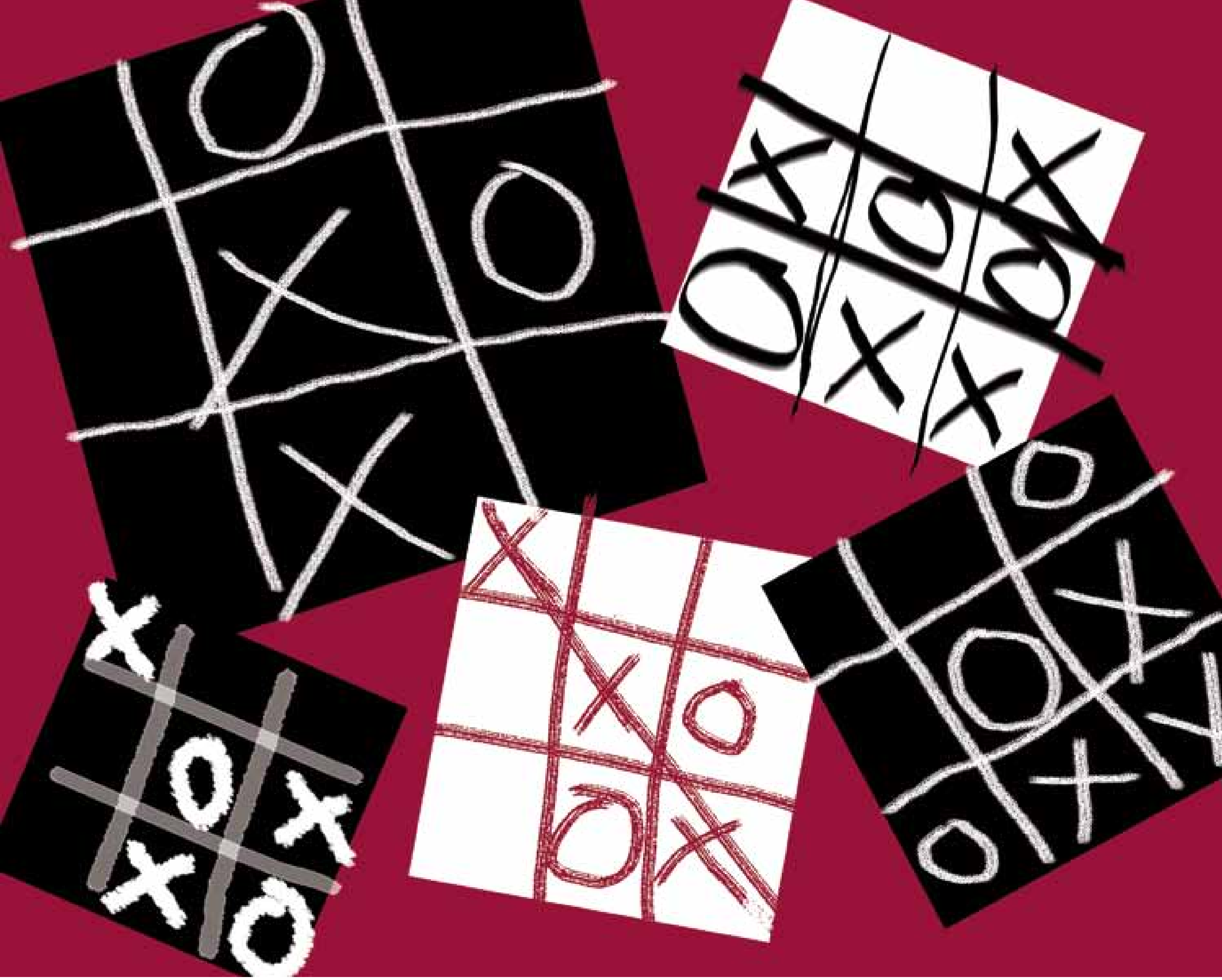

Beyond Institutions

Institutions and organizations in the politics and economics of growth and poverty reduction – a thematic synthesis of research evidence

Research Programme Consortium for Improving Institutions for Pro-Poor Growth

UKaid from the Department for International Development

Beyond Institutions

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Beyond Institutions. *Institutions and organizations in the politics and economics of poverty reduction - a thematic synthesis of research evidence*

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‘The continuous interaction between institutions
and organizations in the economic setting of scarcity,
and hence competition, is the key to institutional change’.
(Douglass North, 1998: 15)

‘Don’t mourn. Organize.’
Joe Hill (1915)

1 Acknowledgements

The argument of this paper draws on the work of many researchers in many countries who are too numerous to mention, but without whom this RPC would not have functioned. Each in their own work, and in their (usually) multi-disciplinary teams, have explored the 'big idea' and contributed though their findings to this thematic synthesis. We express our gratitude to them for their work and their patience in sometimes difficult circumstances. Our partner organizations have been the African Economic Research Consortium (AERC) in Kenya; the Consumer Unity and Trust Society (CUTS) in India; the Latin American Centre for Rural Development (RIMISP) in Chile; the Natural Resources Institute (NRI) at the University of Greenwich; the Overseas Development Institute (ODI) in London and – in the first phase of the work – the Council for the Development of Social Science Research in Africa (CODESRIA) in Senegal. To our colleagues who served in the management group at various times in the life of the IPPG – Adebayo Olukoshi, Olusanya Ajakaiye, Bipul Chatterjee, Paul Hare, Siddhartha Mitra, John Morton, Felicity Proctor, Alexander Schejtman, Oliver Springate-Baginski, Dirk Willem te Velde and Steve Wiggins - and to John Harriss, the first Director of the RPC, whose drive and energy got us into this, we also our express our appreciation for their unfailing cooperation and support. Sue Martin enhanced our communications beyond measure, while first Frances Davies and then Ruth Hill kept the administrative machine running smoothly with tact and good humour.

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Adrian Leftwich and Kunal Sen
Co-directors of IPPG
University of York and University of Manchester
August 2010.

2 Executive summary

Institutions are the formal and informal *'rules of the game'* that shape, but do not determine, human behaviour in economic, social and political life. For more than 20 years it has been argued that institutions matter for growth and poverty reduction as well as for political stability and inclusive social development. The IPPG Research Consortium set out to examine the practical implications through a broad range of economic, political and social research, including projects on state-business relations in India and Africa, land reform in Malawi, contract labour in India and contract farming in Nigeria, territorial development in Latin America and a case study of privatisation, agri-business and the institutional constraints on small farmers in Mali.

The key messages to emerge from the research of this RPC are these.

- Institutions are neither self-generating nor self-sustaining. As sets of 'rules of the game', they achieve little on their own. Economic, political and social institutions are shaped, implemented, undermined or reformed by individuals and organizations.
- Institutional effectiveness and hence development outcomes therefore depend critically on the way in which institutions interact with organizations and individuals.
- These interactions are 'political' processes, and outcomes can differ greatly from initial intentions and expectations. Institutions embody the rules. But formal and informal organizations and individuals play the game. They may play the game according to the rules or they may seek to evade and avoid the rules, thereby undermining it; and they also seek to shape or influence the rules.
- Understanding when, how and why institutions work therefore involves understanding how they are negotiated, how they evolve, and the conditions of their effective implementation.
- It is, in short, a matter of understanding the politics of how individual players, organized interests and institutions interact.
- This interaction is at the heart of the politics of growth and poverty reduction.

Organizations aggregate and articulate interests, whether they are business or professional associations, trades unions, political movements, farmers' organizations, women's coalitions or other formal or informal groups. They are therefore the critical political links between citizens and the decision-making organs of the state. Hence while it is true that 'institutions matter', individuals and organizations matter too, for it is they

[1] Improving Institutions for Pro-Poor Growth, a DFID-funded Research Programme Consortium, 2005-2010. See www.ippg.org.uk

who forge, maintain, implement and change institutions.

It follows that for donors to encourage legitimate and effective institutions which sustain a stable and inclusive environment for growth and poverty reduction, they will need to:

- Think 'beyond' institutional design and form.
- Recognise the importance of the distinction and interaction between institutions and organizations and embed this in policy and operational thinking.
- Learn how to 'think politically' and to *'work politically'*; and in particular how to help build up the players – especially the economic, social and political organizations - which will both shape and make institutions work.
- Recognise that 'institutions' are not a 'sector'. Like 'governance', institutional and organizational issues are pervasive across all sectors and issue areas, whether in health, the environment, civil rights, private sector development, agriculture or gender.
- Get smarter at identifying and understanding stakeholder interests and their relationships, and in discriminating between the developmental, the collusive and the predatory.
- Be savvy in recognising that institutional formation, change and reform may be resisted for many reasons – the interests of current beneficiaries, cultural and moral objections or the sheer force of habit and routine – 'institutional stickiness'.
- Appreciate that recognising where the obstacles are, and devising strategies to negotiate them, requires deep knowledge and understanding.
- Continue to support and encourage multi-disciplinary cooperation between Economists, Political Scientists, Anthropologists and Historians.
- Learn how to enhance the political capacity of organizations in areas such as negotiation and the generation of constructive policy options.
- Develop the skills of *facilitating and brokering* interaction between organizations so they can negotiate and implement locally appropriate institutions in a variety of national and sub-national policy areas.
- Commit to investing in the *processes* that will foster the institutional means for overcoming the many collective action problems - and oppositions - that define the challenges of development and poverty-reduction.
- Institutionalise a sustained commitment to research and policy development which is multi-disciplinary, across the social sciences, involving also a deep understanding of comparative historical patterns, evidence and precedents.
- Recognise that fostering and brokering the processes that help interaction within and across both private and public organizations, as in improving state-business relations, can contribute to growth. But it can also contribute to institutionalizing and stabilising states by establishing some of the key lateral and vertical links and relations that promote the consolidation of effective states and stable societies.
- Appreciate that this is long-term work and will require flexibility to experiment and to learn from experience.

3 Introduction: The Big Idea

This publication reports on the work of the DFID-funded Research Programme Consortium (RPC) on *Improving Institutions for Pro-Poor* Growth (IPPG) between the years 2005-2010.

The aim here is not to summarise the findings from each research project. The detailed research reports of each are listed at the end of this paper and may be accessed via the IPPG website at www.ippg.org.uk. Rather, the purpose is to identify and highlight the most important common themes and especially policy implications which flow from the evidence. We have therefore drawn primarily from the various work-streams and diverse range of research projects of this RPC in order to contribute a better operational understanding for policy-makers of the nature and role of institutions in promoting (or hindering) growth and poverty reduction. But we refer also to the work of some of the other DFID-funded consortia as we believe that the policy implications of research are considerably strengthened when findings from a range of research groups can be shown to complement and re-enforce each other rather than being regarded as silos of separate evidence.

The research programme undertaken by the IPPG was framed and initiated by a broad and over-arching hypothesis that:

Pro-Poor Growth (PPG) depends critically on the interactions of formal and informal political, social, and cultural institutions with economic institutions. Together, these interactions constitute an institutional network which may either enhance or constrain PPG.

