TRÉSOR-ECONOMICS

The Institutional Profiles Database 2009 (IPD 2009)

- The Institutional Profiles Database (IPD) is a database quantifying the institutional characteristics of a set of developing and developed countries. The third IDP was published recently and can be consulted at no charge. It now covers 123 developed, transition and developing countries. Its predecessors, the 2001 and 2006 editions, covered 51 and 85 countries respectively.

- IPD 2009 has been enriched with new institutional economic contributions, particularly those of Nobel laureate Douglass North around the concept of "open access social order" and the tools of political economy. A first perusal of IPD 2009 confirms the findings of the earlier versions and enriches the analysis of institutional systems in the developing countries.

- The IPD project is part of the "Institutions, governance and long-term growth" research programme, a multiyear effort by the French Development Agency (AFD). The goal of the programme is to provide a more in-depth analysis of the relationship between institutions and development, based on country monographs and quantitative analyses drawing on the IPD in particular. The programme is being conducted in partnership with the University of Maastricht, London's School of Oriental and African Studies (SOAS) and a working group set up by the World Bank around the work of Douglass North, John Wallis and Barry Weingast.

- The IPD project has a scientific aim, namely to stimulate research into institutional measurement and into the analysis of the role institutions play in development. The resulting indicators are unsuited for operational use, e.g. as criteria for the allocation of funds.

- This issue of Trésor Economics presents the database and the findings of the initial exploration of the information contained in the IPD 2009 indicators, and then places this work within the context of the global work programme carried out with the AFD.

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DIRECTION GÉNÉRALE DU TRÉSOR
ET DE LA POLITIQUE ÉCONOMIQUE

1. Presentation of the IPD 2009 database[1]

The "Institutional Profiles Database"[2] is based on Douglass North's definition of institutions as: the formal rules (constitutions, laws and regulations, property rights, etc.) and informal rules (value systems and beliefs, customs, representations, social norms, etc.) that govern the behaviour of individuals and organisations. Organisations refer to entities embracing individuals pursuing common goals (business enterprises, trade unions, NGOs, etc.). In this context, institutions shape the incentives that act on behaviour and act as a framework for economic exchange [3].

Seen thus, institutions are the rules of the game, and organisations are the players. The game is played out in the field of interactions between power and wealth, and is analysed with the tools of political economy.

1.1 The basic content, and the approach used to "capture" institutional characteristics

The 123 countries covered by IPD 2009 comprise 24 developed countries[4] and 99 developing countries (30 countries in Subsaharan Africa, 16 in the Middle East and North Africa, 18 in Latin America and the Caribbean, 17 in Asia and Central Europe, and 18 developing countries in Asia).

In all, IPD 2009 contains 367 indicators that describe a broad array of institutional characteristics - the widest scope now available[5]. These characteristics are grouped into nine major institutional functions, which are crossed with 4 sectors in which these functions operate (Table 1).

Table 1: IPD's Structural Framework

	INSTITUTIONAL SECTORS			
	Institutional environment	Markets		
INSTITUTIONNAL FUNCTIONS	A-Public institutions, Civil society	B- Market for goods and services	C-Capital market	D-Labour market
1- Political institutions	public rights and freedoms, legality, legitimacy			trade union freedom and pluralism
2- Safety, law and order,Control of violence	safety of persons and goods, control of violence, external security			
3- Functioning of public administration	transparency, control of corruption,efficiency of administration,independence of the justice system, autonomy of organizations	business start-ups,governance of natural resources		
4- Free operation of markets		privatization and nationalizations, freedom of prices	privatization and nationalizations, freedom of credit and interest rates	flexibility of the formal labour market
5-Coordination of actors, Strategic vision, Innovation	government capacity for autonomous decision-making, coordination between public and private 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 g & s, the situation of firms, intellectual property, land tenure	guarantee systems,disclosure requirements	observance of labour laws
7. Market regulations, Social dialogue		regulation of competition	regulation of competition, prudential rules, supervision	social dialogue
8- Openness to the outside world	circulation of persons and information	trade openness	financial openness	circulation of workers
9- Social cohesion and Mobility	social equilibrium, equality of treatment, solidarity		micro-lending	market segmentation, social mobility

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(1) The DGTPE working paper no. 2009/14 describes in detail the theoretical underpinnings and methods used to build the database. www.budget.gouv.fr/directions_services/dgtpe/etudes/doctrav/pdf/cahiers-2009-14en.pdf

(2) The database can be consulted at:
www.cepii.fr/ProfilsInstitutionnelsDatabase.htm
ipd.afd.fr
www.maastrichtuniversity.nl/governance.

