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A Theory of Discontinuous Change

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Neo-classical theory argues that sustained economic growth depends on an adequacy of resources – mainly physical and human capital. The empirical evidence on the sources of growth however, does not substantiate this view. Rather, the vast majority of studies show that institutional variables, in particular those associated with good economic and political governance are central to economic performance and developmental outcomes. In Western Europe the necessary favourable institutions emerged through a gradual evolutionary process. However, a study of institutional change during the past 100 years or so in the non-western world indicates that this is a discontinuous process, with the occurrence of favourable developments requiring the intervention of human agency, either through an enlightened domestic group or an external force. Using this model of institutional change, since 2005 a program of externally supported deep institutional interventions has been undertaken in Southern Sudan, an area which has suffered 50 years of civil war. This program is described and analyzed.

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I. Institutions and Economic Theory

Introduction

Mainstream economic theory postulates that the problems of growth and development can be solved without reference to the institutional dimension of markets. All that is required for the optimum allocation of resources, both in the short and long run, is the unfettered operation of the market mechanism. It is assumed that any institution that may be required to sustain free contracting amongst agents will emerge spontaneously and support the efficient functioning of this system. In this view, epitomized by the Walrasian model (Walras [1926] 1954), all societies consist of a mass of individuals who wish to trade goods and services for personal betterment. Left to themselves, they have the right motivational and behavioural characteristics to participate in an iterative process through which market prices are determined, which clear both production and consumption markets. The market in such a system is essentially a disembodied institution, which has no existence apart from the iterative price making and clearing process that its participants go through. Such markets are assumed to emerge spontaneously, be ubiquitous, and potentially give the right signals for allocative efficiency to be achieved.

In this neo-classical framework, the adequacy of resources to create both human and physical capital, is seen as the key to sustained economic growth. The problem of economic development therefore, is not one of the absence of an institutional framework or mechanisms to bring about the best use of available resources, but a paucity of the resources themselves. A significant consequence of this thinking has been that development theory, policy, and practice, over the past 60 years, have tended to underplay the role of institutions in economic development. Over the years many critiques have been made of the neo-classical model. At a fundamental level the Arrow-Debreu theorem (Debreu, 1959) by elaborating the stringent formal requirements of the model, has shown its restrictive nature and the impossibility of achieving general equilibrium solutions in practice. Other important research has shown that an economic system has certain informational requirements and real costs associated with its functioning. These costs have been termed as “transaction costs” (Coase, 1937), and their presence results in the organization of economic activity in the real world in a manner quite different from that assumed by the neo-classical model. As Coase (1992 p: 718) has stated, “The time has surely gone in which economists could analyze in great detail two individuals exchanging nuts for berries on the edge of the forest and then feel that their analysis of the process of exchange was complete”, and therefore, “It makes little sense for economists to discuss the process of exchange without specifying the institutional setting within which the trading takes place, since this affects the incentives to produce and the costs of transacting”. At the behavioural level, a large literature now indicates that human beings act within a framework that can best be termed as one of “bounded rationality” (Simon, 1957). This includes the possibility of opportunistic behaviour, which would result in outcomes contrary to what the neo-classical model specifies (Williamson, 1975).

The theoretical critiques of the neo-classical model are well known, and our approach will not be to review or further elaborate on them. Rather, since the basic model, in spite of its theoretical weaknesses, still holds sway in development theory, we shall consider its applicability to the situation in developing countries, its ability to explain the functioning of these systems, the accuracy of its predictions, and based on this, whether it is a useful tool for development policy and practice. As Lucas (1986) has put it, a theory does not have to have impeccable foundations. The axioms are abstractions and necessarily “false”. However, the propositions need to have empirical validity to establish the range within which the abstractions are adequate. And as Friedman (1953 p: 10) states, a theory is more fruitful the “more precise the predictions, and the wider the area within which the theory yields predictions”.

Empirical Evidence

The application of the principles of neo-classical theory to the problems of growth and development is to be found in the neo-classical growth model. The approach assumes that all countries are on the same production function, so that differences in physical capital, labour and human capital, generate the differences in output (Solow, 2001). This vision has been fundamental to mainstream development thinking for the past 60 years. Based on this framework, it is possible to elaborate a series of propositions that lend themselves to empirical testing. The empirical studies have either used growth accounting techniques based on a Cobb-Douglas or similar neo-classical production function, or cross-country regressions, using variables that are generally used to measure factor accumulation, as independent parameters to explain variations in GDP growth rates. One of the earliest studies is that of Abramovitz (1956). Considering the sources of increase of national income in the U.S. between 1870-1953, he found that while net national product per head increased by 400% during this period, productivity per head rose by 250%. Based on this finding Abramovitz concluded that the main source of growth of output was not the labour or capital input per capita but the “complex little understood forces which cause productivity to rise”. These findings were confirmed by several other studies, including Denison (1967). Subsequent work by Young (1995), and Collins and Bosworth (1996), with data refinements that included proxies for human capital, has reversed these findings. They found that most of the contribution to GDP growth, particularly the high rates seen in the East Asian economies, came from high rates of physical and human capital accumulation rather than from productivity growth. At the cross-country level, the Barro regressions (1989) and the survey conducted by Levine and Renelt (1992), have confirmed that when considering variations in GDP growth rates, the positive correlation between GDP growth and the share of investment in GDP, is the most robust of all findings. Levine and Renelt find that for a sample of 119 countries over the period 1960-1989, the investment/GDP ratio explains about half the variation in growth rates.

Let us review these findings further in the context of a simple neo-classical specification, where output (Y) is a function of: $F(K,L,H;A)$, where K is physical capital, L is labour, H is human capital, and A is the residual representing total factor productivity. Solow, (2001) states that if $A(t)$ is considered in purely technological terms, given the standard

assumption of similar access to common technical knowledge in all economies, one would expect this value to be broadly similar for all countries. However, if the values and path of $A(t)$ are empirically found to vary substantially from one country to another, this would suggest that the shape of the production surface varies from country to country. The traditional literature has focused on the technological factors that may account for these differences, such as externalities, adoption of low-cost appropriate technologies by developing countries, and variations in the sector composition of output. Non-technological factors have generally been ignored. But as Solow (2001 p: 287), states “the non-technological sources of differences in total factor productivity may be more important than the technological ones. Indeed, they may control the technological ones, especially in developing countries”. Such a finding, which implies that the transformation of inputs into outputs is heavily influenced by non-technological factors, would of course have serious implications for the resource based neo-classical vision of economic growth, but it would open the way for alternatives models where factors such as policies and institutions may have a more significant influence on GDP growth. Since this is an empirical question, let us consider some of the evidence in this area.

Collins and Bosworth (1996) using a standard neo-classical production function have decomposed the growth of output per worker into the contributions of the growth of physical capital per worker, the growth of education per worker, and a residual representing the growth of total factor productivity. The following table summarises this information for various regions of the world for the periods 1960-94 and 1984-94.

Region	Growth of output per worker		Contribution of total factor productivity(TFP)	
	1960-94	1984-94	1960-94	1984-94
United States	1.1	0.9	0.3	0.7
Other industrial countries	2.9	1.7	1.1	0.7
East Asia	4.2	4.4	1.1	1.6
Latin America	1.5	0.1	0.2	-0.4
Middle East	1.6	-1.1	-0.3	-1.5
Africa	0.3	-0.6	-0.6	-0.4

Source: Collins and Bosworth (1996 p: 158-159)

The data above shows that there are significant regional variations in the contribution of TFP to growth of output per worker, and there is no tendency for any convergence between the developing world and the levels obtaining in industrial countries over time, except perhaps in East Asia. In the industrial world the contribution of TFP has averaged around 40% for the whole period, rising to almost 80% in the U.S. during 1984-94. In East Asia there seems to have been a rising trend, with the contribution of TFP increasing to about 40% in the most recent 1984-94 period. In Latin America, the Middle East and Africa, on the other hand, particularly the latter, the negative effect of A , the residual, can be seen to have overwhelmed the positive contribution of physical capital and human capital. This resulted in zero or negative growth rates of output per worker. Clearly, in

these developing regions, inputs in the form of the traditional factors of production are not being converted into outputs as expected, because the transformation process is dominated by non-technological factors that are not taken account of in the neo-classical model. Reviewing the growth accounting literature, Easterly (2001a) confirms that it is the “residual” rather than factor accumulation which accounts for most of the income growth differences across countries. For a sample of 54 countries over the period 1960-92, he finds that TFP growth accounts for 90% of the variation in growth rates of output per worker, after accounting for human capital accumulation. This result is similar to that of an earlier study covering 98 countries over the period 1960-95 by Klenow and Rodriguez-Clare (1997). He further finds that while factor accumulation is persistent over time, the growth rates in developing countries between 1960-97 have been remarkably unstable. These facts do not provide support to models that emphasize factor accumulation. Thus Easterly concludes that while the experience of the United States may fit steady state models, they do not fit the experience of most developing countries.

A further elaboration of the enormous variance in the contribution of total factor productivity as compared to the contributions of physical and human capital, can be found in Hall and Jones (1999). Using the usual growth accounting techniques and a Cobb-Douglas production function, they decompose output per worker into three components – the contributions of physical capital intensity, human capital per worker, and productivity. The data set is for 1988. It covers 127 countries, and the results have been presented as a ratio to U.S values.

Contributions of Capital, Human Capital and Productivity: Ratios to U.S. Values

Country	Y/L	(K/Y) ^{$\alpha/(1-\alpha)$}	H/L	A
United States	1.000	1.000	1.000	1.000
West Germany	0.818	1.118	0.802	0.912
United Kingdom	0.727	0.891	0.808	1.011
Hong Kong	0.608	0.741	0.735	1.115
Japan	0.587	1.119	0.797	0.658
Mexico	0.433	0.868	0.538	0.926
Argentina	0.418	0.953	0.676	0.648
U.S.S.R.	0.417	1.231	0.724	0.468
India	0.086	0.709	0.454	0.267
China	0.060	0.891	0.632	0.106
Kenya	0.056	0.747	0.457	0.165
Zaire	0.033	0.499	0.408	0.160
Correlation with A (logs)	0.889	0.248	0.522	1.000

Source: Hall and Jones, 1999 p: 91

The table shows that output per worker in the developing world ranges from about 40% of the U.S. level in Latin America, to between 3%-8% of U.S. levels in selected African and Asian countries. This large variation is mainly accounted for by the variability of A, or the residual, which is supposed to reflect productivity. While capital intensity and human capital levels compare favourably between the developing world and the United States, being between 70%-80% or more of U.S. levels for capital intensity, and 40%-50% or more for human capital, the contribution of productivity ranges between 10%-25% for the selected Asian and African countries in our sample. This large variation in the productivity of the transformation process between developed and developing countries re-affirms our earlier conclusion that different regions are not on the same production surface. Hall and Jones emphasize that although the residual is traditionally taken to reflect technical change, it could in fact be a reflection of the policy environment, or more generally a measure of our ignorance, containing all the elements contributing to growth other than factor accumulation per se. This observation is supported by the data in the table above giving the correlation between A and the other variables. Here we find that the residual has a very high correlation with output per worker at almost 0.9. However, its correlation with human capital and capital intensity, the latter in particular, is comparatively low, suggesting that variables which are generally included in the broad definition of the factors of production, are not the key determinants of the level or rate of growth of output per worker in most low-income countries.

Caselli (2005) summarising the key findings of the growth accounting literature states that it is now generally agreed that:

$$\text{Income} = F (\text{Factors, Efficiency}).$$

The consensus view is that “efficiency” plays a large role, accounting for at least 50% of the differences in per capita incomes. Studies that use a standard factor-only model to test for variance decomposition find that between 0.34 - 0.39 of the variance can be explained by differences in factor inputs, and that after controlling for factor accumulation, country-specific effects play a large role in output differences. Caselli notes that the growth accounting method treats the multiplicative factor A as factor-neutral, implying that some countries use all of their inputs more efficiently than others. However, the wide variations in A suggest there are significant differences between countries in the efficiency use of labour and capital and their substitutability. This observation is supported by the fact that most of the world’s capital is produced in a small number of R&D intensive countries, with the rest generally importing this equipment or these designs (Eaton and Kortum, 2001). Common technologies are therefore generally available worldwide. Consequently, the efficiency differences noted above are more likely to be caused by non-technological, rather than technological differences between countries.

The discussion above suggests that neo-classical theory does not provide us with the best framework to understand the problems of growth and development. In fact, the variability of the economic performance of developing countries in the 60 years since the end of the Second World War, and their lack of a favourable response to the development policy

prescriptions of this theory, have led to considerable dissatisfaction with this view, and have been the main driver of the broader dimension of theoretical and empirical research that has dominated the literature in recent times. At a theoretical level, economists such as North (1981, 1990), Olson (2000), and others, have probed into the issue of the minimum attributes of an economic and political system that discourages predatory behaviour and encourages agents to act in a productive manner. This has moved the debate away the neo-classical focus on resources and factors of production, to the institutional frameworks that govern the process of exchange and transformation in a country. The central theme that has emerged from this new vision is that for economic agents to engage in productive behaviour, their property and contract rights need to be protected from violation and predatory activities. These require governance frameworks that promote the dispersion of economic and political power, ensure the maintenance of the rule of law, and guarantee the presence of an independent judicial system. Based on this line of thinking, a substantial body of empirical research is now available which considers the relationship between broad a range of economic and political variables, and economic performance. The main findings of this literature are summarised below.

The empirical evidence given below has been divided into two tables. The first set of studies focus on the impact of a wide range of economic and political variables on GDP growth rates, but do not necessarily use the presence or absence of democracy as an independent explanatory variable. The second table consists of those studies that specifically attempt to assess the impact of democracy on economic performance.