> ***"Institutions are not self-generating or self-sustaining – and they achieve little on their own"***

Accordingly, wherever possible, the work has been undertaken by teams which have been variously composed of economists, political scientists, anthropologists and rural sociologists. Where it has not been possible to assemble such multi-disciplinary research teams the results have sometimes been less persuasive and the explanatory traction weaker than might have been the case had there been multidisciplinary work. The collaboration and exchange of ideas which accompanied the work has vindicated our initial confidence in the value of multi-disciplinary approaches to the complex problems of growth and poverty reduction. Even if the point is not new, it is an important re-statement of a message that deserves repetition and re-emphasis.

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[2] This kind of cooperation is something which has, rightly in our view, been encouraged by research managers in DFID.

Institutions are social and political constructions, not matters of technical design or administrative arrangement

It is important to stress that most projects started looking primarily at formal institutions (to be explained later). But throughout the work researchers regularly bumped into informal institutions, and it became clear that what often mattered for growth or poverty reduction was less a question of whether informal institutions were, or could be, a substitute for formal institutions, but rather how formal and informal institutions interacted.

This short publication is called ***Beyond Institutions*** to highlight some of the over-arching themes.

It is now widely accepted that both formal and informal *institutions*, understood as the 'rules of the game' (North, 1990), matter for growth and poverty reduction (as well as for political stability and inclusive social development). The point is developed in the next section, but for immediate purposes the evidence from this research has suggested a number of key themes about the role of institutions in development and poverty reduction.

- The first is that institutions, as a set of rules, are not self-generating or self-sustaining – and they achieve little on their own. To be effective and sustained, they require legitimacy, consistency and compatibility with other institutions, maintenance, implementation and review.

- Second, economic institutions, as with political and social institutions, are social and political constructions not simply matters of technical design or administrative arrangement. Understanding how institutions are forged, how they evolve, and the conditions which ensure their successful implementation, rather than avoidance or evasion, is therefore fundamental. This takes us into the territory populated by actors and *organizations* which is well 'beyond' many of the conventional approaches to institutional analysis.

- The third central theme is therefore that the *interaction* of individuals, organizations and institutions is at the heart of the politics and political economy of development, where 'organizations' are understood to be the formally or informally co-ordinated vehicles for the promotion or protection of a mix of individual and shared interests and/or ideas.

These themes are elaborated and illustrated in the sections which follow, as are the important distinctions between institutions and organizations.

4 Key Concepts

> ***The distinction between institutions and organizations needs to be taken seriously by policy-makers; both are still often used inter-changeably and confusingly***

The view that 'institutions matter' (Rodrik, 2007) for growth and development is now widely accepted and supported by a substantial evidential base. Indeed, it has become so widespread that it is now close to being a truism. Moreover, the central idea is not new. It had been around a long time before Douglass North (1990) reminded economists of the importance of institutions and before March and Olsen (1984) drew political scientists' attention back to the central role which institutions play in political processes and in the analytical traditions of the discipline. From Confucius and Aristotle (1964) through the German School of institutional economics in the 19th century (Hodgson, 2001), to Durkheim's analysis (1895/1938) of 'social facts' and in the work of many other social scientists since then, a strong analytical tradition has emphasised the importance of institutions in shaping social, economic and political life. By 2002, The World Bank (2002) had come formally to recognise the role of institutions in economic growth. Both DFID and the OECD followed suit, for example with an Issues paper on 'Promoting Institutional and Organizational Development' (DFID, 2003) which built on a guidance note produced in 1995, and an OECD paper on *Institutions and Development: A Critical Review* (Jűtting, 2003). The IMF's *World Economic Outlook* for 2005 was devoted to 'building institutions' (IMF, 2005).

Institutions and Organizations

But what are institutions? What are formal institutions and what are informal institutions? How are political, social and economic institutions differentiated? And how are institutions distinguished from organizations? Though it is sometimes emphasised in the literature and policy documents, the important distinction between *institutions* and *organizations* is one that has not been taken sufficiently seriously by policy-makers; and the concepts are often still used both inter-changeably and confusingly.

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[3] See, for instance, North (1992); Knight 1992; and most recently North, Wallis and Weingast (2006 and 2009) all of whom stress the significance of the distinction between institutions and organizations.

A football World Cup analogy. Institutions and organizations explained through the 'game' of football.

In June of 2010, footballers from 32 countries converged on South Africa for the FIFA World Cup. They came from around the world, divided by language, religion, culture and politics, some rich, some poor - so how did it all possibly work? The answer illustrates quite simply the distinction between institutions and organizations and also why, when and how institutions 'work'.

The simple answer is that, understood as an 'institution', the 'rules of the game' of football are clearly known and agreed by all and have spread world-wide since 1863. That's what an institution is and what it does. It shapes, without determining, human behaviour in different spheres of life, whether the 'game' is football or stable and predictable patterns of economic, political or social interactions. Institutions can be formal (such as laws, constitutions, regulations, contracts) or informal (customs, traditions and accepted practices) and together are best understood as the "rules of the game". Because people in China and Chile understand and accept football rules, they can play the game with or without each other.

But what of organizations? Whereas institutions are best understood as the 'rules of the game', organizations are best understood as 'the players'; that is the teams in this football analogy. Players, individually and in their teams, operate within the rules or - as stakeholders with different interests and preferences - may seek to change the rules of the game. And hence there need to be rules for changing the rules.

Of course it is more complex than this. The institution – or the game - of football is upheld and implemented by its international organization, FIFA, and by the national football organizations. It has power to enforce the rules – through referees, who are themselves in an organization, as are the players. And when rules are transgressed – and not punished or prevented - outrage ensues, both in football and in society, as illustrated by the understandable outburst of Irish fury at Thierry Henry's 'hand-ball' infringement in a recent pre-World Cup qualifying match between Ireland and France. Where fraud is involved, the police may be called in.

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[4] The history of football helps understand how institutions emerge. Until 1863, various versions of the game were played around the United Kingdom (including the most prestigious private schools) and elsewhere, but according to different rules, so it was difficult to play each other. In 1863 a meeting of club captains and representatives from a number of London clubs was held – including one from the War Office – to codify rules 'for the regulation of the game of football'. The modern institution (game) of football and its regulatory organization, the Football Association, were born (Walvin, 1975). FIFA, the international body, was established in 1904.

This analogy illustrates that a stable and repeated 'game' is established when the rules are understood and accepted (they are held to be legitimate) by all the players and when they are consistently applied. Overall, therefore, the quality and outcome of a 'game' is a function of the interaction between individuals, organizations and institutions. One should not stretch the analogy too far. But it is nonetheless the case that stable political and economic activities and interactions – that is 'good' economic and political 'games' - also require agreement about the economic or political rules – or institutions. And they require players - both individuals and organizations – to abide by them, as well as systems of enforcement to ensure that avoidance, evasion or infringement is reduced to a minimum and penalised when it occurs.

Wherever you look – in sport, social life, economy and politics - we are part of a web of rules, or institutions, which form the "scaffolding" of society. Of course, institutions can be bad as well as good. Gender discrimination is institutionalised in many parts of the world – certainly not a "good" institution for the women affected by those rules. And organizations and individuals may seek to evade, avoid, undermine or change them, using fair means or foul. And that's what makes the operation of any 'game' unavoidably political. For establishing and maintaining sound institutions is always going to be a political process, not a technical 'fix'.

Understanding this central precept of institutional analysis is one of the foundations for thinking politically.

Institutions

As is now widely accepted, ***institutions*** are best understood as the 'rules of the game' (North, 1990) which shape human behaviour in economic, social and political life. As the abstract cover of this publication suggests, we all participate in a series of distinct but overlapping 'games' with institutions, or rules, at their core. Quite simply, human society is impossible without them. Effective institutions provide for predictable and stable patterns of interaction in all walks of life. So institutions are thus best thought of as durable social rules and procedures, formal and informal, which structure - *but do not determine* - the social, economic and political relations and interactions of those affected by them (Leftwich, 2006 and 2007).

"Distinguishing between the formal and the informal is not as easy as first may seem the case"

It is common for institutions to be thought of as being either 'formal' or 'informal'. However, distinguishing between the formal and the informal is not as easy as first may seem the case. Or, rather, the utility of the distinction can be called into question for two reasons, at least.

First, there are reasons to wonder whether it is indeed necessary for an institution to be *written* (a common criterion attached to 'formality') for it to be formal. For instance, the Chinese empire – and the power, rights to and of office, duties and legitimacy of the emperor - was held together for at least a millennium by almost entirely informal institutions (non-written rules), though the relations between the centre (the emperor) and localities (run by big men, warlords) were formalised through written agreements. Does it make sense to think of the endurance of the Chinese empire as a matter of informality? Do long-lasting unwritten institutional arrangements not in some sense classify as formal arrangements? Why is the *written* character of an institution so crucial in defining whether it is formal?

'Slow-moving' and 'fast-moving' institutions

Second, it may well be the case that most *formal* institutional arrangements depend on informal institutions for their efficacy. And all major spheres of social, economic and political interaction may well be shaped by a mix of formal and informal rules which thus constitute a set of *hybrid institutional arrangements.* The so-called British constitution (there actually is not one) is a hotch-potch of domestic laws - some going back to Magna Carta and the Act of Settlement of 1702, but also formal electoral laws – and 'informal' conventions (such as collective cabinet responsibility). There are also European Union rules which impact on British political practices. So, taken together, the British polity and politics is perhaps better understood as being shaped by hybrid institutional arrangements.

However, despite these important qualifications, the conventional contemporary distinction between formal and informal institutions is as follows:

- *Formal* institutions are normally understood to be (written) laws, regulations, legal agreements, statutes, contracts and constitutions – the so-called 'parchment institutions' (Carey, 2000) – which are enforced by third parties.

- *Informal* institutions, on the other hand, are thought of as the (usually un-written) norms, customary practices, standard operating procedures, routines, conventions and traditions (Hall, 1992) which are often deeply embedded in culture and its associated ideology.

Other refinements and distinctions are also sometimes used in institutional analysis. For example, some economists distinguish between *'deep'* and *'superficial institutions'* (Dixit 2006) or 'slow-moving' and 'fast-moving' institutions (Roland, 2004). Cultural institutions are sometimes thought of as 'deep' or 'slow-moving' in that they change slowly. On the other hand, formal political institutions may change quickly – for example, constitutional reform or decentralization. Other 'deep' institutions - like the basic 'rules' of democracy – may take a variety of 'superficial' institutional forms. Presidential, parliamentary, federal and unitary systems are all different institutional expressions of democracy. Individual property rights and communal property rights, likewise, are different forms of property rights institutions.

Economic Institutions

Formal economic institutions - at least the fundamental ones in market economies - define and protect property rights, determine the ease or difficulty and length of time it takes to start a business, facilitate exchange and promote and regulate organized coordination and competition (Wiggins and Davis, 2006). (In socialist economies, or subsistence economies, different institutions govern economic behaviour).There are, of course, many other institutions which influence economic behaviour and which range from rules governing health and safety to those relating to the environment or the employment of children. Taken together, they form a more or less dense network that can either promote or frustrate economic activity and growth outcomes. But such outcomes also depend on the interactions of these economic institutions with political and social ones with which they often overlap – for instance political rules which enable or hinder cooperation and organization amongst workers.

