their officials to the colonies keeping under English control the local structure. From these two perspectives we can see on one side the French colonies more opened to the education and on the other side the stagnant English counterparts, although both colonizers didn't prevent the future intellectuals from completing their education in motherland. The possibility to enter the European knowledge's sources brought the intellectual elites to become the promoter of the independent movement, and even if it has a positive effect, they reached the goal without a local and autonomous consideration regarding Politics, Economics and Social system: they grow up with the European ideals. This lack of awareness will reflect its negative effect until the today situation. These historical results find support in the empirical studies of La Porta (1999) and his coauthors who argued that a country's legal heritage had a profound effect on its institutional endowment today.

[5] Acomoglu, Johnson, Robinson (2002 a)

Political Conflict

Almost all theoretical and empirical research in political economy starts with the presumption that institutions, once in place, persist and shape the political-economic interactions of different groups and agents. Nevertheless, many societies experience frequent changes in their political institutions, such as the end of the colonial era and the creation of the republics throughout the 19th and the 20th centuries, or multiple switches between dictatorship and democracy during the 20th century. In the face of this picture of frequently changing (political and economic) institutions, do institutions really persist?[6] The answer, proposed by Acemoglu and Robinson, is yes in the sense that the broad economic institutions, which are essential for economic outcomes, can persist even when specific political institutions, or even specific economic institutions, change. However in Less Developed Countries the informal institutions have more power than the formal, and it is caused by both the high horizontal inequality (population is composed by many groups that differentiate from each other by cultural, ethnic, religious characteristics, that have a strong perception of their single identities) and the polarization phenomena (given an income distribution, the population is collected in small income class, or poles, far from each other , in which individuals feel identity linkage with the components of the same class and stranger feeling against the others) that characterize these countries. What does it happen when the identity of elites change and the new elites adopt policies in line with the worst practices of their predecessors? And which are the other hindering causes of political underdevelopment?

Some scholars, influenced by England's Glorious Revolution, argue that Africa's weak institutions resulted from too little political competition. By forcing England's ruler to offer concession to merchants and nobles in exchange for the necessary funds and fighters, wars over territory opened the way to more responsive and limited government there[7]. According to Bates (2001), the absence of this form of conflict in the modern history of poorer countries, especially African countries, is an important reason for their underdeveloped institutions today: after the attainment of independence, countries " *faced fewer incentives to forge liberal political institutions"*, because the international environment did not require them *"to seek ways to get their citizens to pay for defense and other costs of government"*. Herbst (2000) similarly argues as a cause of lacking conflict a geographical argument: since in Africa land was so ample, pre-colonial countries did not fight to defend it, so they did not have to build effective bureaucracies to raise funds or make political concessions to

[6] Acemoglu and Robinson (2006)

[7] North and Weingast (1989)

their citizens to persuade them to support the war effort. States also never bothered to consolidate control over their outlying areas. Later, the colonial powers did little to build state institutions, except where there was a large European presence, but did introduce the concept of territorial sovereignty. They also drew national borders that created new states with concentrations of different ethnic groups separated by vast stretches of largely empty territory that could shelter dissident armies, setting the stage for civil wars. But even the opposite situation did occur: indeed when the ethnic fragmentation is deep and widespread not only a healthy political competitions is limited but this phenomenon represents also a drawback to the political, economic and social stability of the country. Let us consider for example Chad: this country was born from the destruction of its Empire, after the colonialism period; it is characterized by about 200 different ethnic groups which caused a continuum of political instability and lack of unity because each group aimed to strengthen its own power and not to improve the general situation of the community. The dismantling of the Empire had negative effect on social capital, because of the repeated civil conflicts arisen among different ethnic groups; the coercive cohabitation had destroyed, and still is destroying the intermediate institutional structure both formal and informal. Not less important is the slave trade policy implemented by each group against the opponents: every class reaching the power reduced the foes to be slaves, and sold them to the Western countries. At this local reaction it has to be added the Western nations' contribution to the stagnation of Africa's institutions: in fact the Western has always propped up the region's weak governments, has exploited the internal wars to beneficiate, even in terms of slaves, to keep the dependence both political, economic and sometimes military one.

Norms and Beliefs

In other studies the determinants of development are religious, habits or what we might call culture, what North (1994) calls "*the intergenerational transfer of norms, values and ideas.*" Landes (1998) stressed the importance of culture in general and the Protestant reformation in particular for spurring industrialization in Northern Europe: the Protestantism generalized the virtues of a *"new kind of man – rational, ordered, diligent, productive"*; it promoted literacy, an appreciation of time, and tolerance and openness to new ideas. Whereas Catholic and Muslim religions have often been detrimental to institutional development.

