



World Economic Outlook

Chapter III



Building Institutions

**Presentation by
Subir Lall**

International Monetary Fund

Institutions and Income per Capita: Impact of Raising Regional Institutional Quality

(Percent change)

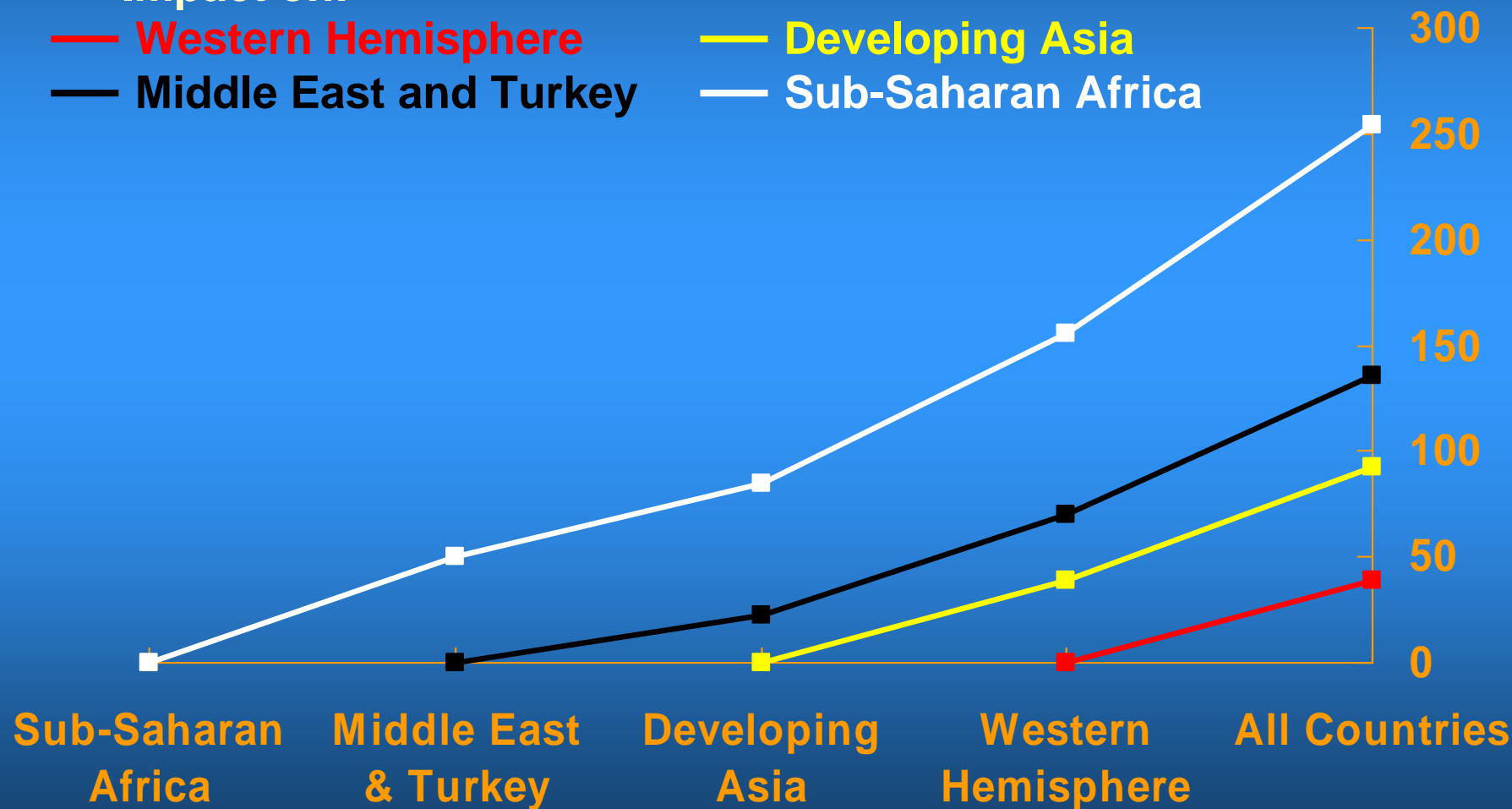
Impact on:

