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**THE INSTITUTIONAL REFORM AND  
THE INFORMAL SECTOR**

**(IRIS)**

**PROJECT PAPER**

**PROJECT NUMBER 940-0015**

**Bureau for Private Enterprise  
United States Agency for International Development**

**May 1990**

INSTITUTIONAL REFORM AND  
THE INFORMAL SECTOR (IRIS) PROJECT

PROJECT PAPER

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## EXECUTIVE SUMMARY

The Institutional Reform and the Informal Sector (IRIS) Project is designed to play a catalytic role in institutional reform efforts by (1) promoting greater understanding of the institutional requirements for economic growth in developing countries and in nations abandoning centrally-planned economies and (2) by enabling local organizations and individuals in these countries to undertake their own institutional reform programs.

The main goal of the project is to support institutional reforms that enhance competitive markets and democratic processes in selected countries. In addition, the project has three main purposes:

- (1) To promote improved laws, regulations, organizational structures and decision-making processes in selected countries;
- (2) To build an increased international awareness of the role of institutions in economic development; and
- (3) To expand the knowledge base on the relationship between institutions and economic growth, and to examine new approaches to institutional reform.

To attain these goals and objectives the project will support five major types of activities:

- (1) Organizational development to support the activities of local institutions and private sector groups engaged in research and action programs on institutional reform in a selected group of developing countries and in Eastern Europe;
- (2) Collaborative research and technical cooperation to assist local groups and USAID missions in selected countries in designing and implementing institutional reform programs;
- (3) Training programs in the United States and abroad to build the capacity of individuals to undertake and to assist others in undertaking institutional reform programs;
- (4) Information dissemination/outreach to inform broad audiences in the United States and abroad on institutional reform issues; and
- (5) Core research to develop the knowledge base and to identify and examine strategic approaches to institutional reform.

The ability of people to borrow money to start businesses or to buy housing is very limited if contracts will not be reliably enforced and property rights are not clear enough to serve as collateral for loans. Many mutually beneficial market transactions can occur only when there are reliable institutions that unambiguously define the rights of the parties to the transactions. Institutions are significant not only for reducing transaction costs, but also for the incentive to produce. In the absence of secure property rights, the incentive to invest in productive assets or to produce goods that others may seize is severely limited. The incentive to acquire skills and education similarly depends on the breadth and predictability of the rights of the individual. Thus both the level of investment and production and the extent of mutually beneficial trade depend dramatically on the nature, accessibility, and reliability of the institutions in a society.

Unfortunately, the body of neoclassical economic theory on which development programs traditionally have been based has tended to ignore the significance of institutions to economic growth. As a result, few policymakers, scholars and practitioners in the development field have examined the economic consequences of diverse institutional frameworks in different countries. In the words of economist Ronald Coase:

Until comparatively recently economists tended to devise their proposals for economic reform by comparing what is actually done with what would happen in an ideal state. Such a procedure is pointless. We can carry out the operations required to bring about the ideal state on a blackboard but they have no counterpart in real life. In the real world, to influence economic policy, we set up or abolish an agency, amend the law, change the personnel and so on: we work through institutions. The choice in economic policy is a choice of institutions. And what matters is the effects that a modification of these institutions will actually make in the real world.

While there is growing awareness among international donors and development scholars and professionals of the importance of institutions to economic development, IRIS is one of the first projects to attempt to further understanding and improvement of institutions and to play a catalytic role in local institutional reform initiatives in selected countries in the Third World and Eastern Europe.

## I. PROJECT DESCRIPTION

### A. Project Goal and Rationale

The main goal of the IRIS project is to support institutional reforms that enhance competitive markets and democratic processes in selected countries. The project will play a catalytic role by supporting a variety of activities aimed at enabling local institutions and individuals in developing countries and in Eastern Europe to undertake their own institutional reform programs.

The IRIS project is designed to promote understanding and improvement of institutions in developing countries and in nations that are abandoning centrally-planned economies, and to support local activities in these countries that aim at improving the "enabling environment" for the private sector and promoting fuller participation in the formal economy. These objectives are to be achieved in the following ways: (1) by providing research and technical support principally to private sector groups and research institutions in the developing countries that are striving to identify, study, and reform the institutions needed for efficient markets in which even the poorer people may participate; (2) by enhancing the limited base of knowledge in the United States and abroad of institutional reform and of the requirements for an effective transition from centrally-planned to democratic and market-oriented economies; and (3) by disseminating knowledge of institutional reform and the informal sector to wide groups of researchers, opinion-makers, and policymakers both in the United States and abroad. In addition, the project will support training on key topics dealing with institutional reform and the informal sector, and organizational development by providing resources to enhance the capacity of organizations in developing countries to administer effective research and action programs on institutional reform.

The underlying rationale of the IRIS project is that to understand the process of economic development and the reforms needed in developing countries and in societies abandoning centrally-planned economies, it is necessary to understand the importance of institutions (legal, political, and/or administrative) for sustained economic growth. Institutions can be defined as the "rules of the game" -- as the rules and frameworks that govern production, exchange, and decision-making. When a citizen has the right to make contracts with others that will be impartially enforced, or a secure property right in the assets in which he has invested, these rights are derived from the institutions of the society. These rights are taken for granted in the United States and other developed democracies, but they are often missing in the developing countries and in the nations of Eastern Europe.

The life-of-project funding from the Bureau for Private Enterprise will be \$8 million over a 5-year period. In addition, it is estimated that \$22 million will be provided as add-ons from USAID regional bureaus and missions.

The IRIS project will be implemented by the University of Maryland under a Cooperative Agreement with the Bureau for Private Enterprise. The University of Maryland has outstanding capabilities in the field of institutional reform and the necessary resources to manage and implement IRIS project activities.

A detailed first year work program is provided in Annex 1.

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## **B. Project Approach**

Development of the IRIS project was spurred by the path-breaking work of Hernando de Soto and the Institute for Liberty and Democracy (ILD) in Peru. The ILD has documented how inadequate laws and regulations covering property rights, contract enforcement, and government licensing restrict opportunities for broad-based economic growth in Peru. It is working to overcome these "institutional" deficiencies by developing concrete programs that will enable even the poor majorities to have a greater voice in the rule-making process and enhanced economic opportunities. The ILD is actively involved in the whole institutional reform process, from the drafting and passage of laws, to advocacy and public education, to actual implementation of laws.

While the IRIS project will build on and complement the work that the ILD has undertaken, a fundamental assumption of this project is that the approach adopted in each country must be tailored to the specific conditions in that country, and that any research or action program that it supports must be "home-grown." What worked in Peru may or may not work in the Philippines, or Indonesia, or Guatemala. Hence, IRIS will only assist countries where there is a local constituency for institutional reform. In addition, IRIS programs will be country-specific and the types of activities and approaches will vary according to the particular needs and circumstances of different countries.

The IRIS project will support three basic types of country activity, depending on local circumstances. These country-specific activities will be financed primarily from Mission additions.

- o Exposure/Promotion: Because of prevailing political and economic conditions in certain countries, the IRIS project will limit support to conferences, publications, and other information dissemination activities aimed at building awareness of the importance of institutional reform. This focus will be the case in countries with governments that are especially resistant to public advocacy.
- o Selected Institutional Reform Activities: In some countries, a range of private sector groups and individuals with interest in institutional reform may be emerging. In these countries, IRIS activities will involve workshops, technical assistance, and training on specific aspects of institutional reform.
- o Comprehensive Institutional Reform Programs: In still other countries, local private sector groups and research institutes may be undertaking comprehensive

institutional reform programs. In these countries, IRIS will provide a full range of services including specialized technical assistance, in-country and third-country training, seminars and communications support, and other resources to enhance the capacity of these organizations to administer their institutional reform programs.

### C. Project Purposes

The IRIS project has three main purposes:

#### 1. To Promote Better Institutions

The main purpose of the project is to promote improved laws, regulations, organizational structures, and decision-making processes in participating countries by enabling local organizations and individuals in selected countries to undertake research and action programs on institutional reform. This purpose will be accomplished by supporting training, information dissemination, and organizational development activities in different countries, as well as research and technical cooperation activities aimed at identifying, studying, and improving the institutions needed for efficient markets that will encourage widespread private sector participation.

#### 2. To Build Increased International Awareness of the Role of Institutions in Economic Development

A second purpose of the IRIS project is to build an increased domestic and international awareness of the need to examine the role of institutions in economic development and of the benefits derived from an appropriate institutional infrastructure. IRIS aims at invigorating the debate in the United States and internationally on key elements of economic growth/development strategies. An important objective of IRIS is thus to promote more dialogue on institutional reform issues among developing countries (South - South), between developing countries and Eastern Europe (South - East), and between developed and developing countries (North - South).

#### 3. To Expand the Knowledge Base on the Relationship between Institutions and Economic Growth and Examine New Approaches to Institutional Reform

A third purpose of the IRIS project is to expand the knowledge base on the relationship between institutions and economic growth and to examine new approaches to institutional reform. While the Institute for Liberty and

Democracy (ILD) has developed a very successful program for institutional reform, their approach has been adapted to the unique circumstances in Peru. Hence, there is a need to examine alternative strategic approaches to institutional reform that will further a better, more comprehensive understanding of the institutional requirements for attaining adequate and sustainable rates of economic growth through broad-based private sector participation in the economy.