North defined the beliefs systems as *"the underlying determinant of path dependence, one of the most striking regularities of history"*. Hence, beliefs are not static and the way in which beliefs learning process evolve matters above all.

However, not all norms or networks are harmful to the development of modern institutions. In modern economics, for example, legal system and cooperative norms mutually complement and reinforce each other. Norms that encourage people to cooperate even with those with whom they have no family business or other relational ties have economic payoffs in a number of studies surveyed by Keefer and Knack in the Handbook of New Institutional Economics. Even Putnam (1993) argued that the quality of local governments in Italy today can be traced back to the historical development of what he defined social capital, namely, a network of associations that promotes trust between strangers and helps to overcome collective action problems. For example, trust, a specific form of social capital, correlates strongly with growth and development (Fukuyama 1995, Knack 1997).

Thus, norm and beliefs and similar informal institutions seem to be deeply engrained and the product of intractable factors, such as a society's history or its ethnic, religious, or linguistic heterogeneity. What can a society do if its culture is inhospitable? There are two factors associated with development-promoting norms that seem to be amenable to policy interventions: income equality and education.[8]

3.2. The African situations

The literature suggests that are different paths to modernity and democracy. It also indicates that explanatory factory vary. At the same time, it is quite unanimous that the prospects for modernity and democracy are much greater if certain conditions have been met, whether these refer to the presence of a social class with a mission, a state with certain qualities, or a watershed event which creates an opportunity for a major change. Development paths can be changed but not just at any time, nor in just any circumstance. Agency is highly conditional. This is not a call for pessimism but an invitation to realism and humility when it comes to understand the contemporary African situation and what can be done about it.

Within the comparative historical institutionalist framework of analysis, Africa is an outlier. The same variable used in the studies of other regions of the world are applicable but they are so in combinations which are different from those which explain the pathways of countries in these

[8] Studies of East Asia suggest that the relatively high levels of education and income equality help to explain why East Asian countries have grown faster and produced better social welfare measures than other less developed regions.

regions. It is important to highlight these differences because they have implications for policy and politics.

The most significant differences is that social transformation in Africa has been driven by external rather than domestic forces. The colonization of Africa coincided with the institutionalization of modernity elsewhere in the world. It happen about the same time as the 1905 Revolution in Russia which was an uprising against the old order and a signal of things to come. It took place roughly simultaneously with the Sun Yatsen's Republican revolt against imperial rule in China. It coincided with the early industrialization effort in Latin America. Although the latter region was also colonized, countries had emerged as politically independent by the beginning of the 19th century. The latter, therefore, was driven by indigenous social forces in Latin American countries. In the early 20th century there were no equivalent indigenous forces in Africa trying to push for a social transformation toward modernity. The latter was being done by European powers who in their own interest vied for control of resources on the African continent.

They brought modern institutions to Africa to secure and manage their resources extraction. In the absence of viable indigenous state traditions, the state as we know it in Africa today was created by the colonizing powers. Although African had for centuries participated in long- distance trade it was only with colonialism that the institutions associated with a capitalist market economy began to have a wider impact on the people of the continent. New forms of social differentiation based on participation in the capitalist economy began to emerge. Colonization marked a critical juncture in African history. The continent would not be the same again. Yet, the reason for this social transformation was not the institutional decline within African society. It was, despite courageous resistance in some parts of the continent, the inadequacy or weakness of indigenous institutions that allowed the colonial powers to prevail.

At a formal level, therefore, Africans were asked to subject themselves to a new and different authority which drew its legitimacy from overseas capitals rather than from within their own ranks. There were differences between how the colonial powers tried to institutionalize their order. The French, Italians and Portuguese adopted what has been referred to as a system of 'direct rule': they took their own institutional model from back home and transplanted it with little or no qualification to their African territories. They usurped whatever indigenous system of authority existed in the colonies and replaced it with their own. This 'blueprint' approach contrasts with the British 'indirect rule': a system whereby traditional authorities (kings and chiefs) were incorporated into the colonial state. This more pragmatic approach allowed the incorporation of 'native' interest in a way that direct rule did not do. Although it was pursued in an imperial manner, the principle of indirect rule encouraged colonial civil servants, however paternalistic their approach was, to 'work with the grain' in Africa: English colonizers proposed and settled the basis for democratic system and laid the ground for a modern bureaucracy by recruiting African to serve, initially in lower-level positions but gradually in more senior positions. They introduced modern education and established Africa's first universities. They brought modern health-care to town and village.