— Western Hemisphere

— Developing Asia

— Middle East and Turkey

— Sub-Saharan Africa

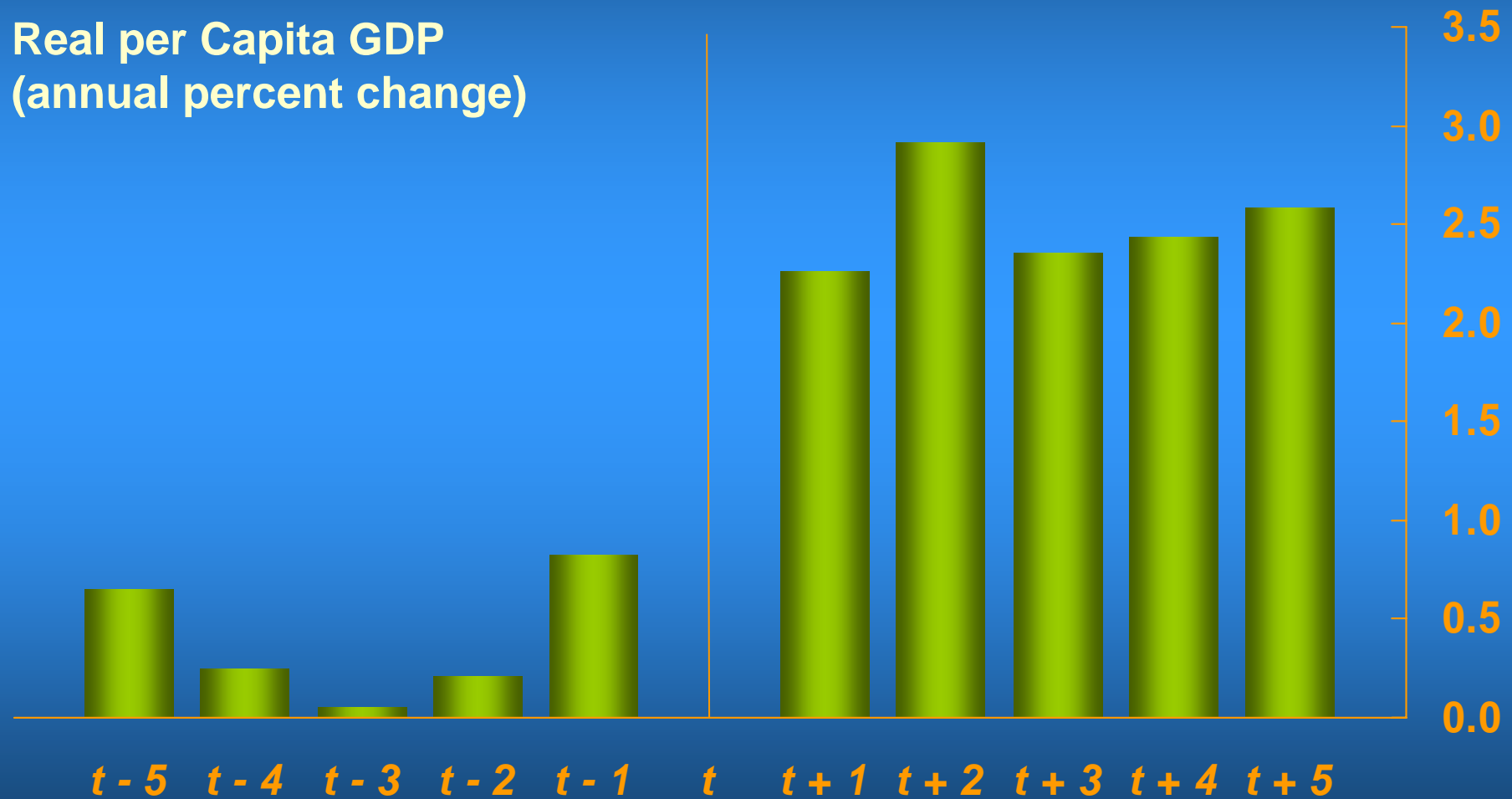


Source: IMF, *World Economic Outlook* (April 2003).

Developing Economies: Impact of Economic Transitions on Output Growth

(Economic transition at time t)

Real per Capita GDP
(annual percent change)