Table 1: Impact of Economic and Institutional Variables on Economic Growth

Study and Coverage	Major Independent Variables	Main findings
<p>Alesina (1997)</p> <p>Data on GDP growth for 100 countries over the period 1970-1989.</p>	<p>Economic: Initial income, human capital, investment/GDP, openness, initial inequality.</p> <p>Institutional: Socio-political instability, corruption, protection of property rights/contracts, democracy, civil liberties.</p>	<p>Coefficients for rule of law, corruption, bureaucratic quality, protection of property/contracts, are all strongly significant. Democracy and civil liberties have no clear associations. Political/institutional variables taken together explain about ½ the cross-country variance in GDP growth.</p>
<p>Mauro (1995)</p> <p>Study covers GDP growth rates and investment rates on 70 countries over the period 1974-1989.</p>	<p>Economic: Initial GDP, human capital proxies, government expenditure.</p> <p>Institutional: Nine indicators of institutional efficiency including bureaucratic efficiency, corruption, efficiency of legal system, orderly political process, political stability.</p>	<p>Corruption has a strong negative association with the investment rate. Bureaucratic efficiency index is significantly and robustly associated with growth rates, after controlling for other variables.</p>

<p>Knack and Keefer (1995)</p> <p>Impact on per capita GDP growth in 97 countries over the period 1974-1989.</p>	<p>Economic: Initial GDP, human capital proxies, government consumption.</p> <p>Institutional: ICRG Index, which includes rule of law, expropriation risk, corruption, quality of bureaucracy. BERI Index, which includes contract enforceability, risk of nationalization, bureaucratic delays. Various indicators of political stability included, such as revolutions and assassinations.</p>	<p>Inclusion of the institutional variables increases the explanatory power of the growth regressions, with the ICRG Index having a similar effect to the secondary education variable. Security of property and contractual rights are found to be significant determinants of growth.</p>
<p>Hall and Jones (1999)</p> <p>Data covers 127 countries over the period 1986-1995. Aggregate production function approach used to understand differences in output per worker.</p>	<p>The estimated production function includes a social infrastructure measure, which is a combination of 2 indexes: the first is based on the ICRG index and includes rule of law, corruption, bureaucratic quality, risk of expropriation and government repudiation of contracts; the second is a measure of the openness of the country based on the Sachs-Warner index (1995). Index ranges from 0 to 1.</p>	<p>A difference of 0.01 in the social infrastructure index is associated with a 5.14% variation in output per worker. Applying this to the observed range of variation in social infrastructure, it is found that this accounts for much of the differences in output per worker between countries.</p>
<p>Barro (1996a)</p> <p>Study uses panel data from 100 countries over the period 1965-1990 to test for the conditional convergence of per capita income.</p>	<p>Economic: Initial GDP, initial human capital, life expectancy, fertility, inflation, government consumption.</p> <p>Institutional: Rule of law index.</p>	<p>The rule of law index based on ICRG is positively and significantly related to growth. A one rank improvement in the underlying index is associated with a 0.5 percentage point increase in the per capita growth rate.</p>

<p>Kaufmann, Kray and Zoido-Lobaton (1999)</p> <p>Study uses per capita GDP data for 1997 and 1998 in a sample of 173 countries, to analyze income variations.</p>	<p>Institutional: Six aggregate governance indicators constructed out of 300 governance measures covering civil liberties, independence of media, free elections, quality and independence of bureaucracy, rule of law, corruption, market friendly policies.</p> <p>Other: Historically motivated instrument variables used in other key studies</p>	<p>Strong positive association between each of the six aggregate governance indicators and per capita incomes, infant mortality, and adult literacy.</p>
<p>Kaufmann and Kray (2002)</p> <p>Data on per capita GDP from 26 countries in Latin America and the Caribbean.</p>	<p>Institutional: Six aggregate governance indicators, and historically motivated instrument variables used in other key studies.</p>	<p>Strong causal link running from better governance to higher per capita incomes, but weak link in the opposite direction i.e. higher incomes do not guarantee good governance in the long run.</p>
<p>Rodrik, Subramaniam and Trebbi (2002)</p> <p>Study considers variance in per capita incomes, output per worker, and factor productivity in a sample of 140 countries.</p>	<p>Economic: Indicator representing trade openness and integration with world economy.</p> <p>Geographic: Indicator represented by variables such as area in tropics, distance from equator, prevalence of malaria, and access to the sea.</p> <p>Institutional: Institution variable using European settler mortality as an instrument, and rule of law index.</p>	<p>Half the variance in per capita income levels is accounted for by the three variables used, with the institutional variable accounting for most of the difference.</p> <p>The institutional variable is found to be an important determinant of factor accumulation and productivity, while international integration and geography are not influential.</p>

<p>Easterly and Levine (2003)</p> <p>The relative impact of institutions, policy and endowment related indicators on per capita income levels in 72 former colonies, is considered.</p>	<p>Economic: Endowment indicators including European settler mortality, latitude, land-locked situation, crop and mineral variables. Policy variables including inflation and openness.</p> <p>Institutional: Institutional Index based on Kaufmann et al. (1999) aggregate governance indicators.</p>	<p>Simple regressions show that endowment indicators significantly explain both the cross-country variations in GDP and differences in institutional development. However, 2 stage least square results show the Institutional Index significantly explaining economic development, with endowments not explaining economic development beyond their ability to explain institutional development. Policy indicators are not significant once the impact of institutions is taken into account.</p>
<p>Acemoglu, Johnson and Robinson (2002)</p> <p>Urbanization in 1500 and per capita incomes today are compared for a sample of colonies, based on data from Maddison (2001).</p>	<p>Economic: Urbanization in 1500 used as a measure of early prosperity. Various instrument variables used for testing the hypothesis.</p> <p>Institutional: Security of property rights – from Political Risk Service; constraints on the Executive – from Gurr Polity III data set.</p>	<p>Higher urbanization in 1500 has a significant negative correlation with lower GDP today and the current level of institutional development. Maddison’s (2001) data shows that many colonies in Asia and Latin America were richer than the United States between 1500 and 1700. The reversal of fortunes occurred mostly in the late 18th and early 19th centuries. This reversal cannot be explained by the “geography” hypothesis.</p>
<p>Bloom and Sachs (1998)</p> <p>Study covering 77 countries over the period 1965-1990, considers the role of geography in explaining the observed growth gap between Africa and the rest of the world.</p>	<p>Economic: Initial income, trade openness, government deficit.</p> <p>Institutional: quality of institutions.</p> <p>Geography: Various geography and demography variables including land area in tropics, coastal and inland population density, population growth rate, life expectancy.</p>	<p>Two-thirds of Africa’s growth shortfall compared to other regions is due to various aspects of tropical geography, demography, and public health. One-third of the variation in growth of per capita incomes is due to economic policy and institutional quality related variables.</p>

<p>Sachs (2003)</p> <p>Review of previous major studies on the role of tropics related variables in explaining cross-country growth differences.</p>	<p>Measure of malaria risk added to a vector of institutional quality variables used in other key studies.</p>	<p>Geography, human health, and environmental variables have a direct and significant effect on per capita income levels. They do not operate through institutions. This is shown by the fact that the malaria risk variable is statistically significant, thus explaining why malaria prone regions – mainly the tropics, have lower per capita income levels compared with non-malarial regions.</p>
<p>Glaeser, La Porta, Lopez-de-Silanes and Shleifer (2004)</p> <p>GDP per capita data for up to 71 countries over the period 1960-2000, is used.</p>	<p>Economic: Variables used in Barro (1996) regressions. Institutional: Eight institutional variables taken from the Polity IV database including, expropriation risk, government effectiveness, measure of autocracy, judicial independence, constitutional review process, etc. Other: European settler mortality and malaria risk used as instruments.</p>	<p>Variables reflecting assessments of institutional quality such as risk of expropriation and government effectiveness, have significant coefficients. However, those representing constraints on the executive such as judicial independence, show no relation to growth.</p> <p>Settler mortality and malaria risk are highly correlated, and both are strong independent predictors of the current level institutional quality and constraints on the executive.</p> <p>Assessing countries in different groups, the study finds that:</p> <ul style="list-style-type: none"> - initial levels of schooling are a strong predictor of institutional outcomes. - those with high initial human capital have grown twice as fast. - stable democracies have grown slightly faster than autocracies. - autocracies have a much higher dispersion of growth rates.

All the studies reviewed above find that there is a strong relationship between economic growth, and variables representing institutional quality and the protection of property rights. These include the rule of law, quality of the bureaucracy, absence of corruption, expropriation risk, and enforceability of contracts. Most of the studies use regression techniques to arrive at their conclusions and find that much of the observed cross-country variation in per capita income levels can be explained by differences in institutional

quality. Hall and Jones (1999), using the production function approach, also come to the same conclusion. They find that differences in their social infrastructure index, which is essentially a measure of institutional quality, account for much of the variation in output per worker across countries. One study, Kaufmann, Kray and Zoido-Lobaton (1999), additionally finds that measures of good political governance such as free elections, the degree of civil liberties, and the independence of the media, have a strong and positive association with per capita income levels. Extending these findings, Kaufmann and Kray (2002) using data for 26 Latin American countries, conclude that there is a strong causal link from better governance to higher per capita incomes.

While accepting the importance of institutions, three studies in our review emphasize the key role of variables which are more consistent with the neo-classical view of growth and development. Bloom and Sachs (1998) and Sachs (2003), argue that various aspects of tropical geography, and human health related variables, have a significant effect on per capita incomes. This impact is direct and does not operate through the quality of institutions. Glaser et al. (2004), on the other hand, do find that institutional quality has a strong effect on per capita income growth rates, but that the institutional outcomes themselves are determined by the initial level of schooling in a country i.e. initial human capital is a strong predictor of future growth rates. Disputing this point of view, we have Rodrik, Subramaniam and Trebbi (2002), Easterly and Levine (2002), and Acemoglu, Johnson and Robinson (2002). All these studies consider the relative importance of geography related variables and institutional quality on economic growth. Rodrik et al. (2002) find that geography is not influential, and that institutions are the most important determinant of productivity and factor accumulation. Acemoglu et al. (2002) show that a higher level of prosperity in 1500 is associated with a lower current level of institutional development and a lower current value of per capita GDP. This “reversal of fortunes” cannot be explained by the hypothesis that emphasizes geography related variables, because these variables have remained constant over time. In sum therefore, the overwhelming weight of evidence is that institution related variables and institutional quality, are key to explaining developmental outcomes, and that sustained growth in developing economies is not based on the parameters that neo-classical theory considers central.

Table 2: Impact of Democracy on Economic Growth

Study and Coverage	Major Independent Variables	Main findings
<p>Barro (1996a)</p> <p>Study uses panel data from 100 countries over the period 1965-1990 to test for the conditional convergence of per capita income.</p>	<p>Economic: Initial GDP, initial human capital, life expectancy, fertility, inflation, government consumption.</p> <p>Political: Democracy index using Gastil’s political rights classification.</p>	<p>Growth increases with increased democracy at low levels of democracy, but the relationship turns negative once a moderate amount of political freedom has been attained. The turning point is about half way along the democracy scale.</p>

<p>Barro (1996b)</p> <p>Study considers the relationship between democracy and growth rates of per capita GDP in a sample of 100 countries over the period 1960-1990.</p>	<p>Economic: Standard variables used in growth analysis such as initial income, investment ration, various human capital measures, government consumption, black market premium.</p> <p>Political: Democracy index based on political rights indicator compiled by Gastil.</p>	<p>The democracy coefficient in the growth equation is moderately negative but not statistically significant. However, the results also indicate that there is a non-linear relationship between democracy and growth. The middle level of democracy is the most favourable to growth, whereas the lowest and highest groups do not have significantly different growth rates.</p>
<p>Rodrik and Wacziarg (2005)</p> <p>Per capita GDP growth data for 154 countries from 1950-2000, is used.</p>	<p>Political: Polity IV codes used to assess whether a country is a democracy or has gone through regime change.</p>	<p>New democracies grow 0.87 percentage points faster than those having no regime change. The growth effect of democratic transitions is even more significant and has a large magnitude in sub-samples only considering low income, ethnically diverse, or Sub-Saharan African countries which experienced sustained democratization between 1950-2000.</p>
<p>Persson and Tabellini (2007)</p> <p>Panel data set on per capita income growth and nature of political regime, for over 70 countries over the period 1960-2000.</p>	<p>Political: Regime classified as democracy as non-democracy based on whether Polity 2 variable in the Polity IV data set is positive.</p>	<p>The transition from autocracy to democracy is on average associated with a growth acceleration of about one percentage point.</p>

<p>Rodrik (1999)</p> <p>GDP data from 90 countries over the period 1970-1990.</p>	<p>Political: Countries divided into two groups – autocracies and democracies.</p>	<p>No strong determinate relationship between level of political participation and long run growth rates. However, the coefficient of variation for GDP growth rates is much higher for autocracies as a group, as compared with democracies i.e. more risk and randomness of growth rates in autocracies. Countries with greater freedom also experience lower declines in growth when faced with shocks.</p>
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The primary focus of the studies reviewed in Table 2 is the relationship between democracy and economic growth. The general conclusion arrived at is that there is no strong association between democracy and growth, although there is some evidence to indicate that transitions from autocracy to democracy have a growth enhancing effect, particularly in low-income countries. Certainly, there is no evidence that autocracies, on average, perform better than democracies, and as Rodrik (1999) has shown, there is much greater randomness in the growth rates of autocracies, and democracies are better able to absorb the negative impact of shocks. Further, since the necessary conditions for the security of property and the protection of contractual rights, such as the rule of law, independence and quality of the bureaucracy, etc., are exactly the same as that for a lasting democracy, there are adequate grounds to suggest that the bias of development policy and practice should be towards the establishment of competitive economic and political systems. What is abundantly clear though, is that the overwhelming majority of empirical studies on growth show that variables of economic and political governance are central to determining development outcomes. Contrary to what neo-classical theory professes therefore, good institutions are much more important than high levels of resource flows. This conclusion of course, begs the question as to how these institutions can be brought into being. In the next section therefore, we shall consider how the necessary institutions which underlie successful economic growth, emerge.

