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# Poverty, Institutions and Interventions

## A framework for an institutional analysis of poverty and local anti-poverty interventions.

Johan Bastiaensen
Tom De Herdt
Jos Vaessen

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University of Antwerp

Institute of Development Policy and Management

Instituut voor Ontwikkelingsbeleid en -Beheer
Institute of Development Policy and Management
Institut de Politique et de Gestion du Développement
Instituto de Política y Gestión del Desarrollo

Middelheimlaan 1 - Villa C, B-2020 Antwerpen
België - Belgium - Belgique - Belgica

Tel: +32 (0)3 218 06 60
Fax: +32 (0)3 218 06 50
e-mail: dev@ua.ac.be

http://www.ua.ac.be/dev

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*"Understanding how proposed policy interventions will affect the power and political interests of the stakeholders is a vital consideration, since all policy interventions occur in a social context characterized by a delicate mix of informal organizations, networks, and institutions"*

(Woolcock and Narayan, 2000: 242).

## 1. *Introduction*

At a time when technological innovations are making our world increasingly smaller and our production systems are becoming increasingly more efficient, the benefits of economic growth and development as a whole have not been able to reach all of society. Indeed, many poor countries, characterised by their disadvantageous position in the global society and continuously plagued by weak governments, internal strife and natural disasters have missed out on many of the benefits of growth and development. Within countries that do gain advantage from the various developments of globalisation, significant groups continue to be excluded from the benefits of this new-found prosperity. It is quite significant that a generalised conclusion such as this is still a reality at the turn of the century, despite decades of national and international effort to promote development and combat poverty.

The weight of empirical evidence demands that poverty remain a priority of international co-operation and national policy. Although unsatisfactory as a measure of poverty, indicators of income poverty give a clear indication of the continuing persistence of poverty all over the world. The number of people in developing countries living on less than 1 dollar a day has fallen from 28 % in 1987 to 24 % in 1998. However, in the developing world, largely due to population growth, from 1987-1998 the absolute number of people living on less than 1 dollar a day steadily rose (WDR, 2000). Regional differences are great however. In terms of population share and absolute numbers, the number of poor people (under this definition) has, for example, fallen significantly in East Asia, while the opposite trend has been noted in Eastern Europe and Central Asia. It is estimated that today somewhere between 1.2 billion to 1.4 billion people live on less than 1 US$ a day (WDR, 2000; Feinstein and Picciotto (eds.), 2000; Chen and Ravallion, 2000).

In the last decade NGOs and governments in developing and developed countries have continued their efforts to alleviate poverty, even with declining budgets in relation to overall population and economic growth.[1] In many cases governments and NGOs have become more professional in their activities, for example working together at regional, national and international level under different types of umbrella platforms and multilateral organisations. On the other hand, in many countries and regions fragmentation and scant outreach of poverty alleviation initiatives remain the rule.[2] Fortunately, sustained efforts by national and international NGOs and GOs towards poverty alleviation continuously trigger new thinking on all the possible variables that might constrain the development of the poor and the efficacy of development intervention.

[1] "Despite having set ambitious global targets for poverty reduction, donor countries are cutting back on aid and failing to focus what remains on poverty" (UNDP, 2000: 8).

[2] In some cases, the more prominent role of NGOs as a partial substitute for bilateral aid partly offsets the effect of increasing coordination efforts between the various development organisations.

A significant evolution can be noted with respect to the way poverty and poverty alleviation have been perceived over the past decade. Let us consider for example the authoritative World Development Report published annually by the World Bank. In the World Development Report of 1990 a multi-dimensional conceptualisation of poverty was adopted. This conceptualisation, besides including the aspect of material deprivation, emphasised the low quality of human capital in terms of health and education. Hence, poverty alleviation was perceived as a two-tier strategy, promoting both labour-intensive growth and the provision of social services (WDR, 1990). Now, in the year 2000, after reading the most recent World Development Report on poverty one must conclude that the perspective has changed. The changed perspective reflects in many ways much of the work done in the academic world and other multinational agencies during the nineties (Maxwell, 2001). There are at least two important changes to be noted.

First of all, there is a departure from a relatively mechanical point of view towards a more people-oriented or micro point of view on poverty alleviation. During the last decade it once more was emphasised that promoting economic growth is not the only difficulty; when growth has actually been achieved, it does not necessarily lead to advantages for all people. In addition, there are a number of factors that restrict the provision of social services to those that are most in need of them. In order to tackle these issues, increased importance was given to analyses of the development organisations and the poor people themselves in relation to macro-solutions on poverty alleviation.  In general there came to be an increased awareness of the fact that there are a number of structural barriers that exclude large groups from benefiting from economic growth (Chen and Ravallion, 2000).

This brings us to the second important change, which refers to the fact that poverty is increasingly interpreted from a relational point of view (WDR, 2000). Poor people face a number of constraints that prevent them from participating in fruitful and meaningful ways in political, social and economic life. From this viewpoint, poverty is related to the nature of social networks and to the poor people's place in these networks. This has led to more questions as to how these different kinds of networks function and how they evolve.

The World Development Report 2000/2001 is heavily inspired by what we will call in this paper an institutional or social capital perspective on poverty alleviation and development. The basic premise of an institutional perspective is the notion that everything people think, do and are able or allowed to do is influenced by institutions. Institutions are structures that are shaped by social interaction while in turn they constrain and give meaning to processes of social interaction. The institutional environment therefore is a crucial phenomenon, and in shaping the livelihood options of the poor, is increasingly recognised as such. Such an institutional perspective of the processes that constrain the livelihood opportunities of the poor is particularly helpful in explaining why many of the previous efforts at poverty alleviation have fallen short of their objectives.

Academic and policy-oriented research on institutions covers an impressive field of work. The first objective of this paper is to develop a workable, conceptual framework of what we perceive as the most important elements of the institutional debate concerning development and poverty alleviation. Our conceptual framework has primarily been inspired by a heterogeneous body of literature that is often referred to as New Institutionalism. More specifically, we take as the basis of our work several theories from New Institutional Economics (e.g. Williamson (1985), North (1990)) and Social Capital Theory (e.g. Coleman (1988), Putnam (1993)), mostly in their guise of applied work in the field of development studies. Subsequently, these notions are connected to some concepts from the poverty debate, especially the issues of social exclusion and Sen's entitlements and capabilities approach.

Our framework aims primarily at developing a coherent and well-defined conceptual tool to analyse poverty, limiting ourselves to a pragmatic selection of the literature that is directly useful for our purpose. To a certain extent, we also try to review some of the variety in interpretations within institutional theories of development. First and foremost, this paper constitutes an exploration of how to link some basic issues of the poverty debate with different strands of the institutional theory of development. This endeavour is not without its problems, since many of the ideas and perspectives that we introduce are still relatively new and therefore continue to be the subject of intense debate. Further, we face the problem of multidisciplinary perspectives on the subject. Over the years, many views concerning the relationships between institutions and human strategic behaviour have become a common ground of debate for different disciplines within the social sciences. An advantage to this is that the institutional perspective on development offers some of the most fruitful inter-disciplinary opportunities for debate in the field of development studies. A disadvantage however is that this also engenders a variety of theoretical approaches that make it difficult to create conceptual and terminological clarity. In developing our conceptual framework this is nevertheless exactly what we will be trying to accomplish.