Informal economic institutions - include conventions, norms and traditions which might govern access to opportunities (or credit) as between genders or social groups, or which embody the rules which facilitate cooperation between some groups while excluding others. They are often almost indistinguishable from social institutions and also have political implications, such as caste in India. In China, for instance, the informal networks known as *guanxi* ('relationships') are shaped by norms of 'trust and reciprocity' and have played a significant part in attracting and reducing the risks of investing in China (Wang, 2000). A similar pattern has been identified by Steer and Sen in Vietnam (Steer and Sen, 2008), which is elaborated later.

Political Institutions

Political institutions define how power is obtained, used and controlled, and by whom, and how authoritative decisions are made (and not only at the level of the state). Such decisions are often about economic institutions as well as about the respective rights and obligations of states and citizens *vis a vis* each other.

Formal political institutions refer simply (at least in modern polities) to the formal rules, laws and, especially, constitutions which prescribe how official political power is sought, won, distributed and controlled at national and sub-national levels. These specify the formal rules of the political game, but are everywhere more or less penetrated by *informal political institutions* (again, often closely interleaved with social and cultural institutions) which sometimes support the formal ones as 'complementary' institutions, but often also may undermine, compromise or subvert them (Lauth, 2000; Helmke and Levitsky, 2006). Examples of the latter would include the rules governing patron-client chains, old-boy networks, patrimonial political relationships, *caciquismo*, and much more.

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[5] The point is made, quite clearly, by the IMF in its 2005 *World Economic Outlook*. "'Political institutions determine the distribution of political power, which includes the ability to shape economic institutions and the distribution of resources... As groups grow wealthier they can use their economic power to influence political institutions in their favour ...Changing institutions can be slow, requiring both significant domestic political will and more fundamental measures to reduce the opportunity and incentives for particular groups to capture economic rents' (IMF, 2005: 126-127).

Social Institutions

That conception of informal institutions applies especially to social and cultural institutions (including religious institutions). Although there are, increasingly, formal institutions governing social interaction and (especially) public behaviours, most cultural and social institutions are informal in the sense conveyed above and they shape the areas of largely private and communal behaviours, relations and interactions between individuals and amongst many social groups, including those defined by age and gender. As suggested earlier, they tend to change slowly, as the history of gender relations in the West illustrates.

Organizations

But if institutions are the *rules* of the game, what then are *organizations?* They are best understood as the formally or informally co-ordinated vehicles for the promotion or protection of a mix of individual and shared interests and ideas. In other words, they are *players* of the game.

Organizations, of course, have their own internal rules, but these apply only to the members of that organization, and they have their own internal systems of authority, hierarchy and command. The rules governing the power and authority of the chief executive of Boeing Corporation are different to those which govern the Chief of Police in Belgrade.

Like institutions, organizations may be formal or informal and may operate within, across or outside economic, political or social institutional arrangements. Companies, trades unions, political movements or parties, churches, news media, banks and businesses, public bureaucracies and ministries, security services, professional and business associations are all instances of *formal* organizations – not institutions.

Informal organizations, on the other hand, tend to have less or no public profile, no formal constitution and operate behind the public space. The *mafia*, secret societies, criminal gangs, cabals, political factions or cliques within parties and organizations and some forms of both social movements and cartels are all examples of informal organizations.

Institutions and Organizations

This distinction between institutions and organizations may seem both simple and obvious. However, inadequate attention has been given by policy-makers and analysts to this distinction and to the interaction between institutions and organizations – that is the games and the players. Failure to differentiate these concepts clearly and to deploy them rigorously and consistently in analysis has meant that policy-makers have not been able to take proper account of the central political role played by organized human agency, especially in the form of formal and informal *organizations* – whether economic, political or social - in the shaping, maintaining, undermining, avoiding and changing institutional arrangements. This has not only limited the explanatory capacity of policy-makers, but

Institutions matter. But not on their own and not in isolation from each other

has blunted their ability to develop appropriate policy and operational strategies which take account of the significance of the interaction between institutions and organizations.

The evidence from this research consortium has systematically confirmed the view that, indeed, institutions do matter. But not on their own, and not in isolation from each other. Furthermore, the standard approaches to institutional analysis have tended to treat social, economic and political institutions as distinct and have commonly failed to recognise their overlapping and inter-penetrative relations. Institutional analysts in all main disciplines seldom explore, for instance, how economic institutions are unavoidably political in their provenance, effect and impact; and how political institutions and processes profoundly affect the shape and functioning of economic institutions and practices.

Clarifying the way these concepts are used and applying an institutional approach to a range of very different research contexts helped to generate a number of broader findings which are discussed in the following sections.

5 Institutional and Organizational Interactions

> ***When people change the way they use resources, they change their relations with each other***

The case studies undertaken in the course of this work sought to explore how prevailing or changed institutional patterns impact on developmental outcome and particularly on poverty reduction. In this section we show that the ways in which individuals, organizations and institutions interact are decisive in shaping the politics of developmental outcomes.

Institutional Interactions

Social, political and economic institutions overlap and affect each other – and they seldom relate to isolated spheres of human action and interaction. Change in one institutional sphere will impact on other institutional spheres. When people change the way they use resources, they change their relations with each other in a number of institutional spheres. Interactions between interests, ideas and institutions are central to developmental outcomes. Moreover, stable institutions also have bases in moral and ideological conceptions and can also be subject to ethical challenges, as indeed can attempts at institutional change.

> ***'Moral' or 'ethical' responses to institutional change affect their effectiveness***

An IPPG study of Mali showed that large scale changes in the economic institutional architecture of the Compagnie Malienne pour le Développement des Fibres Textiles (CMDT) and the Office du Niger (ON) had profound impacts on the local political institutions governing rural life, on the farmers' relations with the state and on their political organizations. 'Moral' or 'ethical' responses to institutions or institutional change affect their effectiveness as perceptions of this kind impact directly on perceptions of their legitimacy. People's moral dispositions affect their judgements of economic institutions and, in turn, their economic behaviour, as the Mali study showed. They may participate more or less enthusiastically, refuse certain transactions or expend effort to seek them out; they may cheat, boycott or rebel.

Institutional change, farmer response and poverty reduction in Mali

Mali is a landlocked, partly desert country, one of the least developed in the world. Its economy is dominated by agriculture. Research was carried out in two important agricultural regions of Mali - the cotton zone dominated by the parastatal Compagnie Malienne pour le Développement des Fibres Textiles (CMDT) and the Office du Niger (ON) irrigation system – where smallholder agriculture has long taken place under the control of state organizations. Both areas have seen major institutional reforms from the 1980s onwards, supported by international donors. These reforms have attempted to liberalise marketing of crops and agricultural inputs, decrease bureaucratic control of agriculture, change the forms and functions of farmer organizations, and make crop production more competitive in a world market. In their latest manifestations they involve the allocation of Office du Niger land to large-scale foreign agribusiness, and the privatization of CMDT. Local-level farmer organizations have been given additional responsibilities as the role of the two state organizations contracted, but have struggled to perform their new roles. They are now themselves subject to reforms; broadly speaking enforcing a change from a looser "village association" model to a formal co-operative model.

Farmers have felt threatened by the reforms of the Office du Niger and the CMDT but lack stable and credible organisations through which to hold dialogues and take collective action in a liberalized agricultural sector. Moreover, to illustrate the earlier point about ethical and moral responses to change, the IPPG study of these institutional reforms in Mali found that small farmers regarded these changes as essentially 'unfair', as a breach of a moral relationship with the state and hence negatively affected their response to the reforms. IPPG research in the ON found that smallholder farmers had deep concerns about security of tenure for themselves and their families in the face of well-publicised grants of land to foreign agri-business following the institutional reforms. In the cotton zone, farmers clearly perceived themselves to be worse off in income terms (although systematic data is sparse), and also face uncertainties with respect to input supply and marketing as institutional changes are played out. In both areas, they express concerns about farmer organisations being over-burdened with and under-prepared for new responsibilities. The institutional changes had not been accompanied by consultation with farmers or their organizations; and this has affected their attitude and response to the opportunities the institutional changes were supposed to bring. In the perceptions of the farmers, the institutional changes have left them worse off and abandoned - "leaving farmers as orphans" (Dougnon, et al., 2010; Morton, 2008).

Cultural institutions and economic institutions: trade, credit and failure on the Red Sea Coast

An IPPG study by Morton (2008) shows how different societies may view the same economic institution, with different consequences. In the 1980s, the Northern Beja peoples of the Red Sea Hills and coast north of Port Sudan depended largely on pastoralism and the sale of livestock, particularly of camels. With the money raised from these activities, they bought sorghum grain (the basis of their diet and calorie intake), coffee, sugar, cloth and a few other consumer goods. This sorghum originated in the Sudanese grain belt several hundred kilometres further south and reached them through merchants in Port Sudan and a network of very small rural shops.

The most striking characteristic of trade in these shops was the widespread expectation that shopkeepers should give very long, interest-free credit. This expectation had several roots, the most important of which was the widespread and absolute belief in the Islamic prohibition on usury and a cultural ethos of material hospitality and 'generalised reciprocity' in some spheres, such as the exchange of economically-useful information.

Shopkeepers responded in three different ways to these expectations. A few shopkeepers, who were of the right patrilineages to have political aspirations in either the traditional leadership system or the formal local government system (which were in any case very closely linked), gave widespread interest-free credit and appeared to prosper, with their shops well-stocked and well-frequented. A second group went in the face of expectations and gave little or no credit. They were in most cases 'outsiders' in the sense of being of Yemeni or Egyptian origin: they could not, therefore, have any local political ambitions. They were considered mean in some cases, figures of fun in others – while their shops prospered. The third and largest group of shopkeepers were ordinary men of pastoral background, from the small villages where the shops were, or from neighbouring valleys. These men conformed to the expectation of interest-free credit and as a result seemed to go in and out of business with rapidity, as the lack of cash coming in meant they were unable to restock. However, entry-costs to shop-keeping were low and shop-keeping could be combined with other occupations. There was also little stigma attached to trying shop-keeping for a while and then failing.

The Beja case illustrates that there may be different 'moral concepts' attached to the same economic transaction around ideas of fairness. In the case of the Red Sea Coast economy, the institution of long-term interest-free credit played an important part in making sure that there was a supply of essential food-grains and other commodities to poor pastoralists mediated by the rural shop-keepers. Policy-makers need to be conscious of how moral concepts and institutions may shape people's responses to proposed institutional changes.

Although moralities are also diverse in form, and hard to universalise across cultures, there are strong arguments for incorporating attention to morality into research and policy on economic institutions, but this needs to be done through sensitive, and well-resourced qualitative fieldwork.