Alternate Paths of Institutional Development

In Europe, the political and economic institutions that underlie modern economic growth took 400-500 years to be established. Their establishment occurred through a gradual historical evolution that commenced in the self-governing cities of northern Italy and the Netherlands, and gathered pace with the increasing power of the mercantile and capitalist classes in Great Britain. In the non-Western world however, the facts of the matter are that for whatever reason the necessary favourable institutions did not emerge incrementally or spontaneously during the same period. To explain the non-emergence of beneficent institutions in the non-Western world, North and others (North, Wallis and Weingast, 2006), have come up with an alternative conceptual framework to explain

institutional development. Anthropological literature indicates that primitive societies were extremely violent (Keely, 1996). North argues that first and foremost this human violence needed to be contained for any society to develop a social order. Historically, the end of the Ice Age is seen as the point of transition from primitive to post primitive society. During this period the state began to emerge in some form or the other, as the primary mechanism for controlling violence. Left to themselves dominant elites, based on their control over the instruments of violence, inevitably asserted themselves and established a rent-seeking natural state. Such a rent-seeking state prevents disorder and enhances social stability by creating a set of self-enforcing agreements amongst the elites. North argues that the natural state has been the dominant social order for the past 10,000 years or so. It is a stable social order in the sense that the economic, political, military and religious systems are organically related to each other. And given the persistence of institutions, fundamental changes in one system cannot occur without fundamental changes in the others.

However, given that the natural state is based on a balance of violence, it can also be seen to have an inherent fragility. This could break down from time to time, leading to civil wars and state failure, as we have seen in many parts of the developing world during the 20th century. To progress beyond the natural state and achieve a more stable social order, the new institutional economics literature suggests that an evolutionary process must be gone through led by the dominant elites. This process is seen as happening incrementally, at the margin, and one that gradually extends the access of the majority to the organizations of control in a society. However, as North and others in this tradition agree, there is nothing automatic about a transition from a natural state to what they call an “open access order”, where the use of violence has either been reduced or eliminated as a means of political and economic competition. The question therefore still remains as to how a society can establish the institutions required to eliminate fragility and allow sustainable economic development to occur. In spite of the established superiority of these systems, outside Europe and North America, historically there have been few spontaneous transitions, with most democracies having emerged as accidents of history. Even the upsurge of democracy after the Second World War was mainly the result of the victorious countries forcing their political perspective on the newly emerging countries. Autonomous transitions to economic and political democracy are therefore rare.

Although traditional economic theory has no answers to these questions, a study of what has been termed as modern economic theory, seems to provide us with some answers. The proponents of these ideas, such as Stiglitz (1989), Hoff (2000), and Hoff & Stiglitz (2001), argue that the presence of information problems, transaction costs and distributional considerations affect the nature of contracts, incentive structures, and therefore outcomes. These factors are seen as being fundamentally dependent on the institutional framework, historical legacy, and the distribution of wealth in a particular society. Even with similar endowments therefore, different historical initial conditions and cultural beliefs will influence agent expectations such that multiple equilibria and low-level equilibrium traps will result. Furthermore, where path dependent processes and self-enforcing mechanisms are at work, vested interests will ensure that sub-optimal situations continue to persist even if alternative Pareto superior equilibria are known to

exist. Elaborating on this model, Bardhan (2001) discusses the impact of an unequal distribution of wealth and asymmetries in bargaining power, on outcomes. He argues that vested interests will resist changes to their pre-existing rent extraction machinery because of the uncertain prospect of a share in a potentially larger future pie. Such collective action problems will cause the persistence of dysfunctional or sub-optimal institutions. Modern economic theory therefore, supports the view that there is no guarantee that local evolutionary processes determined by the culture and historical conditions in a country will generate the institutions required for sustainable economic growth. Thus, in the presence of low-level equilibrium traps, the only way to achieve institutional change and move to a higher-level equilibrium is for an exogenous intervention to occur. Hoff (2000) gives various examples of the success of such interventions, such as affirmative action in the U.S., the Korean anti-corruption campaign in 1961, and how a law based on a social norm can move society to new equilibrium with better enforcement. These arguments reinforce the view that the basic postulates of neo-classical theory do not hold over a considerable range of economic activities and that the model cannot provide an adequate basis to explain the existing reality or the process of change in the developing world.

Discontinuous Institutional Change

The discussion above indicates that the West European model of institutional change in which development is seen as an evolutionary outcome of the internal characteristics of a society such as beliefs, culture, and historical legacy, has limited applicability. More generally, this characterization of the process of economic development ignores the more recent history of political and economic change in many parts of the world. An observation of 20th century history shows us that in large parts of the non-Western world, fundamental changes in economic and political institutions were brought about through a discontinuous process involving the conscious intervention of human agency. This agency was characterized by the actions of key individuals or small highly motivated groups within a country, or in some cases even a powerful external force, with interventions occurring in a historically abrupt rather than evolutionary manner. It is noteworthy that the new and intrusive institutions introduced in this episodic manner, were based on ideas and values that were not in consonance with the prevailing cultural attitudes and belief systems, or the traditional interest structures in these countries. To substantiate this thesis we discuss key periods of change in a number of countries in Asia and Africa where favourable institutional transitions have occurred. These are Japan, India, Turkey, and Botswana.

A review of discontinuous institutional change over the past hundred years or so indicates that it has been primarily of two types. The first has been where direct intervention by an external force or the collapse of the main external support of a regime, has enabled progressive economic and political groups already present in a particular society to gain dominance. In such cases, while the emergent groups may have been representatives of significant social classes, historically due to collective action problems, they did not have the capability to challenge the supremacy of the ruling political coalitions until such time as the external intervention occurred. In this category, for instance, we would find Japan, where at the end of the Second World War, the US and its allies swept aside the old

dominant feudal coalition and put in its place an externally dominated administration that lasted for almost a decade. During this period fundamental institutional changes were brought about, and social groups opposed to the old feudal-military coalition gained ascendancy. We could also include here much of what happened in Eastern Europe after the collapse of the Soviet Union. In Eastern Europe, progressive social forces that had been evolving prior to the communist take over, were given renewed impetus and were able to topple the weakened externally supported regimes after 1990.

The second model has been where the main driver of change has been a radical or elite domestic group committed to modernization and socio-economic reform. This process is to be found in countries such as Turkey, but more predominantly in the post-colonial third world. In the latter case, generally speaking, more efficient institutions were put in place as part of the negotiated settlement during the decolonization process between the old colonial masters and the elites leading the liberation movements. In most countries, particularly in Africa, these institutions did not suit the interests of these new elites, and as a consequence the structures and systems decayed. In some countries however, the super-structure of new institutions endured and played a catalytic role in promoting the growth of larger social forces whose interests in the long term underpinned the success of these very systems. India and Botswana could be considered as examples of this model. The four case studies therefore, chosen to elaborate the thesis of discontinuities in institutional development are Japan, Turkey, India, and Botswana. All four cases highlight the role of human agency, with strong historical evidence showing that the institutional trajectories of these countries were influenced by non-evolutionary interventions undertaken either by a small domestic elite or an external force, over a relatively short period of time.

Japan: The analysis of Japanese history given below is based on Gordon (2003), and the comparative history work of Barrington Moore Jr. (1967). The Meiji Restoration of 1868 was a feudal revolution, with the Emperor becoming the embodiment of national unity, beliefs and traditions. By Imperial decree in 1871, all feudal domains were abolished and converted into prefectures or administrative units under the control of the central government. However, the land tenure system in agriculture continued to be dominated by landlord-tenant relations. Through the Land Tax of 1873, the state put in place a mechanism for extracting revenues from the peasantry that could be re-directed towards modernization. Daimyo and other aristocratic families became dominant members of the financial oligarchy. By 1880, it is estimated that 44% of the stock in national banks belonged to the new peers. The industrialization that occurred was therefore very much in the feudal military tradition of the country, with the main impulse for economic growth coming from the Meiji government, now in the hands of a “progressive” feudal-commercial nobility. The business sector led by the zaibatsu, which emerged during this period, was also structured in a feudal manner and shared the socio-political views of the ruling elite.

The dominant elites during the Meiji period kept political change under control. Although a new Constitution with a Diet or parliament was created in 1889, the right to vote was given to a very limited electorate and only men of substantial property were eligible to

become members of the assembly. Out of a population of 50 million, about 460,000 men received electoral rights. The elites propagated the view that obedience to the state and emperor was the highest secular obligation of an individual. In spite of a veneer of constitutional government therefore, the period was characterized by bureaucrats and generals ruling the country in the name of the Emperor. The mass movements and urban riots during the early part of the 20th century ushered in what has been termed as the period of “imperial democracy”. In 1925, adult male suffrage was introduced and the first elections were held in 1928. However, elected politicians and the cabinets formed by them continued to play a limited role in government. The military, the bureaucracy, and men of substance, continued to wield political power through out the period. In any event these superficial democratic structures did not last long. By the early 1930’s the country had reverted to open authoritarian rule. Until the Second World War therefore, Japan was a feudal society with belief systems dominated by Confucian concepts of loyalty, obedience and piety.

As part of the post war solution, the Allies imposed a new political and economic system on the country, the new framework being based on western structures and values. In the seven years after 1945, the Allies rewrote laws, restructured the economic and political system, and sought to influence culture and beliefs. In 1946, a new Constitution was promulgated which guaranteed freedom of speech, the press, and assembly. Compulsory education up to ninth grade was introduced and the public universities opened to all. Democracy was to be the corner stone of the new Japan. Land was expropriated from the feudal class and distributed to tenants. The ownership and control of zaibatsu were taken away from family companies. As a consequence of these measures significant impetus was given to the previously subordinated business classes, and Japan witnessed the growth of a substantial middle class. Over the past 50 years, the exogenously inspired political and economic structures created in the immediate post-war period, have in the main endured and strengthened. As a result of the new egalitarian culture, traditional values were undermined, a fact noted by many Japanese authors of the protest school. Of course, in some ways institutional structures have been modified to integrate more traditional Japanese ways of thinking and precepts of behavior. However, the profound changes in Japan’s political and economic system, its culture and values, as compared with the pre-war period, are there for all to see.

India: The analysis below has been drawn from many sources, but is primarily based on Spear (1978) and Brown (1985). Pre-independence India was characterized by a semi-feudal, colonial economy, with a small middle class and some limited democratic structures. The Mutiny of 1857 resulted in the old aristocratic classes being finally discredited as leaders of Indian society. British policy also changed to accommodate more Indians from the newly emerging educated classes into the mechanisms of consultation in government. In spite of this however, until the early part of the 20th century, this role whether at the central or provincial level remained primarily consultative. The social base of the nationalist movement also continued to remain small. In the 20 years between 1864-1885, 5000 Indians obtained the B.A. degree, and at the turn of the century there were only about 30,000 graduates out of a population of 220 million. Although there were the beginnings of industrialization in the 1850’s, this was

concentrated in the Bombay and Bengal Presidencies. By 1892/93 there were about 150 cotton and jute mills employing about 180,000 workers. In addition, the coal industry had emerged in central India, and the plantation industry, mainly in Assam. A significant proportion of these industries continued to be owned by Europeans, so the extent of industrialization is by no means an indication of the degree to which an indigenous capitalist class had developed. For instance, all the jute mills in Bengal, and 622 out of a total of 652 tea plantations, were owned by Europeans.

The Liberal victory in Britain in 1906, gave impetus to the efforts to win the goodwill of the Indian political classes and to bring more Indians into closer association with the government and administration. Through the Indian Councils Act of 1909, both the Imperial Legislative Council and the Provincial Councils were expanded to now include a certain proportion of directly elected seats. However, the electorate for these seats remained extremely small and based on a limited property franchise. The intensification of the independence movement during the early part of the 20th century, and the advent of the First World War, resulted in more significant reforms in 1919. Under the Montagu-Chelmsford reforms, a new Legislative Assembly was created with 140 seats, of which 106 were elected. The official majorities in both the Viceroy's Council and the Provincial Councils, were abolished. The limited franchise of 1909 was increased to include a nationwide property qualification, as well as special qualifications such as a university degree. The newly constituted Provincial Councils had an electorate of 5 million, and the Legislative Council one of about 1 million. Taken together this meant that about 2.8% of the population had been enfranchised. Although this was a very small percentage of the total population, there is little doubt that these reforms meant that a move had been made from bureaucratic control to more representative forms of government, and from a limited to a mass electorate.

The inter-war period saw further internal integration of the Indian economy, an expansion of industry, the further growth of an educated middle class, and a strengthening of the freedom movement. All this culminated in the Government of India Act of 1935. This was a point of no return in terms of constitutional development. Dominion status was accepted as the goal, federalism the framework, and parliamentary institutions as the accepted form of government. The powers of the Provincial Assemblies and Provincial Ministries were expanded to all areas of government, and the electorate significantly increased. The franchise was still property based, but its scope enlarged to include about 30 million voters, or about 1/6th the adult population. In the provinces the influence went largely into Indian hands. The importance of the 1935 Act can be seen from the fact that significant elements of the post-Independence constitution were drawn from it. The institutional transformation of the structures of governance in India took place largely as a consequence of the Acts of 1919 and 1935. They essentially transplanted modified forms of Western political institutions into Indian society. The Indian elite accepted them as appropriate mechanisms for the satisfaction of the needs and aspirations of an Asian society, although the new institutions were based on ideas which were alien to indigenous structures and ideologies. At Independence in 1947, the role and influence of these institutions remained relatively limited. Cultural attitudes continued to be dominated by the hierarchical requirements of the caste system, and traditional beliefs conditioned by

karma or the inevitability of one's fate, and consequent passivity. Nevertheless, the institutions had the ideological commitment of the political leadership and support from broad elements within the small but influential middle class. In this sense therefore, the new institutions were a radical break from the past. As happened in the case of Japan, as well, they were put in place over a relatively short historical period of time.

Over the past 60 years, the adoption of a political system based on democratic values and the promotion of a capitalist market economy (albeit hesitantly in the initial years), has had a fundamental impact on values and belief systems in India. By some estimates India now has a middle class of about 300 million people whose values, in spite of indigenous variations, are not very different from their western counterparts. Competition and advancement are the slogans of new India rather than passivity and inevitability. Democratic values are now deeply ingrained in the minds of the people, with high voter turnout, and aggressively fought elections.