The second objective of this paper is to link the institutional perspective with the theme of development intervention in the field of poverty alleviation and local development. One of the main tenets will be the hypothesis that institutions, though complex in nature, are to be invested in to the benefit of the poor. In this sense, we are particularly interested in the potential intended and unintended effects of development interventions on the local institutional environment. The complexity of this issue again 'forces' us to adopt a more exploratory rather than confirmatory tone in our line of reasoning. How to go about analysing the relationship between local development interventions and the institutional environment is a question for the short term. The conceptual framework, though not offering predefined methodological toolkits to this end, will offer an interesting lens through which to assess this relationship.

## 2. Poverty and institutions: a first conceptual map

Poverty can be generally defined as pronounced deprivation in well-being (WDR, 2000: 15). Two aspects are inherent to the current understanding of poverty. The first is that poverty is a multi-dimensional and locally specific phenomenon. It includes such aspects as lack of income to obtain basic necessities (shelter, clothing, food, education), a sense of being both voiceless and powerless, and a state of vulnerability and incapacity to cope with disaster (WDR, 2000). This multi-dimensional concept gained ground during the nineties and, unlike narrow income-related or basic needs indicators of poverty, is difficult to capture in one indicator.

Such a multidimensional concept of poverty had already been developed by (amongst others) Nobel prize winner Amartya Sen. Until recently however, it would have been difficult to connect his work to the different debates on institutions and development. The recent debates on social capital and social exclusion (the latter finding some of its inspiration in the work of Sen) have made it possible to make a stronger conceptual link between a multidimensional concept of poverty and the workings of institutions and human agency (livelihood strategies). At the risk of some oversimplification, we will attempt to develop a conceptual framework that summarises and integrates the core ideas of these different concepts within the development debate.

Amartya Sen's approach to poverty is centred around the two key concepts of entitlements and capabilities. Sen's work has provided insights into how to conceptualise poverty in a broad sense. Capabilities refer to what a person can actually do and be: "Ultimately, the process of economic development has to be concerned with what people can or cannot do, for example, whether they can live long, escape avoidable morbidity, be well nourished, be able to read and write, take part in literary and scientific pursuits, and so forth" (Sen, 1983: 754). They imply both a material aspect (e.g. access to goods for consumption, abilities to be economically active) as well as an intangible aspect (e.g. feeling sufficiently self-confident (Bebbington, 1999), or what Adam Smith called the ability to appear in public without shame). Within this framework, poverty can be characterised as capability deprivation (Sen 1999, 87-110). Such a definition incorporates issues of deprivation in multiple areas as well as the concern for distributive justice, although it clearly goes beyond that.

The second key contribution of Sen's work is the concept of entitlements, which refers to the claims people can make on the resources around them to build secure, satisfying and sustainable livelihoods. The claims on resources are determined both by a person's position in society and by the rules of entitlement. The position a person occupies in society determines both his or her ownership of resources, the rules of exchange that apply to him or her in market transactions, and the access he or she has to several types of institutions. In the work of Sen, the rules that determine people's claims on resources are not consistently defined, entitlements often only referring to formal or legal rules of control or ownership (Gore, 1993). In this text, we will follow Gore's example and define entitlements in the broadest possible sense, namely as "the set of alternative commodity bundles that a person can command in a society using the totality of rights and opportunities that he or she faces" (Sen, 1983: 754). Accordingly, the rules of entitlement should be considered as being much wider in scope, and including the informal norms and values that govern people's social interaction. Concomitantly, the link between these rules and the "outcome" in terms of entitlements is not fixed but subject to negotiation, confrontation and struggle (Gore, 1993: 447). As we will demonstrate below, Sen's work and Gore's attempt at a more comprehensive interpretation of the rules that shape people's entitlements, bridge the gap between the poverty debate and a contemporary institutional perspective on development. Below, we will refer to the "rules of entitlement" as part of a society's endowment in social capital.

A lack of entitlements refers to a situation in which a person/household cannot mobilise sufficient resources to secure his/her livelihood. Poor people lack sufficient assets and power and often face an environment which denies them sufficient access to and control over resources and services in order to build secure, satisfying and sustainable livelihoods. In combination with other personal factors (old age, disease, low self-esteem,...) and allowing for variations in the physical environment, the lack of entitlements makes them insufficiently 'capable' to construct secure and satisfying livelihoods.

***Figure 1. Poverty, entitlements and capabilities: a first conceptual map***

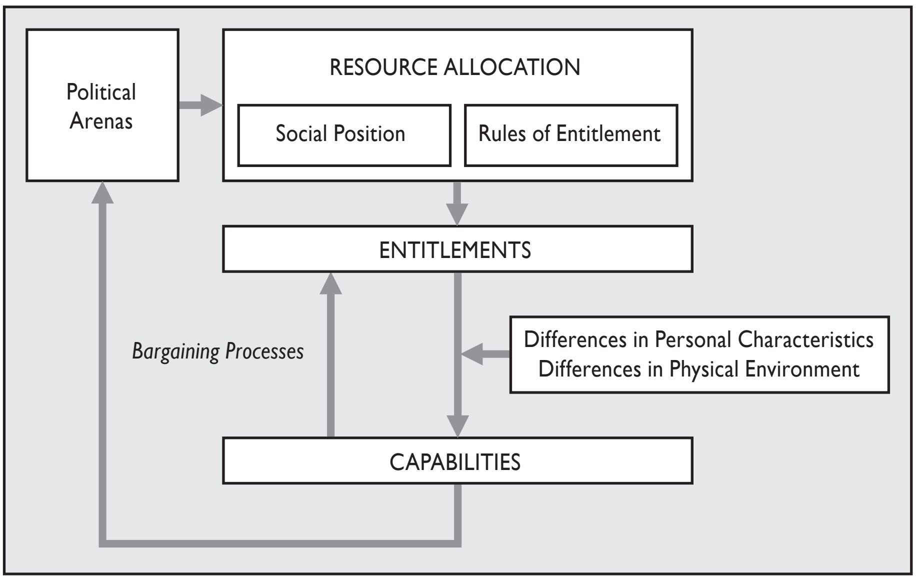



Figure 1 unites the different concepts and adds some more. People's capabilities depend on a number of factors. Allowing for personal characteristics (age, gender, health status,...) and variations in the physical environment (climate, soils,...) capabilities are determined by people's entitlements or claims to resources and services, which in turn depend on both the processes governing resource allocation in a given society and their own choice of activities and social relationships -or livelihood strategies. The link between entitlements and the institutions which allocate resources is a complex one, depending as it does on a person's social position as well as on the quality of social capital prevailing in the local institutional environment. We will discuss this link in a more detailed way in the following section (section 3). Further, we acknowledge that our use of the concept "livelihood strategies" differs to some extent from the way it has been used elsewhere (e.g. Bebbington, 1999; Ellis, 2000), in that this present work gives more weight to the active involvement of people in furthering and securing their economic well-being. However, for reasons which will become clear below, we do believe that the language of entitlements and institutions allows due emphasis to be given to the fact that livelihoods depend overwhelmingly on decision-levels and processes which can easily over-ride individuals' attempts to control them.