The most important modernity introduced by the colonizers was the creation of an ***elite cadre*** of educated African who grew increasingly frustrated with the patronizing way in which their countries were administrated. This group became the recruitment ground for nationalist leaders. Such figures emerged during the independence run but the modernizing process was interrupted when the nationalist elite managed to drive this new road. This did not mean that the idea of modernity was abandoned in Africa – many leaders like Nkruma (Senegal), Machel (Mozambique) and Nyerere (Tanzania) embraced it – but it meant that the core personnel of the state who had helped bring it there were now returning to Europe. African state were left with a small number of trained and experienced indigenous administrators who were being asked to shift their loyalty to the nationalist leaders. Many of the latter, especially those committed to modernizing their societies, had little patience with the civil service that they had inherited from their colonial predecessors. Thus, few Africans who had acquired a managerial and professional experience and who could provide useful policy advice were largely ignored.

Political Independence constituted the next critical juncture: Africans got the right to make decisions about their own future. But this watershed event drugs to nepotism and other informal institutional manifestations that were comforting for the political leaders in the short term but undermined their ability to reproduce purposive state institutions. Government not only lost their executive capacity but also the compliance with formal rules which was necessary for effective agency by the state. The colonial state did not disappear, in fact the formal institutions coming from that were largely kept intact, but the values and norms that underpin a purposive bureaucracy were brushed aside in two ways:

- Political leaders were anxious to gain personal control of how the state operates: they introduced discretionary rules that contradicted the old ones and patronage behavior arose;
- Back to the pre-colonial bureaucratic system: the door to the chief's place was never closed. The idea of queuing to wait for an official to handle a matter in a detached manner was an anathema to the local population who preferred direct get the access whenever there was a need.

However, the power was managed just by who controlled it, no indigenous bourgeoisie has voice in the agenda: it was not a juncture leading to a modernization but a road to restoring the ancient African Soul, discredited by the colonial power. African institutions today draw on a mixture of norms which are often contradictory and sometimes complementary, melting-pot of formal and informal behaviors. The result is that both market and state function along unpredictable lines and African countries do not have enough autonomy to choose a path of their own, in the way it was done elsewhere in history. Even the external agencies have many difficulties to look and manage this organizational double face. They take for granted that formal institutions exists and are like state elsewhere, but they do not understand that those reform agenda implemented for reforming or making these institutions more efficient do not take root in African context. Hence, the principal challenge for African governments today is to find and create a development path which is suitable for its own conditions and thus capable of better responding to the needs of their population: effective and affordable.

3.2.1. What do institutions do in the African context?

Informal institutions are of special importance in the African context, they permeate not only society but also the state to the point where they often dominate: the studies on them are fundamental to better understand the environment.

During the colonial period the informal structure were replaced by the colonial formal ones. Once they left, after the independence the resurgence of informal institutions is part of a broad emancipation of African values and norms.

Helmke and Levitsky (2006) argue that formal and informal institutions interact to produce diverse outcomes. Variation in outcomes and effectiveness is the result of their strategic interactions and managing of power. Where formal institutions are strong, they help rein in the power of individuals turning them into office-bearers confined to particular roles. Wherever the informal behaviors tend to dominate, the exercise of power is discretionary. Moral and social norms than laws tend to determine the behavior. Thus for instance, leaders may adopt a measure of ‘self-binding’ with regard to how they act. Julius Nyerere, Tanzania’s first president, who refrained from demonstrating personal wealth and managed to set an example for other leaders. Other leaders may push the boundaries of what informal institutions permit with regard to exercising power. Some may even go as overstepping these boundaries and undermine the value that these institutions have enjoyed before. For instance Amin and Obote in Uganda have abused their power to the point where people have called for a strict formalization of power.

Although informal institutions in Africa often undermine formal ones, the formers tend to be very useful particularly in local communities where the cost of violating customary norms are high enough to discourage abuse of power.