Turkey: Turkey provides a third example of key role played by human agency, and how this factor by bringing about abrupt changes in institutional structures can result in fundamental shifts in economic and political frameworks, and consequently in belief systems. During the early part of the 20th century, Turkey was characterized by the institutions of the decaying Ottoman Empire. It was essentially a backward semi-feudal state dominated by Islamic principles of behavior and social organization. The war of independence against invading Greek forces between 1921-22 was led by Kemal Ataturk and gave him enormous popularity and prestige. This enabled him to lead a process that led to the radical modernization of Turkey (Shaw and Ezel, 1977). Kemal Ataturk borrowed heavily from the western model. His social and political revolution set the stage for the future adoption of systems more closely aligned with western structures and their underlying value systems. In 1923 the Caliphate was abolished. A new constitution was adopted in 1924. During 1924-25, religious schools were closed, the monastic order was suppressed and their lands confiscated, and secular education was introduced. In 1926, a new civil code was adopted which gave women voting rights as well as equal rights in marriage and property. These institutional changes undermined the power of the old feudal classes and facilitated the growth of an indigenous mercantile/capitalist class. Ataturk died in 1938, but his institutions endured and generated socio-economic forces, which over time strengthened the foundations of these very institutions.

In 1945 the period of single party rule ended and a system of multi-party politics was established. Although the subsequent three decades were marked by considerable instability and military coups, today Turkey has a democratic system with over 50 registered political parties which are entitled to public funding. In 1961, Turkey adopted its first Constitution based on democratic principles and the protection of human rights. This Constitution was revised and approved by a referendum in 1982. Under the 1982 Constitution, the separation of powers between the executive, legislature and the judiciary, was further entrenched. The judiciary now functions independently, with an apex Constitutional Court whose role it is to ensure that all laws and decrees passed by the government are in conformity with the Constitution. Since 1981, the government has undertaken major economic reforms to liberalize the economy and establish a market-

based system. These reforms have enabled the Turkish economy to achieve high rates of growth in recent times. In 1995, a customs union was established with the European Union. As a result of these radical changes, in spite of the recent revitalization of Islam in Turkey, the economic and political systems are converging to the west European model and full membership of the EU is a possibility in the foreseeable future. It is indeed striking that Turkey is the only major country in the Islamic world which has maintained a relatively “open society” with democratic institutions over a long period of time. This success can be largely attributed to the radical institutional reforms brought about by Kemal Ataturk, and the socio-economic changes to Turkish society that evolved as consequence of these reforms.

Botswana: When Botswana gained independence in 1966, it was one of the poorest countries of Africa. It had no roads, a handful of university graduates, and nearly half of its active male population worked outside the country. Since then, while the rest of Africa stagnated, Botswana achieved one of the highest growth rates of per capita income in the world, and made significant progress in improving its human and social development indicators. Diamonds, which now account for about 40% of GDP, have of course made a significant contribution to this achievement. However, unlike in other parts of Africa, they have not been a resource curse, encouraging rent seeking and predatory activities by the ruling elite. Botswana has not suffered from the neo-patrimonialism which is characteristic of most African states, and which has undermined economic performance throughout the continent. There is general consensus that the success of the country is to be found in good governance. Since independence there have been freely contested elections. The government has followed good economic policies, which have protected private property and limited predation. Of the six widely used indicators of governance (Kaufmann and Kray, 2002), Botswana has the highest scores in Africa for government effectiveness, regulatory quality, and control of corruption. In some of these categories, Botswana scores better than France and Japan.

The institutions of a liberal democratic state were put in place by the British colonial masters around the time of independence. It is generally agreed that human agency in the form of Seretse Khama, first President of Botswana, his deputy Quett Masire, and their group, was responsible for the consolidation of democratic structures, the establishment of an effective and relatively uncorrupt bureaucracy, the rule of law, and the pursuance of good economic policies in the country. However, recent studies have down played this role, and suggested that the favourable economic and political outcomes are a consequence of certain inherent factors in Tswana society (Robinson and Parsons, 2006; Acemoglu, Johnson and Robinson, 2001). Two major factors have been mentioned in these studies as the underlying reasons for Botswana’s particular trajectory of institutional development. Firstly, it is argued that the Tswana developed a state in pre-colonial times, with institutions which limited the power of chiefs and ruling elites. The main focus here is the *kgotla* or popular assembly, which was used to discuss and endorse any major decision to be taken by the community. Secondly, emphasis is given to the fact that the political elites in control of the state at the time of independence were heavily invested in the country’s most important economic activity – ranching. It is suggested that this limited predation.

We shall argue here that none of these factors were peculiar to Tswana society, and in fact taken in conjunction with other variables, indicate that Botswana was ripe for the kind of neo-patrimonialism and predation seen in other post-independence African societies. Historically, Botswana consists of eight inter-related Tswana chiefdoms. Considering African political systems, Fortes and Evans-Pritchard (1940) state that unlike many of the stateless tribal societies on the continent, the Tswana states fall into that category of societies which had the formal political and administrative structures which we normally associate with government. Schapera (1940) analyzing the political organization of the Ngwato, the largest of the Tswana tribes, elaborates on this issue. The Ngwato had centralized authority, an administrative machinery, and judicial institutions, within which there were sharp divisions of rank, status and wealth corresponding to the distribution of power and authority. The chief was the central figure around whom tribal life revolved. "He is at once it ruler and judge, maker and guardian of its law, and director of its economic life" (Schapera, 1940 p 64). Although all significant matters of tribal concern were dealt with before the assembly of adult men in the *kgotla*, and it was not unknown for the assembly to overrule the wishes of tribal leaders, the decisions made were generally the same as those arrived at previously by the chief and his personal advisors (Schapera, 1940 p 72). Opposition if any, was bound to be cautious, for fear of reprisals. Kgama III, the great chief of the Ngwato (1837-1923), for instance, was known to brook no opposition. For the most part, the *kgotla* was a vehicle to mobilize public support for decisions already made by the community's political elite (Molutsi and Holm 1990). The *kgotla* also, was not inclusive in that it excluded women, younger adult males and most minority groups, from its deliberations (Schapera, 1955). In sum therefore, the indigenous polity was highly authoritarian and had little semblance of democracy. The country's social class structure was rigidly hierarchical and various authorities have indicated that it was probably one of the most inequalitarian in Africa (Holm, 1988).

Comparing Botswana with other traditional African societies, it further needs to be noted that there was nothing exceptional about the Tswana *kgotla*. Most pre-colonial African societies, particularly cattle owning ones, had similar consultative and decision-making structures, such as the *oluhia* of the Bantu, and the tribal assemblies of the Masaai, Nuer and Dinka of Eastern Africa. Neighbouring regions such as Basutoland (subsequently Lesotho) as well, had similar structures, but these did not promote a democratic polity. In Lesotho for instance, soon after independence, the Basutoland National Party led by Chief Leboa Jonathan mounted a coup after losing in the elections. The difference between Botswana and rest of Africa however, was that in the former, the Botswana Democratic Party (BDP) under Seretse Khama reinforced and amplified the tradition of the *kgotla* so that over time it became an integral part of the country's democratic institutions (Holm, 1988). Thus around the time of independence the practice of "freedom squares" was started. Under this system any political party or group of political activists had the right to call a freedom square, with very few limits on the freedom of speech. The freedom square has endured and strengthened over the years, and has become one of the main forums for political debate in the country. Our analysis therefore, indicates that it is not the inherent nature of the *kgotla*, but the manner in which the ruling elites in

Botswana used this traditional institution to enhance the democratic polity, which needs to be emphasized.

Let us now consider the role of indigenous cattle ranchers, or what has been termed the “beefocracy”, in influencing Botswana’s favourable institutional outcomes. Historically, the chiefs dominated the tribal economy, allocating land, and until the end of the 19th century, controlling or owning all the cattle. As a consequence, at independence in 1966, large cattle ranchers were a small group led by Seretse Khama, and consisted mainly of the traditional aristocracy and socio-political elite. This economic reality is reflected in a survey undertaken in 1974, eight years after independence, which showed that Botswana was not only a very poor country but had very high inequalities in income and the ownership of assets, mainly cattle. The level of inequality was comparable with some of the most unequal countries in Latin America. As Acemoglu et al. (2001) themselves admit, such an environment where a very small fraction of the population hold all the economic and political power is not the most ideal for the general security of property rights. The institution of property, for its preservation, requires that effective property rights and ownership be spread over a large segment of the population. Engermann and Sokoloff (1997) analyzing the differential growth performance of Latin America and the United States, point out that there was virtual parity in the GDP per capita between these two regions in the 1700’s. The divergent paths of the two regions since then can be explained by reference to the superiority of institutions in the latter, namely more political rights, greater democracy, less rent seeking, more security of property, etc. They ascribe this to the fact that in the United States the economy centered around family farms and independent proprietors, leading to a more equal distribution of wealth and more democratic political institutions. In Latin America on the other hand, there was concentration of wealth and extreme inequality. Control of the state by such elites led to laws and legislation designed to inhibit the spread of commercial activities to the general population, and to protect their economic interests and privileges. This resulted in the establishment of authoritarian, rent seeking regimes.

In addition to the problem of inequalities, Botswana’s situation was further compounded by the fact that the state had practically no resources at independence, and between 1966 and 1971 was financially dependent on Britain to cover the costs of administration and development. When the diamond revenues came on stream in 1971 therefore, the fundamental socio-economic realities in Botswana were that there was small powerful elite, there were gross inequalities of income and wealth, the population at large was illiterate with a handful of school and university graduates, and the state was poor. In the circumstances there were no incentives for the so-called “beefocracy” to limit rent seeking and put in place a system that protected property rights. On the contrary, these factors suggest that the country was ripe for the establishment of a neo-patrimonial state once the indigenous elites had taken over the reins of government. Based on this evidence, it is difficult not to ascribe the good institutions, and the good economic and political governance observed, to a conscious choice made by the political elites led by Seretse Khama. Even the *kgotla*, which as we noted has been emphasized by some researchers, was actually enhanced and transformed from being a pre-colonial instrument of control by traditional elites, into an important mechanism within Botswana’s

democratic institutions for promoting inclusiveness and consensus building. Botswana's experience therefore, like Turkey's under Kemal Ataturk, is a powerful example of the key role played by human agency in influencing the institutional trajectory of a country.

The Model

In the discussion above we have seen that institutions are central to developmental outcomes. This powerful role is a direct consequence of their ability to determine the incentives generated by a system, which of course have a determining influence on human behaviour. The key assumption that permits the neo-classical model to postulate an institution free vision of the efficient functioning of markets is that of individual rationality. By rationality here is meant that individuals behave to maximize utility or self-interest, and the content of this self-interest is specified in terms of wealth or pay offs. Once this assumption is dropped, and a wider range of motivational assumptions is accepted to explain human behaviour, there is no longer any guarantee that the institutions that emerge in a particular society will be beneficent or appropriate for the efficient functioning of an economic system. A number of psychologists have in fact, argued that human nature is far more complex than that assumed by neo-classical economics, with ideologies, altruism, and standards of conduct derived from beliefs and culture, being equally important determinants of behavior. In such circumstances an individual may not define self-interest in terms of wealth maximization. Plott (1986) for instance, states that from the point of view of evolutionary biology, the definition of individual self-interestedness could be seen as one of maximizing the survival potential of an actor and his genes in future generations. In such a socio-biological model rational self-interest would imply nepotism, which included protecting the interests of ones relatives and direct descendants. This would result in totally different pattern of individual behaviour than that predicted by standard economic theory.

While such alternative behavioural hypotheses may create difficulties for neo-classical theory, they are likely to open the way for a more realistic understanding of institutional change and economic development. Following on such evolutionary behavioural models, at a very basic level it is probably more appropriate to view human beings as predators and pirates whose instincts for survival emerged out of the hunting Pliocene, rather than as the rational selfish individual who was part of the new bourgeoisie which emerged during late middle ages in Europe. Such a view of human nature would be far more consistent with the anthropological evidence on primitive man, as compared to that suggested by the rationality model. Dismissing the commonly held view of the "noble savage", in 1941 the great ethnographer Bronislaw Malinowski observed that anthropology had done more harm than good in confusing the issue by depicting human ancestry as living in a golden age of perpetual peace. In a detailed study of violence before civilization, Keeley (1996) has used ethnographic and archaeological evidence to show that conflicts and predation were common factors in pre-state societies such as tribes, bands and chiefdoms. Thus predation is a much deeper reality of human history, while "rational" behaviour a more recent and perhaps more shallow phenomenon. From the point of view of economic science, by predatory behaviour we mean the forcible encroachment upon the endowments of other people. This contrasts with the behavioural

assumptions of neo-classical theory, where an individual limits himself to using his own endowments and acquiring the fruits of his own labour peacefully. Based on this evidence, if rationality is rejected in favour of predation as an underlying basis for understanding instinctual human behaviour, we argue that a more useful explanatory hypothesis for institutional and economic change can be developed.

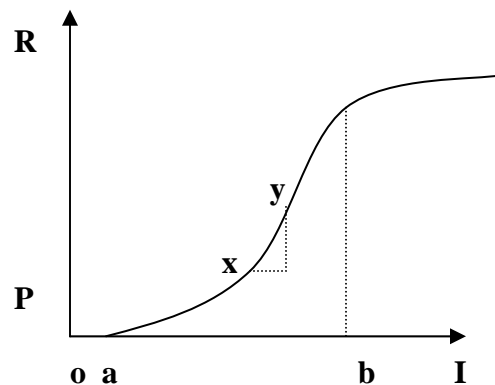
A starting point for such a hypothesis would be the Hobbesian view that given humanity's natural condition of war against each other, it is only by common agreement to certain restraints or covenants of behaviour that the natural state of violence can be transcended. Developing on this theme we have Douglass North's (1981, 1990) insights that institutions are the formal and informal rules of the game, and their enforcement characteristics, which human beings have devised to govern interaction amongst themselves. The initial formation of such rules and their subsequent accumulation as the social capital of that society are determined by cultural beliefs, the origins of which are to be found in the anthropology, sociology and history of a country or region. By social capital we mean the informal norms, obligations and expectations that have evolved from prior social interaction, and which determine trust and other forms of cooperative behaviour in a society. Such capital inheres in the structure of relations between actors, enhances the information and coordination of markets, reduces transaction costs, and eventually contributes to the efficiency of productive processes (Coleman, 2000). However, it is also in the nature of social capital that once it begins to accumulate and become more elaborate, it will increasingly influence future modes of behaviour. The behavioural rules at a particular moment of time will therefore vary, depending on the interaction between the existing institutions, both formal and informal, in a society and basic instincts for predation and survival that we have inherited from the past.