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

(4) Within the World Bank meaning: OECD high income countries.

(5) There are also two aggregated versions of the database available, one with 133 indicators, the other with 93 indicators.

The purpose behind the questions serving to quantify countries' institutional characteristics was to capture the way in which each of the rules to be assessed is actually applied[6]. In other words, the approach was a de *facto* approach rather than a de *jure* one.

The de *facto* approach looks beyond precise institutional form to assess how they work in practice, whereas the de *jure* approach identifies the existence and legal form of institutional arrangements independently of how they work in practice. This de *facto* approach, which shapes the entire IPD database, is structured around Dani Rodrik's distinction between "institutional functions" and "institutional arrangements"[7]. **Institutional functions** are the fundamental functions each society creates in order to exist as a society. They address issues such as the safety of persons and goods, conduct of public affairs, justice, the security of transactions and contracts, and the protection of socially fragile people. **Institutional arrangements** are the idiosyncratic devices that each society invents to satisfy (more or less) these fundamental functions. The arrangements are specific to each society and depend on historical roots, culture, foreign influences and other factors. Justice and security, for example, can be assured through a considerable variety of arrangements. Because of its de *facto* approach, IPD addresses the institutional functions.

1.2 Enrichment of the IPD 2009 database

There is no scientific consensus on how to achieve internal consistency in measuring the institutional characteristics of societies. In seeking to design quantitative tools for exploring the relationship between institutions and development, since its creation in 2001, IPD has sought to integrate the most relevant theoretical contributions in this regard.

IPD 2006 integrated the contributions of Nicolas Meisel[8] on "governance focal monopoly" into Function 5: "Coordination of actors, Strategic vision, Innovation". This enrichment allowed us to distinguish between the institutional characteristics of "conver-

ging" countries (which have higher growth rates than the developed-country average) and "diverging" developing countries (which have lower growth rates than the developed-country average). This distinction highlights the specific governance capabilities of converging countries, which are largely explained by Function 5, which describes the State's capability to bring about convergence of interests and anticipations, authorities' strategic vision, and the economy's capacity to absorb technology[9]. These results are coherent with those of the "Growth Report" coordinated by Michael Spence[10] and coincide with the distinction made by Dani Rodrik[11] between the specific institutions needed to trigger economic take-off and those needed to sustain long-term growth, in order to catch up with the developed countries' economies.

In IPD 2009, we extend this improvement in the political economy, taking into account work by North, Wallis and Weingast[12] and by Khan[13]. In this way, IPD 2009 introduces key concepts put forward by these authors, such as "open access social order", "control of violence" and "the use of rents". IPD also integrates contributions by Chris de Neubourg on labour markets and those of Szirmai[14] on long-term perspectives in the institutional field. New variables were created through this enrichment process and were included in the structural framework for institutional analysis. IPD 2009 also incorporates the issue of land tenure[15].

New variables have been introduced, accordingly, to factor in these new dimensions, and they have been included in the basic analytical framework.

Because these enrichments have modified the underlying range of themes, care should be taken in making intertemporal comparisons based on the three versions of the database (2001, 2006 et 2009): priority has been given to improving the database, with each succeeding version, rather than to comparability over time[16].

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(6) The database is built from a questionnaire supplied by researchers at the French Ministry for the Economy, Industry and Employment (MINEIE) and the AFD agencies present in the countries covered.

(7) "Growth Strategies", Harvard University, Cambridge MA, August 2004.

(8) Meisel, N. "Governance Culture and Development: A Different Perspective on Corporate Governance", OECD Development Centre, Paris, 2004.