In pursuing this purpose, the IRIS project will support research and development activities on the institutional and legal infrastructures that advance or constrain economic development. These activities will be linked to field work, as the IRIS project strives to encourage and support private sector groups and individuals in developing countries and in Eastern Europe to develop their own local approaches to institutional reform.

#### **D. Project Elements (Inputs)**

The project will support five major types of activities: (1) organizational development; (2) collaborative research and technical assistance; (3) training in institutional reform; (4) information dissemination/outreach; and (5) development of the knowledge base and strategic approaches.

##### **1. Organizational Development**

The IRIS project seeks to involve local private sector groups and research institutions from the early stages of a country program. In fact, IRIS will only implement programs in countries where local constituencies are interested, committed, and capable of implementing an institutional reform program. Thus, a key activity and one of the first priorities of IRIS will be to assess institutional reform opportunities in different A.I.D. assisted countries and in Eastern Europe, and to identify individuals and institutions capable of undertaking an IRIS-type program in their countries. An outgrowth of this activity will be an inventory of organizations, including private sector groups, research institutes and think tanks engaged in institutional reform activities in selected developing countries and in Eastern Europe. IRIS will also identify US institutions, scholars, and practitioners engaged in similar research activities, and build networks among these different groups.

Steps to identify target countries for IRIS activities have already been taken in the Philippines. In March, 1990 an IRIS project team conducted a workshop on institutional

reform and the informal sector with the purpose of assisting three Filipino organizations in developing a work plan and an organizational structure for promoting improved laws and institutions. An outcome of the workshop was that the three organizations decided to establish a secretariat to begin a research and action program on institutional reform. Their initial focus will be on the transport sector and follow-up activities involving leaders of jeepney driver associations and senior officials of the Department of Transportation are already underway.

Because of unique conditions in different countries, organizational development activities, like other project activities, will vary according to country-specific requirements. In some countries, a group of local entrepreneurs may decide to establish an ILD-type institute. This is the case in Guatemala where the Fundación Libertad y Progreso (FLP) is currently being organized with support of the USAID mission. IRIS can provide the following types of services: publications and other written materials on institutional reform; workshops to exchange ideas and information about institutional reform programs in different countries; specialists in a variety of fields to assist with specific reform proposals; and training in specific areas of need to the organization.

The underlying objective of organizational development activities will be to enable local groups and organizations to develop the fundamental skills required to implement their own research and action programs on institutional reform. The role of IRIS is thus a catalytic one aimed at enabling local people to undertake their own reform programs.

## 2. Collaborative Research and Technical Assistance

The research and technical collaboration component of the project is designed to assist local groups and individuals in selected countries in: (a) identifying the particular set of institutional deficiencies that are constraining growth in their countries and (b) developing strategies for removing institutional impediments and for creating laws and rule-making processes that will facilitate growth.

Support will be given to research efforts that are policy-driven and aim at institutional transformation. Moreover, a collaborative research approach will be emphasized throughout the project. Individuals in developing countries will have the lead role in setting and carrying out the research agenda in their countries. The role of IRIS will be to provide research guidance and support principally in response to perceived needs of local groups seeking to

extend their research activities. These collaborative research efforts will be complemented by the core research and development activities described in #5 below.

The purpose of technical cooperation will be to assist local private sector groups and individuals with specific questions regarding research methodology, organizational design, and strategy development and implementation. A local research institute may need assistance in improving its methodology for measuring the extent of informal sector activity in a particular economic sector. Or, a local group may have identified the need to reform a particular aspect of contract law and require the assistance of a U.S. lawyer with expertise in this area. Thus, IRIS will respond to requests from a select number of field missions and local institutes, think tanks or private sector groups engaged in institutional reform activities. As needed, working teams of US experts will assist with specific institutional design issues such as contract law reform, property rights issues, insurance codes, accounting standards, etc. It is anticipated, however, that most technical collaboration will be financed with add-on resources from the field missions rather than with core funds.

### 3. Training

Because many of the concepts and approaches needed to guide institutional reform programs are new, few people in the developed and developing countries have the basic knowledge that is required to undertake or to assist others in undertaking these types of programs. Even in the United States, where most of the literature on institutional reform has been developed, few scholars or professionals in the fields of economics, law, or political science are trained in the fundamentals of institutional reform. Likewise, developing country reformers also lack information about state-of-the-art concepts and how these can help them design and implement appropriate institutional change programs. Also, the learning-by-doing that is an integral part of IRIS projects needs to be written up in forms suitable for passing on successful practices to a new round of practitioners.

IRIS must, for these reasons, have a multidimensional training component aimed at several constituencies. While a detailed training program will be developed during the first year of project implementation, the following types of training are anticipated:

(a) Short-term in-country or third-country training:

Depending on host country demands and mission support, training workshops will be held in-country or in third countries. In other cases, training programs will be coordinated with the ILD, or held on a regional basis. Short-term training programs will be designed for individuals and organizations in selected IRIS countries who are involved in research or action programs in institutional reform. Since, as described in section I-B, there will be three classes of targeted countries -- those beginning to think about how to organize and mobilize for institutional reform, those in an intermediate state, and those with existing action efforts and established centers and leadership, and because local conditions will differ from case to case, these training programs will have to be tailored to need, within a general framework.

(b) Short-term training for professionals in the United States:

Because of the scarcity of professionals in the development field with basic knowledge of institutional reform concepts and approaches, the IRIS project will support a short-term training course for senior and junior professionals who work on projects and assignments for A.I.D. and other development agencies. The purpose is to give them the conceptual and operational tools in the field of institutional reform and to create a larger pool of people who can assist A.I.D. missions and host countries in this area. The frequency will depend upon demand, but the expectation is that two to three of these courses will be offered each year.

(c) Internships:

In order to address the need for added resource persons in the field of institutional reform, the IRIS project will fund two to four professional interns each year. These may be Ph.D. candidates at the dissertation stage or young professionals holding advanced degrees in such fields as law, political science, public administration, or economics. They will be recruited globally on a competitive basis. In return for their stipends they will work with senior staff of IRIS as they continue their training. Traineeships will typically last for 12 months. In addition, IRIS will consider two other types of internship programs: (i) bringing an A.I.D. professional to work on the IRIS staff for 6 - 12 months, and (ii) sending a graduate student in the United States with the requisite background in institutional reform to work with an organization in the Third World on its reform program.

## Resource Materials

Training programs will be based on an integrated set of modular materials. These will be drawn from three different sources: i) academic writings in the fields of institutional development and reform, ii) the working papers and professional papers generated by IRIS projects, conferences, and research, and iii) Harvard Business School-type case studies, again based on actual results obtained in IRIS work. All will be action-oriented and many will be multi-disciplinary.

The ILD in Peru has begun the creation of such training documents and IRIS and the ILD will exchange materials and seek to complement their efforts. It is expected that early IRIS in-country experiences will be an important basis for the training materials.

## 4. Information Dissemination/Outreach

IRIS seeks to influence the way people think about economic development and promote a new, institutional approach to the study of development and underdevelopment. To have the desired catalytic effect, IRIS must reach a broad audience both in the United States and overseas. IRIS must be able to reach policymakers in developing countries as well as statesmen in the United States who formulate development assistance programs. IRIS must also reach development practitioners in the United States and overseas who implement development programs. Moreover, IRIS must identify scholars in academic and research institutions who are responsible for training the next generation of thinkers and development practitioners.

A key objective of IRIS outreach activities is to serve as a center for and thus to facilitate the exchange of ideas between developing countries (South - South dialogue), between developing countries and Eastern Europe (South - East dialogue), and between developing countries and the United States (North - South dialogue). For this purpose, IRIS will undertake the following outreach activities:

- o Clearinghouse function: The IRIS Center will serve as a clearinghouse for information on institutional reform and the informal sector. A first activity will involve collecting materials on this topic and establishing an inventory or information base on institutional reform.
- o Newsletter: The purpose of the newsletter will be to provide a current and brief source of information on institutional reform and of the activities of IRIS and other similar projects to a wide audience. Thus, IRIS

support of a quarterly newsletter distributed to a wide audience will be a key means of communicating institutional reform activities.

Other information dissemination activities, including conferences, workshops, and the publication of working papers, articles, monographs, and books are described in section #5 below.

##### **5. Development of the Knowledge Base and Strategic Approaches**

A key assumption of the IRIS project is that ideas are a powerful tool for implementing change and that good ideas are essential to successful change. Accordingly, a key project activity will be to build the knowledge base and to examine alternative strategic approaches to achieve better institutional changes.

IRIS will stimulate and support research activities that will help the project understand and design successful institutional changes and effectively help the people who have had to find their livelihoods in informal and not-fully-legal ways. In doing this IRIS will be encouraging fundamental and far-reaching changes in the way people think about economic development, even as it helps in the week-by-week activities of IRIS in selected countries.