Finally, we added a link from capabilities back to entitlements and to the political arenas in which people can -to a varying degree- participate. In fact, every type of social interaction has a political ring to it. Each interaction could be conceived as a bargaining process whereby people implicitly and explicitly negotiate the content of the relationship. This has consequences for the terms of trade of exchange processes (exchange entitlements) and for participation in social structures -and access to the goods these structures allocate. However, people can also influence processes of resource allocation by participating, in one way or another, in a variety of political arenas. Their 'bargaining power' in these arenas will not only depend on their own capabilities but also on the way they are 'represented' by civic organisations and political leaders, and on the political rules of the game themselves. The concept of political arenas will be discussed further in section 3.3.

## 3. Institutions, entitlements and social capital

In this section, we develop the link upwards from entitlements to the institutions allocating resources. The first sub-sections introduce the main concepts. First, (3.1.) we define the concept of institutions and the different layers which can be discerned in each institution. Though the institutional environment does not only cover resource-allocating institutions, they are certainly part of it. Then, we differentiate between several institutional forms of resource allocation, in function of the different types of commodities on which a person's livelihood is built (3.2). In a next section we compound the picture presented thus far by discussing the reverse arrows of figure 1, denoting "political complexities" (Sen, 1983). The concepts introduced in the first three sections allow us, then, to discuss poverty both in terms of social exclusion (3.4) and in terms of lack of social capital (3.5.).

### 3.1. Institutions and institutional layers

In their daily struggle to secure their livelihoods individuals are faced with a high degree of uncertainty and risk. In addition, the uncertainty of their livelihoods is compounded by the complexity of the environment around them. Because of time constraints and practical reasons, the de facto availability of information about this complexity is by definition imperfect. At the same time, any human's ability to decipher and make sense of the environment is inherently limited such that the use of cultural heuristics (interpretative shorthand) is inevitable. Any individual therefore has to base decisions regarding action and behaviour upon imperfect subjective models about reality and its opportunities and constraints. In economics, the concept of bounded rationality is traditionally used to refer to the behaviour of individuals who try to make the best rational decisions given these unavoidable constraints (Simon, 1985; North, 1990). In fact, the permanent calculative weighting of opportunities and constraints as well as the screening of all feasible alternatives in each particular choice situation is practically impossible. People in most situations therefore live by established behavioural rules and practices that almost by their existence have historically proven to satisfy the needs of the situations to which they apply. Until these inherited institutions in a very clear sense no longer satisfy needs, people will stick to familiar rules and practices. This view can be considered as a more nuanced and realistic perspective on individual choice processes than the comprehensive optimising behaviour assumed by the neo-classical economics paradigm (Simon, 1985).

Given that other human beings are almost by necessity part of an individual's environment and therefore potentially an additional factor of unpredictability and complexity, it is logical to assume that this patterning and rule-making behaviour is a collective exercise: "if a person wants to make the world more predictable, then that person has to carve out events that have boundaries and that are repeated. The person has to segregate and stabilise some portion of the ongoing events. But in an interdependent world, crowded with people, it is difficult to produce the acts of closure alone" (Weick, 1979: 117-8). Hence, the role of institutions as the "humanly devised constraints that shape human interaction" (North, 1990: 3). Institutions are about creating meaning, providing guidance and reducing the uncertainty of human (inter)action in the sense that they represent collectively accepted or shared ways in which people interact and think about themselves, each other and the world around them. Institutions, in other words, play a determinant role as they form the basic interpretative and regulatory framework for human action.

Institutions cover a wide array of phenomena. Examples of institutions are: common understandings (beliefs, norms) that facilitate co-operation; hierarchic bodies made up of, for example, judges, village chiefs or police officers who attempt to resolve disputes among people more efficiently; money as a standardised unit for exchange; the family as a core arena for intense social interaction and mutual exchange; organisations such as banks and churches with standardised procedures for social interaction, etc. Institutions can be found at different levels of social interaction (group, community, region, etc.) with varying degrees of collective acceptance.

Institutions are dynamic in nature. Even though they are supposed to 'fix' behaviour in distinctive patterns, in fact they constantly evolve and are contested and adapted through social interaction processes, as we will explain later on in this paper. In this context, Uphoff (1993) talks about the process of 'institutionalisation'. The 'degree' to which the previous examples can in fact be termed institutions depends on a number of factors such as the population of reference (i.e. a group versus a nation), and the level of collective acceptance and legitimacy within the population of reference.

It is useful to distinguish three layers in the institutional environment (see figure 2 below). At first level we observe regularised structures of social interaction in the form of social relationships, networks and organisations that constitute the social landscape. At second level we can identify the different sets of institutional rules that govern these structures of social interaction. Finally, we distinguish a third level, which maps culture, or the way in which individuals perceive their world, including others and themselves (their identities), and what they find valuable.[3]

***Figure 2. The institutional environment***

| | |
|---|---|
| **Social Structures** | Organisations<br>Networks<br>Social relationships |
| **Rules** | Formal rules<br>Informal rules |
| **Culture** | Perceptions<br>Identities |

Social structures refer to the composition of connections between people. The simplest connection is a relationship between two persons. Relationships are based on friendship, professional communication, kinship, and so on, or a combination of these elements (multi-stranded). Aggregate forms of social structure can either be of an open and flexible nature, such as networks, or of a more closed and regulated nature as is the case with organisations. Organisations include structures that are governed in a relatively informal way, households and families for example, and more formally ruled structures such as farmers' associations, churches, enterprises, agencies, etc. All these forms of social structures are entities which partly overlap. At the same time individuals participate in different social structures (relationships, networks, organisations) at different levels.[4]

[3] Our categorisation slightly differs from that of North, whose category of "informal rules" comprises the informally enforced rules applicable in determinate contexts as well as internally enforced codes of conduct, presupposing the existence of non-wealth maximising considerations in individuals' utility functions (North, 1990: 40).

[4] The study of social structures as such has been an important research agenda in economic sociology (e.g. Granovetter, 1985; Burt, 1992).

Depending on the type of social structure and the people who participate in it, different kinds of rules govern social interaction and more specifically the exchange processes of information and resources. Rules can be of a formal nature such as, for example, laws, regulations and procedures, or more informal, for example, norms and rules of conduct. The former type is explicitly written down, which implies that rule abidance can be monitored more easily and, probably, enforced more effectively, allowing for a regulation of broader and more complex types of social structures such as big enterprises and states. Informal rules (e.g. customary access rules to common property resources, the physical distance you must keep from others during a conversation, or the way people look each other in the eye[5]) are not coded and are sometimes very difficult to render explicit. This does not make them trivial, however, as their existence promotes the subtle social game of showing agreement with, or defiance of the other party's claim, by using the non-explicit character of the rule as a shield of ambiguity.

[5] See De Boeck (1999: 195), who draws attention to the exemplary male Luunda habit of looking others straight in the eye, whereas women favour the typical sideways look.