3.2.2. The analysis of power

The ***basis*** of power for the Africans it is less formalized, it continues to rest in relations between people. Thus, the basis is personal rather than office-based and the state operates in much more volatile and difficult context than where power has been formalized. The transaction costs associated with implementing policy, therefore, are quite different and become apparent in assessing the ***reach*** of the power since Governments and other state institutions have difficulty reached out to the different corners of society. Even the ***exercise*** of the power takes the distance from the western model. In fact the rulers in Africa are rational in the sense of making choices: these are not straightforward as the conventional social or public choice model assume, so they do not strategize according to a market model of social reality but rather a community one according to which the challenge is to maintain membership and organize collective action (the *palabre* are an example). All these come from the ***nature*** of the power: Africans are rarely clone of *homo oeconomicus*, they are better understood as individuals with dual utilities, which means that they carefully weigh self-interested against other moral concerns, e.g. what pursuit of it means for relations with other people.

The consequence of power in African countries are depicted in the following tab:

	Public Realm	
Arena	**Affective**	**Civic**
Governmental	Nepotism Corruption	Professionalism Public accountability
Associational	Needs-oriented Compliant	Rights-oriented Activist

The public space in African countries is better described as predominantly 'affective'. Challenges to authority are costly. Following tab shows us the differences between formal and informal institutions as they bear on society:

Type of institution	**Action level**	**Interaction behaviour**	**Claims of validity**	**Desired effects**
Formal	principles	discursive	universal	measurable results
Informal	concrete action	affective	local	boosting loyalty

The basis of power remains volatile in much of Africa because it has not been rationalized in an economically instrumental sense. The nature of power refers to how it is being shaped by institutions that regulate exchange relations between human or organizational actors. If such an exchange is between two official agencies, it is typically described in term of the transaction required to achieve a particular policy goal. In African countries both economic and social exchange are based on a fundamental characteristic of social life: much of what we need and value in life, like goods, services, companionship, approval, status and information, can only be obtained from others.

Social exchange theory is built on premise that actors engage in recurring interdependent exchanges with specific partners over time. What distinguish social exchange from the microeconomics theory is its emphasis on social structure as the framework within which exchange process take place and the structural change that results from those process. Whereas classical microeconomic theory assumes that there are no long-term relations between exchange partners, social assumes that more or less enduring relations between exchange partners do exist. Furthermore, classical microeconomic theory assumes that actors engage in sets of independent transactions that are aggregated into markets. Thus, Africans engage in reciprocal exchanges intentionally, and it is not irrational.

Nonetheless, they differ from the model of man that underlies public choice models of decision-making. Rationality, in *homo oeconomicus* model, assumes a single and stable utility and actors are out to maximize their own interest. Africa offers a more complex understanding of rationality because actors tend to operate with a dual utility: one's own narrow interest and the value inherent in the exchange relation with others. The *homo reciprocans* carefully weighs the two against each other before making a decision. For most Africans, the value- based mechanism usually weighs more heavily than pure self-interest one. Those who act unilaterally to pursue their own interests get treated as outcast and may in many cases be subject to punishment (e.g. ostracism). These findings are summarized in the following tab:

	Rationality	
Utility	**Instrumental** *(Homo economicus)*	**Value-based** *(Homo reciprocus)*
Single	Technocratic	Dogmatic
Dual	Empathetic	Clientelistic

Since about the clientelistic we have already talked, we have to specify the remaining norms.

The *dogmatic* nature of power, as manifest, e.g. in various forms of socialism in the early decades after independence, is much less spread today.

The *technocratic* nature does not exist in specific settings but tend to be confined to enclaves and has much less bearing on policy outcomes in government agencies.

The *empathetic*, or ability to be seen things from somebody else's perspective, may be the least common of all four types. Like accepting a self-binding rule, trying to be empathetic and accept a compromise is viewed not as an honor but as a weakness.

In conclusion, in Africa, as elsewhere, the path or paths to development and modernity are dependent on historical institutional context, and cannot be imposed from outside. However, we have to recognize that African countries are outliers in that the legacy of recent colonialism and the dominance of external forces have created a peculiar mixture of 'informal' values and behaviors with forma institutions, in which informal ones are dominant in power relations but not recognized or understood (they have *de facto* but not *de jure* political power). This shows us that conventional models of policy analysis and development planning cannot work in Africa.

3.3. How Can Developing Countries Change Their Institutions?

Path dependency and the stickiness of beliefs and norms explain why underdevelopment cannot be overcome by simply importing institutions that were successful in other countries. Formal institutions may be suddenly altered by revolution or crisis, but unless beliefs and norms also change the new status quo will be overturned after the revolution ends, the invaders leave, or the crisis subsides. Change in beliefs and norms usually require a period of gradual learning, although education, research, and communication may speed adaptation in way that are not well studied.