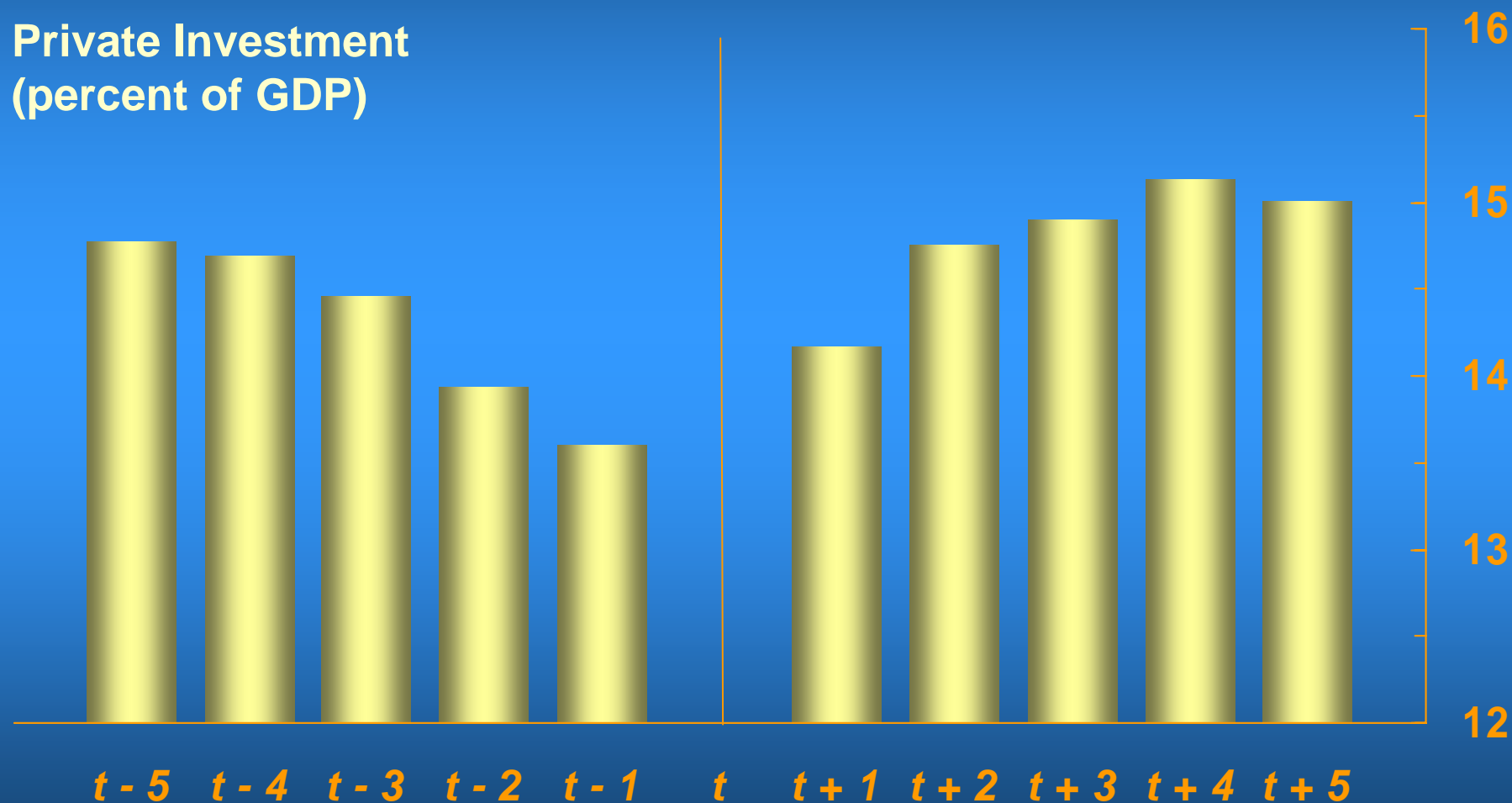


Sources: Gwartney and Lawson (2004); Penn World Table Version 6.1; and IMF staff calculations.

Developing Economies: Impact of Economic Transitions on Private Investment

(Economic transition at time t)

Private Investment
(percent of GDP)