Besides 'structure' and (informal and formal) 'rules' that govern social interaction we distinguished 'culture' as a third layer of the institutional environment. The third layer involves people's perceptions and identities, or the way in which they perceive themselves and their environment, in the double sense of apprehension and (re)creation. People's identity is among other things a function of how they see themselves compared to others. Thus there is also an implicit judgement on fairness and fair treatment behind the concept of identity. From the point of view of this third institutional layer and at the risk of some oversimplification, we may conceive of the social structure and its rules as reflecting the identity -values, attitudes, perceptions- of those who dominate the important public arenas in society.[6] In other words, institutions do not only determine what people get, but they also assign social roles, reflecting who these people should be. In practice, there can be a contrast between socially assigned roles and cultural identities. Hence, the way social structures and rules function in practice depend inter alia on whether assigned roles are perceived as fair or unfair (given people's self-perception).

[6] This implies that subordinated groups can accept and even collaborate to enforce these rules for mere tactical reasons; institutions are in part sustained by what Margaret Levi calls 'contingent consent' (Levi, 1990: 407).

To sum up, institutions are the collectively accepted or shared ways in which people interact and think. Virtually all social interaction in which people exchange resources, information, services and implement activities is embedded in institutions. More specifically, at all levels of social interaction, the way in which people are connected to each other and the way in which these interactions are governed and given meaning are determinant for the distribution of power and access to and control over resources and services.

### 3.2. Entitlements, types of goods and the institutional trinity

The set of alternative commodity bundles that persons can command in a society also depends on people's agency. People's livelihoods strategies can be characterised by a portfolio of activities and social relationships in function of getting by and moving ahead. Poor people employ a variety of strategies in order to survive, thereby continuously trying to reduce uncertainty (economic, climatic, etc.), to ease demands on their income and consumption and to cope with hidden eventualities. In order to fulfil these objectives, the poor engage in different income earning activities and social relationships that can be mobilised in different circumstances and under different conditions (see Chambers, 1997; Ellis, 1998).

Such a portfolio concerns several levels and types of decision-making. It is difficult to analyse poverty and livelihood strategies without acknowledging these different levels and types of interaction and decision-making. For operational purposes it is useful to distinguish between three sectors of social interaction. These sectors are commonly called the state or public sector, the market or private sector and the third sector, sometimes called the voluntary sector or collective action sector. It is through relationships with these three sectors that people gain access to and control over resources and services (see Bebbington, 1999).

The performance of these three sectors is determined by different mechanisms or sets of rules which can be summarised as exit, voice and loyalty. The public sector is characterised by formal bureaucratic mechanisms that are governed by regulations and backed up by formal sanctions (state coercion). Examples of public sector players are the national governmental bodies such as parliament or the police as well as regional and local governmental agencies such as the branch offices of ministries, municipal governments, village councils, etc. The quality of the public sector hinges crucially on the way in which citizens can use voice, or are able to participate in policy-making and criticise government performance. The private sector is characterised by market processes and decentralised individual decision-making that is governed by financial incentives. The performance of market operators is held in check to the degree that customers can freely exit, or switch from one operator to another. Examples are multinational companies, regional companies and branch offices, village shops, etc. The collective action sector is characterised by voluntary association and cooperation governed by mutual agreements and backed by social pressure. Examples are national and regional cooperative societies, producers' associations, local savings groups, etc. People can withdraw freely, cooperation is voluntary. Thus, the performance of this sector depends on the feelings of loyalty such organisations are able to foster: it is loyalty alone which prompts people to voice their opinion when mere withdrawal would be the cheapest option.

Figure 3 presents a preliminary overview of the different kinds of local organisations belonging to each sphere of this institutional trinity. The following types of organisations can be discerned: local administration (public), local government (public), membership organisations (collective action), cooperatives (collective action), service organisations (private), private enterprises (private). This practical scheme represents a useful descriptive format for categorising local level organisations according to their institutional affiliation based upon their dominant governance principles. It can easily be extended to embrace a number of transactions and interactions that take place outside of stable, formal organisations. Consider for example the following interactions: a farmer selling a pig to a neighbour (market), a meeting of women on the topic of child care (collective action), a community leader doing one of his supporters a favour (hierarchy).[7]

[7] Note that when talking about interactions taking place outside of organisations, it is more useful to use the term hierarchy (versus collective action and market logic) instead of state or public sector.

***Figure 3. Types of organisations by sector***

| **Public Sector** | | **Collective Action Sector** | | **Private Sector** | |
|---|---|---|---|---|---|
| local administration | local government | membership organisations | cooperatives | service organisations | private businesses |
| *Orientations of local initiatives* | | | | | |
| bureaucratic | political | self-help (common interests) | self-help (resource pooling) | charitable (non-profit enterprise) | profit making (business enterprise) |
| *Examples* | | | | | |
| e.g. primary school | e.g. village council | e.g. savings group | e.g. agrarian production cooperative | e.g. external NGO | e.g. micro enterprises |
| *Roles of individuals in relation to different kinds of local institutions* | | | | | |
| citizens or subjects | voters and constituents | members | members | clients or beneficiaries | customers or employees |

Note: Please note that following Uphoff's classification, professional (external) NGOs are classified as private sector (non-profit) organisations, and not as collective action organisations.

Source: Adapted from Uphoff (1993: 613).

An important advantage of this institutional trinity approach is that it enables us to reflect theoretically on the comparative governance advantages of the different institutional sectors. The relative importance and specific roles of the state, market and collective action sector in development processes have been the centre of much discussion within the development debate for decades. In Annex 1, we present a useful framework which can help solve the question as to which institutional players should best be made responsible for the provision of different types of goods and services. The framework builds on the classical economists' argument assigning the allocation/provision of different types of goods (private, club, public and common pool goods) to different types of institutions (Bator, 1958). This argument is then given nuances in the sense that the optimal provision of each of these goods is arguably the result of a combination of state, market and civil society rather than of each of these institutions separately (Picciotto, 1995). In the scheme in Annex 1, two additional categories of goods can be identified. The first refers to the quality or performance of hierarchy while the second concerns the possibility of withdrawal within the market and civil society. Below, this framework is linked to the notion of social capital (3.5.) and referred to when project and policy interventions are considered (4.2.2.).

### 3.3. Political complexities

An institutional set-up is also a social construction in its own right. The decision as to whether or not a hungry, destitute person is entitled to food is, in this sense, the result of the political and social pressure he or she is able to exert (Sen, 1983: 757). Writing on political complexities in the eighties, Sen compared the advantages and disadvantages (in terms of capabilities) of India and its democracy and China under Mao. We believe that this early analysis is flawed in two ways. To begin with, it draws a boundary between resource-allocating institutions and political institutions. In practice, however, this is a difficult boundary to set up, the distinction between the two types of institutions being rather artificial. If we accept the hypothesis that the concept of "entitlements" should be interpreted in its broadest sense so as to give due weight to the numerous possibilities regarding the people who contest, negotiate and re-interpret the rules of the game, their social position, and the way in which both are applied in a particular situation, then every institution has a political side and the social landscape can accordingly be described as a myriad of bargaining processes. Further, by comparing, say, authoritarian and democratic political systems, Sen does not do justice to the fact that the rules governing these political systems can themselves be contested, re-negotiated and re-interpreted. "Democracy" is itself not an exogenously determined yes-or-no variable, it is the result of a political game as well as a determinant of the way this game is played.