Another econometric IPPG study - which compared the impact of legislative competition in 32 sub-Saharan African countries on three dimensions of poverty (income, education and health) – showed a positive effect where there was serious political competition – and especially through the legislature - and where one major party did not dominate (Saha, 2009). The question posed here was whether one major institutional change – the establishment and consolidation of genuinely competitive legislative democracy – has an impact on poverty reduction? The study carried out on a panel of 32 countries has indicated, for example, that legislative institutions in Ethiopia play a very positive role. Ethiopia's legislative institutions have some important characteristics: Ethiopia has a bicameral parliament and different social components of the Ethiopian population are equitably represented in it. The advantages of these institutional provisions are reinforced by strong political organizations and efficient administrative organization of the country. The findings suggest the value of strong legislative institutions, the need to intensify legislative competition, to adopt bi-cameral parliamentary systems and to ensure equitable representation of populations in parliament. Such factors constitute the institutional contexts in which strong political organizations can compete, giving rise to better poverty-reduction outcomes.

The Interaction of Institutions and Organizations

In the light of the key distinction between institutions and organizations, the central research finding of wide range of studies undertaken in the course of the IPPG research work can be summed up in a simple proposition:

The way organizations interact with each other and with the institutional context is the essence of the politics and political economy of growth and poverty reduction, for organisations and informally-organized interests play a key role in the politics of institutional formation, implementation and change.

"How organizations interact with each other and the institutional context is central to the politics and political economy of growth and poverty reduction"

Moreover, though they commonly help to resolve collective action problems, institutional forms are rarely the result of only technical, voluntary or pragmatic administrative agreements. Rather, and especially in the developmental context, they are inevitably politically contested in their design, maintenance, implementation and reform, particularly given that institutional change lies at the core of developmental processes.

And where institutions – formal or informal – work well, it is not simply because of their purposes, design or form. It is more generally because they are invested with legitimacy, sustained by political support and backed by associated organized political and bureaucratic capacity to ensure effective implementation. When formal and informal institutions facilitate relations of trust, reciprocity, credibility and transparency between states and businesses (Harriss, 2006), there are positive growth effects (Sen and te Velde 2007 and 2009; Cali, Mitra and Purohit, 2009; Leftwich and te Velde, 2010). Evidence from the research of the IPPG work on state business relations illustrates this clearly, as the next section will show.

Informal Institutions and Development Outcomes

It is of course also the case that *informal* institutions affect outcomes, both positively and negatively. Formal institutions - sometimes called 'parchment' institutions (Carey, 2000) – are normally written down (laws, regulations, contracts etc), and enforceable by third parties. *Informal* institutions, however, are usually unwritten codes, norms, procedures, conventions, and generally accepted ways of doing things within a community. These are embedded in customary social practices and culture - and can be equally binding with positive or negative effects.

> ***Compatibility rather than conflict between formal and informal institutions, is generally a condition for developmental success***

Work by the IPPG consortium – and also by other scholars (Helmke and Levitsky, 2006) and other DFID-funded research consortia, including those 'On the Future State' (IDS, 2010) and on 'African Power and Politics' – has shown that 'informal institutions' can undermine, reinforce or even substitute for the functioning of formal institutions. Overall, however, the accumulated the evidence suggests that compatibility rather than conflict between formal and informal institutions, norms and requirements is generally a condition for developmental success, as in the contract and the handshake.

There is also evidence from other IPPG work in Vietnam and Africa (Mutabazi, Wiggins and Mdoe, 2010) and other research (Steer and Sen, 2008; Moore and Schmitz, 2008; Abdel-Latif and Schmitz, 2009; IDS 2010) that *informal* institutions – sometimes described as 'traditional' or customary; sometimes more 'relational' and anchored in networks of friends, followers and family - as with the *guanxi* in China (and their equivalent in Vietnam) and relations of patrimonialism and patronage elsewhere - can at times substitute for formal institutions or can have positive developmental outcomes through the workings of 'developmental patrimonialism' (Cammack and Kelsall, 2010).

The Limits of Informal Institutions: Mobile Phones and Onion Marketing in Tanzania

Mobile phones are now ubiquitous in most parts of the developing world. Does the growing use of mobile phones among farmers and traders in rural developing societies increase the reach of informal institutions? Can transactions that would need face to face contact now be conducted over the phone, underpinned by mutual trust? An IPPG study of the onion supply chain in central Tanzania (Mutabazi, Wiggins and Mdoe 2010) shows that this is not the case. Mobile phones are hugely popular with farmers and traders as they reduce costs of transactions, and have allowed some farmers to get more reliable and additional information on price. But they have hardly transformed the manner informal (and formal) institutions function, nor have they led to the strengthening and spread of informal institutions across the various points of the supply chain and across geographical space. Mobile phones are used in business for the simplest possible function: exchange of the least sensitive information, such as when a farmer intends to harvest the crop. Key points in the transactions — agreeing to supply a trader, inspecting quality of produce, and agreeing a price — are still matters for face-to-face verbal deals.

This suggests that even for simple agricultural commodities which are characterised by product homogeneity and very little customization of goods and production to order, there is a limit to the role that informal institutions can play in shaping economic exchange, constraining the ability of economic transactions to occur across time and, especially, space.

When to formalise institutions?

Informal institutions are crucial in underpinning economic transactions in the early stages of economic development. But there is disagreement on whether informal institutions will continue to play an equally important role as the economy matures over time and continues to grow. An earlier debate has focused on whether 'best practice' formal institutions, whether of the Washington Consensus variety or from the heterodox ones that underpinned the East Asian miracle (such as targeted and selective industrial policy) should be transplanted to developing countries with very different social and political institutions than the source countries from where these institutions were to be transplanted. We feel that much of the debate is unhelpful to policy-makers in most developing countries – the real issue is not whether formal institutions be introduced in environments where they do not exist, but rather at what pace should they be developed, and how they can complement the functioning of existing informal institutions and not act as substitutes for such institutions.

Take the case of Vietnam, one of the most rapidly growing economies in the world and where there has been significant poverty reduction. Steer and Sen (2008) show that firms have increasingly taken on risks in their transactions, in spite of weak formal institutions. This can be explained by the use of informal institutions such as the use of social and business networks by firms. Thus, informal institutions remained important in Vietnam as mechanisms of risk management even as the economy matured and new formal institutions were gradually developed. However, as economic transactions increased in complexity and involved customers and suppliers of inputs spread over larger geographical distances (including the increasing importance of overseas markets), firms increasingly used formal institutions such as courts and written contracts.

The key lesson from Vietnam was that there was no sudden destruction of old institutions before new institutions could be created (as happened, for example, in many countries in Central and Eastern Europe). Rather, changes in economic behaviour have tended to move ahead of adjustments in the institutional framework. The process of change involved an interplay between formal and informal institutional development. Thus domestic private firms were able to struggle to life and take root, prior to any mass privatization or major institutional change. The stability maintained in institutions, and a gradual approach to institutional reform was an important source of Vietnam's transition success.

6 State Business Relations: The Interaction between economic and political institutions and organizations

'Certain questions about the governmental-market relation are at the core of both political science and economics, no less for planned systems than for market'. Charles E. Lindblom (1977)

"Effective state business relations are the product of political processes involving the organizations of the state and those of business"

IPPG research on state business relations in Africa and India has been one of the main streams of work of the consortium. The subject matter exemplifies the importance of the interactions between economic and political institutions in shaping growth and poverty reduction, as well as the way in which organizations and institutions interact to produce different outcomes. Moreover, as Lindblom observes above, it is ideal territory for multi-disciplinary cooperation between economists and political scientists.

IPPG research has shown that, first, it is possible both to measure some aspects of these types of institutional interactions (but not all) and determine their effects on economic performance; and, second, that effective state business relations, whether shaped by formal or informal rules and relationships, are the product of political processes played out between the organizations of the state and those of the business sector.

[6] A companion publication by the IPPG, entitled *State-Business Relations and Economic growth in sub-Saharan Africa. A review of case studies in Ghana, Mauritius, South Africa, and Zambia.* by D.W. te Velde with Adrian Leftwich (2010) outlines some of the more detailed findings of the work on state-business relations in Africa.

Measuring effective state business relations and capturing their effects on economic growth

Researchers have long examined the factors that contribute to economic growth. A new challenge that the IPPG programme addressed was to examine how state–business relations (SBR) affected economic performance across countries in sub Saharan Africa and across states in India. Effective state-business relations are a set of highly institutionalised, responsive and public interactions between the state and the business sector. Effective SBRs can have a positive impact on economic growth by increasing both the rate of investment and the productivity of investment. With respect to the rate of investment, irreversibility and the possibility of delay are important considerations in the investment. Effective SBRs that lead to credible commitment on the part of the government to certain policies can minimise uncertainties on future policy actions in the minds of investors and, by doing so, raise the rate of investment. Effective SBRs can also lead to a higher rate of investment by creating an institutional environment where the state provides high quality public goods that matter to the private sector, such as infrastructure, effective public administration (or the lack of corruption) and secure property rights. Effective public administration and lack of expropriation of property rights of the private sector is more likely to occur with professionally run and well organised government agencies and through the direct and indirect pressures that business organizations can place on government departments.

> ***"Effective SBRs can have a positive impact on economic growth by increasing both the rate of investment and the productivity of investment"***

Effective SBRs can also influence the productivity of investments. Peak and sectoral business organizations that are active, independent of the state and representative of the private sector in the region, can help to resolve many of the collective action problems that are inherent in developing countries, where most firms are of small and medium size and are unable to articulate their views and concerns to agencies of the state. Synergistic state-business relations also minimise the possibility of rent-seeking and collusive behaviour which may lead to directly unproductive economic activities. Thus, effective SBRs can be expected to increase the efficiency of investment and of overall productivity growth in the economy.

State business relations in Africa

IPPG researchers have attempted to measure the nature of formal institutions and their interactions with formal organisations in constituting effective SBRs. Dirk Willem te Velde (2006) proposed that four main elements are responsible for the formal dimensions of effective SBRs.

i) The way in which the private sector is organised vis-à-vis the public sector
ii) The way in which the government is organised vis-à-vis the private sector
iii) The practice and institutionalisation of SBRs
iv) The avoidance of harmful collusive behaviour.