The work of Hernando de Soto and the Institute for Liberty and Democracy in Peru has demonstrated that it is necessary to study successful institutions and legal infrastructures in different countries and adapt them to the needs of a particular country. His work also illustrates the importance of good ideas and how much knowledge innovative activities that are properly investigated can generate. De Soto has emphasized the great extent to which his activities build upon intellectual advances that have taken place in the economically developed countries. The activities of the Institute for Liberty and Democracy have themselves also greatly added to the knowledge base, both because they have emphasized measurement and empirical inquiry and also because of their innovative character. Though the value of the insights that have been disseminated by the ILD goes far beyond the borders of Peru, they cannot be applied mechanically, or without careful observation and research, in the very different conditions in other countries.

For these reasons, the IRIS project will support research and development activities that examine the different institutional conditions that have contributed to or constrained economic growth opportunities in different countries and apply the insights gained from past and

current inquiries to the development of the knowledge base and strategic approaches to institutional reform. Thus, in supporting core research and development efforts, the IRIS project aims at identifying and developing alternative approaches to institutional change and at facilitating their adaptation for use in developing countries.

The products of this activity will include the following:

- o Working Papers: The project will support a working paper series. These papers will come from researchers, scholars, and practitioners in both developing and developed countries. Information about these papers will appear in the newsletter and the papers will be distributed around the world upon request.
- o Regular Books, Monographs, and Articles: The best of the working papers will be published in a volume series or as monographs and articles.
- o Conferences: Over its five-year span, the project will support three to five conferences on different aspects of institutional reform. The first conference will be on Institutional Reform in Eastern Europe. It will be a major conference for think tanks, government leaders, and private sector groups to provide exposure to ideas on the institutional requirements for economic growth and effective democratic processes. The conference will be held in Hungary or Poland.
- o Workshops/Seminars: The project will also support more frequent, but smaller gatherings to tackle specific problems. These workshops will be held in target countries or in the United States.

#### **E. Expected Achievements (Outputs)**

The products or outputs of the IRIS project will be more qualitative than quantitative in nature. This characteristic will make the project more difficult to evaluate through the use of traditional quantitative measures. It should be noted, moreover, that IRIS is an exploratory undertaking because it is the first project within A.I.D. to focus specifically on institutional reform in developing nations and Eastern Europe. Furthermore, because of the limited information on institutional reform and the enormity of the challenge, the project's programs will be innovative and experimental in nature.

The principal achievements of the project will be:

1. Enhanced opportunities for locally-initiated reform programs

The organizational development, research support, technical collaboration, training, and information dissemination activities of the project are all designed to enable local individuals to take the leadership in promoting reform of institutions that currently impede broad participation of the population in formal economic activity, or in creating new institutions that will facilitate such activity. The project realistically can play, and is only designed to play, a catalytic role in institutional reform efforts. The "push" for institutional transformation can only come from "the bottom-up", that is, from local interest groups, and the shape and extent of this push for reform will be defined by the political realities of the country in question. The impact of the project, therefore, will be to enhance the ability of these groups to promote and implement reform of laws and regulations governing such areas as property rights, contract enforcement, patents/copyrights, insurance, government licensing of business, and the extent of transparency and accountability in the rule-making process. It will be local individuals and organizations, however, who will effect actual changes in laws and regulations in their countries.

2. Increased understanding of institutional requirements to growth

The IRIS project will support research efforts by private sector groups and research institutions in target countries and in the United States aimed at identifying and studying both the institutional impediments to and the requirements for efficient markets in which a broader segment of the population may participate. The results of these efforts will be an expanded base of knowledge on the relationship between institutions and economic growth that will contribute to improved design of development programs and strategies.

3. Expanded cadre of institutional reform specialists

Currently, there is limited expertise in institutional reform both in the developed countries and in the developing countries. The training, technical assistance, and information dissemination activities of the IRIS project will contribute to an expanded cadre of institutional reform specialists both in the United States and overseas who can assist groups and individuals abroad, as well as A.I.D. and

other development agencies, in the design and implementation of institutional reform programs and strategies.

4. Increased public awareness of institutional reform

Conferences, publications, workshops, and other information dissemination activities will contribute to increased public awareness of the importance of institutions to economic growth and to greater support for institutional reform initiatives.

Quantifiable Outputs

At a quantitative level, the IRIS project will result in the following types of outputs:

- o an inventory of organizations and individuals working on institutional reform;
- o a database of information on institutional reform;
- o reports from target countries on institutional reform efforts and changes;
- o action programs on institutional reform designed in selected countries;
- o 3 - 5 conferences, conference reports and materials;
- o workshops in selected countries, workshop materials;
- o 10 - 15 working papers per year;
- o 3-5 occasional volumes;
- o a quarterly newsletter;
- o training seminars and materials;
- o research papers, reports, articles, and other publications;
- o written products of technical assistance missions.

## II. COST ESTIMATE AND FINANCIAL PLAN

IRIS project activities will be funded by the Bureau for Private Enterprise through a cooperative grant of \$8 million to the University of Maryland for the five-year life of the project. In addition, it is anticipated that USAID field missions and regional bureaus will make significant contributions toward funding of project activities. A ceiling of \$22 million has been established for add-ons to the project, based on expressions of interest to date from the regional bureaus and from 12 overseas missions.

Table 1 below outlines the anticipated distribution of project obligations:

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**TABLE 1**  
**ESTIMATED AID/W AND REGIONAL BUREAU/MISSION OBLIGATIONS**  
**LIFE-OF-PROJECT**  
**(in \$000's)**

<u>YEAR</u>	<u>PRE</u>	<u>BUREAUS/USAIDS</u>	<u>TOTAL</u>
FY 1990	800	200	1,000
FY 1991	1,875	5,450	7,325
FY 1992	1,775	5,450	7,225
FY 1993	1,775	5,450	7,225
FY 1994	<u>1,775</u>	<u>5,450</u>	<u>7,225</u>
<u>TOTAL</u>	8,000	22,000	30,000

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An illustrative five-year budget for each activity is provided in the following page.

IRIS PROJECT - ESTIMATED BUDGET BY PROGRAM ACTIVITY

PROJECT ACTIVITIES	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
<b>PRE CORE-FUNDED ACTIVITIES</b>						
ORGANIZATIONAL DEV. (5%)	\$71,050	\$65,390	\$85,211	\$86,912	\$91,432	\$399,994
DEV. OF KNOWLEDGE BASE (40%)	\$568,400	\$523,120	\$681,684	\$695,293	\$731,458	\$3,199,955
TECHNICAL ASSISTANCE (15%)	\$213,150	\$196,170	\$255,632	\$260,735	\$274,297	\$1,199,983
TRAINING (20%)	\$284,200	\$261,560	\$340,842	\$347,647	\$365,729	\$1,599,978
INFORMATION DISSEMINATION (20%)	\$284,200	\$261,560	\$340,842	\$347,647	\$365,729	\$1,599,978
<b>CORE TOTAL (100%)</b>	<b>\$1,421,000</b>	<b>\$1,307,800</b>	<b>\$1,704,210</b>	<b>\$1,738,233</b>	<b>\$1,828,645</b>	<b>\$7,999,888</b>
<b>REGIONAL BUREAU/MISSION ADD-ONS</b>						
ORGANIZATIONAL DEV. (40%)	\$800,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$8,800,000
DEV. OF KNOWLEDGE BASE (5%)	\$100,000	\$250,000	\$250,000	\$250,000	\$250,000	\$1,100,000
TECHNICAL ASSISTANCE (30%)	\$600,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$6,600,000
TRAINING (20%)	\$400,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$4,400,000
INFORMATION DISSEMINATION (5%)	\$100,000	\$250,000	\$250,000	\$250,000	\$250,000	\$1,100,000
<b>FIELD TOTAL (100%)</b>	<b>\$2,000,000</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>	<b>\$22,000,000</b>
<b>PROJECT TOTAL</b>	<b>\$3,421,000</b>	<b>\$6,307,800</b>	<b>\$6,704,210</b>	<b>\$6,738,233</b>	<b>\$6,828,645</b>	<b>\$29,999,888</b>

### III. IMPLEMENTATION PLAN

#### A. Implementation Arrangements

The IRIS project will be implemented by the University of Maryland under a Cooperative Agreement. The University of Maryland was selected after the Bureau for Private Enterprise conducted extensive interviews with 16 other prominent institutions. The University of Maryland was chosen because it is one of the leading academic institutions in the United States in the field of political economy, and because of the reputation and outstanding scholarship in institutional economics of its faculty. Moreover, the University of Maryland, through the staff it has proposed for the project, has demonstrated that it has the knowledge base, the intellectual resources, and the managerial capability to administer this project effectively. The University of Maryland will, however, cast a wide net to obtain assistance from a variety of institutions.