(9) Meisel, N. and J. Ould Aoudia (2008), Is 'good governance' a good development strategy? AFD, Working Paper no. 58, 2008.

(10) Spence, M. et al., The Growth Report: Strategies For Sustained Growth And Inclusive Development, Commission on Growth and Development, World Bank, 2008.

(11) Rodrik, 2004, op. cit.

(12) North, D.C., J. Wallis and B. Weingast, "Violence and Social Orders: A conceptual Framework for Interpreting Recorded Human History", Cambridge University Press, 2009.

(13) Khan, M. H. "Vulnerabilities in Market-led Growth Strategies and Challenges for Governance", DFID Research Paper Series on Governance for Growth. School of Oriental and African Studies, University of London, London, 2008.

(14) Szirmai, A. Explaining Success and Failure in Economic Development, UNU-MERIT, Maastricht, 2009.

(15) Lavigne-Delville, Ph. and A. Durand-Lasserve (eds.), Land tenure and securing rights in the countries of the South, French development assistance actors' White Paper, French Ministry of Foreign Affairs, AFD, 2009.

(16) Cf. Trésor-Economics no. 24, November 2007.

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2. Initial exploration of IPD 2009

Here we present the initial results of an exploration of the IPD 2009 via an analysis of the aggregated version of the database. At this stage, we have adopted a multicriteria approach, with no economic inference, leaving the data to "speak for themselves". We have accordingly opted for a principal components analysis (PCA). The factorial plane formed by the first two axes on which the countries are projected yields information regarding the respective position of each country relative to the variables the database. By analysing it we can synthesise all of the information contained in IPD 2009 by means of a synthetic description of the axes and quadrants (see chart).

Chart 1: Typology of countries along the first 2 CPA axes formed by the IPD 2009 variables
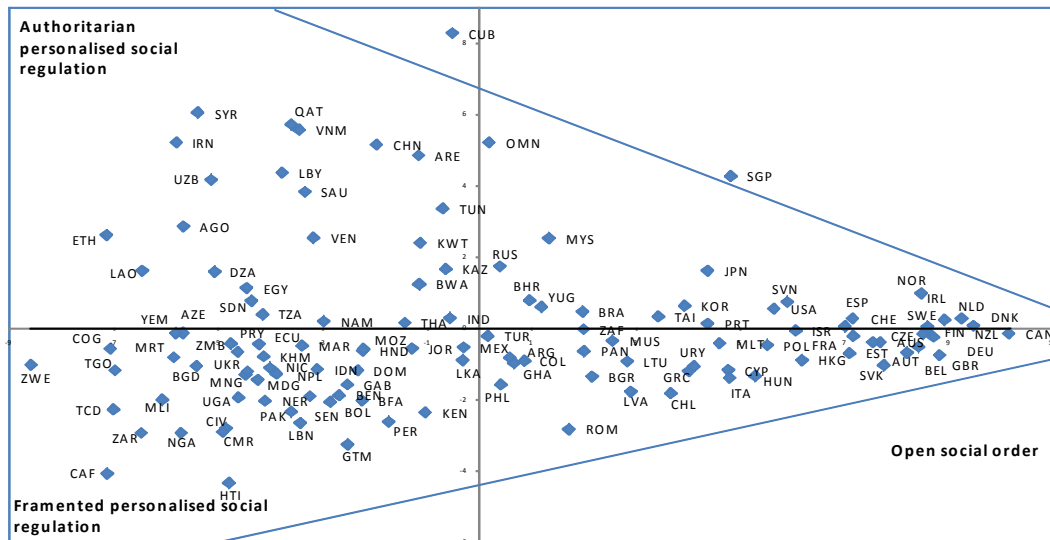
Ordinate: importance of the State's role in social regulation (9.3%)
Abscissa: depersonalisation of social regulations (46.8%)

Source : IPD 2009

2.1 Variables that assess the functioning of government administration, justice, security of contracts and transactions, market regulation, economic competition, social mobility, the working of political institutions, and welfare institutions are projected onto the horizontal axis (which captures 46.8% of total information).