In a primitive society with no formal institutions and limited social capital, the basic instinct to survive would ensure that behaviour was primarily opportunistic or predatory. As a society develops agricultural communities and feudal institutions, survival and betterment would probably necessitate purely opportunistic behaviour to be over ridden by new rules such as loyalty to ones tribe, clan and eventually the ruler. Finally, with the growth of capitalism and its formal institutions to regulate impersonal interaction and exchange, human beings would be encouraged to act in a more self-interested yet benign manner. The creation of a more well defined set of opportunities available within an established institutional matrix would limit predation and encourage the development of value systems which could, in principle, approximate the paradigm of rationality found in neo-classical economic theory. Where a well-established institutional matrix exists, an actor could be expected to limit his choice to a basket of opportunities which lies within his own budget and capabilities, rather than trying to take away the endowments of other individuals by choosing to rob, steal, plunder, or act in a predatory manner (Bardhan, 2000). As predators and pirates we therefore respond to the incentives contained in the economic and political institutions we are confronted with, and change our behaviour accordingly. This characterization of the role of institutions in conditioning beliefs and value systems does not in any way deny the validity of the historical arguments which show causation to be in the opposite direction. The comparative history literature has convincingly shown us the fundamental role played by religion, culture, homogeneity and

historical legacy, in determining the speed and depth of modern economic and political development. It only shows that the reverse effects of institutions on value systems is equally relevant, particularly in the context of the 20th century.

If human nature is viewed in this continuum from predatory to rational, in a socially undeveloped and institutionally backward society, a small group that has gained ascendancy due to historical, ethnic or religious factors, will then be naturally motivated to use its political power to act in a predatory manner and use the resources of the state for the benefit of its limited constituency. Efforts to introduce more productive systems of economic and political governance in such circumstances will fail because the group will subvert these processes for its own benefit. However, with economic growth as the size of the elite group, or groups, increases in a particular society, there is greater need for certain rules of interaction to emerge so that predatory activities do not result in conflict and mutual destruction. It could be argued that as the size of dominant economic groups increases, at some point diminishing returns to predation set in. The accumulation of informal rules of interaction or social capital, would then form the basis for formal institutional development and ensure that as a society progresses, and the size of dominant groups become a larger and larger proportion of the population, human beings increasing behave in what is considered to be a rational self-interested manner, resulting in the social good.

In this model, predation and piracy are now constrained by institutional development, in which are embedded both informal and formal rules of behaviour, which although perhaps contrary to our basic instincts are accepted as necessary for mutual benefit, and which over the course of time become habitual to our thought and practice. This view enables us to understand why societies with large middle classes have higher levels of per capita income, achieve higher rates of economic growth, have more stable institutional structures, and have a greater consensus on rules and systems for the enforcement of rules, as compared to other societies (Easterly, 2001b). It is also consistent with the historical fact that in societies where a long period of evolutionary institutional development has resulted in mature economic and political institutions, abrupt changes are not generally observed. The arguments presented above can be graphically expressed as follows (Chakravarti, 2005):



The figure above shows the relationship between the development of institutions and the progression from predatory to rational behaviour. The X-axis shows institutional development, while the Y-axis shows increasing levels of economic rationality, in the standard neo-classical sense. Starting from a base level primitive society there would have to be some institutional creation up to point **a**, before any change in predatory activity could be expected. This would probably be in the form of an accumulation of informal rules of social behaviour. Subsequently, opportunistic behaviour is likely to respond slowly to institutional creation until a threshold of institutional development has been reached. This threshold level would be one where formal and informal rules have reached a point sufficient to underpin the emergence of incrementally more complex impersonal structures of exchange. Once a high level of rationality is reached, further institutional development is likely to have a limited impact on economic behaviour.

In this model, culture, beliefs, homogeneity and historical legacy have a central role to play in the interaction between institutions and behaviour. They determine:

- the intercept **oa** or the initial stock of social capital necessary to influence the primary move away from predatory behaviour;
- the slope of the curve, which shows how strong the impact of institutional change will be on behaviour in particular society; and
- the point **b**, where a long period of institutional development has permitted behavioural patterns to emerge which could, in principle, approximate the assumptions of the rational choice paradigm adequately for the neo-classical theory to offer an acceptable description of reality.

If we accept the plausibility of this hypothesis, it has significant implications for the way in which the process of development should be viewed and for the appropriate policy approaches that need to be taken to promote sustainable economic growth. In Sub-Saharan Africa and countries of the former Soviet Union where institutional frameworks are weak and elite groups are small relative to the rest of the population, predatory action by the state will be the natural order of the day. On the other hand, in East Asia and Latin America where formal and informal rules of interaction have developed over long periods of time for the peaceful sharing of a country's wealth, and larger elite groups or middle classes have emerged, such predatory action is more likely to be constrained. There is clearly a threshold in each society where incentive structures develop to a point such that elite groups begin to find it more beneficial to modify their behaviour from being predatory to being more inclusive and socially productive. Consistent with the comparative history findings, this paper argues that the achievement of this threshold depends on the culture, beliefs, historical legacy, and accumulated social capital in a society. However, although historically, as in the case of Western Europe and North America, the process of reaching this point has tended to be evolutionary, the more recent 20th century experience suggests that there could be discontinuities in the trajectory of institutional development, with abrupt movements occurring in either a favourable or unfavourable direction. A favourable move such as occurred in India or Japan is shown in Figure 1 by a discontinuity which moves the society from point **x** to point **y** along the dotted lines. These discontinuities imply that there may be more non-deterministic and less path dependent ways of achieving higher levels of institutional development.

This perception of the dynamic interaction between basic human instincts, ideas and institutions, provides us with clues that are useful in explaining the different patterns of institutional change observed during the 20th century. Our arguments suggest that while “rational” institutions can be introduced or imposed by an elite group, external force, or transitory event, their successful absorption and development is a more complex issue. The literature suggests that a favourable progression of discontinuities over time requires that social changes occur and social forces emerge whose presence reinforce the functioning of these very institutions. We have already noted the importance of the emergence of a middle class with its interest in the security of property and the rule of law (Easterly 2001). The role of education in promoting political development and rational choices, has been emphasized by Lipset (1960). Glaeser et al. (2004) empirically test Lipset’s view and find that for a sample of 71 countries, over the period 1950-80, schooling is a major causal factor explaining democratic institutions. Coleman (2000) and others have emphasized the catalytic role played by the initial stock of informal institutions or the reservoir of social capital available in a particular society. Considering these factors in the context of the four case studies discussed above, the key common element that emerges is that the elite groups, domestic or external, that brought about the initial institutional discontinuities, used their dominant position to ensure that the new frameworks and policies remained in place for a period of time long enough to facilitate the necessary social and behavioural changes which would underpin these very institutions. In India and Botswana, the domestic elite group supported progressive institutions and implemented policies favourable to the security of property rights. In Japan, the external occupying force did much the same thing, while demolishing the feudal system and allowing the growth of an indigenous middle class. Thus over time, as happened in Western Europe, the institutions became self-enforcing through the expansion of education, the development of a middle class, an increase in social capital, and associated changes in ideas, beliefs and behaviour.

Using this model, and the reinforcing factors mentioned above, it is easy to understand the failure of institutional development in Sub-Saharan Africa. At the time of independence, African countries did not have a middle class, they had low levels of education, and given the dominance of tribal structures, they had inadequate reserves of social capital to support the requirements of a modern state. In comparison to the situation in our four case study countries, the elites in power were motivated by predatory tendencies, which eventually resulted in the establishment of neo-patrimonial states. One significant difference between Sub-Saharan Africa and countries of the near and far east, is that the latter group, which includes Japan, India, the countries of East Asia, and Turkey, are old civilizations with reserves of social capital that have accumulated and deepened over more than a thousand years. These reserves, rather than forming a barrier as suggested by some analysts, probably facilitated the absorption of new and more complex institutions. A caveat to this argument is that it has difficulty in explaining the institutional failure observed in the former Soviet Union. This part of the world shares much of the long history and culture of Europe. It would therefore seem reasonable to expect similar responses from many of the countries of the former Soviet Union, as from other western societies. One possible explanation, which is consistent with the idea of

transitory events causing discontinuities in institutional development, is that 70 years (almost two generations) of communist rule based on predatory and opportunistic modes of behaviour debilitated the traditional conventions, norms and beliefs to such an extent that the social capital accumulated over centuries was effectively wiped out. A direct consequence of this institutional destruction was that the behaviour of elite groups, and the state, in these transition economies reverted to their natural predatory forms. This notion is supported by Taylor (1982), who argues that the coercive power of the state can destroy community norms and altruistic behaviour. Coleman (1990) also argues that the expansion of the bureaucratic organization of the state can lead to the atrophy of informal networks, thereby diminishing social capital.

We have argued that institutional change favourable to sustainable development can be brought about by an elite domestic group or external force. While domestic solutions are clearly a preferred mechanism to external interventions, their success requires that there be domestic forces powerful enough and motivated to bring about radical change. As it happens, the evidence on the persistence of institutional and poverty traps in large parts of the developing world, indicates that this is actually not the case. In the same way therefore, that an “exogenous” government intervention may be necessary to eliminate a bad equilibrium in domestic economic markets, international intervention may be the only way to move a country stuck in a low-level institutional trap, on to a path of sustained growth. The increasing legitimacy of modern systems that guarantee economic and political freedoms, the globalization of values that emerge out of these systems, and the subordination of local culture and beliefs, reinforce the view that successful institutional change cannot be an agenda which is left to domestic groups operating within a nation state. Rather, it can be argued that the elaboration of pre-designed institutional frameworks or templates which embody democratic and capitalist values, and efforts to implant them, albeit with local variations in form, into the developing world is a meaningful strategy to accelerate the process of economic development.

Rodrik (1999) elaborating on how the institutions of a market-based system can be acquired, states that there are two options which can be followed. Firstly, institutional blue prints can be imported from successful economies. Secondly, if it believed that local conditions are so specific, then unique solutions based on local knowledge may be required. This juxtaposition is however, extreme because although capitalism in the US maybe be different in certain respects from that in Japan or Europe, certain fundamental characteristics are common. These include the security of property rights, legal systems to protect these rights, the rule of law, a reasonably efficient bureaucracy, the absence of corruption, political structures which permit the peaceful management of social conflict, etc. Of course, local history, custom and culture will undoubtedly influence the exact character of the institutions that emerge. However, to argue that countries have such a high degree of specificity that that they require unique institutions goes against the empirical evidence presented earlier on the deep determinants of economic growth. The borrowing of market and non-market institutions which have proven to be historically successful, is therefore a good starting point for any country. Institutional development in this scenario would become a composite of local evolutionary tendencies, if any, and international models, supported by international action where necessary, to accelerate the

achievement of levels of economic and political governance which are more favorably disposed to productive behavior and productive activities. Such a process would be further aided and abetted by the present international political environment, which is increasingly hostile to elite groups acting in a predatory manner within the confines of their own borders. The recent institutional history of Southern Sudan, outlined below, represents just such a case where the theory elaborated above has been put into practice.

II. Southern Sudan: A Case Study in Discontinuous Institutional Change

Traditional Society

Southern Sudan consists of the three provinces of Sudan that were defined as the Southern Region during the colonial period, prior to independence in 1956. The region has a population of about 12 million, with an African-Christian-Animist majority, in contrast to the northern provinces of Sudan, which are primarily Arab and Muslim. Although the south has several distinct tribal groups, the two major tribes are the Dinka and the Nuer, who ethnically form part of the River Lake Nilotic peoples of East Africa. To have a proper understanding of the underlying institutional setting of this pastoralist society, it is first necessary to consider its tribal political organization. The discussion presented below is based on the research that E.E. Evans Pritchard undertook on the Nuer in the 1930s (Evans-Pritchard, 1941). However, other ethnographic sources have also been consulted such as Radcliffe-Brown and Forde (1970), and Lienhardt (1958), and on this basis it has been found that Evans-Pritchard's analysis is equally applicable to the Dinka, who in effect are the tribal "cousins" of the Nuer.

Fortes and Evans-Pritchard (1940), in their study of eight primitive African societies conclude that the Nuer were part of that group of societies which lacked centralized authority, administrative machinery, and a constituted set of judicial institutions in which there were sharp divisions of rank, status or wealth. The Nuer, and other African tribes similar to them, therefore formed a group which could be classified as stateless societies. In the absence of an over-arching hierarchical political authority, the social structure was based on kinship, with linkages between clans being provided through a system of segmentary lineage. This lineage structure provided the framework of the political system and governed relations between independent clans who controlled their own territorial segments. The role of chiefs in this system, whether they had ritualistic authority like the leopard skin chief (fishing spear chiefs in the case of the Dinka), or had been given official status as part of government structures, was to play a mediating role along with elders or influential members of aristocratic clans, in resolving disputes based on established conventions. The constitution of Nilotic tribes was therefore highly individualistic and libertarian, with the absence of bureaucracy or any form of centralized government in their political structures. This was best termed as a system of "ordered anarchy" (Fortes and Evans-Pritchard, 1940 p.296)

In spite of the severe dislocations during the civil war, the social and political structures described above have persisted in more or less their original forms up to today. These

structures therefore provide the underlying setting and context in which subsequent changes in the institutional framework of Southern Sudan need to be viewed.

Institutions during the Civil War

The civil war between the north and the south commenced around the time of independence in 1956, and continued intermittently for a period of 50 years, until the Comprehensive Peace Agreement (CPA) was signed in January 2005. Over two million people, mainly from the south, died during the conflict. The fundamental division between the north and the south was well recognised in colonial times. After the departure of the Egyptian intermediaries who were part of the civil administration of Sudan in the late 1920s, the British instituted their own Native Administration policy. One of the principal elements of this policy was to administer the south as a separate entity from the north, with measures in place to prevent the spread of Islam and Arab influence in the south. Thus the Closed Districts Ordinance was promulgated in 1930 under which a stringent system of permits was made a requirement for any northerner or person of Egyptian origin wishing to enter the south.

