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Publication Date

2017-06-08



EDI POLICY BRIEF



TWENTY QUESTIONS: WHAT WORKS FOR INSTITUTIONS AND ECONOMIC DEVELOPMENT

May 2017



Oxford Policy Management



ECOLE D'ECONOMIE DE PARIS
PARIS SCHOOL OF ECONOMICS



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Introduction:

Despite their importance to nearly every aspect of social welfare and economic growth, the functioning of public institutions are some of the most under-researched areas of international development. The International Initiative for Impact Evaluation reports that less than 3% of registered impact evaluations focus on governance-related issues. Within the past decade, a number of notable efforts have sought to address these deficiencies, including [The Abdul Latif Jameel Poverty Action Lab's Governance Initiative](#), [Evidence in Governance and Politics](#), and the World Bank's [ieGovern](#) program. However, despite progress, huge evidence gaps continue to exist throughout the field.

The Economic Development & Institutions (EDI), program, funded by the United Kingdom's Department for International Development, recently took stock of the state of knowledge on institutional interventions, surveying the findings of nearly 200 empirical publications, with a specific emphasis on impact evaluations measuring the effectiveness of policy reforms. This exercise resulted in the identification of 40 open research questions (20 of which are discussed here) for which more evidence is critically needed to support the investments of government and donors working on these issues. EDI Scientific Committee members and Center for Effective Global Action faculty chairs [Ernesto Dal Bó](#) and [Fred Finan](#) have co-authored this review, entitled "[At the Intersection: A Review of Institutions in Economic Development](#)." The following briefly summarizes several of their findings, with an emphasis on issues of concern for international donors and non-governmental organizations, as well as topics that are particularly under-explored in the research community.

Strengthening Tax Policy

Public service delivery requires fiscal resources. Indeed, domestic resource mobilization was elevated to the highest echelons of the development agenda after the United Nation's 2015 Financing Development Conference. However, despite its profile, tax issues in the developing country context have extremely limited experimental evidence, requiring EDI's review to rely mainly on work from middle or high-income countries.

Within these contexts, it is clear that tax instruments matter a multitude of issues, including private sector growth. Moreover, specific enforcement strategies might be more effective than others:

- Pomeranz documents the high compliance rates of Value-Added Tax (VAT) schemes in a 2015 study of nearly 20,000 firms in Chile.
- In a field experiment on tax enforcement in Denmark, Kleven (2011) documents strong compliance with tax on third-party reported income.
- The effectiveness of communication stressing different messages to encourage tax compliance has been the subject of several studies in a variety of Western countries: generally, the results of these efforts indicate that stressing likelihood of audits and penalties is more likely to encourage compliance than moral appeals or appeals to equity or fairness (McGraw and Scholz 1991, Blumenthal et al. 2001, Fellner et al. 2013, Castro and Scartascini 2015).

Findings like these could be valuable for the many efforts to strengthen tax policy in developing countries, but given the paucity of evidence in these environments, the following questions remain unanswered:

- Is third-party reporting effective in the context of weak legal institutions?
- What areas of tax collection are most affected by corruption?
- When is it prudent to decentralize tax collection, given political and capacity constraints at the local level?

Information for Accountability

Empirical studies suggest that increased access to information can lead citizens to hold elected officials accountable, but that this awareness can also reinforce harmful political strategies:

- Finan's (2003) study of the rollout of Brazil's unprecedented anti-corruption audit program demonstrates that voter awareness of corruption levels prior to an election significantly impacts the re-election rates of incumbents.
- However, Cruz and coauthors (2015) review a similar question in the context of vote-buying in the Philippines. Researchers provided information to voters on major spending programs and the proposed allocations and promises of mayoral candidates. This intervention led to changes in voter knowledge, but politicians responded with higher levels of vote buying in targeted communities.
- Research in Sierra Leone finds similar practices of 'gift giving' from politicians to newly-informed citizens groups. Bidwell *et al.* (2015) found that vote-buying and campaigning effort generally increased when voters in Sierra Leone were exposed to political debates.