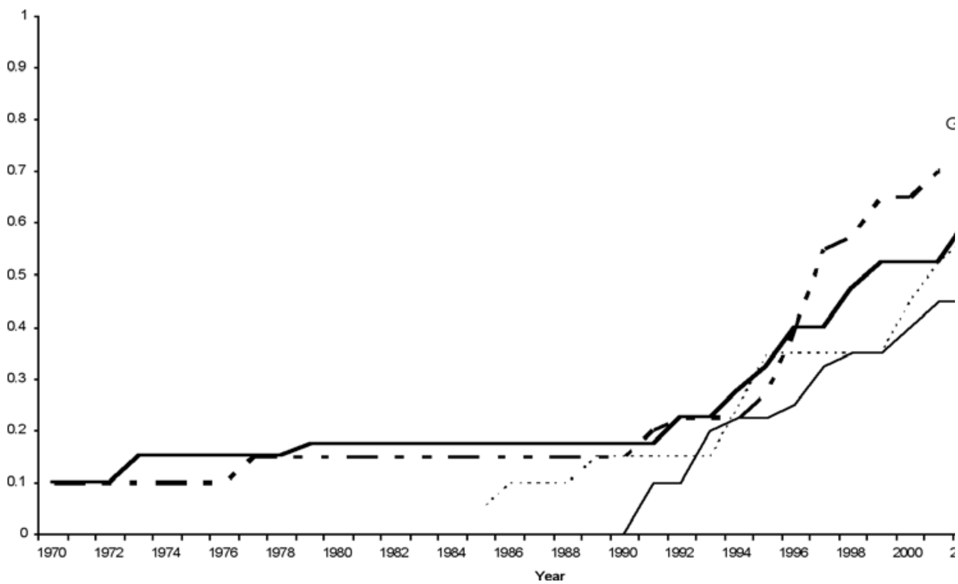
Thus, the measurement of effective SBRs involves the measurement of the four factors identified above. The measurement of the role of the private sector in state–business relations is based on the presence and length of existence of an umbrella organization

Effective SBRs require institutionalized cooperation of the public and private sector

linking businesses and associations together. The measurement of the public sector in state–business relations is based on the presence and length of existence of an investment promotion agency to promote business. Effective SBRs require the institutionalized cooperation of the public and private sector, and a number of factors were examined. This mechanism can come in a number of different forms: it can be open to all and autonomous of government intervention as is the case with a formal existing body, or it can be an informal 'suggestive' body with no entrenched power. The measurement of how the state interacts with business is based on the format, and frequency of formal meetings between the public and the private sector. Finally, the presence and length of existence and effectiveness of laws protecting business practices and competition can measure the quality of mechanisms to avoid collusive behaviour.

Each of the four factors above was measured for 20 African countries for which data was available. This led to four, time-varying indicators per country. Figure 1 shows the averages of the four indicators for four groups of countries, ranging from the fastest growing groups over 1970–2005 (group 1) to the slowest growing group (group 4). As expected, country groups with higher SBR scores have grown faster.

Figure 1. Faster Growing Countries in Africa Have Better State Business Relations



Source: te Velde (2006)
Notes: Group 1 – The Fastest Growing Countries = Botswana, Mauritius, Uganda, Mozambique, Mali; Group 2 – The Second Fastest Growing Countries = Tanzania, Ghana, Eritrea (part), Senegal, Kenya; Group 3 – The Third Fastest Growing Countries = Benin, Ethiopia, South Africa, Nigeria, Rwanda; Group 4 – The Least Fastest Growing Countries = Malawi, Zimbabwe, Madagascar, Zambia, Cote d'Ivoire. Groups based on PPP GDP per capita growth rates over 1980–2004.

> ***Effective state-business relationships contributed to economic growth in Sub-Saharan Africa***

While the importance of SBRs has been acknowledged in policy discussions and in the academic literature, it has not been detailed in the economic growth literature and its effect has never been quantified. IPPG research has quantified the effects of effective state-business relations on economic performance, both at the macro and micro levels. Sen and te Velde (2007) used the SBR measure for Africa and estimated standard growth regressions in dynamic panel form for 19 African countries over the period 1970-2004 using annual data. The results show that effective state-business relationships contributed significantly to economic growth in Sub-Saharan Africa – countries which have shown improvements in state-business relationships have witnessed higher economic growth, controlling for other determinants of economic growth. Sen and te Velde also find that effective SBRs seem to matter more for the growth of the manufacturing sector, and that among the components of the SBR measure, what seems to affect economic growth most are the presence of investment promotion organizations and formalised public-private dialogue.

IPPG research suggests that improvements in formalised institutional relations between the state and the private sector increase economic growth in the African context. These institutional relations could be the creation of umbrella business organizations, the setting up of Investment Promotion Agencies, formalised public-private dialogues or the implementation of competition law. Umbrella business organizations can help resolve collective action problems for the private sector and allow them to push for growth enhancing policies. The development of effective Investment Promotion Agencies signals the intention of the government to take the private sector and investment activity seriously. Formalised public-private sector dialogue processes allow for transparency in policy formulation and efficient dissemination of information from both the public and the private sectors. Effective competition laws prevent rent-seeking and collusive behaviour on the part of bureaucrats and capitalists. The research also shows that the creation and sustenance of effective state-business relations along these lines may have a stronger impact on economic growth in Sub-Saharan Africa than the conventional measures of governance reform such as improvements in the rule of law and stronger anti-corruption measures that have been stressed in the literature and in the policy debate.

> ***Formally institutionalized public-private dialogue allow for transparency in policy formulation***

State Business Relations in India

Further work on the measurement of functioning SBRs and quantification of their effects on growth was undertaken for Indian states for 1985-2004, which provide a rich empirical context to study the impact of effective state-business relations on economic growth. While economic growth in India has been strong since the mid 1980s, not all regions in India have benefited equally from the improvement in overall economic performance. At the same time, India's federal structure - and the significant political autonomy and independence in legislative powers enjoyed by state governments - has led to regional variations in the collective strength of the economic and political elite. IPPG research has explored whether variations in regional institutional quality captured by effective SBRs can explain variations in economic growth in Indian states.

Recent IPPG research (Cali, Mitra and Purohit, 2009) measured the nature of state business relations in India across states and over the period 1975-2004. They find that this measure shows an unambiguous improvement in the functioning of state business relations across most Indian states, especially since the 1980s. However, the rate of improvement has differed widely across states, and has occurred at different points in time in different states. This suggests that state-specific political processes have shaped the nature of SBRs in any given state, and that these factors have differed across states and over time.

> *In India state-specific political processes shaped the nature of SBRs and these factors differ across states and time*

Using the SBR measure, Cali and Sen (2009) examined the impact of functioning of state business relations on economic growth in Indian states. Taking into account other determinants of economic growth, they find that effective SBRs contributed significantly to economic growth across states in India. They also find that that the key dimensions of SBRs that stimulate economic growth seem to be those related to the actual operations of the interactions between states and businesses. On the other hand, the creation of formal organizations (both public and private) per se does not seem conducive to economic growth. Overall, their research illustrates the importance of the active co-operation between agencies of the state and the private sector towards 'the goals of policies that both parties expect will foster investment and increases in productivity' (Bräutigam et al, 2002).

Firm-Level evidence of the effects of good state business relations

> *Firms which are members of business organizations show higher total factor productivity growth*

To better understand the micro-foundations of the relationship between SBRs and economic growth, IPPG researchers have also examined the effect of SBRs on productivity growth at the industry and firm levels. Using firm-level data from Africa, Qureshi and te Velde (2007a and 2007 b) find that firms which are members of business organizations show higher total factor productivity growth, and that the productivity enhancing effect of SBR is stronger for firms who are members of business organizations in countries with a better overall environment for state business relations. An IPPG study in Ghana found (Ackah et al., 2010) found that with a shift from a predominantly ad hoc and informal clientelistic relationship to a more formal and synergistic SBRs in Ghana since 1992, formal and regularized meetings between state agencies and businesses have positively impacted on firm productivity. Kathuria, Raj and Sen (2009 and 2010) also find similar positive effects of well functioning SBRs on industrial productivity growth and manufacturing firm performance in India. The research suggests that one important route by which better SBRs can affect economic growth is by increasing total productivity growth, especially in the industrial sector.

What explains the emergence of effective state business relations?

IPPG researchers have also attempted to understand the provenance, evolution and forms of institutional interactions between states and businesses. The research has highlighted how leaders and elites – in different sectors and within both the private and the public sectors – work to form positive growth or developmental coalitions (whether formal or informal) and that such growth coalitions cannot be had to order, but are the product of on-going political negotiation and reconstruction as the relative power of each side undergoes (often slow) transformation (Haggard, 1994: 276; Evans, 1997: 85) in the context of both local national and international circumstances – political, social and economic.

IPPG research on state business relations serves to confirm further the central hypothesis of this work that not only do formal institutions 'matter', but also that the interaction of different institutional domains is critical in shaping or hindering developmental and pro-poor growth outcomes. But along with other work in the IPPG they also provide evidence which points up the important and dynamic political role played by organized interests in both the provenance and implementation of institutions.

"The interaction of different institutional domains is critical in shaping or hindering developmental and pro-poor growth outcomes"

In Mauritius, work by IPPG researchers (Rojid et al, 2010) and others (Brautigam and Diolle, 2009) found that key *organizations* of business, the state and unions were fundamental in forging the essentially 'political settlement' that underpinned and helped both to shape and maintain the formal institutions governing state-business relations from the early 1970s which in turn has been a key factor in the Mauritian growth and poverty reduction story. Here, formal institutions which shaped how state and business interacted with each other helped to establish relations of credibility, transparency, trust and reciprocity. The institutions provided for formal and regular consultation between the state and the Joint Economic Council, the JEC (an organization representing business) on matters of economic policy including budgetary questions and industrial policy. Econometric analysis showed positive growth effects resulting (between 1970 and 2005) from these positive relations between the state and the organization of the business sector.

However, formal institutions shaping how states and businesses interact cannot be wished into existence or put in place. It requires both the political will of the organizations involved and the establishment of agreed rules about the regularity and role of state-business interactions.

In South Africa, by contrast with the Mauritian experience, the de facto defection of key organizations from NEDLAC – a forum designed to enable key players to discuss and forge consensual social and economic policies after the transition from apartheid – has led to its effective demise and a drift away from pro-poor labour policies. The evidence from this IPPG study suggests that, as a consequence, some aspects of state-business relations have retreated into informal and collusive interactions, in the shadows, between big (both old and new) business players and the state (Nattrass and Seekings, 2010).

State-business relations - and state building

The IPPG consortium was not commissioned to do research on state formation or state building, but some interesting issues have emerged from the work on state-business relations which have implications for policy-makers thinking about state-building.

A recent DFID *Practice Paper* (2010a) on 'Building Peaceful States and Societies' (2010a) advocates working at 'the interface between state and society' and the need 'to link state and society in ways that promote inclusive decision-making and accountability'. While these are important recommendations, they remain somewhat general - above all because 'state' and 'society' are not unitary entities. Both state and society are composed

> ***Improving institutions which organize relations between states and business is an important contribution to building horizontal and vertical linkages which are critical for building 'peaceful states and societies'***

of a variety of organizations and interests which relate to each other through a variety of formal and informal institutional arrangements in a plurality of policy domains and networks, which include education, agriculture, infrastructure, defence and many more.

Perhaps one of the most important domains for growth is the business sector and thus how the business sector and the relevant parts of the state interact is a critical question. As IPPG research has shown, improving this interaction and encouraging the virtues of transparency, trust, credibility and reciprocity is crucial for achieving effective state-business relations and that where such values are given institutional expression, there are positive growth results. But in the light of DFID's concern to promote links between state and society, an improvement of the institutions which organize the relations between states and businesses is *also* a very important and quite specific contribution to building the horizontal and vertical linkages which are critical for building 'peaceful states and societies'.