Thus, the institutional landscape need not only be considered in terms of the capabilities it generates, it can also be considered as a set of political arenas in which persons can participate. This they can do to varying degrees, of course, depending not only on their capabilities and preferences, but also on how this arena is institutionalised, i.e. how it is structured (who are the main "voices"?), ruled (what are the political rules of the game?), and how different players can be distinguished according to their identities, perceptions and the ensuing strategies they pursue.[8]

[8] On the concept of political arena in terms of its (i) main participants, (ii) rules and (iii) strategies, see Bierschenk and Olivier de Sardan (1998: 26-27) .

Sometimes bargaining processes are very explicit, namely when the guiding principles that govern the relationship (rules, norms) can openly be contested by the parties involved. For example, in the case of a recently founded village association, struggles between members over meaning (i.e. the rules) as well as over power and voice are explicit. In other circumstances they mostly remain dormant, such as in the case of a relationship between mother and son or a long-lasting relationship between a tenant farmer and his landlord. In such cases 'resistance' may surface suddenly on particular occasions or be expressed in subtle and indirect ways (Scott, 1990). In practice this implies that there are often significant differences between the public and the hidden transcript (Scott, 1990). Whereas the former refers to the official discourse, strategies and ways people have of dealing with each other in a certain social context (e.g. a local government agency), the hidden transcript refers to the underlying strategies and rules of the game that different individuals (who also interact outside this particular social structure) follow in their dealings with each other.

It may also be relevant to distinguish between types of political arenas in terms of the level of formality they have attained. In the context of formal organisations bargaining spaces are often more tightly restricted within the institutional framework (structure and rules) of the organisation. Certainly, there are also informal (cultural) rules, which might imply that formal rules are not implemented in accordance with their definition. In simpler and less formal social interaction, bargaining spaces are often larger due to the fact that a formal structure is lacking, and therefore both meaning and outcome are less explicit and hence to a larger extent subject to negotiation. For example, two neighbouring farmers who share similar norms of reciprocity over land grazing rights might not abide by these norms if one or both see certain (economic) gains in breaking them. Let us suppose that the customary norm is that neighbouring farmers should help each other when quality pasture becomes scarce. The legitimacy or exact meaning of the norm might be contested or renegotiated. For example, instead of letting the cattle of one farmer simply graze on the other's land and vice versa, more detailed arrangements could be negotiated with respect to the period of grazing and number of cattle allowed on each farmer's property. Moreover, what happens in "informal" political arenas is per definition not written down. As a result, the "rules of the game" do not so much depend on the historical track record of decision-making as on the way in which this historical track record is remembered. In such a setting, "the production (and circulation) of knowledge in this context is competitive -but not perfectly so. Some witnesses carry more weight than others, owing to differences in social position or reputation; some give more convincing accounts. People may also influence the course of negotiations by limiting access to historical knowledge" (Berry, 1997: 1236). Sara Berry notes for instance that conflicts over land can at least in part be traced back to conflicts over history. Concomitantly, "in most cases... individuals' claims stand or fall with the recollections, and reputations, of their witnesses. In practice, land rights are subject to intermittent or on-going negotiation, land tenure security depends more on a person's standing with his/her relatives and neighbours than on the way in which a claim was originally acquired" (1997: 1232).

Further, it should be mentioned at this point that the institutional landscape to be found in many countries can usefully be described as polycephalous or pluriform, involving, as it does, different public arenas, being the product of different historical periods and being based on varying systems of meaning, rules and key players (Bierschenk et al. 2000: 10). The concept of a polycephalous society was introduced by Bierschenk and others in order to emphasise the relatively chaotic character of (African) society. In this respect, they take issue with the perspectives of e.g. Hyden (1983), Médard (1991) and Schatzberg (1991) at macro-level, or Abraham and Platteau (2001) at micro-level, who try to make sense of African politics in terms of an underlying but largely invisible "logic" behind a "modern" façade. The idea of a polycephalous society is also reminiscent of Migdal's argument that in many third world countries, it is futile to look for a central core, "where the ballgame is being played", since

*"in many third world countries, many ballgames may be played simultaneously. In weblike societies, although social control is fragmented and heterogeneous, this does not mean that people are not being governed; they most certainly are. The allocation of values, however, is not centralized. Numerous systems of justice operate simultaneously"*
(Migdal, 1988: 39).

It is true that Bierschenk et al. restrict their analysis to "African society", whereas Migdal restricts it to "many third world societies". Neither of them justifies the implication that non-African or non-third world countries are not pluriform. We assume that, if such a difference does indeed exist, it must be a matter of degree rather than kind.[9] Whatever the case, the point is that a society's social landscape can usefully be described as a set of different political arenas which, because of the different ways in which they are structured, ruled and given meaning, create much political ambiguity and room for manoeuvre. The hybrid character of the institutional framework cannot be expected to be a temporary or transitory phenomenon, as it will also be reproduced and deepened by individual players who, in an attempt to secure their ownership rights to goods and resources, will not risk putting all their eggs in one political basket (Berry, 1997: 1237).

[9] See for example the debate on the articulation between migrant identities and the "developed" states that host them (Vranken and Timmerman, 2000).

### 3.4. Poverty and social exclusion

There is a narrow link between a lack of entitlements to resources and the concept of social exclusion. Social exclusion has been developed mainly within the European poverty debate, where it has been taken up by different schools of thought.[10] Kaijage and Tibaijuka (1996: 5), two of the better-known authors making use of the concept in a developing country context, emphasise that "[t]he value of the concept lies in the fact that it seeks to unite the different elements of social disadvantage... by establishing interrelationships between them in the context of their organic linkage to the structure and functioning of society as a whole". Kaijage and Tibaijuka thus emphasise the analytical force of the concept.[11]

[10] For a background discussion on social exclusion see for example Rodgers et al. (1995), Silver (1995).

[11] See also Gore (1995), who distinguished between normative, descriptive and analytical uses of the concept.

They draw on the traditional view, amongst others, which sees exclusion as the outcome of what Max Weber called a process of social closure, or "a process of subordination whereby one group monopolises advantages by closing off opportunities to outsiders whom it defines as inferior or ineligible" (Silver, 1995: 69). This description underlines two basic aspects of social exclusion, more systematically addressed by Vranken et al. (1997), namely that social exclusion implies an element of subordination and of social divisiveness.

Social exclusion is characterised by social barriers that restrict social interaction and entitlements to different types of resources and services. These barriers may result from differences in age, gender, wealth, education level, kinship, ethnicity, profession, geographic location, religion or political affiliation. These are characteristics which cut across barriers. All these elements may be a source of either discrimination or disadvantage. In terms of the institutional layers identified above under 3.1. we can define social exclusion as the application of a different set of rules to different identities.

It is obvious that when an individual is placed in several underprivileged categories at the same time, the probability of facing deprivation (being poor) is higher, such as in the case of, say, a homeless woman from an ethnic minority in a rural isolated village. It may also be, of course, that investment in some identity will exclude an individual from certain goods but will, on the other hand, guarantee access to others.