A Cooperative Agreement was chosen because substantial A.I.D. involvement in project implementation is anticipated, and because full competition was deemed inappropriate in light of the unique requirements of the project. Awarding a Cooperative Agreement to the University of Maryland is consistent with A.I.D. policy guidelines for reasons which are detailed in the "Justification for Less than Full Competition for the IRIS Cooperative Agreement."

The University of Maryland will create the IRIS Center to manage and implement the project. While the exact legal structure of the IRIS Center is still being defined, it will be either a legally separate 501.c.3 non-profit corporation affiliated with the University of Maryland Foundation or a free standing Center integrated into the Foundation. Details on implementation procedures and on the proposed organizational structure are provided in Annex 2.

The Bureau for Private Enterprise will be responsible for providing overall project management. This will include substantial involvement in project planning and direction, as well as responsibility for overseeing that the grantee is in compliance with the terms of the Cooperative Agreement. PRE will also be responsible for contacts with field missions and regional bureaus regarding PIO/T preparation and clearance, and for review of scopes of work and other work plans. PRE will also be responsible for ensuring that evaluations are undertaken, and for approving or disapproving major project activities. Finally, it is envisioned that the relationship between the University of Maryland and PRE will resemble a partnership in the sense that the Project Manager at A.I.D. and the grantee will work very

closely in managing and implementing the different project activities.

#### **B. Implementation Activities**

The activities outlined in section I-D will be implemented over a five year period, which is the current life of project authorization. Institutional reform, however, is a long-term process, and it is anticipated that consideration will be given at the end of year 3 to an extension of the project for an additional 5 years. Such an extension will be a major consideration of the mid-term evaluation of the project. Nevertheless, because of the exploratory nature of the project, the current five year life established for the project is appropriate. The preliminary first year implementation schedule is presented in Annex 1.

#### **C. Country Selection Criteria**

As described in section I-B, the IRIS project will support three different types of activities depending on the political, economic and social conditions in different countries. Exposure/promotion activities for local groups in the initial stages of organizing and mobilizing for institutional reform will be undertaken in a broader range of countries. On the other hand, comprehensive activities in support of local groups in an intermediate state or for those with more active and better established reform programs, will be undertaken only in a limited number of countries. The principal criteria for selecting countries in the latter category are the following:

- o There are interested local individuals and institutions capable and committed to a program of institutional reform;
- o There is considerable mission interest, resources, and commitment to undertaking an institutional reform program;
- o The prevailing political and economic environment is conducive to reform;
- o There is potential for the country to have a demonstration effect.

#### **D. Relationship to Regional Bureau and Mission Projects**

The IRIS project will build on and complement a number of current and proposed projects at A.I.D. These projects are outlined in Annex 4. Coordination with other A.I.D. bureaus will be an

important responsibility of PRE and of the grantee. Coordination with the Institute for Policy Reform project administered by the Bureau for Program and Policy Coordination will be especially important because there is greater potential for overlap with this project than with other projects, except for the ILD. Significantly, Dr. Mancur Olson, who is on the staff of the University of Maryland and will be playing a key role in planning and implementation of IRIS activities, is on the Advisory Board of the Institute for Policy Reform. In addition, the IRIS Center's Executive Director and the PRE Project Manager will be primarily responsible for coordinating the activities of the two projects. It is anticipated that the IRIS Center at the University of Maryland will establish a formal link to the Institute for Policy Reform.

Plans for coordinating activities with the Institute for Liberty and Democracy in Peru, which is being funded under a Cooperative Agreement with the Bureau for Latin America and the Caribbean (LAC) are outlined below. Coordination with other regional bureaus will be accomplished through regular communication between the PRE Project Officer and regional private sector offices.

There are a number of USAID missions interested in institutional reform activities, and PRE has received expressions of interest in participating in IRIS activities from 12 countries. These countries are: Cameroon, Ghana, Kenya, Mali, Morocco, Senegal, Guatemala, Nicaragua, Indonesia, Nepal, Philippines, and Thailand.

With the exception of USAID/Guatemala, which is in the process of developing its own project paper to support an ILD-type institute called the Fundación Libertad y Democracia (FLP), no other USAID mission is currently writing a project paper and developing a separate activity in institutional reform. Rather, all the USAID missions listed above have expressed interest in channelling their resources through the IRIS project and letting it arrange for the provision of research support, technical collaboration, training, and other types of assistance. The IRIS project is starting up at a very timely moment, when missions are just beginning to understand the importance of institutional reform and are eager for guidance and services in this area. It is anticipated, however, that as country programs get started and become larger, some missions will seek to develop their own IRIS-type projects. In those cases, the IRIS project will provide assistance in project design and implementation as well, as it will be doing with FLP and USAID/Guatemala.

E. Relationship to the Institute for Liberty and Democracy (ILD)

The IRIS project will closely coordinate its activities with those of the Institute for Liberty and Democracy in Peru. The proximity of AID/W, ILD/Washington, and the IRIS Center at the University of Maryland will clearly facilitate coordination and information sharing on worldwide institutional reform efforts. The President of the ILD, Dr. Hernando de Soto, has already agreed to serve on the Board of Directors of the IRIS project. In addition, IRIS participating countries will take part in ILD training courses in Peru.

#### IV. MONITORING AND EVALUATION PLANS

##### A. Monitoring

The IRIS project will be monitored by the Bureau for Private Enterprise on an ongoing basis. The purpose of the monitoring activities will be: (1) to ensure compliance with the Cooperative Grant Agreement; (2) to ensure that the overall direction of the project is appropriately focused on A.I.D.-assisted countries and that the research activities have policy relevance; and (3) to provide the necessary support to ensure the project's success.

In addition to day-to-day coordination with the Project Officer at PRE, the monitoring plan will consist of the following:

- (1) Annual work plan: The grantee will submit an annual work plan describing the principal programs to be undertaken during the following year for review and approval by PRE.
- (2) Annual budget: The grantee will submit an annual budget to accompany the work plan.
- (3) Quarterly progress reports: The grantee will submit quarterly progress reports to PRE. These must identify the activities that were undertaken in the previous quarter and also discuss plans for the following quarter. Because the project is exploratory in nature and work plans must be flexible, the quarterly progress reports will serve to indicate changes in the annual work plans.
- (4) Quarterly financial reports: The grantee will submit quarterly financial reports to A.I.D..
- (5) A.I.D. participation on Board of Directors: A.I.D. should have at least one member on the Board of Directors of the IRIS Center.
- (6) Maintenance of separate records for add-on activities: The grantee should prepare task orders and estimated budgets, and maintain separate records.

##### B. Evaluation

There will be three evaluations of the project. The first will be an internal assessment and it will take place 18 months into the life of the project. The principal purpose of this assessment will be to determine early on any problems in project

implementation that may require a shift in the direction of the project.

An independent evaluation will be undertaken at the end of year 3. In addition to assessing the project management and the progress made towards achievement of project objectives, this evaluation will assess whether or not the life of the project should be extended. A final, independent evaluation of the project will be undertaken at the end of year five.

Any evaluation of the IRIS project must take into account the innovative and exploratory nature of the project. This implies that the implementing agency must have considerable flexibility in its work programs to undertake the different project activities and to respond to the opportunities for institutional reform that may present themselves in different countries.

The evolving and dynamic nature of the project makes it difficult to define outputs and definitive timetables a priori. The IRIS Center must maintain considerable flexibility in order to respond to requests from USAID missions and host country organizations and at the same time support the development of the knowledge base and strategic approaches required by the project. This capacity has important implications for evaluating purposes because activities (and outputs) will most likely change during the course of the year. While measurable outputs will be identifiable at the end of each assessment period, specific quantifiable outputs will be difficult to predict in advance. Thus, it will be very important for PRE and the managers of the IRIS Center to maintain close contact in order to understand and monitor the evolution of project activities.

## V. SUMMARY ANALYSES

### A. Technical Analysis

The IRIS project builds on the conceptual foundations of the New Institutional Economics (NIE) and on the empirical findings of the Institute for Liberty and Democracy (ILD) in Peru. The NIE school and the ILD have concluded that "institutions matter" for sustained economic growth, and that to understand the causes of underdevelopment one must identify and study the institutions required for efficient markets. Accordingly, to develop effective economic development programs international donor agencies and policymakers must take into account the institutions -- whether legal, political and/or administrative -- that govern production, exchange, and decision-making in a society.

In designing the IRIS project, PRE conducted an extensive literature review on the informal sector and institutional reform, and it also sponsored several meetings with prominent scholars in the fields of law, economics, and political science. Key conclusions of these undertakings included the following:

- o Traditional macroeconomic approaches to economic development are inadequate because they ignore crucial institutional (legal, political or administrative) aspects that affect the ability of governments to implement and sustain policy reforms;
- o The New Institutional Economics offers a potentially productive, interdisciplinary approach to the study of economic development that may lead to a better understanding of the institutional requirements for economic growth and to a more effective policy reform agenda for A.I.D. and other international donor agencies;
- o The work of Hernando de Soto and the ILD on the informal sector in Peru has applicability in other countries, and his theses on the role of institutions need to be explored in Africa, Asia, and Latin America, as well as in Eastern Europe.
- o The base of knowledge of institutional reform and of the requirements for an effective transition from centrally-planned economies to democratic and market-oriented economies is limited even in the United States;
- o Institutional reform requires an interdisciplinary approach, but there are few people in the fields of

law, economics and political science with the requisite expertise in the United States or abroad.