Successful institutional reforms require "goodness fit"[9] between the specific innovation and the country's broader institutional environment, including its norms and beliefs. A good fitting institutional innovation would be one that does not depend on the absent or weak institutions nor should be isolated or adapted to perverse institutions as far as possible. China, for example, has preserved its federal organization allowing provinces and local governments to experiment with different economic rules (some townships turned to rules encouraging private investors to run government-owned enterprises) that could be tested through competition between localities as long

[9] Levy and Spiller (1994)

as the dominance of the Communist Party went unchallenged. The power recognized to the investors allowed capitalistic incentives to flourish within an official socialist system. This adaptation brought some disadvantages: the system was corrupted, even if it stimulated the market and the preservation of the federalism in the market produces widespread and deep inequality leaving large parts of the country behind.

How can we define a good fit? We should not use as a counterfactual the status quo or some comparative country, and certainly not a western country. In turn, we should assess goodness of fit as part of a process of institutional change, and decide whether the direction of change is towards institutions that are more supportive of an efficient market economy and improved social development. In general this practice is very hard to put in place, even tougher if outsiders (namely the foreign assistance agencies) enter the game in order to fill the gap and fail the goal. In fact, the foreign aid community, generally, assumed that institutions are malleable and can be changed through aid within the three to five year life span, so-called middle run programs, of a development project. The NIE literature has shown that:

- Most institutional change is well beyond the time frame of even a series of aid projects;
- Institutional change requires alterations of beliefs that cannot usually be pushed or purchased by outsiders;
- Successful institutional adaptations have been engineered by insiders and sometimes work quite contrary to the conventional wisdom or best practice touted by the aid community;
- Aid in the absence of a supportive institutional framework can create perverse incentives and prop up rulers who are opponents of reform.

Hence, in conclusion what it is required is a critical mass of local researchers for understanding institutions fully, stimulating an informed debate and fostering changes in beliefs systems: this is the first step to enduring institutional change. Since improvements in formal institutions hinge on changes in long held beliefs, the most important role for outsiders is to support this learning by helping build local knowledge and educational institutions while avoiding actions that fortify the defenders of the old order. Only when a minimum mass of human capital is in place will citizens of poorer countries begin to discover how to meet the challenge of development.

Conclusions

Changing a country's institutional system and tinkering with its balance is a delicate affair that needs to be done with caution and sometimes against common reform dogma: *think globally, act globally* is no longer a valid motto.

Contexts matter and throughout the whole analysis we need better clearer to understanding of complex interaction. Where informal institutions have evolved to be second-best solutions, we would have to be certain that pushing formal institutional change does not perturb a delicate equilibrium. Hence comparative research strategies will drive to greater understanding of the boundaries and possibilities of achieving policy objectives when put in action reforms and interventions.

Since the fundamental value of institutions and norms is to allow people to cooperate, Government should recover the role of super partes agent fostering sane and fertile environments in order to allow people to come together to solve collective dilemmas. In this sense, Governments should find itself as the promoter of education, of laws encouraging structural change, of equality which allows communities to build trust and so social capital and thus put in action a development process starting from the bottom and with a human face.

Of course, in order to implement affordable and effective policies, the Government need support of research analysis, outcomes and insights. Thus, with respect to the future research needs, there is a soundly gap in the literature related to institutional change and innovation. In order to improve this aspect, three research areas appears to be particularly promising to fill this gap:

- Relationship and linkages between different levels of institutions: e.g. under what circumstances long lasting norms and traditions can hinder a modernization of the institutional structure;
- Determinants of change of traditional institutions;
- Policy options to improve the link between formal institutions and the indigenous social structure: e.g. how transform informal risk sharing arrangements based on reciprocity into more formalized insurance schemes that could facilitate riskier but also more profitable investments.

Other points should be taken into account in future studies:

- Differentiate between exogenous and endogenous institutions;
- Importance of local setting;
- The specific characteristics of the good (i.e. economic, technological and physical) under consideration matter;
- Take into account the actor perspective.

If we fail to understand the mind sets of people and the incentive structures that govern their behavior, we will not be able to bring about changes promoted at the national or supra-national level. This hold true for conflict resolution, gender equality, investment promotion and good governance. Absolute answers or best practice do not exist, blueprints of how to achieve development are not effective for all and we need to accept that sometimes good enough is enough by affecting change gradually through the rules in effect on the ground.

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