Elaborating on this point of view, poverty, which refers to a certain (relative or absolute) level of multidimensional deprivation, is not the same as social exclusion. It can be perceived as the outcome of a dynamic process of multiple social exclusion or the inability of being able to participate in a meaningful and fruitful way in different social arenas, necessary to construct a secure and satisfying life. Social exclusion separates the excluded from generally accepted patterns of life in society. The poor, who face multiple exclusion, cannot bridge these gaps by themselves (Vranken et al., 1997: 314). All of this suggests that poverty is first and foremost a social and institutional problem, not (only) an individual problem of the poor. In other words, fighting poverty inevitably implies social and institutional change.

The concept of social exclusion should, however, also be viewed in the light of the findings of the previous subsection. It should, indeed, be noted that "if access and exploitation hinge on social identities and social identities are based on multiple, overlapping criteria, then it follows that conditions of access to productive resources and mechanisms of labour exploitation are partly matters of definition" (Berry, 1988: 65). Concomitantly, social exclusion partly refers to the inability to participate in the interpretation or redefinition of rules and social classifications -in the political arenas. And hence fighting poverty implies, in the first instance, allowing people to participate in these arenas on equal terms.

### 3.5. Social capital: a positive sum game perspective

The idea of social exclusion, in the sense of social inequality and divisiveness sustaining unequal entitlements, suggests a zero sum game. The richer, more powerful, better connected individuals and groups live their lives at the cost of the poor and excluded. A more equal distribution of access to resources, services, information and power would improve the capabilities of the poor. However, the distribution issue, though undeniably important, is only part of the picture. Recent theories on the externalities of social interaction, centred around the concept of social capital, refer to the positive sum game of improved social interaction between individuals and groups at all levels.

The basic idea of social capital is that the (institutionally embedded) processes of social interaction within a society generate externalities that affect the development prospects of society as a whole. Over the last decade and especially following the publication of Robert Putnam's seminal work of social capital in northern and southern Italy (1993), social capital has become an increasingly broad and popular field both at academic and policy level involving a range of disciplines and covering various fields of study. Nevertheless, despite its popularity (or possibly because of it) much conceptual and terminological confusion still surrounds the concept.[12] Even in the field of development studies, contrasting interpretations of the concept continue to exist (Dasgupta and Serageldin, 2000).[13] There is a broad consensus that social capital is about the nature of social structures, the rules that govern them and the belief structures of the people who enact them, as well as about the developmental effects generated by constellations of social structure, rules and culture at different levels of social interaction (individual, group, community, society). Since the idea of a positive sum game of social interaction between different individuals (households and groups) is both attractive and very relevant for development intervention and poverty alleviation, in this section we will explore some of the relatively widely accepted viewpoints within the social capital debate.

The most popular definition of the concept of social capital is perhaps that originally given by Putnam (1993) and which refers to a society's endowments of voluntary networks, norms of reciprocity and trust. In his comparative study between northern and southern Italy he found that the developmental performance of the north was significantly related to the fact that it had a higher endowment of these three elements of social capital.

Several other authors have confirmed the developmental effect of social capital as an independent 'factor in the development equation'.[14] When reading social capital literature within the field of development studies several mechanisms or externalities which affect prospects for local development can be distinguished:

[12] In fact, much of the heated debate on social capital has been concerned with conceptual discussions which, as one author succinctly poses, have produced more 'heat than light' (Edwards, 1999).

[13] Examples of important contributions on social capital in general and more particularly in the field of development studies are as follows: Coleman (1990), Putnam (1993), Woolcock (1998), Woolcock and Narayan (2000), Dasgupta and Serageldin (2000).

[14] See for example Narayan and Pritchett (1997), Knack and Keefer (1997), Grootaert (1999), Krishna and Uphoff (1999), Uphoff and Wijayaratna (2000), Maluccio et al. (1999), Grootaert et al. (2000), Grootaert and Narayan (2000).

**1.** *Better information flows.* There are several beneficial effects to better information flow. For example, a swifter diffusion of innovations coming from outside. In addition, a better information flow lowers the barriers that hinder interaction between persons, thus promoting social and economic exchange.

**2.** *More effective and cheaper contract enforcement.* Repeated interactions between community members can lead to the development of reputation mechanisms, thus reducing opportunism and creating security. Moreover, the increased possibilities which social pressure produces can reduce opportunistic behaviour.

**3.** *A greater capacity for local collective action.* Collective action at community level is important for the production and maintenance of local public goods (e.g. wells, roads) as well as for the management of common property resources (e.g. local irrigation schemes, fishing resources, forests).

**4.** *Better prospects for the development of informal mutual insurance mechanisms.* If networks are more open and the same norms and perceptions are shared, so the prospects for mutual support between households increase.

**5.** *Better synergy between different organisations of the state, market and collective action sector.* An effective and open relationship between the state (or other external organisations) and local communities is most easily established when social structures are less segmented and more egalitarian. This allows for easier and more inclusive organisational processes at community level and thus facilitates cooperation with external organisations.[15]

Different interpretations in the social capital debate can usefully be grouped in the following categories, which to a certain degree represent an evolution in the debate (Woolcock and Narayan, 2000; see also Serageldin and Grootaert, 2000; WDR, 2000):

### Communitarian view

Within this view social capital is defined in the light of the quality and quantity of local associations (clubs, civic groups). More specifically, those advocating this point of view look at the number and density of local associations. More associations mean more social capital. The downside of social capital, however, is ignored. Dense networks can also put strain on development prospects. For example, the pressure to distribute gains from economic activity can reduce personal incentives to improve business opportunities. Another example refers to the situation whereby dense (but otherwise relatively isolated) networks may develop norms and rules that do not coincide with the collective good (i.e. criminal gangs).

### Networks view

This view focuses on both the positive and negative sides of social networks. It is recognised that strong inter-group ties[16] play important roles in giving meaning to people's lives and serve as the principal mechanisms of social support. In addition, however, weak inter-group ties that breach

[15] A more systematic attempt to categorise the ways in which social interaction affects development prospects has been developed by Collier (1998). (Different kinds of) social interaction facilitate information flows between people which play an important role in generating the following three externalities:
**1. Learning about each other.** More open social interaction with improved information flows permits individuals to learn more about other people. This reduces the uncertainty of dealing with other persons. Hence, interaction and transactions could be facilitated, enabling reputations and trust to be more easily established between individuals.
**2. Learning about the world.** Information flows carry knowledge and innovations which constitute an important resource for development.
**3. Achieving collective action.** This externality in principle depends on the other two. Learning and communicating with other persons also stimulates the development of shared visions and shared cultural identities. These greatly enhance the prospects for voluntary organisation between people.

[16] The term 'group' here refers to the household, group and community level.

family, religious, ethnic and community (etc.) borders are very important in connecting people into wider networks regarding exchange of information, resources and services. Moreover, without these extra-group ties, the strong inter-group ties can become too suffocating in the sense described in the previous paragraph.

**Institutional view**[17]

The institutional view represents a collection of theoretical and empirical work that originally did not form part of the social capital debate but which, as the debate evolved, came to be recognised increasingly as part of a social capital perspective and therefore was incorporated into more recent debates (see fourth perspective). This view stresses the role of the political and legal environment as an important facilitator of local organisational processes. It also stresses that the performance of formal institutions such as states and private organisations (enterprises, NGOs) depends on their *integrity*, internal coherence, credibility and competence, as well as on their external accountability to civil society.