In light of these conclusions, the IRIS project was designed principally to play a catalytic role in promoting and supporting local institutional reform initiatives in selected countries in the Third World and in Eastern Europe through exposure to institutional reform concepts, training, research support, and technical assistance. The emphasis on local initiatives stems from recognition that there is no blueprint for global institutional reform. Each country must develop its own approach based on the particular economic, political, and social realities of that country. The role of IRIS is thus to enhance the ability of local groups and individuals to undertake these initiatives.

In addition, the project was designed to have a significant information dissemination component with the purpose of: (1) sharing the current knowledge of institutional reform, and the new knowledge to be developed, with policymakers, opinion-leaders, scholars, researchers, and others in the United States and abroad; (2) building public awareness of the importance of institutional reform to economic development; and (3) encouraging dialogue on institutional reform on a South - South basis, on a North - South basis, and on a South - East basis.

#### **B. Economic Feasibility Analysis**

The economic and social benefits of this project are closely related. As stated, the goal of the project is to support institutional reforms that enhance competitive markets and democratic processes. As the work of Hernando de Soto and others has demonstrated, institutional inadequacies restrict opportunities for trade, as well as incentives to invest and produce. Improvements in the nature, accessibility, and reliability of institutions in a country would thus enhance the prospects for economic growth and for greater equity in a society. For example, enabling participants in the informal sector to obtain title to their land (as the ILD is doing in Peru by advocating and implementing changes in property registry laws) increases the ability of these groups to obtain credit which they can use to invest in productive activities.

The benefits to be derived from this project are difficult to specify a priori in quantitative terms. Because the IRIS project is designed principally to play a catalytic role in institutional reform efforts in selected countries, it will not be possible to establish a direct linkage between IRIS activities and changes in economic or social indicators. Rather, IRIS will strive to enable local organizations and individuals to undertake institutional reform programs that will enhance the possibilities for broader based participation in a society. Thus, any

improvements in specific laws and regulations will be the result of local initiatives, and the role of IRIS will be strictly indirect.

There are a number of reasons why the project is likely to have an impact well in excess of its costs:

- o The organizational development component of the project will enhance the ability of local organizations to undertake reform programs that will improve the efficiency of markets in which even the poor may participate;
- o The action programs of local organizations supported by the project will facilitate broader-based participation in the economy and enhance democratic processes;
- o The expanded knowledge base that IRIS will contribute to will enhance the ability of international donor agencies and policymakers to plan development programs;
- o Greater public awareness of the importance of institutions for economic growth is likely to make governments more responsive to institutional reform initiatives;
- o More information about the value in economic and social terms of the activities of the informal sector will make governments less likely to "crack down" on the activities of this sector.

### **C. Social Soundness Analysis**

The IRIS Project is designed to stimulate research and action programs that focus on the role of institutions in economic development, and to support rather than supplant indigenous people's own institutional reform efforts. As described in section I-B, the IRIS project will support three basic types of country activity, depending on local political, economic and social conditions. In countries in an intermediate and advanced stage of institutional reform programming, the project will work with local constituencies and seek to blend the resources of A.I.D. with those of local groups in order to encourage a sustainable and cohesive process of institutional change. In countries with much more limited potential for institutional reform, the project will limit support to conferences, publications and other information dissemination activities aimed at increasing awareness of the relationship between institutions and economic growth. Thus, IRIS activities will be tailored to the particular circumstances in a country.

Institutional reform initiatives cut across class lines and have a positive impact on the society at large. An administrative simplification program, for example, will benefit both small and large entrepreneurs. The only "losers" are the small elites, described by Hernando de Soto as "mercantilists," who gained from their privileged position vis à vis the state, and the bureaucrats who profited from the bribes that entrepreneurs had to pay in order to obtain licenses to operate their businesses legally.

The IRIS project seeks to enhance the ability of local individuals and organizations to undertake institutional reform programs that will enable markets to function more efficiently and to involve more productively the large segments of the population that are currently operating in the informal sector. While those individuals and organizations will be the most direct beneficiaries of project assistance, the benefits of institutional reform will spread well beyond these groups. The informal sector, as one of the most manifest examples of institutional dysfunction in a society, will also be one of the most likely beneficiaries of institutional reform. Moreover, because women are key participants in informal sector activities, the project will also benefit women indirectly in at least two important ways: (1) by focusing attention on the productive potential of women in the informal sector, and (b) by supporting institutional reforms that will enable women as well as the poor in general to participate more fully in economic and political processes.

#### **D. Administrative Analysis**

The Bureau for Private Enterprise will make the necessary arrangements with regional bureaus and USAID missions for add-ons to the project. Core funds will be provided to the University of Maryland under the terms specified in the Cooperative Agreement. The University of Maryland has demonstrated that it has both the intellectual resources and the administrative capabilities to manage the IRIS project. The reasons why the University of Maryland was selected are described in the "Justification for Less than Full Competition for the IRIS Cooperative Agreement". The expected implementation arrangements are described in section III and in Annex 2.

#### **E. Environmental Analysis**

This project is exempt from environmental procedures, including a formal IEE, because all of its proposed activities fall under the criteria described in Handbook 3, Appendix 2D, 216.2 (c) (i) and (iii). These criteria exempt "educational, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as

construction of facilities)" and "analysis, studies, academic or research workshops and meetings".

ANNEX 1

PRELIMINARY FIRST YEAR WORK PROGRAM

## ANNEX 1

### Institutional Reform and the Informal Sector Center Preliminary First Year Work Program (July 1990 - October 1991)

The IRIS program will strive to simultaneously:

- (a) assist in-country organizations in developing their institutional reform programs;
- (b) disseminate information on institutional reform worldwide; and
- (c) create new knowledge regarding institutional reforms that support market-based, democratic development.

Given the magnitude of the challenge and the scarcity of information on institutional reform, the IRIS Center program must be innovative and experimental in nature. The first year of the program, in particular, will be developmental as the IRIS Center sets out to identify potential partner organizations, gather new information, communicate the concepts of informality and institutional reform, and develop the appropriate strategies. Accordingly, during the first year, the IRIS Center will follow a six-step program of developmental activities designed to yield the framework for the five-year program of work. Each of the six steps is identified below.

1. Provide in-depth assistance to and pilot test IRIS concepts and approaches in 3 to 4 countries

The general concepts of Institutional Reform and the Informal Sector as applied by Hernando de Soto and others have proven to be successful in generating change in Peru. The IRIS Center will work with private sector organizations in 3 to 4 countries during the first year to determine under what conditions these ideas can be useful in other settings and what types of changes may have to be made.

The potential countries for pilot tests are: the Philippines and Guatemala (preliminary work has already been done) and one or two other countries in Africa and/or Asia.

It is expected that much of the funding to support these efforts will come from the missions. The IRIS Center will offer the missions a package of services which can include the following elements:

- (a) Introductory workshop on IRIS approaches (already developed for Philippines and Guatemala).
- (b) Technical experts on specific areas including economic analysis, communications, organizational development, strategic planning, and the like.
- (c) Management of sub-grants to facilitate mission work and ensure quality programs.
- (d) Periodic program reviews and strategy development workshops to assist in-country program development.

In addition, IRIS will work with a larger number of missions to support assessment teams of one or two experts that would assist the mission in developing institutional reform programs and projects in future years. For example, the mission in country x may want to support a program but need assistance in (a) identifying potential local organizations, (b) generating local interest, (c) providing information and training to local groups, and/or (d) training mission staff. On a selected basis and to the extent that resources are available, the IRIS Center will provide such services to missions.

The major output of this initiative will be evaluations of the pilot tests to determine the types of program approaches most likely to yield institutional reform.

## **2. Create a world-wide data base and network**

The IRIS Center will undertake a world-wide survey to identify the organizations and individuals active in institutional reform efforts. Such a survey is essential to lay the groundwork for program expansion in the second through the fifth years. Sources for the survey will include:

- (a) Conferences on the informal sector held by A.I.D. and other organizations such as the Center for International Private Enterprise.
- (b) The groups in touch with the Institute for Liberty and Democracy, ACCION International, the International Center for Economic Growth, and others.
- (c) Mission personnel.
- (d) Academic research programs known to the University of Maryland and other academic centers around the world.

The outputs of this initiative will be:

- (a) Establishment of the IRIS Center network.
- (b) A Clearinghouse of research reports, data bases, and sources of expertise available to work on IRIS projects.

**3. Develop an Eastern European regional initiative**

The transformation of Eastern Europe from command systems to market-based democracies is a central challenge of the decade and is, fundamentally, an issue of institutional reform. Further, each of the East European countries has a large second economy (informal sector).

