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An Assessment of the Performance of Landlocked Developing Countries on Institutional Development

Summary

In her article, the author looks at the institutional performance of landlocked developing countries (LLDC) during 1996, 2003 and 2012 as she believes that the effectiveness of institutional mechanisms in the countries determine economic development as well as geographical issues. As an assessment of the performance of LLDC on institutional development is a complex issue which evolves over a period of time; a comparative and analytical-synthetic method is believed to be suitable for meeting the objectives of the research paper. We found out that the institutional component is underestimated in the Almaty Programme of Action (APoA) as the United Nations document addressing the special needs of LLDC. We recommend the next Programme of Action focus more on institutional reforms as far as market-friendly institutions are the primary instrument of achieving the economic prosperity of LLDC through raising a civil society, promoting a good business environment, attracting investment and improving trade efficiency.

Key words: LLDC, institutions, worldwide governance indicators, Almaty Programme of Action.

JEL codes: F53, F55, F59

Introduction

Landlocked developing countries with the population of about 440 million people face special challenges mostly because of their lack of direct territorial access to the sea, remoteness and isolation from world markets. As the characteristic feature of the contemporary development of the world economy is the rapid spread of the integration process, which went beyond the purely economic cooperation and embraced social, labour and cultural relations between countries, it is important to examine the institutional component of the economic development of landlocked developing countries. We believe that a market unfriendly institutional base can harm the economic development of LLDC likewise well-established institutions are needed in order to use its resources more efficiently. Moreover, for LLDC the internal efficient institutions are as important as better border and customs institutions in order to reduce cost and encourage development of international logistic hubs.

Theoretical background

The positive correlation between the economic growth and quality of institutions has been found by neo-institutional scholars, like North and Olson, based on empirical studies.
In an economic context, the concept of institutions generally refers to the set of formal and informal constraints and incentives that shape an individual’s ability to act productively and cooperatively. Typically, a market-friendly institutional base will include such items as the rule of law, secure property rights, enforceable contracts, an even-handed and transparent government, and so on. The absence of such institutions adversely impacts the population’s willingness to engage in mutually beneficial trade or to seek more productive opportunities (Tiffin 2006). In a narrower sense, institutions comprise the rules of economic game made up by the law and organisations that enforce compliance with these rules on the part of all economic entities, using incentives, rewards and penalties (Kolodko 2006). According to Douglass North, institutions “form the incentive structure of a society, and the political and economic institutions, in consequence, are the underlying determinants of economic performance” (North 1994). He defines institutions as “the humanly devised constraints that structure human interaction. They are made up of formal constraints (such as rules, laws, constitutions), informal constraints (such as norms of behaviour, conventions, self-imposed codes of conduct), and their enforcement characteristics” (North 1994). In other words, institutions are a key to the process of economic growth by affecting the incentives to accumulate, innovate and accommodate change.

In case of LLDC, it might be more relevant to examine the economic development from the viewpoint of geographical differences, which mean access to sea trade (Hausmann 2001). According to Hausmann, nations with the territory far from the coast line will experience more difficulties than the coastal countries, which is true. One of the solutions, proposed by Haussmann, is to implement a more globalised government as he believes that poverty exists because of the lack of globalisation. But views of the scientist who confirms the primacy of colonial institutions over geography are also important (Acemoglu 2002). Acemoglu and Robinson provide an enormous range of historical examples to show that countries can escape poverty if they have appropriate economic institutions, like private property and competition. So the effectiveness of institutional mechanisms in the country is the main factor which determines economic prosperity. We believe that economic development is the process of transformation, in which countries achieve a certain level of growth, ensured the modernisation of institutional mechanisms (Jones 2006).

Analysis

In order to examine the institutional component of LLDC we will use the Worldwide Governance Indicators (WGI) presented by Kaufmann, Kraay and Mastruzzi. WGI is a long-standing research project to develop cross-country indicators of governance. These indicators are based on several hundred variables obtained from 31 different data sources, capturing governance perceptions as reported by survey respondents, non-governmental organisations, commercial business information providers, and public-sector organisations worldwide. The aggregate and individual governance indicators are proposed for 215 economies over the period 1996–2012, for six dimensions of governance (Kaufmann 2010):
- Voice and Accountability, which reflects perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media.  
- Political Stability and Absence of Violence which reflects perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.  
- Government Effectiveness which reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.  
- Regulatory Quality which reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.  
- Rule of Law which reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.  
- Control of Corruption which reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption as well as “capture” of the state by elites and private interests.