[17] Not to be confused with what we call an institutional perspective in this paper, which is much broader.

**Synergy view**

This view can be seen as a synthesis of the strengths of on the one hand the networks perspective, largely micro or bottom-up, and on the other hand the institutional view, a mainly meso/macro or top-down perspective. The synergy view discerns three types of social capital. The first two refer to the importance of the strong inter-group ties and weak extra-group ties already mentioned under the networks perspective. These are respectively referred to as *bonding* and *bridging* social capital. A third group of ties, so called *linking* social capital, incorporates the institutional view on social capital, e.g. the way in which citizens are linked to the state. The main argument is that development outcomes depend not only on the quality of each type of social capital but also on the way in which bonding, bridging and linking social capital are combined and play a complementary role. Woolcock for instance suggests that the challenge for policy-makers is "to transform situations where a community's social capital substitutes for weak, hostile or indifferent formal institutions into ones in which both realms complement one another" (2000: 238). This complementarity had already been appropriately phrased eight years before by Uphoff who pointed out that:

*"paradoxical though it may seem, 'top-down' efforts are usually needed to introduce, sustain and institutionalise 'bottom-up' development. We are commonly constrained to think in 'either-or' terms - the more of one the less of the other - when both are needed in a positive-sum way to achieve our purposes" (1992: 73).*

We see three particular ways in which the literature on social capital, and especially the synergy view, can be connected to the debate on poverty.

To begin with, in the recent World Development Report 2000/2001 the three dimensions of social capital were linked to the social exclusion perspective on poverty. The vision elaborated in the report supports the conclusion that each individual, household, group, community, or society should be endowed with an appropriate mix of bonding, bridging and linking ties to be able to get by and get ahead. In the case of poor individuals or households, the worst case of social exclusion occurs when the poor lack intensive reciprocal ties with family and neighbours *(bonding)*, are not well integrated into wider processes of social, political and economic interaction with other groups in the community *(bridging)*, and are not acceptably connected to important persons in the three institutional realms outside the local community *(linking)*.

Such an individual perspective on social capital clearly does not however exhaust its meaning and importance as regards an anti-poverty policy. In fact, it does not as such add to the definition of poverty we have already developed in the previous section. Instead, we would rather make use of the concept *to refer to the quality of the institutional set-up* more generally. Accordingly, in terms of the discussion on the "institutional trinity" (section 3.2.), social capital refers to (i) the quality and performance of the market, the state and the collective action sector as well as to (ii) the articulation between each of these institutional spheres. For example, every market transaction takes place in a specific local context, where appropriate norms and shared understandings in combination with a legitimate framework of legal rules help reduce the uncertainty and the risk of opportunism involved in market transactions. Another example would be a situation whereby the successful implementation of an irrigation system depends on the specific way in which different stakeholders from the state, market and collective action sector are articulated; e.g. a voluntary association managing at low cost a local irrigation network built at low cost by a private enterprise, financed by a private service enterprise (i.e. an external NGO) and identified at low cost by the state. In the Annex, we present a useful framework which can facilitate this kind of comparative institutional efficiency analysis.

Finally, in terms of the discussion regarding the polycephalous character of the institutional landscape (section 3.3.), it is valuable to focus on the dimension of linking social capital. If we consider the interaction with local populations (*linking* social capital), development interventions are inevitably *embedded* in different structures each with their own rules and culture. For example, local government employees very often originate from the locality they work in and are therefore, inevitably, very much influenced by hidden preferences in their dealings with the local population. They are also susceptible to favouritism, or may be under pressure from kinship issues or other ties with the local population. To counterbalance this, some level of independence and organisational *integrity* is needed in order to maintain the comparative advantage in the development process of the external organisation (i.e. by not falling prey to local power dynamics, ensuring access to services and goods for both vulnerable (and often excluded) and better off local groups alike, serving as independent facilitators in building dialogues between local groups, etc.). One could go further by presuming that supra-local players who lack some level of internal coherence and independence to establish accountable and inclusive relationships with individuals at the community level may have perverse effects on local development prospects by (unconsciously) strengthening processes of social exclusion and destroying bonding and bridging ties. In the reverse case, independent and ethically sound development organisations may also lack the necessary local *embeddedness* to achieve the right level of synergy with local institutions. Thus, poverty interventions need to find the right balance between (or the most appropriate way out of the dilemma between) *embeddedness* and *integrity.* This is the basic reason as to why Woolcock argues for a social institutional analysis:

*"Understanding how outside agencies can work to alleviate poverty in diverse and poorly understood communities remains one of the great challenges of development. A social capital perspective stresses that technical and financial soundness is a necessary but insufficient condition for acceptance of a project by poor communities... Understanding how proposed policy interventions will affect the power and political interests of the stakeholders is a vital consideration, since all policy interventions occur in a social context characterized by a delicate mix of informal organizations, networks, and institutions" (2000: 242).*

## 4. Poverty alleviation and development intervention: promoting institutional change

### 4.1. Conceptualising institutional change

The term 'institutional change' refers to a very complex process not in the least because of the diversity in institutions and the local specificity of the institutional environment. The comprehensiveness of the concept of institutions in particular warrants caution in any discussion concerning institutional change. It is beyond the scope of this paper to give a full overview of the debate on institutional change processes.

Our discussion of institutional change owes much to New Institutional Economics (NIE). The basic premise of NIE is that changes in institutions can be explained by (aggregate) processes of individual behaviour. Using some basic elements from NIE, a fairly satisfying framework for the interpretation of local institutional dynamics can be constructed by observing/considering individual strategic behaviour and engagement in processes of social interaction.

In the previous section, we emphasised the fact that every institution can also be described and analysed as a political arena, and that the social landscape can therefore usefully be seen as a myriad of bargaining processes. This view is consistent with earlier publications by several (new institutional) economists who have stressed the role of secular changes in resource endowments, demographic structure, technologies and preferences as the driving forces of institutional change processes (e.g. North, 1990; Hodgson, 1993). Whatever the nature of the changes, they are reflected in variations in relative prices which alter the incentive structure for people, who can hence become motivated to change rules and social structures. As stated by North, "[w]e can begin by recognising that a basic source of institutional change is fundamental and persistent changes in relative prices, which lead one or both parties to contracts to perceive they could be better off by alterations in the contract" (1986: 234). For example, in some contexts, increased population pressure and technological development have changed both the relative availability and the economic proceeds of the land and have thereby induced the development of private property rights (Platteau, 2000).

One of the early views within NIE poses that institutions, in their function of providing security and guidance with regard to people's behaviour, are efficient in the sense that they minimise transaction costs for interaction and exchange processes given people's preferences and resource and technology constraints (e.g. Williamson, 1985; North, 1990; Platteau, 2000). Consider the classical example of a sharecropping contract between landlord and tenant. The existence of the share contract is partially explained by its capacity to balance the need for adequate incentives for the tenant-labourers and the management of risks for both parties to the contract. Due to the absence of insurance markets in the countryside, both the tenant and the landlord choose to share (part of) the costs and the output as a means to mitigate the risks of crop and price variability. The first alternative, a full tenancy contract, creates optimal incentives for the tenant, but also means full risk exposure. The other alternative, a wage employment contract, implies low incentives for the tenant (and thus high monitoring costs for the landlord), no exposure to risk for the tenant and thus full exposure for the landlord. In many instances, the share contract can be viewed as providing a compromise in terms of incentives and risk sharing. The share contract then represents an efficient inter-linked contract, involving joint transactions in land, labour and often also capital, with both risk management and transaction cost advantages to the landlord (especially monitoring and enforcement costs) and the tenant (information costs, risk management) (Akerlof, 1976; Stiglitz, 1989; Hayami and Otsuka, 1993).