During the first year, the IRIS Center will lay the groundwork for cooperation with emerging private sector think-tanks and research organizations in the region through the following:

- (a) An East European Conference on Institutional Reform and the Informal Sector to be held in Budapest or Warsaw featuring East European scholars already known to proposed IRIS Center staff, American experts, and international figures such as Hernando de Soto.
- (b) Follow-up technical assistance to East European groups seeking to develop their own programs and institutions.
- (c) Development of reform proposals by individuals active in the conference to be circulated to all participants in the form of working papers.

The output of this initiative will be to:

- (a) Establish an Eastern European network.
- (b) Provide technical assistance for emerging think tanks in the areas of economic analysis, strategic planning, communications, and advocacy.
- (c) Expand the knowledge base regarding institutional transformation (working papers).
- (d) Develop a program of work for the region for the next four years based on the needs of the East Europeans.

**4. Develop IRIS Center training programs**

Because expertise in institutional reform is currently very limited, both in the developed and in the developing countries, the IRIS Center will develop a series of short-

term training programs and internships aimed at increasing the number of individuals who can engage in design and implementation of institutional reform programs.

During the first year, IRIS will develop the training modules to support the different training programs for the next four years, and carry out the following additional activities:

- (a) Develop a short-term training program to be held overseas on a regional basis. Participants will be nominated by the missions from local organizations that have expressed an interest in learning more about institutional reform and the informal sector. The purpose will be to equip those organizations with the conceptual tools to carry out their long-term programs. The IRIS Center expects to hold the first program in either West Africa or Southeast Asia depending upon the interests of the USAID missions. It is expected that the program will rotate between regions on an annual basis.
- (b) Arrange for training of selected participants, including mission personnel and individuals from local organizations that are working on institutional reform, at the Institute for Liberty and Democracy. This type of training will depend on requests and funding from USAID missions.
- (c) Conduct 2 - 3 short-term training sessions for senior and junior professionals in the United States.
- (d) Conduct short-term training workshops for local groups working on institutional reform in their countries. These workshops will be held in response to mission requests from selected countries.
- (e) Identify and recruit 1-2 interns to work at the IRIS Center for 6-12 months.

The main output of this initiative will be the training modules for the different types of regional, in-country, and U.S. based programs.

5. Create a Program to Expand the Knowledge Base and Examine Strategic Approaches

As noted throughout the project paper, although the informal sector exists in nearly every developing country as well as Eastern Europe, approaches to institutional reform must be tailored to the specific political, economic, and social

conditions in a concrete country setting. Hence, there is a need to expand the knowledge base on the institutional requirements for growth and examine alternative strategic approaches to institutional reform. The pilot test (step #1) and the Eastern European initiative (step #3) will yield some of this information but much more work will be needed.

The concept of strategic development is intended to explicitly integrate economic and political variables to better understand the nature of institutional reform. Such development will entail examining factors such as type of regime (authoritarian vs. quasi-democratic), electoral systems (proportional representation vs. winner-take-all), degree of governmental centralization, and other systemic factors. Each of these variables has a direct impact on the potential for institutional reform.

Accordingly, IRIS will begin the process of expanding the knowledge base and examining strategic approaches through the following first year projects:

- (a) Hold a strategy development workshop. Participants will include (a) academic experts, (b) selected A.I.D. personnel, (c) organizations with field experience. (This workshop will be one of the first initiatives and will set out an agenda for examining gaps in our knowledge base.)
- (b) Develop a common set of political, economic, and social criteria for inclusion in research and development plans.
- (c) Commission working papers and other research undertakings. These papers will be both on general topics (i.e. on political elements) and country or region specific issues.
- (d) Publish the best papers.

The output of this initiative will be:

- (a) Working papers laying out strategic issues.
- (b) The data/concepts essential for development of the IRIS Center long-range plan (4 years).

**6. Create a communications and dissemination program**

The five-step work program will culminate in concepts and products that need to be disseminated broadly to focus attention on the informal sector and institutional reform issues. Accordingly, the IRIS Center will develop a multi-

faceted communications program including the following elements:

- (a) IRIS Center newsletter on a quarterly basis.
- (b) A working papers series (including materials from steps 3 and 5 but also including other papers).
- (c) Report on the Eastern European conference.

The materials listed above will be the outputs of this step. In year two, the IRIS Center will consider expanding the program to include an annual volume and/or a journal.

**ANNEX 2**

**IRIS CENTER OPERATIONAL DESIGN**

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## ANNEX 2

### INSTITUTIONAL REFORM AND THE INFORMAL SECTOR PROJECT

#### OPERATIONAL DESIGN

The operational design of the Institutional Reform and the Informal Sector Project (IRIS) is directly dependent upon the overall goals and purposes of the project as well as its implementation approach. These goals and purposes, as they have been previously defined, are:

- o Primary Goal: To support institutional reforms that enhance competitive markets and democratic processes in selected countries.
- o Purpose: To promote improved laws, regulations, organizational structures and decision-making processes.
- o Purpose: To build an increased international awareness of the role of institutions in economic growth.
- o Purpose: To expand the knowledge base on the institutional requirements for economic growth and to examine new approaches to institutional reform.

Consequently, the project is to develop and implement new, innovative approaches to the reform of institutions and the legal infrastructures supporting competitive economic activity in selected countries. Recent institutional reform activity undertaken by the Institute for Liberty and Democracy in Peru has demonstrated that it is necessary to study successful institutions and legal infrastructures and adapt them to the needs of a particular developing country taking into consideration its local laws, regulations, traditions and culture. Most often these successful models are found in North America and/or Europe. This concept is contrary to the traditional approach to economic development which has, in the past, concentrated primarily on the analysis of developing country problems with minimal regard to the successful institutions and legal infrastructures in place in developed countries. The result has been the advocacy of solutions that development economists would frequently not consider recommending in their own countries. The IRIS project will seek to establish a modus operandi that recognizes this fundamental shift in approach to institutional reform in support of competitive economic policy for developing countries. It provides the vehicle to identify successful models and facilitate their adaptation for use in developing countries. In essence, the

project will build a conduit through which innovative approaches to institutional reform may flow to the developing world.

In accomplishing the project goals and purposes, a core group, funded by the project's core budget, will be necessary to perform fundamental research on policy formulation as well as on the reform of the institutional and legal infrastructures that support or constrain competitive, free market approaches to economic development. Moreover, the project will require field teams, funded through USAID mission add-ons, to test, adapt and implement the new approaches to institutional reform in participating countries. It is intended that the core group, the Institutional Reform and the Informal Sector Center, will be based at the University of Maryland because the university has been working in the area of institutional reform for many years and has well qualified resources that can be applied to project activities.

Before actually defining the operational structure of the IRIS project, it is necessary to briefly describe how the project will function. This description will demonstrate the need for a flexible approach and unique mix of personnel with differing skills and backgrounds. It should be noted that the IRIS project is intended to be a results oriented, action program focusing primarily on applied research.

#### Implementation Procedures

From the outset, it will be necessary to have a close coordination between field and core activities. The initial field activities will consist principally of country needs assessments performed by special task forces directed by the IRIS regional program coordinators (working jointly with the USAID mission). These assessments will identify in-country problems and issues that can be addressed through institutional reform and will categorize the country needs in order to facilitate the determination of priorities for the research and implementation activities. Once priorities have been set, institutional reform issues may be analyzed by the IRIS Center which will perform the fundamental research to develop innovative institutional reform approaches focusing on the particular problem. The research will focus on both innovative tactics to implement reforms as well as the content of the needed reforms. Building on what has been learned in the ILD programs the research would concentrate models that have been successfully applied in developed countries to address the problem or issue under consideration. In performing this fundamental research the core group will establish specialized, short-term task forces drawing upon the resources available through the University of Maryland, supplemented as necessary by specialists contracted from other institutions (both non-profit and for-profit). As new institutional reform approaches are developed by the core group they will be

transferred to the field team which will adapt them to the specific conditions of the participating country. The field team will generally consist of contract personnel with institutional development experience in the region as well as relevant language skills. The team would be supplemented by members of the core group research staff who would participate as technical advisors on the implementation of the required reform process. The field activities will be coordinated with or through a counterpart entity in the host country. Additional activities of the IRIS project include the presentation of workshops overseas, the conduct of participant training in the US and abroad and the publication of books and journals on institutional reform. These outreach activities will familiarize developing country officials and institutional reform practitioners of the project's findings and innovations. In some cases the IRIS project will facilitate the pass-through of sub-grant funds from the USAID mission to host country institutions. This pass-through will be done in order to assure that the institutional reform activities in the country are well coordinated with the IRIS project activities.

The project structure must be flexible in order to achieve its goals and purposes as well as to satisfy the objectives of AID/Washington and the USAID missions. Consequently, the project staffing will require professional personnel skilled in fundamental research methodologies as well as professional personnel skilled in developing country technical assistance and implementation activities. The project will need to be able to access independent technical advisors and consultants as well as qualified personnel from both non-profit and for-profit entities. Mission needs are frequently very time-sensitive. Therefore, the project structure must minimize administrative and financial constraints and permit the rapid mobilization of resources to address identified needs.