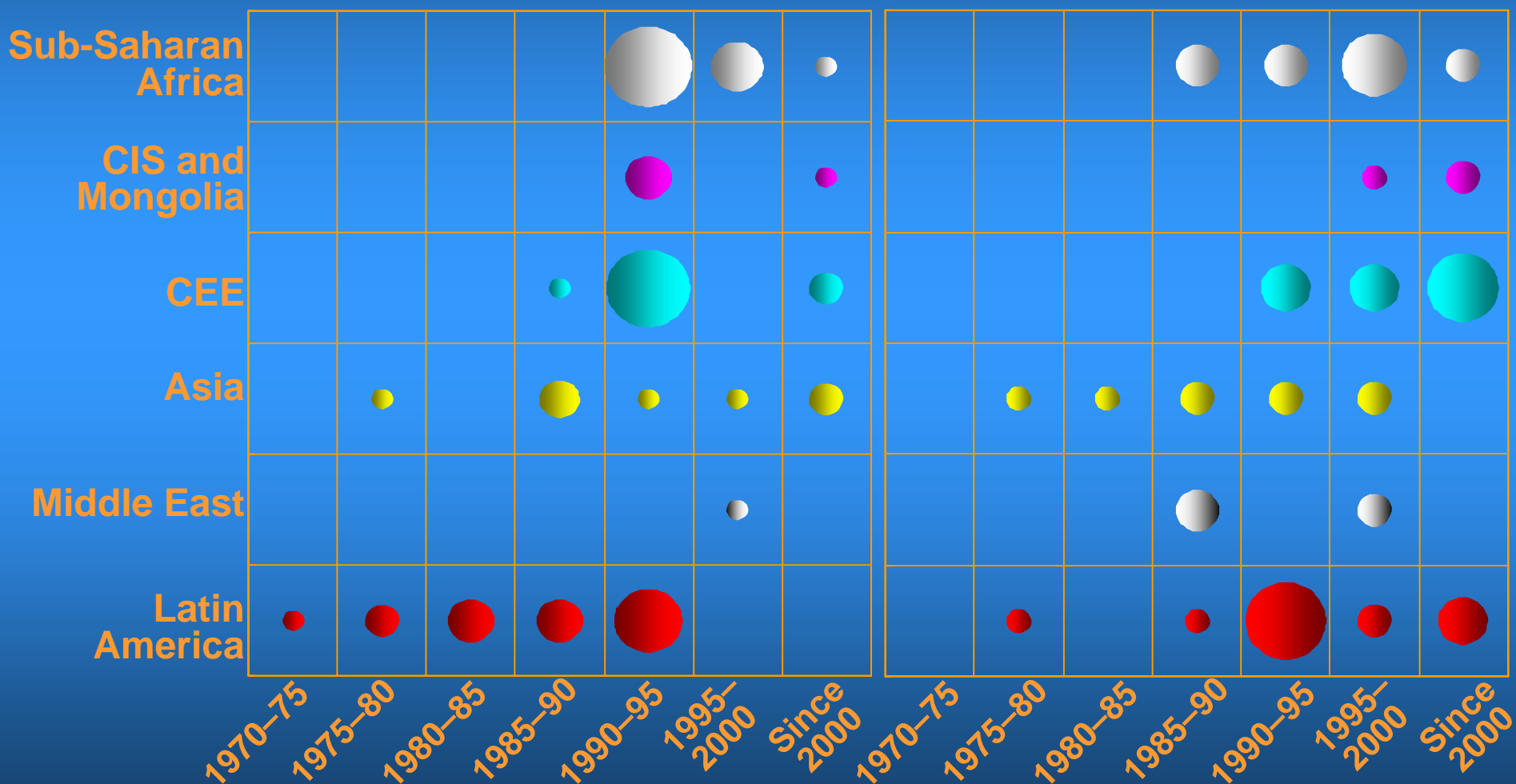
Sources: Gwartney and Lawson (2004); Penn World Table Version 6.1; and IMF staff calculations.

Number of Institutional Transitions by Region

(Size of bubble represents the number of transitions over 5-year intervals)