Discontent in the south with the manner in which the independence process was evolving, in particular increased fears of northern domination and colonization, led to the Torit Mutiny in 1955. Soldiers of the Southern Equatoria Corps killed their northern officers and fled into the bush. The rebellion emerged as the Anyanya (snake venom) secessionist movement in the early 1960s. Unable to suppress the movement, the Khartoum regime under Gen. Numeiri negotiated with southern political leaders, resulting in the Addis Ababa Agreement of 1972. Under the agreement, the three southern provinces were brought into a new self-governing Southern Sudanese Region, with a Regional Assembly of 60 members, and a High Executive Council. The Regional Assembly was empowered to elect or remove the President of the High Executive Council, subject to confirmation by the President of the Republic. The first elections to the Assembly were held in 1973. The Regional Government was to have control over health, education, mineral and natural resources, and the police.

Resettlement and rehabilitation of the population displaced by the civil war between 1956 and 1972, the absence of any investment from the central government, in-fighting within the southern political leadership, and the continuation of a low level guerrilla war by elements of the Anyanya who refused to accept the Addis Ababa agreement, resulted in ineffective administration and poor governance in the south during the decade following the establishment of the Southern Regional Government. In any event, based on the native administration system left behind by the colonial rulers, tribal structures continued to dominate the rural areas, with basic civil administration systems existing in only in Juba, the capital, and other major urban areas. By the early 1980s, the Addis Ababa agreement had itself begun to look shaky, with Numeiri's wavering commitment to its provisions, in particular his efforts to abolish the southern regional government and re-divide the south. In mid-1983, dissatisfaction with Numeiri's policies resulted in major mutinies and desertions of soldiers from several garrisons across the south. These forces soon unified with remnants of the earlier secessionist movement, and formed the Sudan

People's Liberation Movement/Army (SPLM/SPLA) under the leadership of Col. John Garang. A new phase of the civil war had begun, which ended only 22 years later with the signing of the CPA in 2005.

During the course of the civil war the SPLM/A gained control over most of the rural areas. The SPLA divided the south into a number of areas or zones, which were put under Military/Civil Administrators and Commanders. At the local level the tribal structures, particularly the role of the chiefs in settling conflicts based on customary law, was reinforced. After the first National Convention in 1994, the SPLM began a limited process of separating military and civilian structures. The Civil Administration of New Sudan (CANS) was set up to administer a new hierarchy of rural civil administration. Within this framework, a number of administrative secretariats were set up, such as for finance, health, education, legal affairs and local government. However, these secretariats remained rudimentary and with limited personnel up to the end of the war. Given the fluid nature of the conflict, military structures continued to dominate the movement throughout the period. In terms of a formal legal framework, the SPLM did adopt a small number of civil and criminal laws in the last days of the civil war. These laws were either borrowed from the north, or based on earlier colonial laws. In any case, in the absence of an established judicial structure, they had very little applicability in practice.

The northern government, on the other hand, continued to control Juba, the capital of the south, and a few other major towns. After the abolition of the Southern Regional Government in 1983, the south was re-divided into a number of smaller provinces. Provincial administrations, based on the old colonial bureaucratic model, with ministries staffed by under secretaries, deputy secretaries, clerks and messengers, were established in each province. Since the northern government did not have physical control over the provinces, the purpose was primarily political rather than to actually provide a proper civil administration. As a consequence, the provincial administrative structures were housed in the few military garrison towns under the control of the north apart from undertaking police, judicial and law enforcement functions, did little else. Since the population and provincial administrations in the garrison towns were under the control of the government in Khartoum, the laws and legal structures governing them were those of the north, as well, i.e. based on the Shari'a.

At the beginning of 2005 therefore, the institutional and governance frameworks in Southern Sudan were fragmented and fragile. The civil administration was divided between rudimentary structures in the SPLM controlled areas, and an unknown number of police, judicial, law enforcement, and relatively low-skilled personnel in the northern controlled garrison towns. The limited social services being received by the population were being provided by international NGOs, funded by donor organizations. There was no constitution. The legal framework consisted of a small number of laws that had been approved by the SPLM Leadership Council. The SPLM itself was the only legitimate political force, with almost all the other political groupings operating as armed militias. These militias tended to have control over their own areas or territories. Although there was a formal distinction between the SPLM and the SPLA, in practice it was the senior commanders of the guerrilla army who controlled the Leadership Council of the

movement. Finally, after all these years of civil war there were very few indigenous civil society organizations, media coverage or information dissemination systems, to speak of in Southern Sudan

Comprehensive Peace Agreement (CPA)

The CPA (Government of Southern Sudan, 2005a) was the product of negotiations between the two main protagonists in the civil war: the government in Khartoum led by the National Congress Party (NCP) and the rebels in the south led by the SPLM. The negotiations were mediated by the Inter-Governmental Authority on Development (IGAD), a grouping which included the UN, AU, and interested developed and developing nations. The Power Sharing Protocol (IGAD, Kenya, 2004) of the CPA contains the most wide-ranging effort to provide southern Sudan with a formal institutional framework, in its history. Since the structures contained in the protocol have had an important influence on the direction of institutional development in the south, it is necessary to fully describe and analyse its content.

Under the CPA, Southern Sudan was to establish its own autonomous government – the Government of Southern Sudan (GOSS), using a model of asymmetric federalism, with the possibility of secession through a referendum after a 6 year Interim period. One of the consequences of having fought a brutal dictatorial regime, and having had the strong support of western democratic countries during the latter part of the liberation struggle, was that the leadership of the SPLM had made their commitment to the creation of a democratic society based on the protection of human rights and the rule of law, well known. This commitment was reflected in the Power Sharing Protocol, which stated that its underlying principles were good governance, transparency, the rule of law and democracy. Thus it was agreed that human rights should be protected in accordance with international conventions and treaties; that there should be the right to liberty, right to fair trial, protection against arbitrary arrest or detention, freedom of expression, thought and religion; and, the right to peaceful assembly. Further, there should be fair electoral laws, the free establishment of political parties, and elections at all levels of government, with the first general elections being held four years after the signing of the CPA. Finally, a decentralized system of government was to be established with significant devolution of powers to the states.

Southern Sudan was to have its own constitution, which embodied all these principles. In terms of the actual sharing of power prior to the general election, it was agreed that at the level of the national government in Khartoum, the allocation of seats in the legislature would be: NCP – 52%, SPLM – 28%, other northern and southern political forces – 20%. The same proportion would govern the allocation of ministerial portfolios in the National Council of Ministers. In the southern Legislative Assembly, the representation of the various parties was to be SPLM – 70%, NCP – 15%, other southern parties – 15%. Similar portions would hold for the allocation of portfolios in the Southern Sudan Council of Ministers. All the southern states were to have their own constitutions and legislative assemblies. The Power Sharing Protocol also defined the exclusive competencies of the three major levels of government. The National government in

Khartoum, had exclusive control over defence, foreign affairs, immigration, customs, currency and monetary policy. The Government of Southern Sudan could maintain a security apparatus and military in accordance with the provisions of the CPA, implement taxes and raise revenues to finance its own budget, establish a GOSS civil service, and undertake the planning and coordination of social services in the southern region. The ten State governments in the south could establish their own civil services, oversee local government structures, provide social services, and undertake local taxation to raise revenues for local expenditures.

Democracy and Governance (DG) Program

In the analysis that follows, we shall consider how the provisions of the CPA, and external interventions, primarily under the auspices of the U.S. Government's Democracy and Governance Program, have affected the institutional trajectory of Southern Sudan since 2005. In the north, the regime continues to be dominated by a military dictatorship which is intent on a genocidal campaign in Darfur. Consequently, the provisions of the CPA have had little impact. However, in the southern region, the willingness and interest of the southern military/political elite to create a more open society, has created a different set of circumstances. Here it has been possible for external forces to engage the internal leadership in the establishment of institutional structures, which could contribute to the creation of a more open and democratic society. The main initiative in the program has come from the United States. Although many of the leading western nations had been involved in the IGAD-led peace process and the CPA itself, because of issues relating to the sovereignty of Sudan as a whole, these countries have been hesitant to engage separately with the SPLM in the south to facilitate the creation of new institutions. The U.S. Government, on the other hand, has not had any such hesitations because the northern regime has been seen as a sponsor of terrorism, and support for the SPLM has been part of U.S. foreign policy for some time. Further, activities to support the promotion of democracy and good governance in developing countries have been an integral part of the USAID program for a long time, accounting for about 15% of its global budget in recent years.

As a consequence of this policy stand, the U.S. Government fielded a Democracy and Governance team to visit Southern Sudan in mid-2004. The objective of the exercise was to engage the leadership of the SPLM in consultations that would result in the design of a program of wide-ranging and deep institutional interventions. The program was also to be consistent with the provisions of the CPA. The team's view was that Southern Sudan was at a crossroads. A historical window of opportunity existed to build a new Southern Sudan based on principles of democratic governance. However, if this opportunity were not grasped, there was a strong likelihood that the region would fall into the usual African pattern of authoritarian government, with mismanagement and poor governance. Worse still, the possibility existed for the region to go through a process, as had occurred in neighbouring Somalia, where the lack of a legitimate governance framework had led to the spread of warlord-ism and the accompanying socio-political disintegration. The discussions with the SPLM leadership therefore, were based on the ideas of open and

inclusive governance systems, and the creation of new structures of government that were transparent, accountable and capable of delivering services to the people.

In developing the proposed program, two key characteristics of Southern Sudan's traditional political structure - the libertarian and individualistic culture of the people, and the fact that the region was effectively starting with a *tabula rasa* of formal institutions, were kept in mind. Both factors encouraged the DG team to translate the provisions of the CPA into bold proposals for democratic governance. The specific elements of the program were:

- to provide expert inputs and facilitation for the preparation of a democratic constitution which enshrined a separation of powers, guaranteed civil liberties, and met international standards;
- to provide wide-ranging technical assistance for the establishment of responsive central institutions in the Executive, along with transparent and accountable systems of government;
- to assist the Sudan People's Liberation Movement (SPLM) to transform itself from a rebel movement to a democratic political party;
- to provide funding and other support which would encourage the development of a non-governmental sector that worked across ethnic, social and regional lines; and finally,
- to assist in the design and fund a program which would increase access to public information and facilitate the growth of an independent media sector.

All these elements were discussed in detail with the SPLM leadership, and the implementation of the agreed program commenced in early 2005. The major interventions undertaken under the DG program, and any observable influence that the institutional structures put in place may have had on the socio-economic context or political behaviour of elites, is discussed below

The Constitution

The Interim Constitution of Southern Sudan (Government of Southern Sudan, 2005b) is primarily based on the principles and provisions contained in the Power Sharing Protocol of the CPA. Thus the clauses relating to the protection of human rights, civil liberties, establishment of political parties, free and fair elections, and judicial independence are drawn from there. Since the representation of different political parties in the new South Sudan Assembly had been agreed to as part of the CPA, the existence of a multi-party system was already a foregone conclusion. The establishment of a decentralized system of government, with a significant devolution of powers was also part of this agreement. However, on a range of other issues such as the protection of property rights; separation of powers between the executive and other branches of government; limitations on the powers of the President and his terms of office; oversight powers of the legislature; the relative powers of the federal versus state governments; and, the extent of judicial independence, the content of the constitutional provisions still had to be agreed upon, and it was by no means evident what the final conclusion would be. The drafting committee

for the Constitution, and political leaders involved in this process, were individuals from varied backgrounds with differing views. There were human rights lawyers from the South Sudan Law Society who ardently believed in the protection of civil liberties. Some political leaders believed that to accommodate the diversity of tribal groupings in the south and prevent domination by any major southern tribe, the state governments should be given considerable autonomy and powers. Others, who were closer to the SPLM leadership and more concerned about security and control issues, argued for less federalism and a greater centralization of powers.

In this complex arena, the DG program played an important catalytic role in bringing about consensus in the drafting process that led to the Constitution. Members of the constitution committee, and senior leaders from the SPLM and other political parties, were exposed to resource materials and a number of draft documents which reflected alternative possibilities and international best practice. Numerous private discussions were held between experts and the SPLM leadership about the authoritarian tendencies of many African governments, how this had contributed to the malaise on the continent, and why a democratic constitution was needed to repair the dislocation and disintegration caused by the long running civil war, and to encourage the emergence of an inclusive and participatory society. The eventual draft Constitution that the southern Sudanese themselves came up with can only be termed as exemplary for a war torn society with no tradition of democratic governance. The draft had a number of standard elements found in other countries such as a Bill of Rights; limitation of the Presidential term to two terms; and, separation of powers between the executive, legislature and judiciary. It clearly specified the right to own property as a fundamental right, and that no expropriation could occur save through the due process of the law, and then in return for fair compensation. However, it also went well beyond the CPA in a number of respects. Judicial independence was strengthened by the requirement of a two-thirds majority in the Legislature for the removal of justices of the Supreme Court. Further, unlike in many other countries where the judiciary is under the financial control of a parent ministry in the Executive, the draft Constitution proposed that the judiciary have the right to prepare its own budgets and manage its own financial affairs.

The proposed draft also reinforced the vision of a federal system of government, as contained in the CPA. The states within the federal system were to have their own constitutions and legislative bodies, with considerable devolution of administrative powers. These included the appointment and control of state civil services, oversight of all local government institutions within the state, the management and provision of all social services, and the ability to raise local taxes to finance the state budget. That the draft Constitution was contentious and probably seen as being too “democratic” or promoting too much “federalism” by some important members of the political leadership, is shown by the fact that for many months after its preparation it was neither debated nor placed before the Leadership Council of the SPLM. The draft only came into the public domain after the death of Dr. John Garang, the Chairman of the SPLM/A, in August 2005, and it was adopted by the SPLM and the Legislative Assembly soon after. Although it is hard to predict how the Interim Constitution will influence the evolution of the institutions of governance in Southern Sudan, the discussion below which covers 2006

and 2007, is indicative of the manner in which various institutional structures are performing, and is suggestive that the greater dispersion of political power enshrined in the Constitution is likely to result in a more participatory and democratic form of governance emerging in the region.