- On the lefthand side of the axis[17] we find countries where formal rules are weakly applied, namely Zimbabwe (ZWE), Ethiopia (ETH), Central African Republic (CAF), Congo (COG), Chad (TCD), Togo (TGO), Laos (LAO), etc.

- On the righthand side we find those countries where these functions are supplied through formal rules that are written down and applied, e.g. Canada (CAN), Finland (FIN), Netherlands (NLD), Ireland (IRL), Great Britain (GBR), Germany, (DEU), etc.

This first axis distinguished two types of functioning of societies: those where these institutional functions are mainly provided by interpersonal social relationships, for the most part informal (societies based on relationships or loyalty), and those where these functions are provided by essentially impersonal and universal social relationships (rule-based or law-based socie-

ties). The horizontal axis, therefore, is the axis of depersonalised social regulations[18]. It is also the axis that distinguishes countries according the degree of "openness of their social order"[19], in the political (democracy), economic (competition) and social (meritocracy) dimensions.

2.2 On the vertical axis (9.3% of total information) we find the variables that assess the State's capacity to formulate a strategic vision, to arbitrate between conflicting interests and to ensure internal security, and the variables that assess the circulation of persons, labour union freedoms, and the free working of markets.

- Towards the upper end of the axis lie those countries where the State plays a substantial role in society and the economy, e.g. Cuba (CUB), Syria (SYR), Qatar (QAT), Vietnam (VNM), Oman (OMN), Iran (IRN), China (CHN), etc.

- Towards the lower end of the axis lie those countries with a high degree of freedom of circulation of persons and ideas, along with labour union freedoms and free working of the markets, e.g. Haïti (HTI), Central African Republic (CAF), Guatemala (GTM), Democra-

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(17) The direction of the horizontal and vertical axes (left, right, up, down) is wholly arbitrary and immaterial.

(18) These empirical findings are consistent with the classical sociological theories expounded by Émile Durkheim and Max Weber around the turn of the 19th-20th century.

(19) Within the meaning of North et al. (2009), op cit.

tic Republic of Congo (ZAR), Nigeria (NGA), Cameroon (CMR), Romania (ROM), etc. This second axis differentiates countries according to the degree of State involvement in social regulation. Towards the upper end we find States that play an active role in the economy and society, and whose involvement may take authoritarian forms. Towards the lower end lie those where the State is less present and active, the extreme end of which includes failed states.

2.3 Good governance, prevalence of personalised rules and level of development

- Along the horizontal axis, we find a strong correlation between the degree to which rules are depersonalised (culminating in societies that function in accordance with the criteria of "good governance") and the country's level of development: to the right of the graph we find the developed countries, and to the left all of the developing countries. We find along this axis the canonical (and to some extent tautological) relationship between good governance and level of development[20].

- The second point to note is that the cloud of points on the graph is funnel-shaped: wide to the left, where personalised rules prevail (corresponding to a low level of development) and narrow to the right, where the level of impersonal rules and development are high. This suggests a relative concentration of institutional profiles around formalised systems of social regulation characteristic of the developed countries, as wealth levels rise. The institutional profiles of countries where personalised rules prevail are far more diverse, on the other hand.

2.4 Fragmented, authoritarian personalised systems, and open social systems[21]

Three broad families of institutional systems emerge:

1. Authoritarian personalised systems (northwest quadrant on the chart), in which personalised relationships combined with strong State influence in society, predominate. Institutions combine the strength of traditions and security for the population with strong, but not always effective, State intervention. Not that the State is weak; on the contrary, it retains tight control over civil society, the movement of people and the flow of information. Where the economy is concerned, one way or another, the State retains control over the working of the markets. The weight of tradition restrains social mobility. Within this quadrant, the influence of the public authorities over societies in fact reveals two types of State power:

one in which the State draws its legitimacy from the distribution of rents, as in Qatar (QAT), Iran (IRN), the United Arab Emirate (ARE), Libya (LBY), or Saudi Arabia (SAU); the other where the State's legitimacy stems from its capacity to develop the country, as in Vietnam (VNM), China (CHN), or Tunisia (TUN).