Political Transitions

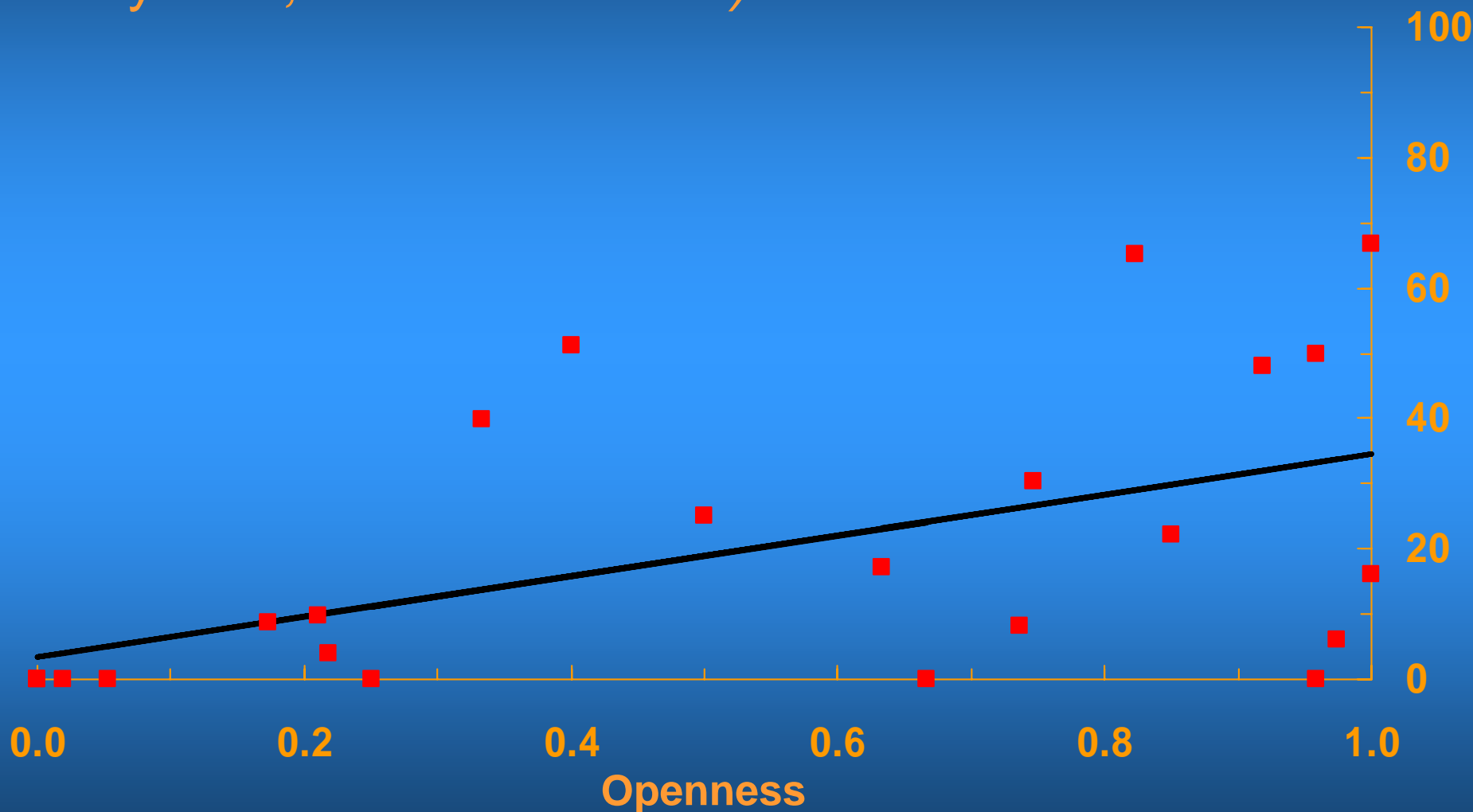
Economic Transitions



Sources: Gwartney and Lawson (2004); Marshall and Jagers (2003); and IMF staff calculations.

Openness and Economic Transitions

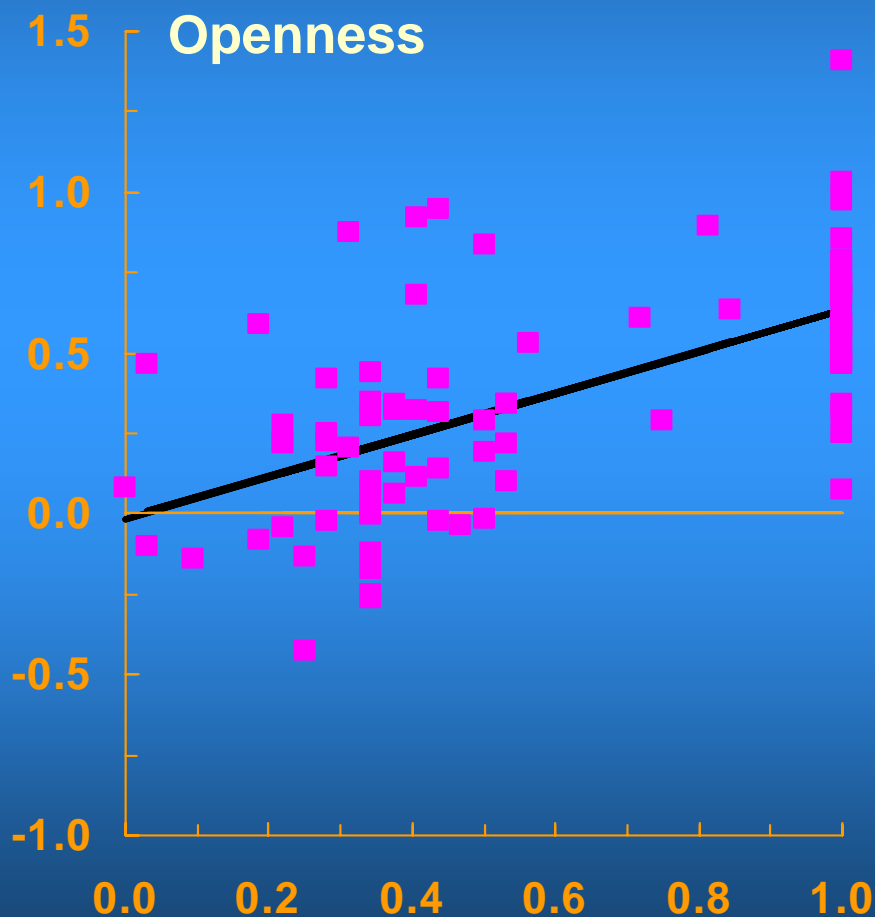
(Frequency of transitions per region and decade on the y-axis; x-axis as stated)



Sources: Gwartney and Lawson (2004); Wacziarg and Welch (2003); and IMF staff calculations.