Changes in the approach of political campaigns and voter education programs can influence these dynamics:

- Vicente (2014) implemented a randomized door-to-door campaign against vote buying during a presidential election in Sao Tomé and Príncipe. This intervention improved the reported perception that voting decisions were conducted in good conscience and reduced the impression that money affected voting patterns. It also decreased turnout (which may relate to levels of vote buying) and helped incumbent politicians (the author believes that compared to incumbents, challengers rely more on vote-buying).
- Fujiwara and Wantchekon (2013) altered the voter engagement strategies of political candidates in Benin to be more informative and less focused on patronage, using public gatherings like village-based town halls. This effort did not alter levels of vote-buying, but it did improve citizen knowledge of candidate profiles and reduce support for previously-dominant politicians.

The outcomes of these studies and other publications reviewed by Dal Bó and Finan provoke a number of questions:

- What determines whether higher transparency leads to better political selection or a reinforcement of harmful political strategies by incumbents?
- What makes information most usable to citizens?
- Does the credibility of information affect political outcomes?
- Does information disclosure improve public goods provision by affecting accountability?
- What creates incentives for the media to provide politically valuable information?
- Does more transparency lead to changes in political institutions and norms?

Monitoring Service Delivery

A key question for donors and implementing organizations is whether better monitoring can lead to more effective delivery of public services. Numerous organizations are investing in mechanisms to improve accountability through both citizen engagement and the use of technology in oversight processes, but much of what we know about these programs is unclear:

- Olken (2007) tested the effectiveness of citizen-led monitoring programs versus central government audits in the context of village road projects in Indonesia. The study shows that the official audit significantly reduces corruption while community involvement in monitoring had less impact.

Adjustments in intervention strategy, however, seem to increase the viability of citizen-led programs:

- Björkman and Svensson (2009) studied community engagement with local health clinics that combined a mobilization campaign with the provision of “report cards” measuring the effectiveness of local health services in comparison to those across the region. This integrated intervention achieved important outcomes, like a strong reduction in child mortality.
- Björkman, De Walque, and Svensson (2014) further supported the value of measuring relative performance as part of community-led campaigns.

Leveraging technology is another promising option for monitoring service delivery, but evidence suggests that outcomes are not consistent:

- Muralidharan *et al.* (forthcoming) randomized the rollout of biometrically-authenticated “smartcards” to securely deliver payments for government pensions and other programs to 19 million citizens in the Indian state of Andhra Pradesh. The authors found this technology was cost effective and reduced the abuse of funds, enhancing overall the capacity of the state to deliver critical social programs.
- Dhaliwal and Hanna (2014) studied the rollout of biometric devices to monitor staff and doctors at primary health centers in South India. They report positive outcomes, including reductions of underweight births by 26%, but also lower job satisfaction on the part of staff and attempts to circumvent the monitoring system.
- Banerjee, Glennerster, and Duflo (2008) conclude that if self-interested parties – in this case, nurses within India’s public health system – can disable or otherwise manipulate e-monitoring programs, they will do so.

Resolving these challenges will be critical to strengthening investments in monitoring programs. The following are several research priorities for EDI:

- Which features of citizen feedback platforms promote political accountability and improve service delivery?
- What are the effects of non-financial incentives on job performance?
- Do extrinsic incentives for bureaucrats crowd out intrinsic motivation?
- What types of personality traits affect job performance in the public sector?

Legal Aid and Conflict Reduction

There is limited research in the developing-country context on the effects of legal aid programs, but several studies indicate mixed outcomes:

- Sandefur and Siddiqi (2013) review the effects of legal empowerment interventions in Liberia and find that pro bono mediation and advocacy services produced significantly improved justice outcomes as well as subsequent welfare benefits for beneficiaries, particularly in the area of food security.
- But Mueller *et al.* (2015) find that the presence of paralegals in villages in Tanzania produced only small to moderate effects on the program's goals of increasing the likelihood of female beneficiaries to attend legal seminars and gain greater awareness of the rights of women to own land.

More positive outcomes can be found around the role of legal institutions within dispute resolution. Decreasing violence is a critical priority in any country but is particularly important in those with weak institutional environments.