2. Fragmented personalised systems (southwest quadrant) combine a predominance of personalised relationships and areas of freedom, which may reflect the weakness of the State. These States, which are relatively inefficient, play little role in the economy. Interpersonal forms of solidarity (family for the most part) play an important role in the countries to the left of the axis, providing the security that public institutions are too weak to provide. Citizens do not enjoy guaranteed political, economic and social rights, but the most dynamic individuals and groups may be able to benefit from openings and the opportunities they create. The countries emblematic of this type of profile are those in Sub-Saharan Africa such as the Central African Republic (CAF), the Democratic Republic of the Congo (ZAR), Nigeria (NGA), Chad (TCD), Cameroon (CMR), Côte d'Ivoire (CIV), Uganda (UGA), as well as Haiti (HTI).

3. In systems with an open social order (on the chart two eastern quadrants), the relatively stable institutional forms found in the developed countries limit differences between the institutional systems in the upper and lower quadrants. Social regulations are largely impersonal, and rules-for the most part formalised-are applied, providing a high level of security of transactions and property rights, efficient administration, and effective justice. These countries operate under institutional regimes (or "social orders") with politically (political competition: democracy), economically (competition) and socially (social mobility through meritocracy) open arenas. All of the developed countries are represented in this part of the chart, close to the horizontal axis. Note the particular position of Singapore (SGP), which combines a high degree of depersonalisation and application of rules with an authoritarian State presence in society, serving as a model of a "rule of law without democracy".

Altogether, IPD 2009 "captures" the extreme diversity of institutional profiles among the developing countries thanks to the huge variety of information furnished. As a result, IPD 2009 is an invaluable source of material for the institutional analysis of development and emergence.

3. IPD forms part of a broad work programme

3.1 Objectives, framework and outcome of the project

In establishing a numerical assessment of the institutional characteristics of a vast array of countries, the IPD project is intended to provide a quantitative basis

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(20) Kaufmann, D., A. Kraay and P. Zoido-Lobaton (2002), "Governance Matters II", World Bank Working Paper no 2772, World Bank Institute, Washington, D.C.

(21) The names of the quadrant refer to typical institutional situations and should not be taken literally.

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on which to analyse relationships between institutions and development.

Initially conceived by the Treasury and Economic Policy Directorate (Direction Générale du Trésor et de la Politique Économique - DGTPE), the project has been taken up by the AFD, with the active involvement of its Research Department. Today the IPD project is in its 9th year: the first version of the database, in 2001, covered 51 developed, developing and transition countries. A second version, in 2006, expanded its geographical coverage to 85 countries. The 2009 version (IPD 2009) now covers 123 countries respectively representing 99% and 96% of the world's GDP and population.

The IPD project has resulted in the compilation of a database that is freely accessible to researchers on the websites of the AFD, the CEPII, and the Maastricht Governance School of Governance (MGSoG), which has been the project's scientific partner since 2008: its aim is to stimulate research in the field of institutional measurement and the analysis of the role of institutions in development. The indicators provided are clearly not suitable for operational use, for example as criteria for the allocation of funds.

3.2 The institutional economy, a new area of economic development

The IPD project is part of an international research process aimed at bringing institutions within the purview of economic analysis, and more precisely the analysis of factors contributing to the long-term growth of developing countries. The theoretical underpinnings of this new research field were laid down by Douglass North, winner of the Nobel Prize for economics in 1993 and the inspiration behind the "new institutional economics". The World Bank and the UK's Department for International Development (DFID) in particular have proved receptive to this approach, which looks beyond institutions to consider political economy.

3.3 Institutional measurement and the relationship between institutions and development

The IPD project in fact embraces two complementary dimensions, namely:

a/ IPD and institutional measurement: the DGTPE and the AFD are taking part in the research on the theme of institutional measurement. Although it has grown very rapidly since the middle of the 1990s, the field is still in its infancy: it demands an interdisciplinary approach, drawing on economics, law, sociology, anthropology, political science, and history; it has no fixed analytical framework or recognized metrics, in

the manner of the national accounts with its accounting matrix and price system; it touches on values and norms (which are good institutions?); finally, the theoretical framework underpinning this approach is still fragile.