The indicators ranged from -2.5 (weak) to 2.5 (strong) are distributed normally, with a mean of zero and a standard deviation of one.

All the LLDC will be investigated in 1996 and 2012. We add 2003 as well because of introduction of the Almaty Programme of Action as the objective of it is to address the special needs of landlocked developing countries and establish a new global framework for action for developing efficient transit transport systems in landlocked and transit developing countries.

On voice and accountability that reflects perceptions of the extent, to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media, LLDC have achieved some positive results between 1996 and 2012. This indicator is important because citizen voices are resulting into better state accountability and responsiveness as soon as their views and interests are expressed transparently. We have noticed a constant increase of the voice and accountability index in countries like Zambia, Uganda, Rwanda, Macedonia, Niger, Lesotho, and Burundi. In the vast majority of the countries, like Tajikistan, Swaziland, Burkina Faso, Armenia, Afghanistan, there are great differences between 1996 and 2012, which means the improvement of voice and accountability freedom. In general, in some LLDC, voice and accountability is at a high level, reaching over 70%, 60% and 50% in Botswana, Mongolia and Mali respectively. However, there are still some countries, where the voice and accountability index has decreased, which means that they still faces some challenges in terms of freedom and spread of democracy. So one of the tasks for LLDC, as well as overcome landlockness, which are a major contributor to the relatively high incidence of extreme poverty and structural constraints, is to improve governance, enhance development and empower citizens.
Political stability and absence of violence, which reflects perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism, is important because predictable political environment is attractive for investment. Investment is one of the future priorities...
of the Vienna Programme of Action, including regional investment and investment from international development banks because it leads to benefits in the society like job creation, poverty reduction and increased state revenues, etc. Overall political stability and absence of violence in LLDC has improved over the years. For instance, in Zambia, the index has
Figure 3
Government Effectiveness

Source: worldwide governance indicators.

increased from 39.42% to 65.40% in 16 years. In Botswana, the performance is at a high level, which means 77.40%, 86.06% and 88.63% in 1996, 2003 and 2012 respectively. In general, Turkmenistan, Mongolia, Moldova, Lesotho, Lao PDR, Kazakhstan, Bhutan and Armenia can be characterised as politically stable countries. On the whole, political stability
and absence of violence in LLDC has improved slightly in recent years, and still lags behind that of other developing countries.

It is widely acknowledged that government effectiveness, which reflects perceptions of the quality of public services, the quality of the civil service and the degree of its inde-
dependence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies, is one of the most important factors in country’s development performance. Building a capable and responsive state is one of the main pillars of development. The average value of the government effectiveness index of LLDC is 28.35 in 1996, 29.84 in 2003 and 32.01 in 2012, which mean a good performance of the group in general. We can observe that Zambia, Tajikistan, Swaziland, Rwanda, Niger, Mongolia, Mali, Macedonia, Lao PDR, Kyrgyz Republic, Ethiopia, Chad, Burundi, Burkina Faso, Azerbaijan and Afghanistan have improved their government effectiveness since 1996, even though in some countries the improvement was not stable. For instance, in Botswana, the index decreased from 68.29 in 1996 to 66.51 in 2012 but still remains high. So, the importance of good governance is well recognised and cannot be underestimated, as the efficient delivery of public services, security of property rights and set of rules for the efficient operation of markets are the ways to promote development and eradicate poverty.