#### Illustrative Organizational Structure

The illustrative design presented in the accompanying exhibit is similar to that of a business organization. It calls for an Executive Director and four operating units. The overall organization will report to the Board of Directors.

The Board of Directors will function much like the board of directors of a business. That is, it provides management oversight, it approves major contractual and financial decisions, and provides general guidance to the Executive Director. The Board would have decision authority on the selection of the Executive Director and would ratify the Executive Director's recommendations for appointments to key management positions. The Board should review and approve the annual work plan and budget for the IRIS Center and should provide quality control oversight of the IRIS program. Initially, the Board should review and approve the Center's operational policies and

procedures. During the course of the program the Board should have approval authority over deviations from the policies and procedures. Moreover, like the typical business board, it would provide the IRIS Center management with advice and guidance on the overall administration of the program. Such advice and guidance would relate to issues, problems or opportunities in the overall program management as well as concerns such as contract administration with A.I.D., independent fund raising etc.

Management of the IRIS Center will be under the responsibility and authority of the Executive Director who is to be selected and appointed by the Board of Directors. The Executive Director would have overall responsibility for all activities based at the IRIS Center (including fundamental research, training and dissemination) as well as all field activities resulting from USAID add-ons, sub-grants etc. The Executive Director would also have responsibility for the administration, staffing and financial management of the project. The Executive Director should develop and implement a plan to raise funds from non-A.I.D. sources (always in compliance with A.I.D. regulations regarding such activities). The Executive Director should be responsible for maintaining an appropriate liaison with officials of AID/Washington and the missions as well as with other institutions active in the institutional reform field. The following four Units will report to the Executive Director and will conduct the IRIS project activities in their specific areas of responsibility: Research and Training, Communications, Field Programs and Administration and Finance. Initially, the IRIS program will be small enough to permit the Executive Director to manage these units. However, as the program grows and gains both complexity and momentum it will require full-time managers for each of these units.

The Research and Training Unit is responsible for the core activities associated with the fundamental research program and the participant training. The fundamental research program would focus on two types of issues: the tactics for implementing reforms and the content of the reforms themselves. Initially this unit should have at least one and perhaps two full-time professionals experienced in research oriented to institutional reform and developing country institutions. These professionals would be assisted by one or two graduate assistants. The Research and Training Unit would work directly with the Field Program Unit and the assessment task forces to identify the issues and problems that should be investigated. The bulk of the actual research activities will be conducted by short-term researchers contracted for specific studies. The short-term researchers may be contracted from the University of Maryland, other research institutes or for-profit consulting firms. The Research and Training Unit should assign the appropriate technical specialists to work with all field teams in the pilot testing and implementation of institutional reforms. The

Director of Research and Training would also be responsible for developing a participant training program. This would include development of training materials, curriculum, the selection of training staff and supervision of the training. Presentation of training seminars and workshops may take place in either the US (at the University) or in regions of interest to the IRIS project.

The Communications and Dissemination Unit will be responsible for managing the dissemination program that will publicize the results and findings of both the core research and field activities. Dissemination activities will include the publication of a quarterly IRIS project newsletter and the publication of a periodic journal. Additional publications will include occasional books that can serve as a compendium of papers (edited for publication) presented at the IRIS conferences and workshops. The first activity of the Communications and Dissemination Unit will be to develop the marketing brochures necessary to promote the IRIS Center's capabilities, soliciting USAID mission interest and participation in the program. To accomplish these activities it will be necessary to hire a publications manager/editor at the outset of the project.

The Field Programs Unit will be responsible for maintaining liaison with the USAID missions and for supervising the field activities, including the add-ons and sub-grants. The Unit will focus on field activities, such as testing and implementing innovations in institutional reform for specific countries or institutional strengthening of counterpart institutions such as the FLP in Guatemala. The teams would consist of technical advisors from the Research and Training Unit as well as short-term specialists with specific experience relevant to institutional reform in the host country. In order to manage the field activities, the IRIS Center will require Regional Coordinators for Eastern Europe, Africa and the Middle East, Latin America and Asia and the Pacific. These Regional Coordinators would be responsible for recommending the countries and field activities in their region that IRIS should address (in accordance with criteria for establishing priorities). They should be able to select the appropriate team to accomplish the field activities, develop the work plan, and schedule and supervise the program. Initially, the IRIS Center will probably employ two of the four Regional Coordinators. These should be the Coordinators for Eastern Europe and either Latin America or Asia (depending upon the first year emphasis between Guatemala or the Philippines). These Coordinators should be knowledgeable about the other regions, which they should cover until such time as the program warrants the employment of additional Regional Coordinators. Eventually, one of the Regional Coordinators should be chosen to be the Field Programs Manager. In that capacity he may or may not retain his regional coordination

responsibility depending upon the overall workload of the two positions.

In order to administer the IRIS Cooperative Agreement it will be necessary that the Center have a small administration staff. Initially, these functions can be handled by two employees, a contracts administrator and a bookkeeper/accountant. The contracts administrator would be responsible for establishing standard contracts for independent researcher/consultants as well as for sub-contract arrangements. This administrator would also be responsible for managing any necessary procurement (the project will probably not require very much procurement activity) and would handle the logistical support for field teams. The bookkeeper/accountant would establish accounting systems and records and would be responsible for preparing all financial reports required by A.I.D. or by other donors if applicable. The bookkeeper/accountant would also be responsible for the preparation of periodic budgets and cash flow forecasts required by A.I.D. as part of the A.I.D. funding process. This bookkeeper would maintain the records and documentation necessary to support all costs reimbursed or paid by A.I.D. He would also review, verify and process invoices from suppliers, researchers, consultants and sub-contractors.

The organizational structure presented herein is illustrative of the structure that the IRIS Center will require. Although the organization chart presents the structure into which the Center will grow after perhaps the first two years, initially, the workload may not be sufficient to require staffing of every position. Moreover, the structure must be flexible so that it can be responsible to the evolving needs of the project. It may become necessary to create a position or function not currently envisioned and it is equally possible that some positions or functions identified in this illustrative structure may never become necessary.



**ANNEX 3**  
**LOGICAL FRAMEWORK**

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LOGICAL FRAMEWORK  
IRIS PROJECT

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
MEASURES OF GOAL ACHIEVEMENT			
<p>GOAL: To support institutional reforms that enhance competitive markets and democratic processes in selected countries</p>	<ul style="list-style-type: none"> <li>- Improved local capacity &amp; progress toward improved institutional structures</li> <li>- Increased knowledge of specific institutional deficiencies in participating countries</li> <li>- Greater knowledge of informal sector activities in participating countries</li> <li>- More organizations/individuals engaged in institutional reform efforts</li> </ul>	<ul style="list-style-type: none"> <li>- Current articles/publications</li> <li>- Country statistical data</li> <li>- Project reports and other publications</li> <li>- Inventory of organizations in target countries</li> <li>- Project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>- Adequate and sustained commitment by host countries to follow reform proposals</li> <li>- Local individuals and organizations are interested and committed to undertaking research and action programs on institutional reform</li> </ul>
CONDITIONS THAT WILL INDICATE PROJECT OBJECTIVES HAVE BEEN ACHIEVED END-OF-PROJECT STATUS			
PURPOSES:			
1. To promote better institutions	<ul style="list-style-type: none"> <li>- Proposals and actual changes in laws and regulations in participating countries</li> </ul>	<ul style="list-style-type: none"> <li>- Legislation</li> <li>- News media</li> <li>- Project records of assistance to participating countries</li> </ul>	<ul style="list-style-type: none"> <li>- Host country government is receptive to reforms</li> <li>- There is local support for institutional reform programs</li> </ul>
2. To build international awareness of role of institutions in economic development	<ul style="list-style-type: none"> <li>- Expanded knowledge base on institutions and economic growth</li> <li>- Greater interest among donors, policy makers, opinion leaders, scholars, etc. in institutional reform</li> </ul>	<ul style="list-style-type: none"> <li>- Working papers</li> <li>- Articles/publications</li> <li>- News media</li> <li>- Donor policy statements</li> <li>- Roster of individuals</li> </ul>	<ul style="list-style-type: none"> <li>- Project life sufficient to undertake significant information dissemination activities</li> </ul>
3. To expand the knowledge base on the institutional requirements for economic growth and examine new approaches to institutional reform	<ul style="list-style-type: none"> <li>- New groups in participating countries are pursuing different institutional reform programs</li> <li>- Expanded interest in research efforts on institutional reform in US and abroad</li> <li>- More information on institutional requirements for growth</li> </ul>	<ul style="list-style-type: none"> <li>- Working papers, articles &amp; other publications</li> <li>- Roster of organizations and individuals working on institutional reform</li> <li>- Database on institutional reform</li> </ul>	<ul style="list-style-type: none"> <li>- Project life sufficient to initiate new programs in participating countries &amp; to support research and development efforts</li> </ul>

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LOGICAL FRAMEWORK  
IRIS PROJECT