The Executive

Under the CPA, Southern Sudan was to have a Presidential system of government. As indicated in the discussion above however, the provisions of the Interim Constitution have limited the powers of the Executive in various ways as compared with other presidential systems. In particular, a greater oversight role has been given to the Legislature, and the Judiciary has been given the constitutional basis for playing a potentially more independent role. In early 2005, the Governance Cluster of the SPLM, under the chairmanship of Dr. Riak Machar (later Vice-President of Southern Sudan), began the effort of going beyond the rudimentary civil administration structures of the civil war and defining a fully-fledged Executive. The Governance Cluster proposed that the GOSS should have 21 Ministries and central institutions. Its report (Sudan Peoples Liberation Movement, 2005), however, did not provide any further elaboration of the powers, structures, or the size of the proposed institutions. It also made no comment about the old civil service structures in Juba and the other garrison towns controlled by the northern regime. Subsequent to the formal establishment of GOSS in July 2005, the SPLM gained control over these latter areas. This gave them access for the first time since the early 1980s to the southern administrative structures, which had been under the control of the northern government.

To facilitate the integration of the two civil services, and rebuild government structures within the new vision of the CPA and Interim Constitution, as an initial step, the DG program supported an exercise to carry out a head count of personnel both from the SPLM and previously northern controlled areas. The results of the survey came as a surprise to all concerned. It was found that there were around 55,000 technical and administrative personnel. However, it was also estimated that there were an additional 90,000 or so unskilled staff on the payroll of the old civil administration. This gave a total of about 145,000 personnel on the ground. Most of these employees, particularly the unskilled staff, were part of the provincial/state administrations being maintained in the south by the northern regime. Faced by this bloated bureaucracy, the leadership of the incipient southern government felt that at this early stage in their efforts to gain legitimacy and control over the southern region, it was not politically viable to lay off thousands of workers. Although maintaining so many personnel would result in a heavy financial burden, given the volatile situation, lay offs were not implemented because it was felt that this could quite easily lead to civil unrest in the urban areas. As a way out of this political dilemma, the view was taken that since most of these personnel would in due course become employees of the ten new state governments soon to be set up, this problem could be dealt with by these governments and their legislatures, once they had been constituted. The more critical and immediate issue was to create a coherent structure of government and civil service at the Southern Sudan federal level: one that would permit effective governance and the immediate delivery of services to the people.

In consonance with this SPLM decision, in late 2005, the DG team designed and began the implementation of a major program to build the required governmental structures and new decision-making systems. In view of the vast task of creating new structures, in some cases from scratch, it was decided to focus on the few central institutions that have a major influence on the performance of government. The organizations chosen were the Ministries of Finance, Public Service, Legal Affairs, Information, and the Bank of Southern Sudan. In addition, the centre of government – the Offices of the President, Vice-President, Presidential Advisors, and the Council of Ministers, were targeted for assistance in developing mandates, job descriptions, and coherent inter-related organizational structures. The confines and the purpose of this paper do not permit a detailed discussion of all the institutional development activities undertaken by the DG program. Therefore, the discussion below only focuses on improved decision-making at the apex level of government. This is because organizations at the centre of government are key to the functioning of the Executive, the policies that emerge from decision-making here affect the socio-economic variables in the region, and their performance is more likely to influence the trajectory of other institutions.

There were two principles underlying the interventions of the DG program at the centre of government. Firstly, given the objective of the new government to bring together the various fractious tribal, militia, and other political elements under one Southern Sudanese umbrella, it was necessary to develop structures and systems which would promote consultation, cohesiveness and consensus. Secondly, during the war, practically no developmental activities had taken place, nor had any basic social services been provided to the people. Thus to strengthen the legitimacy of the new government in the eyes of the people, it was essential to set up mechanisms which ensured that good policy priorities were adopted at the highest level that enabled the implementation of such developmental programs. Four examples are discussed below to show that the structures, systems and procedures being put in place are in fact facilitating the emergence of responsive, priority-based, and unified collective decision-making systems in the government.

Council of Minister's decision-making procedures: By late 2005, most of the ministerial and other senior appointments of the GOSS had been completed. At that time, meetings of the Council of Ministers (COM) were undertaken in a manner similar to that of the earlier Leadership Council of the SPLM i.e. ad hoc meetings without any fixed agenda. The Minister for Cabinet Affairs once complained that several hours of a Cabinet meeting had been taken up in discussions on the status of toilets attached to Minister's offices. This situation was soon remedied through interventions supported by the DG program. A regular time table for meetings; a proper set of procedures with formats for the receipt, review, prioritization and discussion of proposals; and, requirements for follow-up and reporting, were introduced. A COM Handbook (Government of Southern Sudan, 2006a) was prepared so that Ministers and other senior officials could easily familiarize themselves and refer to the requirements of the new system. These procedures have been adhered to and improved upon by the Cabinet Office since 2006, leading to priority-based and more effective decision-making at the apex of government.

Budgetary resources: South Sudan's budgetary resources are based on the Oil Sharing Agreement of the CPA. Although the precise manner in which the north undertakes the estimation and valuation of the oil proceeds is a contentious issue, since early 2005, the revenue flows to the south have amounted to about US\$1 billion per annum. Revenues from other sources such as taxes and duties have been negligible. South Sudan's budget has therefore been based on its oil revenue share plus any proceeds received from external assistance flows. By late 2005, the appointment of leaders from the SPLM and other parties to Ministerial and senior positions in the government had been completed. 2006 therefore, was the first year when the political leadership of the south had access to substantial financial resources. In normal functioning systems, all ministries and government agencies get their funding through budgetary allocations. Thus the new Ministry of Finance of the GOSS, in its normal capacity in early 2006, began the usual budgetary exercise of allocating resources based on the priorities of the government. Many in the political leadership however, did not see the Ministry's budgetary efforts as being the best way of allocating and accessing resources. In the absence of an overarching vision of government in Southern Sudan, they saw themselves as the representatives of the various tribes, regions, and political groupings of the south. To them therefore, this was an opportunity to grab something for their constituents from the common pool of resources. The lack of unified collective decision-making systems exacerbated this common pool problem, and led to individual government agencies signing up agreements and contracts for infrastructure development, the delivery of goods, and the provision of services, for their respective constituents and areas. Within a short period of time the contracts signed up in this manner added up to almost US\$1 billion or the equivalent of the total budgetary resources available to the GOSS for the full 2006 financial year.

While the financial disruption caused by this event is in the process of being reviewed and resolved by the GOSS, to prevent the recurrence of this problem, the DG program and other donors took immediate steps. A quick assessment of the financial implications of all the contracts signed was made and submitted to the Council of Ministers, with the recommendation that the authority of Ministers to make financial commitments on behalf of government without approval from Cabinet be taken away from them. In conjunction with this, new procurement guidelines and procedures were quickly put in place at the apex level of decision-making. These, and the improved collective decision-making systems for the Council of Ministers discussed above, have prevented a re-emergence of this phenomenon in 2007. During the current year, it has been observed that approval of the Council of Ministers is being sought before any significant contracts are signed, and government agencies are doing their contracting and the procurement of goods and services more or less based on their budgetary allocations.

The 200-Day Action Plan: The third example of the catalytic role that the DG program played relates to strengthening the legitimacy of government. When the GOSS was formed in mid-2005, it had no concrete plan of activities for the socio-economic development of the region. A very broad, donor dependent framework, had been put together by the Joint Assessment Mission (United Nations, 2004), but this was of little use in terms of defining immediate and specific priority activities. In the circumstances,

the DG program introduced the concept of an Action Plan to the Office of the President (200-Day Action Plan, Office of the President, Government of Southern Sudan, 2006b). The idea was that all agencies of government should prepare a brief list of priority policy actions, institutional reform measures, improvements in service delivery, projects and programs, which they could feasibly commit themselves to being completed within a time bound period. This program of action could then be monitored by the Presidency, with all government agencies providing regular progress reports. With support from the DG program, the exercise was completed within a very short period of time, and the document was released by the President to the Legislative Assembly in August 2006. Since the plan had commitment from the highest level, it galvanized the government into taking decisions, formulating enabling policies, rehabilitating or building new infrastructure, and delivering basic services to the people, wherever feasible. The Action Plan has now been institutionalized within the government as an instrument to encourage the practical planning and implementation of activities, projects and programs. In the first review that was undertaken in January 2007, it was found that out of the 483 actions proposed under the Plan, 263 activities or over half, had either been completed or were on track.

Corruption: The large literature on corruption shows that this phenomenon can undermine the workings of an open political system and prevent a country from achieving sustainable development. With this in view, the DG program, and other donors such as the World Bank, encouraged the political leadership to adopt transparent and well-designed government-wide procurement procedures and regulations, including the setting up of a strong Anti-Corruption Commission. The Commission was set up in mid 2006. Since then, it has been receiving support from the DG program to strengthen its institutional capacity and technical expertise. As a consequence of donor emphasis on this area, and increasing awareness in the Council of Ministers about the importance of this issue, fighting corruption has already developed a very high profile in Southern Sudan. Towards the end of 2006, four senior civil servants were dismissed for following improper procurement procedures and other alleged corrupt activities. Subsequent to this, a Presidential Commission was appointed to review all contracts signed by the government since its formation in mid 2005. In early 2007, the Minister of Finance was removed from office because of serious allegations of corruption. More recently, as part of a Cabinet reshuffle undertaken in mid-2007, the powerful Minister of Roads and Transport was moved to a non-ministerial advisory position, and the portfolio of the Ministry of Housing was taken away from the Vice-President, due to complaints about improprieties in contracting and procurement procedures. From these incidents, it is evident that support from the DG program, and the role played by donors such as the World Bank, have made an important contribution to developing an anti-corruption ethic even in these early stages of governance in Southern Sudan.

The Legislature

In consonance with the principle of a separation of powers, the Interim Constitution gives the South Sudan Legislative Assembly (SSLA) a strong role in the structure of governance. The Assembly's significant functions include approving the laws of the land

and enacting other enabling legislation; approving the plans, programs, policies and budget of the GOSS; overseeing the performance of the Executive and summoning Ministers, as required: and, having the power to impeach the President, in certain circumstances. Apart from these normal oversight functions, the Constitution gives the SSLA some innovative powers. Firstly, it has the role of regulating the terms and conditions of service of the Judiciary. This is an important function, which by strengthening the position of the Judiciary vis-à-vis the Executive increases the dispersion of political power between the various arms of government. Secondly, to strengthen the concept of multi-partyism and increase the respect of the party in power for the political opposition, the Constitution gives the Leader of the Opposition in the SSLA a high constitutional status. This position has been included in the official hierarchy of the State and is ranked fourth in terms of precedence after the President, Vice-President and Speaker. As can be seen from these provisions, the powers of the Legislature go well beyond what may have been envisaged in the CPA.

After the formation of the GOSS in July 2005, and with the elections not to occur before 2009, the first members of the SSLA were chosen through a two-step process. This involved public input through gatherings that were held in each of the 200 or so Assembly constituencies in Southern Sudan. In the gatherings, which were attended by the general public, tribal elders, activists from political parties and civic groups, there was much debate and discussion, and finally one candidate was selected through consensus. These candidates were then vetted by the leadership of various political parties, and appointed as members of the Assembly. As envisaged in the CPA, 70% of the members were from the SPLM, with the balance being southerners representing other political parties such as the NCP, USAP, SSDF, etc. A survey of the background of these members shows that about 50% had been part of the civil service or administrative apparatus during the civil war, 25% are from the teaching or related professions, and a further 25% have a background in business or the private sector. Thus when the SSLA was first convened in 2006, almost none of its members had any legislative experience or were clear about the constitutional role of the Assembly.

Faced with this situation, the DG team put in place an intensive program of discussions with legislators to explain the Constitution, and train them in their legislative and oversight functions. Support was also provided to the Speaker to set up a number of committees of the legislature. These include a Legal Committee to review draft laws and other legislation, and a Finance Committee to oversee the government's economic policies, programs, and annual budget. As a consequence of these interventions, the SSLA has begun to play an increasingly active role in Southern Sudan's system of governance. Ministers have been repeatedly summoned to the Assembly to explain many of their actions. Both during 2006 and 2007, the Budget proposals of the Ministry of Finance were closely reviewed and a number of amendments made to the proposed pattern of expenditure. The Legal Committee has played a particularly active role in scrutinizing the key laws in the new legal framework being prepared by the Executive. In a number of cases the laws were returned to the Ministry of Legal Affairs because members felt that the provisions were not adequately explained or justified, or were incompatible with the democratic principles contained in the Constitution. At the

provincial level however, although the ten state assemblies have been constituted, they have not yet begun to play their appropriate role within the federal framework of the Constitution.

The Legal Framework

As stated earlier, until the establishment of the new government in mid-2005, Southern Sudan had a legal framework that had been derived from the northern regime in Khartoum. Many laws had their origins in colonial times. As a consequence, the few laws that were in place were repressive and not protective of civil liberties or human rights. Given the new Constitution, a major effort was started under the DG program to work with the Ministry of Legal Affairs in revising all these laws and to come up with a framework that was consistent with the new democratic dispensation. A total of about 40 key laws were revised or drafted from scratch, during 2006 and 2007. The most significant laws that have been enacted so far include the Penal Code, the Criminal Procedures Code, the Civil Procedures Code, Law on Evidence, the Judiciary Act, the Police Act, and a Human Rights Act to enable a new independent commission to be set up. In addition, to promote transparency and accountability, an Anti-Corruption Act to support the establishment of an Anti-Corruption Commission, and an Auditor General's Act, have also been drafted. All these laws are in various stages of approval and adoption by the government and legislature.

In the preparation of these laws there was a constant debate between the DG team, the leaders of the SPLM, and senior officials dealing with legal issues in the GOSS. Many had genuine security concerns and felt that given the continuing threats from the regime in Khartoum, in particular, its efforts to de-stabilize the south through surrogates such as the Lord's Resistance Army (LRA), it was risky at this stage to have laws which were too liberal or which restricted the powers of the state. In these debates the DG team would constantly argue that the answer to a dictatorial regime in the north was not to create an authoritarian legal framework in the south. Rather the focus should be to follow the principles of the CPA and adopt laws that contribute to the creation of a democratic society, with transparent and accountable systems in place. In most of these discussions, the DG team won the day. Thus many of the repressive elements of the pre-2005 laws, such as restrictions on the freedom of assembly, broad definition of what was considered subversive, the easy ability of the state to expropriate private property, etc., were in the main eliminated. One of the most significant achievements of the program has been to contribute to the creation of a new set of laws to promote an open media sector and freedom of information. This is discussed in greater detail below.