Regulatory Quality, which reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development, is of paramount importance for LLDC. Enhancing the role of the private sector and encouraging private-sector investment in LLDC is one of the main priorities in the development of LLDC. The private sector, including the large, medium, small and micro firms, as well as individuals, contributes to economic growth and poverty reduction through building productive capacity, creation of decent jobs, promotion of innovation, economic diversification and competition. In LLDC, the private sector is actively involved in activities related to transit and trade facilitation including traders, freight forwarders, insurance providers, and transporters, and it is a source of tax revenue, domestic investment and partner for foreign direct investment. The private-sector funds research and development initiatives, nurture and support innovation, and help in the adoption of new technologies and can contribute to structural transformation. The public-private partnerships play an important role in infrastructure development. We can notice a significant improvement in the regulatory quality index for some LLDC like Zambia, Uzbekistan, Tajikistan, Swaziland, Rwanda, Niger, Mongolia, Mali, Macedonia, Lao PDR, Ethiopia, Burundi, Burkina Faso, Azerbaijan, and Afghanistan. The average value for the regulatory quality index is 30.4, 31.7 and 32.3 in 1996, 2003 and 2012.

Rule of Law reflects perceptions of the extent, to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. According to the United Nations, establishing respect for the rule of law is fundamental to achieving a durable peace in the aftermath of conflict, to an effective protection of human rights, and to sustained economic progress and development. The rule of law is a prerequisite for economic development and is essential in order to establish justice. Despite the widespread human development and improved economic opportunities in LLDC, still some have deteriorated over the period of 1996-2012. The highest-scoring country, Botswana, achieved 70.19 out of 100; Afghanistan, at the other end of the table, scored 0.47, while the average score in 1996,
2003 and 2012 was 26.28%, 28.24% and 29.42% respectively. Seventeen of the 31 countries demonstrated improvements in the rule of law since 1996. Rwanda made a significant progress improving from 2.38 in 1996 to 49.92 in 2012. Of course some LLDC countries face more stupendous challenges than others as regards the rule of law.
Source: worldwide governance indicators.

Control of Corruption reflects perceptions of the extent, to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Corruption is endemic in all types of economic systems. Reduction of bureaucracy and corruption is one of the main priorities
Table 1
The average value of institutional indicators in 2012

<table>
<thead>
<tr>
<th>Group of countries</th>
<th>Voice and Accountability</th>
<th>Political Stability and Absence of Violence</th>
<th>Government Effectiveness</th>
<th>Regulatory Quality</th>
<th>Rule of Law</th>
<th>Control of Corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>LLDC</td>
<td>27.36</td>
<td>32.30</td>
<td>32.01</td>
<td>32.38</td>
<td>29.42</td>
<td>29.75</td>
</tr>
<tr>
<td>Transit countries</td>
<td>33.49</td>
<td>30.63</td>
<td>34.11</td>
<td>34.49</td>
<td>31.08</td>
<td>32.87</td>
</tr>
</tbody>
</table>

Source: worldwide governance indicators.

Figure 7
The general performance of LLDC and transit countries in 2012

Source: worldwide governance indicators.

for LLDC as this is the way to trade facilitation. According to the Almaty Programme of Action (Priority 3), important sources of additional and avoidable costs and inefficiency can include cumbersome border-crossing, customs procedures, documentation requirements and inadequate infrastructure facilities, as well as costly bank transactions. We should care about corruption in customs because bribe payments (and the inefficiencies in customs services that bribe-seeking causes) leads to higher costs for business and lower national wealth (Michael 2012). As shown in Figure 6, the situation with the corruption control has significantly improved in several LLDC, including Zambia, Tajikistan, Rwanda, Paraguay, Niger, Macedonia, Lesotho, Kazakhstan, Ethiopia, Central African Republic, Botswana, Bolivia, Bhutan, Azerbaijan, Armenia, and Afghanistan. Even though, the index in some countries,
including Burkina Faso and Swaziland, has decreased over years, it still remains high on the
general performance.

If we compare the general performance of LLDC and transit countries in 2012 in terms
of institutional indicators, we can state that LLDC performed better in political stability. The effective institutional environment is important for both LLDC and transit countries and should be a mutual interest to promote development. As it is indicated in the Almaty Programme of Action, the international community, including financial and development institutions and donor countries, should provide financial and technical support to help those countries to deal effectively with their transit transport problems and requirements. Also, as it is indicated in the ten-year review of the implementation of the Almaty Programme of Action, we should focus on the implementation of the WTO Trade Facilitation Agreement in both LLDC and transit countries, as well as enhance transparency of procedures with respect to rules of origins, pre-shipment inspections, and other customs formalities that create significant non-tariff barriers to trade and accession and implementation of the key UN trade facilitation instruments such as the TIR convention.