History, state formation and the politics of State-Business Relations - a Malawian story

The IPPG was not commissioned to study issues of state formation. However one IPPG study (Chingaipe, forthcoming) has analysed the historical evolution of state-business relations in Malawi from the 1870s, when settlers began to arrive, to the first post-independence democratic period after 1994. This study casts much light on how the institutions governing the relationship between state and business have been integral to the evolution, form and character of the state.

The research highlights the profoundly political nature of state-business relations and the institutions which shape them. Stretching across the period, a few key variables have shaped the formal and informal institutions which governed how state and business related to each other. These have been, first, the strength, organization and political orientation of the state; and, second, the strength, organization and ideology of the business sector. As the balance of power shifted over time both within and between the organizations of the state and of business, and as dominant state attitudes and ideologies have changed, so too have the rules – formal and informal – which have governed their interaction.

In the early colonial period, various organized (though fragmented) interests of settler agriculture and commerce (including that of the British South Africa Company, the dominant commercial force in the region) were more powerful than that of the (infant) colonial state, as summed up in the words of Mr R S Hynde at a public meeting in 1903: "Mr Chairman, we [members of the Chamber of Commerce and Agriculture] were here before the Administration and possession, as we are frequently told, is nine-tenths of the law." As the power and authority of the colonial state consolidated, it encouraged the fragmented business associations to consolidate and gave them formal recognition in the Legislative Council. Though there were elements of collusion in this relationship, by and large the business community retained its independence and had regular debate and differences over policy with the colonial state.

After independence in 1964, the new Malawian state, under President Banda, took effective charge of the economy – and the business community. The party-state subordinated business through coercion, expropriation and patronage as a consequence both of the President's hostility to the private sector and as an expression of strong economic nationalism so prevalent at the time in much of post-colonial Africa. "To me, two passengers – one by the name of 'Business' and the other by the name of 'Politics' [may be allowed] to travel by the same train when I can't help it...but I see to it that they do not travel in the same compartment", Dr Banda explained.

Thirty years of one-party dominance ended with democratisation in the mid-1990s in Malawi, accompanied by liberalisation of the economy, but no institutions shaping public-private relations were in place. Moreover, neither the key organizations of the state nor of business had any experience of genuine public-private dialogues about what policy should be: this had been unilaterally decided by the President. The institutional and political space that opened up under democatization thus gave rise to a period of flux, one that became characterised by political graft involving rent-seeking business elements and rent-generating state incumbents, which profoundly influenced both the character of the state and also its relations with key organizations and individuals in society.

This case illustrates how history and politics shape the institutions governing state-business relations, and how these help to define the character and capacity of the state. Where state and business organizations interact through formal institutions that both define and sustain their mutual autonomy – and where the state is neither captured nor predatory - one key constituent of effective statehood is established. But it's not easy – nor is it quick.

7 Institutional change and institutional failure

The political dynamics of institutional change

Institutional change (and institutional stasis) is at the root of the divergent patterns of economic growth and poverty reduction in low income societies, and why some countries exhibit persistently poor economic performance over time (North 1990). But is institutional change a technocratic process, with well-functioning economic institutions that favour growth and poverty reduction gradually replacing 'dysfunctional' economic institutions that may impede pro-poor growth outcomes?

Research by IPPG and other scholars has found, by contrast, that persistence of institutions is the norm in most societies, rather than the exception (Acemoglu et al. 2004). And institutional persistence can be explained by several factors – for example, social and cultural institutions that underpin the functioning of economic institutions may be slow or resistant to change. Institutions may also persist if the existing institutional arrangements favour the rich and the powerful in the society, who have no real interest in institutional change that may not benefit them. Whether institutional change occurs that is growth enhancing and poverty reducing would depend on whether groups with political power are willing to exercise this power to bring about this change but which may make them worse off in the long run, and whether the political demand for pro-poor institutional change is strong enough to change existing power relations. Institutional change is not a functional solution which enables individuals or groups to capture the gains of co-operation (though they may indeed have that effect, whether intended or not), but is more likely to be the outcome of power struggles between groups and interests to shape rules which benefit them most (Knight, 1999). Therefore, institutions are 'the object of on-going political contestation, and changes in the political coalitions on which institutions rest are what drives changes in the form institutions take and the functions they perform in politics and society' (Thelen, 2004:31).

'Path dependency' and 'institutional stickiness' can hinder, limit, undermine or compromise institutional reform or innovation

The key findings of IPPG research on the political dynamics of institutional change are:

- Institutional change is a function of the support for, and relative strength and legitimacy of, both formal and informal institutional arrangements and the way in which they interact with each other (whether in conflicting, complementary or substitutive ways).
- Reform of one institutional domain may be restrained, strengthened or limited by other institutional arrangements in other domains, or the way in which formal institutions may be enhanced or compromised by informal ones.
- Contingent socio-economic, political or even natural events – national, regional or international – may often trigger 'openings' or 'critical junctures' for institutional reform or change.
- Negotiations about institutional change, which may have been prompted by common perceptions of common threats, challenges or opportunities are usually undertaken by leaders and elites of the different interests and organizations and – where agreements are institutionalised – are maintained and sustained by formal or informal coalitions.
- The nature of institutional change is determined by the way in which organizations (and organized interests) interact with institutions to maintain, undermine or change them.
- 'Path dependency' and 'institutional stickiness' can often hinder, limit, undermine or compromise institutional reform or innovation, despite the openings which critical junctures may create.

Institutional stickiness and weak industrial development in West Bengal, India

West Bengal, a coastal state in Eastern India, is unique among Indian states as it has been ruled uninterruptedly by a Leftist political front for the last thirty-two years. In the early 1990s, there was a turnaround in the outlook of the state government towards private capital from being outrightly hostile in the 1980s to a more positive one in the early 1990s. An IPPG study by Chakravarti and Bose (2009) showed that this change in policy by the state government towards the private sector did not have desired outcomes in bringing about an increase in the rate of growth of the formal manufacturing sector, with most manufacturing activity remaining in the exploitative and low productivity informal sector. They find that while the leadership of the Leftist regime in West Bengal had changed its attitudes towards the private sector in the 1990s and attempted to bring in formal institutional reforms such as improvements in the investment climate to attract both domestic and international private investors, the change in attitudes towards the private sector was not readily accepted by local government officials, and by the rank and file members of the trade union, along with local trade union officials and political bosses. In addition, with increasing fragmentation of the political system, private investors had to negotiate not only with the government but with the political party in power and with the opposition party as well. Bargaining for wages at the cost of jobs and lower competitiveness was common in West Bengal manufacturing, as well as a range of patron-client relationships that local party officials had developed with the private sector, creating significant impediments to productive investments, particularly for small and medium firms. As a consequence, formal manufacturing growth in West Bengal lagged behind the national average, and there was a steady contraction of the share of the formal manufacturing sector in total industrial output in the state. Thus, 'sticky' political institutions such the existing attitudes towards the private sector among lower level functionaries of the ruling party, have interacted with formal and informal organisations such as trade unions and factions with the ruling and opposition political parties, to thwart industrial development in West Bengal.

Malawi land reform – the politics of institutional innovation and failure

In 2004 a land reform programme in Malawi – the Community-based Rural Land Development Project (CBRLDP) – was established to help 15,000 poor rural families – landless and land-poor - gain access to larger plots. The aim was not only to provide land which would increase their productivity and income but also to establish an intermediate form of property rights through providing legal recognition to customary land under the title of 'customary estate' which it was believed would be a step in the direction of a land market. Farmers from 'sending' districts were to self-select themselves in groups (coming largely from the same villages) and were able to negotiate purchase of unused estate land in the 'receiving' districts, on the willing-seller-willing buyer principle. Each beneficiary also received a first year settlement grant of $1050, 65% of which would be devoted to farm development.

An IPPG research project tested the hypothesis that a change in the institutions governing land usage would lead to both growth and poverty reduction. The findings have been salutary.

Following these institutional innovations in land tenure arrangements, food productivity, food security and agricultural investment improved in the first year or two, but will not be sustained once the benefits flowing from the first year settlement grant diminish. And from a policy perspective, the results show that institutional change – in this case land tenure reforms among poor smallholder farmers – is unlikely to generate substantial benefits in terms of investments, incomes and sustainable livelihoods without accompanying organizational support and financial assistance to farmers through access to other agricultural inputs and services such as fertilizers, improved seeds as well as agricultural extension, not to mention the availability of viable markets.

Moreover, a significant finding of the political analysis of the project was the evidence that local elites (chiefs, traditional leaders and local CBRLDP committee leaders) had 'captured' the programme by steering its implementation in a manner that largely benefited them and their allies, both in the sending and receiving communities, the settlement grants being no small factor in the politics of this process. Local leaders in the sending districts, moreover, fearing a diminution on their power and authority as a result of people moving away from the villages, have conspired to enable some beneficiaries to retain access to their land in the sending districts (against the rules of the project). Project planning failed also to recognise the religious incompatibility between the largely Christian incomers and the largely Muslim community in the receiving districts, Machinga and Mangochi. Even more problematic was the failure to investigate the history of customary land ownership under the colonial and post-colonial regimes in the receiving districts. Not surprisingly, the local communities saw this unused estate land as their 'ancestral land' alienated for estate purposes in the colonial and post-colonial periods – a key historical factor that the programme appears not have taken into account, and a factor which undermined the aims and success of the project.

This evidence illustrates two important themes.

First, the complex way in which different institutional spheres – informal and customary political and religious institutions, on the one hand, and formal land law innovations of the CBRLDP, on the other hand – have been in conflict, thereby compromising the programme's purpose and effects; and, second, the need for multi-disciplinary approaches, across the social sciences, involving also a deep understanding of historical patterns, that is of the specificities of context, and especially its history, before programs and projects are devised.

Institutional reforms are necessary but not sufficient for poverty reduction: the Indian Forest Rights Act 2006

Institutions relating to forest management in India have a critical impact on the livelihoods of hundreds of millions who live in forested landscapes and have had their rights deprived through state appropriation of forest land. India's Forest Rights Act 2006 was a landmark legislation providing the legal framework for major pro-poor institutional reform in the governance of the country's forests. By aiming to (belatedly) recognise the pre-existing rights of India's forest dwelling communities through a transparent and democratic village assembly based process, the Act has the potential for restoring the enclosed commons to communities and private land to individual cultivators. This would thereby effect a major re-distribution of control over forest resources in favour of severely marginalised forest dependent people. By empowering village assemblies to protect, conserve and manage statutorily recognised community forests for sustainable use, the Act aims to reform the existing system of state 'fortress conservation' combined with centralised resource extraction towards one centred on community controlled forest, wildlife and biodiversity conservation which also ensures livelihood and food security.