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>OUTPUTS</b>	<b>MAGNITUDE OF OUTPUTS</b>		
- Institutional reform strategies from local groups	- Inventory of local organizations/ individuals initiating local reform programs	- Reports from target countries - Inventory of organizations/ individuals working on institutional reform in target countries	- Access to host country groups/ individuals with requisite interest & ability to further research/ action programs - Missions willing to commit resources
- Expanded knowledge base on institutional requirements for growth	- 10-15 working papers/year - 3-5 occasional volumes - 3-5 conferences, conference materials - Database on institutional reform	- Project records & publications - Annual work plans	- Project life sufficient to develop & initiate research & development program
- Expanded cadre of institutional reform specialists	- Training courses and materials as set in annual work plans	- Project records - Progress reports - Course materials - Record of trainees	- There is demand for training
- Increased public awareness of institutional reform	- Quarterly newsletter - 3-5 conferences - publications	- Annual work plans - Progress reports - Newsletters and other products of outreach activities	- US and LDC interest and demand for products of outreach activities

INPUTS

Professional time by project managers, researchers, consultants, trainers, local groups/individuals, and financial resources to undertake the following activities:

Activity	Budget in 000's	Verification	Assumptions
Institution Building			
Technical assistance			
Training	PRE		
Outreach support	Contributions		
Research & Development	Regional Bureaus & USAIDs		
	Estimated Total		

\$8,000  
 \$22,000  
 \$30,000

- Inputs will be verified by budgets, annual work plans and progress reports  
 - Continued PRE funding of project  
 - USAIDs and regional bureaus have sufficient interest and funding to support activities

ANNEX 4

SUMMARY OF OTHER RELEVANT A.I.D. PROJECTS

## ANNEX 4

### SUMMARY OF OTHER RELEVANT A.I.D. PROJECTS

The IRIS project will build on and complement a number of current and proposed projects at A.I.D. Coordination with other A.I.D. bureau will be an important responsibility of PRE and of the grantee.

A summary of the principal relevant activities by other A.I.D. bureaus is provided below.

#### A. Latin America/Caribbean Bureau (LAC)

For the past four years, the Bureau for Latin America and the Caribbean, through its Private Sector Policy Planning and Institutional Development Project, has sponsored the work of Hernando de Soto and the Institute for Liberty and Democracy (ILD) in Peru. Support under this project has enabled de Soto and the ILD to undertake comprehensive studies of the legal, institutional and financial barriers to entry into the formal sector in Peru.

In an effort to extend the benefits of this research to other countries in the Latin America and Caribbean region, USAID/Peru has signed a five-year, \$10 million Cooperative Agreement with the ILD. This project includes a training component that will bring representatives from Latin America, Africa and Asia to the ILD to learn about its experience in Peru.

#### B. Africa Bureau (AFR)

The Africa Bureau in April 1989 sponsored conferences in Abidjan and Nairobi on the informal sector. The objectives of the conferences were:

- o to identify policy measures which can promote African entrepreneurship, particularly among existing informal sector participants;
- o to examine effective programs to support the informal sector; and
- o to determine how advocacy programs can be established for pursuing needed reforms.

In addition, as a follow-on to these conferences, the Africa Bureau sponsored a training program for African researchers which was held at the ILD in Peru.

C. Asia/Near East Bureau (ANE)

In early April, 1989 the Asia/Near East Bureau sponsored developing country participants from Morocco, Egypt, Bangladesh, the Philippines, Sri Lanka and Thailand to travel to Peru to learn about ILD activities and methodology. The Asian participants gave a day-and-a half debriefing to A.I.D./W officials. They reported that the Peruvian experience does have relevance in Asia. It was agreed that more research is necessary to quantify transaction costs and their impact on economic growth. As a result of the debriefing, the Asia Bureau has commissioned a book (through the International Center for Economic Growth) that will contain seven country case studies on informality in development. The countries included in the study are: Bangladesh, Egypt, Morocco, the Philippines, Sri Lanka, and Thailand.

D. Bureau for Program and Policy Coordination/Economic Affairs (PPC/EA)

1. Institute for Policy Reform

PPC/EA is establishing the Institute for Policy Reform which will foster research and provide access to expertise that will directly strengthen USAID policy reform efforts. The Institute will operate an International Development Consortium, which will provide an organizational framework for implementing innovative, educational, training, and communications programs.

2. Consulting Assistance for Economic Reform (CAER)

PPC has also developed a project on policy reform implemented by the Harvard Institute for International Development (HIID). The project aims to enhance A.I.D.'s capacity to assist developing nations in introducing and maintaining appropriate economic policies at the macroeconomic, sectoral, and project levels.

3. International Center for Economic Growth

PPC/EA is in the second year of a research project with the International Center for Economic Growth (ICEG). The purpose of the project is to provide support for activities which contribute to the elimination of regulations which stifle economic growth. Hernando de Soto's book, The Other Path, was published under this project. The ANE Bureau's trip to Peru and the subsequent debriefing were also funded through a buy-in to this project.

4. PPC/WID Office of Women in Development

PPC/WID funded a study of women in the informal sector in Latin America through the International Center for Research on Women. The study was published in Spanish in 1988 and was published in English in 1989.

5. PPC/CDIE

PPC/CDIE is currently engaged in a literature survey of the informal sector.

E. Office of Housing and Urban Programs (PRE/H)

The Office of Housing and Urban Programs incorporates informal sector concerns into nearly every aspect of its programming. This is consonant with the relative importance of the informal sector in housing - estimates are that upwards of 95% of all housing for low-income households in developing countries is provided through informal mechanisms. In January 1988, the Office of Housing and Urban Programs sponsored a conference on the informal sector and its relation to shelter and urban development issues. The conference led to a report entitled "Support Strategies for Informal Production of Housing and Urban Services." This report outlined informal sector research and policy strategies for the housing guarantee program.

During 1981-89, the seven Regional Housing and Urban Development Offices (RHUDOs) conducted a series of studies on the informal sector related to housing and urban developments. Topics included resource mobilization, housing finance, and shelter provision.

The Office also has an Informal Sector Project tasked to prepare a review and synthesis of findings from the RHUDO studies, focusing on strategies for more effectively working with the informal sector. Field studies will be conducted, examining two strategies that have been particularly effective.

F. Bureau for Science and Technology (S&T)

The Bureau for Science and Technology has a number of activities and projects which touch on different aspects of institutional reform and the informal sector. These include the following:

1. Seminar on Institutional Analysis

A seminar on institutional analysis was held in 1987. It resulted in the publication in 1988 by ICEG of Rethinking Institutional Analysis. This was the final outcome of

funding provided to the Policy Workshop at Indiana University with the purpose of increasing its work in institutional analysis in international development. Although not a direct follow-on project, S&T's Decentralization project carries on the emphasis on institutional analysis, and the Policy Workshop is one of several subcontractors.

2. Decentralization, Finance, and Management

The purpose is to improve rural service delivery through increased decentralized capacity to finance and manage the maintenance and repair of rural infrastructure. This is approached from the perspective of institutional analysis. (LOP: FY87-FY94)

3. Implementing Policy Change

The purpose is to improve the implementation of sectoral policies that enhance economic growth through: (1) the generation and application of knowledge about ways governments can improve and influence policy implementation through its own and private organizations, and (2) the establishment of ongoing, in-country specialist capacity to support policy implementation. (LOP: FY90-FY-96)

4. EEPA (Employment and Enterprise Policy Analysis)

The purposes are: to develop an innovative methodology to enable USAID Missions to deal with employment generation as a policy issue; to build U.S. capacity to provide TA to developing countries to foster policy change and to reduce biases against small and medium enterprises; and to strengthen host country's capacity for policy analysis. Outputs have included a discussion paper on "The Informal Sector, Policy Reform, and Structural Transformation" published in a condensed form in Beyond the Informal Sector by the Sequoia Institute. (LOP: FY84-FY88)

5. OMEGA (Options for Maximizing Employment Growth & Adjustment)

The purposes are to identify policies essential for broad-based sustainable economic growth in low income countries, and to provide analytical and technical assistance on policy analysis, policy reform, and policy dialogue to USAIDs, AID/W Bureaus and host country governments. This project is currently under development. (LOP: FY90-FY99)

6. ARIES (Assistance to Resource Institutions for Enterprise Support)

This project aimed at strengthening the capabilities of support institutions in LDCs to implement small and microenterprise development programs. Because microentrepreneurs operate largely in the informal sector, a number of the field assignments dealt with the informal sector, especially in Latin America. ARIES was a follow-on to RD's SEAE/PISCES microenterprise project which also had an even greater emphasis on the informal sector. Results are summarized in 2 Vol. final report. (LOP: 1986-1990)

7. GEMINI (Growth and Equity through Microenterprise Investments and Institutions Project).

The purpose is to increase output and efficiency among existing and new enterprises in developing countries and to enhance the effectiveness of microenterprise assistance programs and policies carried out by A.I.D. by providing expert services. GEMINI will continue the institutional assistance provided through ARIES but has a stronger emphasis on economic research. Among the studies to be conducted will be analyses of: the informal sector and the growth and dynamics of women's enterprises as well as the impact of microenterprise project assistance on women. (LOP: 1989-1994)