Conclusion

The institutional development of LLDC is an inalienable component of the economic
development because it includes culture of respect for democracy, human rights, the rule of
law and social justice.

As we have checked the variety of data on institutions, we think we can point to three
relatively robust conclusions. First, effective institutions are important to overcome many
barriers of LLDC development, as it is a complicated process which should not be deter-
mined only from the point of view of being landlocked. For instance, political stability and
control of corruption is crucial to promote a good business environment and attract invest-
ment, which are the ways to improve connectivity with the world.

Second, an increase in institutional indexes means effectiveness of implementation of
the Almaty Programme of Action. For example, an increase of the regulatory quality index
in some countries can be defined as improvement of trade efficiency, facilitation of border
crossing, and development of private sector.

Third, market-friendly institutions should be a part of domestic reforms additional to
the Almaty Programme of Action in order to create a comparative market to optimise the
operation of the central and local government administration, and to promote the formation
of NGOs that stimulate enterprise and the rise of a civil society (World Bank 2004). Such
improvement of the economic climate will definitely lead to socioeconomic development.

Bibliography


### Ocena wzrostu instytucjonalnego śródlądowych krajów rozwijających się

**Streszczenie**

W artykule dokonano analizy instytucjonalnego rozwoju krajów rozwijających się, które nie mają dostępu do morza, w latach 1996, 2003 i 2012, ponieważ wydaje nam się, że efektywność uregulowań instytucjonalnych w krajach określana jest przez ich rozwój gospodarczy, jak również przez kwestie geograficzne. Ponieważ ocena wskaźników instytucjonalnego wzrostu śródlądowych krajów rozwijających się jest kwestią złożoną, zmieniającą się w określonym czasie, wydaje nam się, że metoda porównawcza i analityczno-syntetyczna nadaje się do osiągnięcia celów naszej pracy. Okazało się, że komponent instytucjonalny jest niedoceniany w „Deklaracji z Alma-Aty” jako dokumencie Organizacji Narodów Zjednoczonych, w celu zaspokojenia szczególnych potrzeb śródlądowych krajów rozwijających się. Zalecamy zwrócenie w następnej deklaracji większej uwagi na reformy instytucjonalne, ponieważ korzystne dla rynku instytucje stanowią główny instrument osiągnięcia dobrobytu gospodarczego w krajach rozwijających się, przez rozwój społeczeństwa obywatelskiego, promowanie dobrego środowiska biznesowego, przyciąganie inwestycji i zwiększanie efektywności handlowej.

**Słowa kluczowe:** śródlądowe kraje rozwijające się (LLDC), instytucje, Worldwide Governance Indicators (zagregowane wskaźniki ładu korporacyjnego), Program Działań z Alma-Aty.

**Kody JEL:** F53, F55, F59
Оценка институционального роста развивающихся стран, не имеющих доступа к морю

Резюме

В статье рассматривается институциональный рост развивающихся стран, не имеющих выхода к морю, в 1996, 2003 и 2012 гг., так как мы считаем, что эффективность институциональных механизмов в странах определяется их экономическим развитием, а также географическими вопросами. Так как оценка показателей институционального роста развивающихся стран, не имеющих выхода к морю, является сложным вопросом, который развивается в течение определенного периода времени, мы полагаем, что сравнительный и аналитико-синтетический методы подходят для достижения целей нашей работы. Мы выяснили, что институциональная составляющая недооценивается в Алматинской декларации, как в документе Организации объединенных наций, удовлетворяющем особые потребности развивающихся стран, не имеющих выхода к морю. Мы рекомендуем в следующей декларации уделять больше внимания институциональным реформам, поскольку благоприятные для рынка учреждения – основной инструмент достижения экономического процветания развивающихся стран, не имеющих выхода к морю, через повышение гражданского общества, содействие хорошей бизнес-среды, привлечение инвестиций и повышение эффективности торговли.

Ключевые слова: LLDC, учреждения, Worldwide Governance Indicators (комплексный индекс управленческой картины), алматинская программа действий.

Коды JEL: F53, F55, F59