However, notwithstanding the ambitious mandate of the Act and its potential to bring about substantial poverty reduction among the poorest social groups in India, IPPG research in three Eastern Indian states has found that the implementation of the Act has been weak in these states, and that the implementation of the Act has been resisted by bureaucratic and other organised interests at state level in the country, as some of these groups (such as the state Forest Departments) may find their political power (and possibly, rent-seeking abilities) constrained by the shift of power in the control of forest resources to forest-dependent populations (Sarin and Springate-Braginski 2010). The key policy message from the research is that pro-poor formal institutional reform, while necessary, may not be sufficient for poverty reduction, if these reforms are undermined in their implementation by often well-organized and influential 'vested interests' who may not be sympathetic or at times, antagonistic, to the aims and objectives of the institutional reforms.

Explaining Institutional failure

Institutions are "empty boxes" without the organized human agency that makes them work

Thus, it is clearly also the case that the existence or establishment of formal institutions is itself no guarantee of their efficacy. While formal institutions do matter, they require effective implementation and enforcement if they are to work effectively for poverty reduction, political stability or inclusive social development (Acemoglu and Robinson, 2006). Institutions have often been evaded, ignored, subverted or inadequately supported by complementary institutional reform or investments. The formal status of such institutions commonly belies their efficacy. And the reason is clear, for institutions, as the distinguished political economist, Margaret Levi, has observed (2006: 10) are "empty boxes" without the organized human agency that makes them work, or undermines or compromises their purposes, as the case may be, as many instances of IPPG research have shown.

When formal institutions fail

- **In West Bengal and Gujarat, an IPPG study found that institutions supposedly protecting minimum wage arrangements were 'routinely violated' with the connivance of both informal and informal organisations, including political parties, trades unions and parts of the bureaucracy (Maiti 2009).**

- **In Ghana, an IPPG study which sought to explore the institutional obstacles to manufacturing investment in wood processing, timber products and food processing, found that in practice there were no serious obstacles with respect to such key institutional concerns as property rights, transaction costs and cooperation. These institutional domains were broadly sound. However, they were compromised by inefficiencies, corruption, poor training and other social and political factors associated with key implementing organisations (Hare and Owusu Fofie, 2010).**

Institutional arrangements, on their own, in isolation from their relations with other institutions or irrespective of the role played by the organizations and actors they are supposed to regulate, seldom achieve anything

So institutional arrangements, on their own, in isolation from their relations with other institutions or irrespective of the role played by the organizations and actors they are supposed to regulate, seldom achieve anything. And this suggests even more reason to underline what has been shown by others, namely that generic institutional solutions – what Peter Evans (2004) has described as 'institutional mono-cropping' – are unlikely to 'fit' the specificities of many very different contexts. For such general institutional solutions seldom mesh with the unique and usually uneven balances of power, influence and access between organized interests (formal or informal) on the ground.

Organizational strength and institutional outcomes

The sporting analogy which underpins the notion of institutions as 'rules of the game', and organisations as 'players', is worth elaborating here. A 'good' game in sport is played by teams or players who understand and agree with the rules - and play to them with the help of an unbiased referee or umpire. Moreover, the quality of the game is enhanced by teams of roughly even competitive standard. One will not see a 'good' game played between a professional and internationally renowned team and a group of week-end village players.

"Enhancing the organized political capacity of the poor and marginalised 'players' is a critical element that will increase the probability that poverty-reducing institutions will be forged"

Just so: for although the analogy should not be stretched too far, the same is true for institutions and organizations. Institutions – be they economic, political or social – which are not understood or agreed seldom enjoy much legitimacy and are prone to avoidance and evasion. And where third parties are neither willing nor able to enforce the rules, the institution will simply corrode. Likewise, in a developmental aid discourse where accountability, responsiveness, ownership and participation are held to be both virtues and necessary conditions for growth, poverty reduction and inclusion (DFID, 2010), it is important to ensure that a wide range of interests are represented when institutions (and policies) are being framed, implemented or reformed. Enhancing the organized political capacity of the poor and marginalised 'players' is a critical element that will increase the probability that poverty-reducing institutions will be forged. Marginal quote

That is why organizations are so important for practical and policy purposes and yet have been largely overlooked in the institutional literature. For organizations represent interests; and weak, divided or fragmented organizations mean that some interests will be side-lined in the political processes which shape, implement, monitor and reform institutions.

Research evidence from across the IPPG terrain brings that out sharply, as further examples will show.

Institutional change and organizational response: A case study of rural electrification in Eastern India:

Electrification is a pivotal development issue in the developing countries, as it provides a wide range of social and developmental advantages. At the same time it has been realised that delivering electricity in the rural areas, particularly to the poor, is difficult and requires the establishment of effective institutions and implementing organizations that can deliver. If not properly planned, highly subsidised rural electrification programmes may end up as a drain of resources and damaging impacts on the utilities. These challenges are well illustrated in the Indian case, where half of the population still lives in the dark.

In recent years, centralised planning and resource allocation, which used to be the governing principle for Indian development, has been blamed for the failure of electricity distribution. As a response to the perceived failure of top-down planning and implementation, bottom-up participatory institutional models have been explored. The bottom-up model proposed for electric service delivery seek to involve the users in the delivery process through building micro-organizations of consumers, empowering them to plan, manage, monitor, and own the local service delivery mechanism. An IPPG study of how this process has been working in eastern India (Orissa and West Bengal) shows that where effective organizations of consumers have been established (users' associations or cooperatives) there has been improved electricity delivery along with better transparency in the process, improved accountability between the service users and providers and improved (direct) access to the service providers. The challenge remains of establishing these organizations amongst the poorest of the rural poor so that they can benefit from the new institutional arrangements. Providing formal legal status for such organizations is a first step (Swain, forthcoming).

Organizational weakness and poverty reduction

- Extensive IPPG studies of State-Business Relations (SBRs) in India, Ghana, Mauritius, South Africa and Malawi show the advantages of a single decision making organisation within the state interacting with independent and well established organised business interests to underpin effective institutions for growth (Sen and te Velde 2007 and 2009; Cali, Mitra and Purohit, 2009; Seekings and Nattrass, 2010).

- In Zambia, institutional arrangements were set up to encourage participatory submissions about budgetary policy from the private sector and civil society NGOs (Bwalya et al. 2009). Yet, hardly surprisingly, IPPG researchers found that the more powerful organised interests were able to exercise more influence than many NGOs and other less well organised groups.

- In Tanzania, an IPPG-funded study of the reasons why small holder farmers producing coffee have not benefited from recent economic reforms finds that the major cause of stagnation among smallholder agriculturalists are to do with the inadequacies of the regulatory environment, where farmers lack effective and organised representation, making them the group with the lowest levels of information, access to regulators and influence among market participants (Mahdi 2010). Therefore, the encouragement of, and support for, the emergence of a strong coffee growers organization, which is independent of the agenda of either the coffee cooperatives, villages or the large coffee businesses, would contribute to growth and poverty reduction in rural Tanzania.

- In Mali, institutional reform of Mali's Office du Niger (ON) and the Compagnie Malienne pour le Developpement des Fibres Textiles (CMDT) brought considerable disadvantages to farmers' organizations. These organizations were generally weak, often divided and lacking the organizational and political capacity to represent farmers' interests constructively in the new arrangements. Supporting such organizations with training, capacity building at the grass roots could make a considerable difference.

- And in rural Peru, IPPG research by Escobal and Ponce (2010) found that public infrastructural investment had significantly more pro-poor growth effects in districts where there was less political fragmentation and a stronger presence of informal civil society organizations for community safety. In Ecuador, other IPPG research found that stable relationships with industry had been encouraged through joint action by private growers' groups, NGOs, industry and saving and loan co-operatives promoted various forms of co-operation between producers. (Chiriboga 2007).

Organizations mediate the effect of institutional change on growth and poverty reduction in Latin America and Nigeria

The emergence of a more efficient set of institutions is often beneficial for the economy but not all households and firms may gain access to these institutions. There is often a trade-off between efficiency and equity in the formation of new economic institutions and for the policy-maker, the question then is how to encourage institutional change that favours efficiency but does not do so at the cost of equity.

Perhaps the most striking example of the efficiency-equity trade-off in institutional change is provided by IPPG research on the emergence of new agricultural institutions in Sub-Saharan Africa and Latin America. A particularly innovative institutional arrangement that has arisen in many rural societies is contract agriculture. Under this institutional form, farmers enter into contracts with private agribusiness firms where the farmer guarantees to provide a certain quantity and quality of the commodity in question to the agribusiness firm at the end of the agricultural season in return for agricultural credit and the provision of inputs such as fertilisers and seeds at the start of the growing season. The agribusiness firm usually also specifies the minimum price the farmer may expect to get for the produce. Contract agriculture is widely regarded as an efficient institutional arrangement in agricultural societies where there is endemic market failure in credit, input and output markets.

IPPG research has indeed shown the efficiency and growth enhancing impacts of contract agriculture across diverse economic and geographical environments. Examining the causes of rural poverty in two regions of Chile, Ramirez (2007) finds that the region with a lower poverty rate has a more diverse production structure, a higher prevalence of formal contracts and greater vertical integration in agriculture. By contrast, the poorer less developed region has greater reliance on spot markets and less integration in the supply chain. Escobal and Cavero (2007) find that contract farming arrangements that have emerged in the production for the potato chip market among smallholder farmers in Mantaro Valley, in central Peru, have been the key impetus for the increasing access of smallholder farmers to the lucrative potato chip market. Examining institutional linkages between smallholder agriculturists and private agribusiness firms across different regions and a variety of food and non-food crops in Nigeria, Olomola (2010) finds that profits are significantly higher for contract farmers than their non-contract counterparts and that the participation of farmers in contract agriculture significantly increase their levels of income.

However, these studies also find that not all smallholder farmers have equal access to contract farming institutions, and those who are less well-organized and with fewer resources or less education tend to have difficulties in accessing these arrangements. Crucially, organisations matter in mediating the access to these new institutional forms and in ensuring that the gains from participating in contract farming accrue to small farmers – coalition building among small farmers by organisations such as NGOs can help in capturing the gains from these new institutional configurations. The research suggests that while new institutional forms that emerge in less developed economies can often lead to more efficient outcomes, the ability of the poorer households to gain from these newer institutional forms depends crucially on the strength of organisations, and especially how such organisations help resolve collective action problems. Olomola found in his study of Nigerian contract farming that better organizational unity and strength amongst farmers (especially across ethnic boundaries) would enable them to lessen the role and influence of middle-men, gain better informed access to the firms and hence benefit from the inputs and training the firms could provide.

“Institutions matter. But organizations matter, too”

In short, it is clear that ‘institutions matter’. But organizations matter, too. And the way they interact with each other and with institutions, and the role they play in shaping or using institutions, matters profoundly. Thus efforts by donors to understand and promote the role which ‘institutions’ (as rules of the game) play in delivering or hindering growth and poverty reduction, but which fail also to recognise (or promote) the active political role of ‘organizations’ (as players) in facilitating or frustrating this, can only lead to a policy *cul de sac*.