- Blattman, Hartman, and Blair (2014) find that a mass-education campaign to promote alternative dispute resolution in Liberia increased the resolution of land disputes and lowered rates of violence, among other positive outcomes.
- Blattman and Annan (2016) studied an intervention designed to reduce illicit activity by providing agricultural training and capital to ex-combatants in Liberia. More than a year later, those who received the intervention were found to have more intensively substituted agriculture for illicit activity and demonstrated less inclination to re-engage as mercenaries. While the approach of this intervention is not legal in nature, it seeks to reduce illegal activity and violence, which addresses the challenge of promoting order in weak institutional environments.

Addressing the paucity of evidence on the functioning of legal aid interventions and their ability to lower the likelihood of conflict would be a valuable investment. The following questions could serve as a starting point for further research:

- What are the effects on conflict resolution of legal assistance in weakly institutionalized polities?
- How do these effects interact with traditional norms and customs?
- How does access to legal assistance affect economic performance?
- What alternative interventions, including alternative dispute resolution and livelihood initiatives, can promote law and order and diminish the likelihood of conflict?

Courts and Judicial Selection

Experimental evidence on the functioning and dynamics of court systems is extremely limited and especially scant in developing countries. However, several studies use observational data and empirical models to review how incentives impact the judiciary:

- Berdejó and Yuchtman (2013) find the sentencing decisions are 10% higher for judges at the end of their electoral cycles, suggesting political pressure influences verdicts.
- Lim, Snyder, and Stromberg (2015) also find that media attention increases sentencing length of judges appointed as part of elections of candidates represented individually and without the backing of political parties.

Selection processes for judges are also important:

- Lim and Snyder (2015) show that candidate quality (as measured by bar association ratings) affects outcomes in elections where political parties do not affiliate with specific candidates. This result suggests that “partisan voting behavior crowds out the influence of candidate quality” and that, in these contexts, the “desirability of the partisan election system should be carefully assessed.”

The composition of a country’s judges can also impact court outcomes.

- Grossman (2016) reviews the decisions of Israeli courts and finds that Arab membership on judicial panels significantly alters verdicts for Arab defendants.

Courts and judicial selection are an area in need of further research within the developing-country context. Particularly important questions include:

- How do career concerns affect judges’ sentencing decisions?
- What is the extent of judicial corruption and how does it affect economic development?
- Can improvements in the efficiency of courts reduce crime and fraud as well as encourage investment?

Conclusion: A Call for More Research

The pressing need to improve the performance of public institutions has motivated numerous governments and donors to actively fund and support governance initiatives around the world. Many of these investments are producing gains for citizens and community groups in need of effective state services and functioning public institutions. However, far too few of these investments have been linked to impact evaluations that can allow stakeholders to identify what specifically is effective and to show how a model might be replicated or improved. Moreover, few of the evaluations that do exist have been designed to generate conclusions beyond the specific contexts within which they were implemented (although [Evidence in Governance and Politics](#) is attacking this challenge through its Meta-keta initiative). Fortunately, designing studies with more generalizable findings is within reach, especially with new state-of-the-art impact evaluation methods. Increasing the evidence on governance initiatives – and conducting impact evaluations that produce far-ranging conclusions – is a critical need for the many actors seeking to improve the capacity and effectiveness of public institutions around the world.

About EDI

EDI was launched in 2015, and is funded by the United Kingdom’s Department for International Development. The program is managed by leading international development consultancy Oxford Policy Management, and implemented by a consortium comprising the Paris School of Economics, the University of Namur, Oxford Policy Management and Aide à la Décision Économique, in association with the Center for Effective Global Action at the University of California, Berkeley.

About CEGA:

The Center for Effective Global Action (CEGA) is a hub for research on global development, with a network of over 70 academic researchers extending across the University of California, Stanford University, and the University of Washington. Our faculty affiliates measure the impacts of large-scale social and economic development programs, using randomized controlled trials and other rigorous methods. CEGA brings a scientific lens to global development, integrating empirical

economic analysis with expertise in agriculture, public health, education, engineering, and the environment. For more information, visit cega.berkeley.edu.

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