Openness, Accountability, and Quality of Economic Institutions

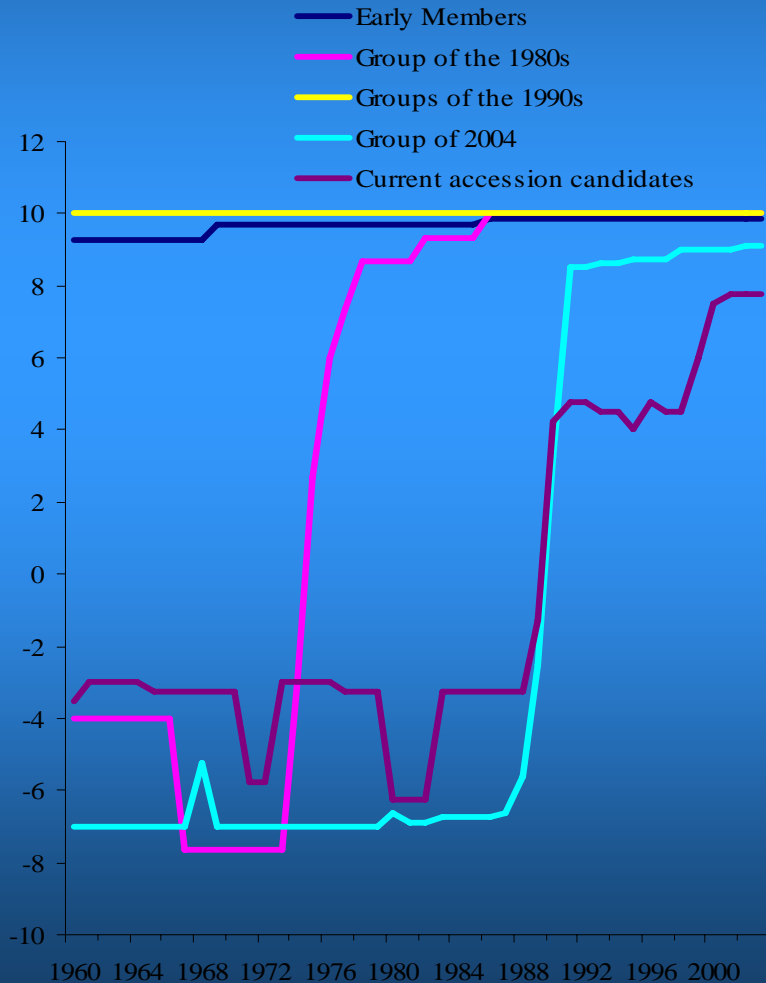
(Economic institutions on the y-axis; x-axis as stated; 1970–2003)



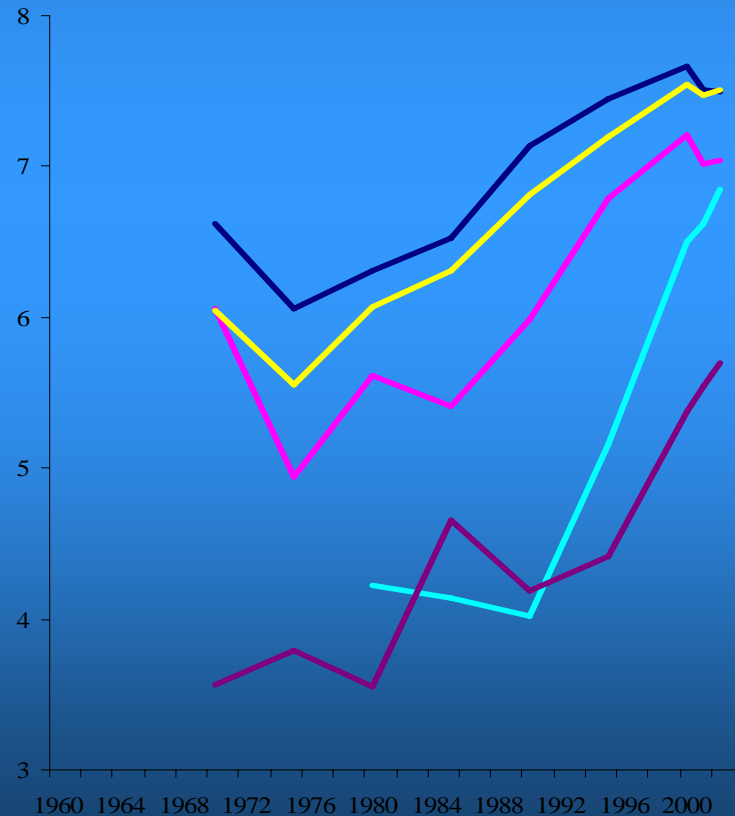
Sources: Gwartney and Lawson (2004); Wacziarg and Welch (2003); and IMF staff calculations.