8 Institutions reign but they rarely rule

Though the extent varies from contexts where 'institutional space' is tight to contexts where there is more space, there is always some room for manoeuvre

Finally, it is important to add that institutions rarely form a tight and rigid web of enforced rules that constrain, direct and shape every action. Though the extent varies from those contexts where 'institutional space' is tight to those contexts where there is more space, there is always some room for manoeuvre. Most contexts (whether political, social or economic) have some institutional space – or institution-free areas – that offer opportunities for individual and collective action which can support, undermine or initiate reform of institutional arrangements. This cannot be explained simply by the parallel existence of informal institutions or institutional incompatibilities. They are actions and behaviours which may occur well outside all such institutional constraints, in the institution-free spaces found in all societies, especially developing ones, or in the room for manoeuvre offered by a loose, un-enforced or evolving institutional structure, where sometimes naked self-interest, sometimes the eye for a chance, or sometimes a clear understanding of the growth-inducing benefits of public goods can make a difference to the institutional environment and performance.

And where individuals or organizations see the opportunity for action and have the resources and skills to carry it through, they can contribute to important reforms in institutional patterns – for good or for bad. The initiative to form the Joint Economic Council (JEC) in Mauritius in 1970, bringing together a number of previously independent commercial associations, to represent the private sector to the government is one example (Brautigam, Rakner and Taylor, 2001); and the formation of an organized coalition of diverse private and public interests in India to campaign for the passing of the Forest Rights Act is another (Sarin and Springate-Baginski, 2010; Bose, 2010).

In short, institutions may reign, but they rarely rule. This has important implications for policy and policy-makers.

9 Policy implications for donors

For researchers, the work undertaken in the IPPG consortium illustrates very strongly the value of institutional approaches to the problems of, and prospects for, growth and poverty reduction in developing countries. There are many other useful tools and analytical frameworks which help to make sense of these problems and identify prospects. But the institutional approach – especially where there is multi-disciplinary convergence on the same set of problems – will help donors to understand better, and to compare, the fundamental political economies and politics of how individuals, organizations and institutions interact in very different historical contexts.

But what implications for policy-makers flow from this work?

- *Multi-disciplinarity.* In thinking through the design and funding of new research consortia in these areas, policy-makers need to ensure that multi-disciplinary teams are involved, almost irrespective of sector or issue. This is not a new point, but one that needs to be stressed again. Institutional change or innovation, like development more broadly, is a complex and multi-faceted process (Stiglitz, 2003). When people change the way they use resources they change their relations with each other. Had it not been for the presence of economists, political scientists and anthropologists in this research, it is unlikely that many of the findings would have been uncovered. For example, detailed fieldwork in Mali by anthropologists revealed and helped to explain the disarray and weakness of farmers' and peasants' organisations in the face of far-reaching institutional reforms in the rice and cotton sectors. And in India and Africa, the innovative econometric work of measuring the differential growth effects of different configurations of state-business relations in different states was given explanatory depth by political science investigations into the causal historical and political processes which shaped these patterns. While no 'interdisciplinary discipline' was created – or intended – the use of different disciplinary methodologies and points of entry has meant that the findings have been richer than they would have been had all the research been caged within the limits of a single mono-disciplinary discourse or methodology.

- *Institutions, organizations and politics.* DFID has for some time nailed its colours firmly to the view that 'politics matters' (Benn, 2006) and that policy-makers need to understand the "centrality of politics in building effective states and shaping development outcomes" (DFID, 2010:3). But between politics, on the one hand, and effective states and development outcomes, on the other, are institutions which mediate between them. Furthermore, other DFID-funded research has "highlighted the role of contestation and bargaining between the state, elites and citizens in building the public institutions that deliver development" (DFID, 2010: 3-4). But it is organizations which aggregate and articulate citizen interests and hence mediate between them and the decision-making organs of the state. And organizations require processes through which interests can be negotiated and legitimate institutions forged.

- *Organizations and political capacity.* So, if citizens and their organizations are to participate in influencing institutional arrangements and the implementation which will promote economic growth, poverty reduction, political stability and inclusive social development, then policy-makers need to learn how to invest actively in organizations – and not only in the public sector - in order to enhance their political capacity to do so.

- *Political capacity.* A combination of administrative, organizational, professional, negotiating and diplomatic skills which can be deployed in negotiations are the essential characteristics of 'political capacity', not simply the capacity or power to demand and confront. Identifying and building the institutions of economic governance – for instance through effective state-business relations – requires precisely these skills and attributes to avoid collusion, predation or capture.

- *Investment in organizations.* Such investment in the political capacity of organizations should not be confined to the top, or to public organizations only, but should be extended to all levels of society and sectors, so as to boost the political capacity of economic and social agents to represent and articulate citizen interests and hence participate politically in shaping legitimate and functioning institutions.

- *Develop donor capacity.* Accordingly, donors themselves need to develop the interest, analytical and diagnostic skills, policy and operational capacities in their workforces to identify where organizational support, co-ordination, strengthening and funding is required, so that currently poor, disorganized, fragmented or low-skilled interests can be helped to enhance their political capacities to help shape institutional reform and implementation. Whether these are unorganized or informally-organized taxi-drivers in Malawi, ethnically-divided business associations in West Africa, small coffee producers in Tanzania, cotton or rice farmers in Mali, contract labourers or poor electricity consumers in India, a new phase of DFID work should have as its focus how to invest in, and promote, the political capacity of organizations so that they can better participate in the processes which shape poverty-reducing institutional arrangements.

- *Institutions are not a sector.* Like governance, the institutional domain is not a 'sector'. Institutional and organizational issues – and the political processes which are involved in their resolution - are salient and pervasive across all sectors and issue areas, whether in health, the environment, civil rights, private sector development, agriculture or gender. And learning how to analyse - and respond to – the way institutional and organizational interactions produce diverse outcomes across all sectors in different contexts is something which policy-makers need to address.

- *Be wary.* It is of course important to stress that the skills which donors will need to develop in their work-forces will also have to include the capacity to identify, monitor and be wary of organizations which may use their power and influence to demand special treatment, 'capture' or undermine policy-making and institutional arrangements for their own exclusive advantage. Not all formal or informal organizations necessarily work for the common good, development or poverty reduction. Nor do they all seek developmental institutions or want to 'play the game'. Ensuring that organizational political capacity is directed towards transparent bargaining and negotiating with other organizations and with the state, and not capture, collusion or predation, will be of critical importance.

- *Be savvy.* Being able to understand the politics of local institutional and organizational configurations as a basis for 'working politically' also requires donors to be savvy. In particular, they need to understand the political, socio-cultural, ethical or straightforwardly habitual reasons why existing institutional conditions can be so 'sticky'. This is necessary to be able to identify the room for manoeuvre, negotiate the complexities and devise policy and operational options appropriate for each country or context.

- *Institutions, organizations and the state.* It was not the mandate of the IPPG to explore issues concerning state-building. But it is clear from our work on SBRs in particular that the existence of competent and autonomous organizations which can 'work politically' to help negotiate, shape and implement effective and legitimate economic, social and political institutions and policies has a profound effect not only in promoting economic and pro-poor growth, but also in building and consolidating stable, participatory and inclusive states. This was shown in a comparative IPPG study of the developmental trajectories and internal dynamics of New Zealand and Bolivia (Wiggins, 2010) as well as the analysis of state-business relations in Mauritius and Malawi. For states are not only built from, or even at, the top through the forging of elite pacts and 'political settlements', or through "contestation and bargaining between the state, elites and citizens" (DFID, 2010: 4). States are built from below, too. And the key players here are not just 'citizens' in some abstract and atomized sense, but the concrete organizations of citizens – whether these be business or professional associations, trades unions, political movements, farmers' organizations, women's coalitions or other social organizations.

- *Building indigenous institutions.* It is therefore important for policy-makers to understand that the indigenous building of context-appropriate institutions that achieve growth and poverty reduction - or stable states, for that matter – depends on the existence of effective actors – individual and collective - that can bargain and negotiate, that can help to shape and play the game.

- *Working politically for better economic governance.* The next challenge for DFID and other key players in the international community, therefore, is not only to learn how to 'think politically' but how to 'work politically'. That is, how to help build those economic, social and political organizations and to enhance their political capacity; how to identify and understand stakeholder interests and relationships; how to broker and facilitate interaction between them so they can generate and implement locally appropriate institutions; and how to invest in processes that will provide the institutional means for overcoming the many collective action problems that define the challenges of poverty-reduction and development. Finding solutions will involve trial and error, and a flexibility both to experiment and to learn. There is a role here for great use of operational research with closer cooperation between researchers and practitioners.

- *Donor workforce implications.* Such work is management intensive and there are few short cuts. In order both to understand better the rich diversities and specificities of country contexts, donors need to deploy adequate in-country staff who can acquire the necessary understandings and local working relations. It should then be possible to develop the skills of intelligent and sensitive facilitation of both the organizations and the processes which will help to shape institutions that promote growth and poverty reduction, political stability and social inclusion.

10 Conclusion

The central conclusion then is that, yes, institutions matter, that is clear and well established. But we need to go 'beyond institutions' in the understanding and promotion of growth and poverty reduction. It is important to recognise the unavoidably political and contested dynamics of institutional formation, implementation and change. Whatever the issue area or sector – from state business relations to land reform or contract farming - it is important now to focus attention on the processes and the actors, especially organizations. Institutional design and encouragement are not enough. Policy-makers need therefore to work out how to advance the evolution and strengthening of key economic, social and political organizations in a variety of sectors or issue areas that can push for, negotiate, implement and monitor effective and locally legitimate institutional arrangements if the aim of poverty reduction is to have sustained traction as a policy goal.

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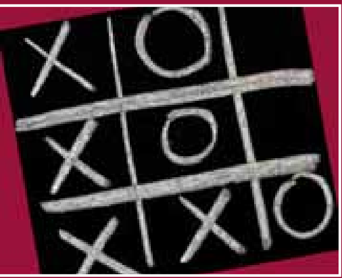

It is now widely accepted that 'institutions matter' for growth and poverty reduction - as well as for political stability and social inclusion. Understood as 'rules of the game', institutions shape – but do not determine – social, economic and political behaviour. Evidence from a range of research projects commissioned by the DFID-funded IPPG Research Consortium has illustrated just how different institutional arrangements (political, social and economic) interact with each other to influence developmental outcomes, whether in the field of state-business relations, land reform, contract labour or sub-national territorial development within countries.

But institutions are not self-generating and cannot be had to order. So how are institutions formed? How do they evolve? How are they sustained, implemented and – where necessary - reformed and renewed?

Policy-makers and analysts tend to forget that institutions are politically negotiated, bargained and hammered out by the representatives of more or less formally organized interests. But they also need to be implemented and reformed when necessary. Again, organizations are required for this and the processes involved are political processes. For institutions to work, the rules need to be regarded by the players as legitimate, and they must be enforced. That requires individual and collective agency, especially organizations, in both the public and the private sectors.

So while institutions matter for development, organizations matter for institutional formation and efficacy. And the way organizations and institutions interact is something that policy-makers need to address more rigorously and consistently. For this interaction is at the heart of the politics and political economy of development.

Beyond Institutions: *Institutions and organizations in the politics and economics of growth and poverty reduction – a thematic synthesis of research evidence.*
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