The IPD project has been presented at numerous seminars on the subject, and in particular at the seminar on "Measuring Law" in Paris, in December 2006, as part of the "Economic Attractiveness of the Law" programme, and at the Maastricht Graduate School of Governance (MGSoG): "Governance Indicators and Assessments, Impact and future Trends", in January 2009. IPD is now internationally recognised as offering the widest range of themes embracing institutional characteristics among existing indicators.

This recognition of IPD has resulted in the incorporation, since 2007, of the "governance" portion of its indicators in the World Bank Institute (WBI)'s "World Governance Indicators"[22]. IPD 2009 is also available online at the World Bank "Actionable Governance Indicators"(AGI) (Public Sector Governance Department) website[23]

b/ IPD and analysis of the linkage between institutions et development. The DGTPE and the AFD are also taking part in research into the linkage between institutions and development via quantitative studies of IPD data. This has notably given rise to the publication in English and French of a study titled "Is 'Good Governance' a Good Development Strategy?[24]. This work has been described in a scientific publication[25]and has also been presented in a large number of institutional and academic forums, among them the DFID-SOAS seminar on "Governance for Economic Growth in Developing Countries" in London, in July 2007, and "The Interaction between Governance and Growth: Shifting Paradigms?" at the World Bank in June 2008.

3.4 IPD is part of a much wider programme being conducted by the AFD

The IPD project has been included in a multi-year AFD research programme titled "Institutions, governance and long-term growth", aimed at studying in greater depth the role of institutional characteristics in economic emergence and development. This comprises two dimensions, a horizontal one, based on an exploitation of IPD by means of cross-country quantitative studies, and a vertical one based on country monographs.

a/ The first, "horizontal", axis is being carried on in collaboration with the University of Maastricht (MGSoG). It seeks to study in greater depth the analyses based on IPD, with a view to identifying

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(22) http://info.worldbank.org/governance/wgi/index.asp

(23) https://www.agidata.org/main/AboutLinks.ashx

(24) http://www.cepii.fr/institutions/11_2007.pdf

(25) "L'insaisissable relation entre 'bonne gouvernance' et développement" (The elusive relationship between 'good governance' and growth)- Revue Économique, volume 59, no. 6, November 2008.

"institutional configurations" thought to be conducive (or that thwart) the long-term growth of developing countries. This research will serve to improve the IPD database preparatory to its 4th version in 2012.

b/ The second, "vertical", axis relates to a series of country studies being carried out by associate researchers. The selected countries at this stage are: Vietnam, China, Turkey, two Indian States (Gujarat and Tamil Nadu), the province of Punjab in Pakistan, Brazil, South Africa and a Sub-Saharan African country yet to be selected.

The programme will cross the results of these two research dimensions, horizontal and vertical.

3.5 Articulating this research with a World Bank programme

This AFD programme has linked up with a World Bank programme pursuing common aims, being conducted by Douglass North, John Wallis, Barry Weingast and Steve Webb. It consists of a series of country studies aimed at empirically testing the conceptual framework formulated by these authors . This framework presents a view of development based on a renewed approach to the political economy of developing and developed countries. The list of countries chosen by the Bank complements that of the AFD programme[26]

In conclusion: results confirmed, and a broad partnership for a more detailed study of the role of institutions in development.

The results obtained for IPD 2009 have deepened our understanding of the inter-relations between institutions within countries and the various families of institutional profiles that emerge among the developing countries. They coincide with the results obtained from the exploration of the IPD 2001 and IPD 2006 databases. They confirm the inertia of institutional forms, which change only over the long term[27]. Now that they have been expanded from 51 to 123 countries, these findings have proved to be more robust.

The study of institutions and their role in development is still a new field in the social sciences, at the crossroads of many disciplines. The IPD project seeks to provide greater insight into this field based on a finer understanding of interactions between processes of economic accumulation, forms of political organisation and social cohesion.

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(26) Mozambique, Zambia, the Democratic Republic of Congo, Bangladesh, two (other) Indian States, Mexico, Chile, the Philippines and South Korea.

(27) With the exception of sudden changes such as those brought about by the break up of the Soviet system.

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