Evolution of Institutions in the European Union and in EU Accession Candidates

Political Institutions



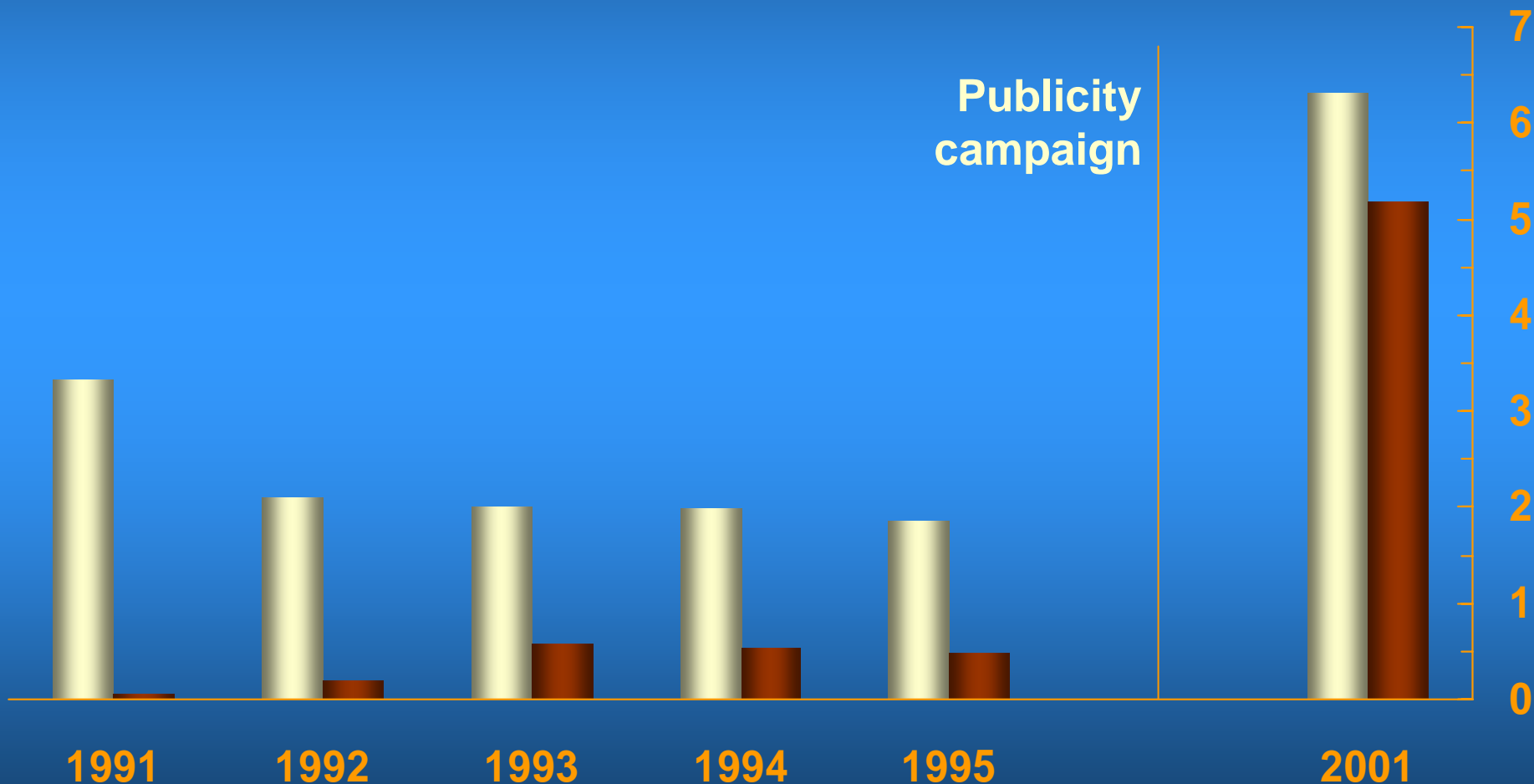
Economic Institutions



Uganda: Transparency Reduced Leakage of Schooling Grants (*U.S. dollars per student*)