Media and Freedom of Information

In a democratic society, a free press plays the dual role of keeping the public informed, while at the same time being part of the system of checks and balances on government. Consequently, activities to encourage the development of a free press and independent sources of information have been an integral part of the DG program from the beginning. Prior to the signing of the CPA, there was no independent media in Southern Sudan. At

the policy level therefore, the program facilitated thinking in the SPLM leadership towards implementing a system based on freedom of the press, and the establishment of private sector based media and broadcasting systems. At the practical level, from early 2005, financial and technical support was provided for the establishment of an independent Sudan Radio Service and a newspaper called the Sudan Mirror.

In 2006, these initial steps began to bear fruit. A close relationship developed between the DG team and the newly appointed Minister for Information. Consequently, with support from the program, the Ministry of Information commenced a process of designing a regulatory framework to support the establishment of an independent media sector and encourage freedom of information in Southern Sudan. Under this initiative, four major laws have been prepared so far: to establish an independent government broadcasting agency; to promote the right of access to official information; and, to encourage the establishment of self-regulatory mechanisms in the private sector. It is expected that these laws will be reviewed by the Council of Ministers, and approved by the SSLA, before the end of 2007. With this policy framework in place, a beginning has already been made towards the establishment of an independent media sector in Southern Sudan. Five new private radio broadcasters (two with donor support) have been set up. A new private weekly newspaper has started in Juba, the capital. Finally, to increase the access of the public to information, the DG program intends to distribute over 425,000 solar powered/wind up radios to primary schools, target audiences and listening groups all over Southern Sudan by the end of 2008.

Political Parties

During the civil war there was, and could be, little distinction between the Movement and the Army. However, with the coming of peace, democratic development required that there be a clear distinction between these two organizations, with the SPLM gradually moulding itself into a civilian political party. Too many liberations movements have in the past been unable to make this transition, resulting in the militarization of political structures and eventually leading to authoritarian modes of governance. Recent developments in Zimbabwe, particularly since 2000, are indicative of such tendencies and the dangers that newly independent African societies face in achieving democratic transitions. The DG program, in this respect, has played a significant role to date, helping the SPLM to develop an inclusive party constitution that represents the diverse views of its membership, with rules and procedures that attempt to institute democratic processes within the party. To facilitate this process, the program supported several consultative and plenary sessions amongst the leaders of the SPLM and party members to review its 1994 constitution and come up with a new one that reflected its new status as a democratic political party. Draft party constitutions from a number of countries and the support of international experts were provided to encourage wide debate in the process of coming up with a new document. The current draft clearly outlines the role of the national convention in formalizing the decision- making and leadership structures of the party. The ground rules for elections within the party have also been set out. This draft has been endorsed by the SPLM leadership, and the expectation is that it will soon be ratified in a

party convention. On a parallel front the SPLA is re-organizing itself to become a conventional standing army, with a professional and independent structure of command.

Under the DG program, assistance is not only being given to the SPLM to reorganize itself as a civilian political party, but significant support is also being given to all other major political groups in Southern Sudan. The objective is to enable them to strengthen their internal structures and function as effective organizations. Many of these political groups operated as independent militias during the civil war. These militias are being disbanded and integrated into the Army. In their place, a new civilian leadership consisting of members of the Legislative Assembly, tribal leaders, prominent returnees from the Diaspora, etc. is gradually taking over the reins. The focus of the DG program in this area has therefore, been to support the incipient and emergent civilian political structures and help them to develop into organizations which can represent and provide political leadership to their constituents. To strengthen the system of multi-party politics, the next stage of assistance under the DG program will be to support the establishment of electoral structures, in particular an independent Electoral Commission, whose authority is to be empowered under a strong electoral law. It is hoped to have all this in place before the first general elections are held in 2009.

Institutional Development 2005-2007: Some Observations

Three years is a very short period in the history of a country. However, in line with the thesis of institutional discontinuities presented in this paper, it is a period which is long enough for there to be a significant break from the past, and for the developments during this period to be a major influence on the future trajectory of institutions and governance. From the discussion above, we can clearly see that this has been the case in Southern Sudan. Fundamental changes in formal and informal institutions, rules, practices and modes of thinking have been introduced through an externally supported intervention that has worked closely with the domestic political elite, and the process is still ongoing. Although the democratic and federalist systems in place could be said to be in consonance with the individualistic and libertarian spirit of the Nilotic peoples, the structures of government being established move radically away from the traditional stateless society or “ordered anarchy” of Southern Sudan. Many of the problems faced by GOSS, such as the resistance to unified and centralized decision making structures at the apex of government and common pool problems in the use of government oil revenues, are a reflection of the conflict between traditional practices and modes of thinking, and the requirements of modern governance. Nevertheless, as has been outlined in the discussion, the new institutional structures are beginning to influence old habits and ways of thinking, and encourage the emergence of forms of behavior that are more consistent with the spirit of the new formal systems that have been put in place.

This paper argues that the institutional development seen in Southern Sudan over the past three years has had the effect of putting in place the building blocks of an “open access” society. Events observed in a range of areas suggest that the new institutional framework is generating forces, which over time are likely to ensure that these very institutions will become self-enforcing. A summary of these events is given below:

- A federal system, with constitutional protections and exclusive competencies for the states to prevent any central dominance has been put in place. The formation of the State Governor's Forum during the past year shows how the forces favouring a decentralization of political authority are asserting themselves. The refusal of Bahr-el-Jebel State to hand over the territory of Juba to federal control so that it can become a centrally administered capital, is a good example of the inability of the federal government to brow beat state governments.
- In spite of having a Presidential system in an African context, the collective decision making systems in place at the apex of government have so far minimized unilateral decisions being taken by the President using temporary ordinances or residual powers. The Council of Ministers meets regularly, and decides on all major issues concerning government. Furthermore, the GOSS is not seen by the public as an over powering entity with a powerful President. For instance, by mutual consent, many of the mandates and responsibilities of the President (who is from the dominant Dinka tribe) have recently been handed over to the Vice-President (who is from the Nuer tribe).
- Oversight of the Executive is being undertaken by a number of constitutionally protected institutions with increasing vigour. In the past two years, members of the Legislative Assembly have become increasingly active in scrutinizing government actions. The Council of Ministers, Anti-Corruption Commission and the Auditor General's Office, with support from the Presidency, have already made significant inroads into tackling corruption and encouraging financial probity in government. This is indicated by the dismissal of the Minister of Finance, and the divesting of portfolios with potentially lucrative rent-seeking possibilities, from two senior politicians.
- A regulatory framework, which encourages the development of a free and independent media sector, has been put in place, and the number of privately owned media outlets is increasing rapidly.
- The liberal economic policies and simple regulatory framework adopted by the government is bringing in a flood of private investment, particularly from the southern Sudanese Diaspora that had settled in the West during the long years of civil war. The return of an educated Diaspora into the business sector is likely to play an important role in facilitating the growth of an incipient middle class in Southern Sudan, with its attendant interest in reinforcing the security of property rights and the rule of law.
- Finally, due to the weakness of governmental structures, a significant proportion of the increased external resources that have flowed into Southern Sudan since the signing of the CPA, has gone into the non-governmental sector. This has resulted in the mushrooming growth of local NGOs, community-based and other grass-roots organizations. Although, it is still very early days, this widespread expansion of civil society organizations can only bode well for a more inclusive and democratic pattern of society in Southern Sudan.

After 50 years of civil war, Southern Sudan remains a fragile society. Disputes over the north-south boundary, sharing of oil wealth, etc. could lead to a new outbreak of fighting between the northern regime and the south. The society is still highly militarized, with the

integration of tribal militias into a unified professional army being incomplete. Surrogate militias, which operate on behalf of the north still continue to function. Although there has been a formal separation between the military and civilian structures of the SPLM, ex-military commanders hold many of the senior positions within the hierarchy of government. The SPLM itself continues to be the dominant force in the south. Thus there is much that can quite easily destabilize and reverse the gains in democratic governance that have been achieved over the past few years. As against this, the President and his inner team of advisors remain committed to the development of an inclusive and open society. External forces in the form of the U.S. and Western governments, multilateral agencies such as the World Bank and U.N. (including about 15,000 peace-keepers), now have a considerable and wide-ranging presence in the south. This is likely to be a stabilizing influence and one that will continue to encourage the southern elites to pursue their path of democratic development. The future is therefore uncertain. However, there is little doubt that huge strides have been made in implementing and establishing more efficient institutions and policies in Southern Sudan. In this process, interventions under USAID's Democracy and Governance Program have played a catalytic and central role.

III. Conclusion

In this paper we have shown that the weight of evidence supports the proposition that institutions, rather than resources, are central to developmental outcomes. Further, we have argued that in context of the non-western world, societies do not have the necessary social forces or behavioural characteristics to ensure that institutions which encourage good economic and political governance will emerge in a gradual evolutionary manner. Elite behaviour tends to be dominated by predation rather than economic rationality. This is contrary to the behavioural assumptions of neo-classical theory. In such circumstances, the only way for beneficent social change and sustainable economic development to occur is through the intervention of human agency. This could be through the activities of a small, enlightened domestic elite or even an individual leader of great prestige, or the aegis of an external agency. Such an intervention can break the low level institutional trap that most developing countries are stuck in, and through a non-evolutionary, discontinuous process, bring about the establishment of superior institutions which encourage more rational behaviour over time. This interaction between institutions and behaviour can become self-enforcing, as the case studies of Japan, Turkey, India and Botswana have shown. The detailed account of deep institutional interventions undertaken in Southern Sudan by an external force in cooperation with local elites since 2005, suggests that this is a useful and successful model for development policy and practice.

In a broader intellectual context, the model of social and behavioural change elaborated above is much more consistent with our present understanding of the evolution of life and the emergence of new species over geological time, rather than the outdated mechanistic model borrowed by neo-classical economic theory from 18th century physics. Let us consider this issue further. The traditional historical view of west European economic development, and one that is implicit in the new institutional economics literature, is that society progresses in a gradual, evolutionary manner. Underlying this view is the

Darwinian ([1859] 1996) theory of natural selection which states that evolution works through a gradual process of mutation, recombination and selection, with new species arising from the slow and steady transformation of entire populations. Palaeontological and other discoveries since the writings of Darwin however, have suggested that this view does not entirely fit the facts. The emergence and extinction of species rather than being gradual has been found to be episodic and discontinuous. About 530 million years ago we have the Cambrian explosion, when organisms evolved beyond their individual cell structures and there was a great outburst of complex life forms (Gould, 1989; Butterfield, 2007). Subsequent to this, there have been several major, episodic extinctions. These include the Ordovician, 440 million years ago; the Devonian, 365 million years ago; the Permian, 250 million years ago; the Triassic, 210 million years ago; and the Cretaceous, 65 million years ago. During the Permian extinction, it is estimated that almost 95% of all species vanished (Erwin, 1993), while the Cretaceous extinction resulted in the disappearance of 70% of species, including the dinosaurs.

Based on these new discoveries, modern paleontologists (Eldredge and Gould, 1972) argue that most species are in a state of homeostatic equilibrium. These homeostatic systems or steady states resist change by self-regulation. The history of evolution is therefore, not one of stately and gradual unfolding of change, but one of equilibria disturbed only rarely by rapid and episodic events which cause fundamental change to the nature, diversity and type of life on the planet. Thus for instance, mammals seem to have bided their time for millions of years until the dinosaurs perished in the Cretaceous extinction. They then burst forth in proliferation, in the subsequent Tertiary period. This view of creation and destruction is much more consistent with the available fossil record, which has shown itself to have significant breaks, with discontinuities being a commonly observed fact. The presence of such major discontinuities suggests that the process of evolutionary change is dominated by episodic phenomena rather gradual transformation. For instance, we now have significant geological evidence to suggest that the KT event 65 million years ago, which brought about the Cretaceous extinction, was actually caused by a large asteroid or comet hitting the earth (Alvarez, Alvarez, Asaro and Michel, 1980). Exogenous variables such as asteroids, volcanic activity, and glaciation (or the reverse, e.g. the melting of what has been termed snowball earth prior to the Cambrian explosion), which cause major changes in environmental, climatic or geological conditions therefore, seem to be the key factors which bring about the extinction of old species and the emergence of new ones.

Transferring this model from natural history into the realm of socio-economic change, we find many parallels with the major propositions of our theory. Firstly, although in the very long run society is in a continuous state of transition and transformation, during any given historical period it is likely to be in some sort of self-regulating equilibrium. As modern economic theory has shown, this equilibrium will be determined by the history, balance of social forces, distribution of wealth, etc. in that society, and is more likely than not to be a low-level equilibrium trap. Secondly, to change this steady state, an exogenous intervention is required. We have argued that in the case of the non-western world, this exogenous intervention has been in the form of human agency: either domestic, external, or a combination of the two. This exogenous intervention by changing the socio-

economic environment facing a society, or in other words its institutional framework, facilitates the emergence and dominance of certain types of groups and certain types of behaviour. While such groups or behaviour may have been present in these societies in the earlier periods, their existence would only have been in an embryonic form because of the dominance of predatory groups. This view of the role of human agency as being the essential factor in bringing about institutional change is similar to the geological view of the impact of the KT event at the end of the Cretaceous period on the evolution of life on our planet. This event brought about a fundamental change in the natural environment, causing the extinction of the then dominant species, including the dinosaurs, and permitted the proliferation of other species, such as mammals, a process which eventually led to the emergence of man. To allow the progression and development of mammalian species, the dominant predators had to be destroyed through an exogenous event. This is quite similar to our argument about the necessity for more efficient economic and social institutions to be introduced and established, so that predation can be controlled, more rational levels of human behaviour encouraged, and higher levels of economic progress achieved.

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