Intended grant

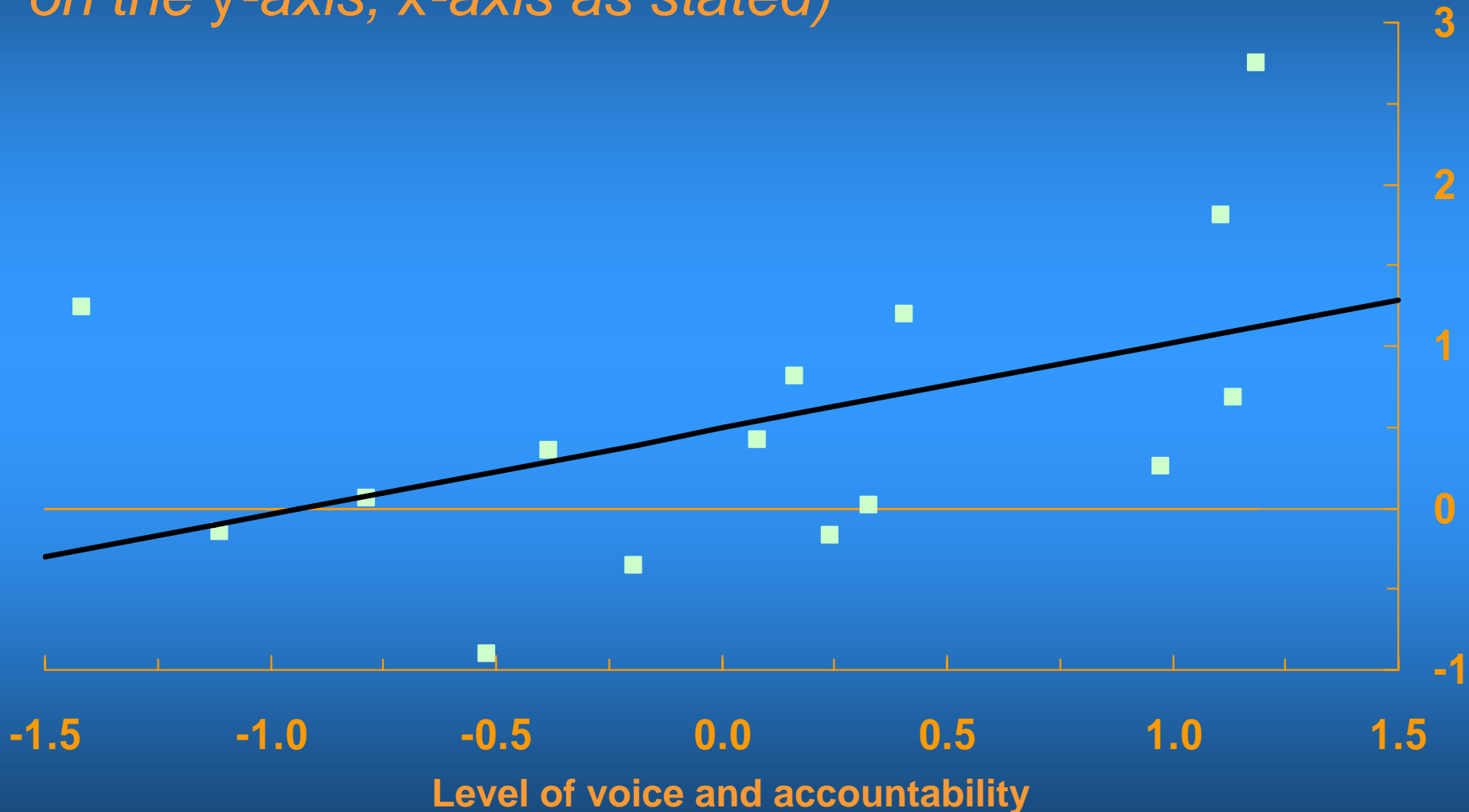
Amount actually received



Sources: Ablo and Reinikka (1998); and Reinikka and Smith (2004).

Accountability and Improvements in Corruption

(Improvement in the corruption index on the y-axis; x-axis as stated)



Sources: Kaufmann, Kraay, and Mastruzzi (2005); Transparency International and University of Passau (2004); and IMF staff calculations.

Conclusions

- Policies that reduce the opportunities and incentives for rent-seeking are key to institutional transformations
- Institutions relevant for growth not immutable
- Institutional improvements more likely in countries more open to trade, with greater political accountability, higher levels of education, and a good institutional “neighborhood”
- Higher aid alone could be a hindrance without appropriately strong institutions to absorb it
- Micro-level reforms need to be complemented with the broader “macro” measures conducive to institutional change
- Specific design of institutional reforms and country advice by multilateral organizations needs to reflect local conditions, anchored in the broad principles of reducing rent seeking and increasing accountability and transparency



Thank You