Thus, given a competitive environment in which several institutional forms are pitted against each other, it may be assumed that the most efficient institution will drive out the less efficient ones. According to this early, narrow interpretation of institutional change, changes in preferences, resource endowments and technologies will inevitably lead to changes in the institutional environment and hence to a new efficient equilibrium.

However, although efficiency in terms of minimising transaction costs is a powerful motor for institutional change processes, it offers only a very partial explanation for institutional change. In reality many 'dysfunctional' or inefficient institutions continue to exist -or are difficult to weed out. The basic principle behind the continued existence of these 'inefficient' institutions is *path dependency* (e.g. North, 1990; Putnam, 1993; Bardhan, 2000). It seems as though a given society is 'trapped' into its historically inherited structures, rules and culture, or at least that some avenues of institutional change are precluded due to the almost prohibitive transition cost.

Path dependency is a far-ranging phenomenon that can be explained by several factors. Bardhan (2000) identifies two principal factors that underlie path-dependent processes. The first refers to the increasing returns from adopting a particular institutional arrangement. The more a certain pattern of interaction is applied or adopted, the more convenient for others it will become to follow the established pattern. As Bardhan asserts, "a path chosen by some initial adopters to suit their interests may 'lock in' the whole system for a long time to come, denying later, maybe potentially more appropriate, institutions a footing" (ibid.: 223). Implicitly, Bardhan was already referring to the role of unequal (bargaining) power to which he returned later in the same paper. The second factor concerns the particular influence of historically inherited mental models (see also North, 1990). In general, established norms and values have a strong influence on what is to come, especially when considering that the insecurity stemming from imperfect information flows and the capacity to process such information makes people reluctant to pursue radical alternatives to generally established patterns of interaction: "Individuals often cannot even conceive of appropriate alternatives (or [...] they regard as unrealistic the alternatives they can imagine). [...] In other words, some of the most important sunk costs are cognitive" (Dimaggio and Powell, 1991: 11).

Although path dependency is an important explanatory principle of institutional change, it should not be confused with the idea that societies can be trapped into either a high- or low-equilibrium path as though this were a matter of eternal bliss or doom. Although various influential social scientists stress the importance of historically embedded processes of institutional change (North, 1990; Putnam, 1993; Williamson, 1998), assuming institutional gradualism to the point of inertia would be erroneous. Most authors also propose an alternative, although mostly complementary, explanation to path dependent processes of institutional change in the form of the idea of 'system shock' or 'big bang'. Fundamental institutional changes over short periods of time are likely to occur in times of *unplanned disaster*, when the 'normal' ways of doing things seem clearly insufficient to resolve the urgent challenges ahead and when an active search begins for new models and rules.[18]

[18] See for example the interesting literature on the connection between World War II and the development of the European Social Security System, e.g. De Herdt (2000).

In practice, there are also examples of profound institutional changes that were consciously introduced under 'normal' circumstances but had profound effects on the institutional environment as a whole (e.g. changes in national constitutions; see for example Nugent, 2000). However, conscious efforts to bring about institutional change are heavily restricted by a lack of collective action. Bardhan (2000: 224) discerns two kinds of collective action problems. The first concerns the bargaining problem and the influence of vested interests. The second problem refers to the public good aspect of institutional change and the associated free-rider problem.

The bargaining problem is essentially about disputes over the benefits of institutional change. Part of this problem concerns the lack of a shared social vision or consensus with regard to an alternative institutional structure. It may be that such a consensus is non-existent and that different social factions have conflicting claims on the possible benefits of institutional change.[19] At this point, it is useful to reconnect to the above-mentioned concepts of culture and identity. As was pointed out earlier, people will judge, and act within the framework of institutions in terms of the social identity they are granted, either explicitly or implicitly. Depending on whether people consider the state of affairs to be fair or unfair, their social identity can be mobilised for or against institutional change. Thus, given a certain historically inherited institutional context, fairness considerations do play a significant role in the (implicit or explicit) politics of institutional change (see also Platteau, 1994; 2000; see also De Herdt, 2002).

[19] What Bardhan termed 'distributive conflicts' arising in the absence of what Olson called 'encompassing interest groups' (Bardhan, 2000: 227-32).

Another important aspect of the bargaining problem is the influence of powerful groups that have an interest in maintaining the institutional status quo, which is disadvantageous to the interests of the majority. NIE has emphasised the problem that institutions (e.g. the state, community organisations, rules for local resource management) can be taken over by an elite minority which is not interested in -or stands to lose from- institutional change. Thus institutional change is held back by unequal bargaining power to change the situation. Conversely, path dependent incremental change that reinforces the position of those in power can be broken by democratising institutions, by making them more transparent and accountable to the 'will of all' (e.g. Bates, 1996; North and Weingast, 1994).[20]

[20] In recent publications, political decentralisation has been advanced as one of the possible ways to democratise society. This might be wrong, however, as there are indications that the local state seems to be more vulnerable to (local) elite interests than its central counterpart (Bardhan, 2000: 229; Bierschenk and Olivier de Sardan, 1998, Osmani, 2000).

The second kind of collective action problem refers to the fact that institutional change is largely a public good, which implies that there is a potential problem of under-investment in processes of change. Just like other public goods, institutional change may be impeded by the free-rider problem. Institutional change may not materialise since the people who would like to 'invest' in change and pay the concomitant costs cannot exclude those who do not wish to pay, from benefiting from the investment. Changing institutions is not a cost-free process but requires time and effort. To begin with, there is the issue of initial set-up costs. In addition, there are learning, co-ordination and adaptation effects: people will have to learn how to change their practices in the new environment and other institutional rules will probably be affected as well (North, 1990: 95). These costs are sunk costs; they are specific to the process of institutional change. Uncertainty about the results of institutional change may cause people to stick to patterns of interaction they dislike but which, as individuals, they are not willing or able to disrupt.

Since individuals do not have an incentive to uphold or change certain institutions given the fact that they cannot claim the (exclusive) benefits, there should be some kind of mechanism that permits these investments to be made. In theory (see figure 3), the state would be one of the appropriate actors to uphold and change institutions since it is a kind of institutionalised structure for collective action that works in the general interest of society (Hoff et al., 1993). Unfortunately, the situation of real-world states in developing countries, which are plagued by numerous problems and constraints, is such that public goods such as beneficial institutional change processes are inadequately or not at all provided by the state. In addition, many local institutions (though interacting with formal structures and rules) are less respondent to state action, or in any case seem to evolve in rather autonomous ways (Bierschenk and Olivier de Sardan, 1998). Consequently, in many cases local collective action or joint efforts of both state and local collective action actors are essential to bring about institutional change processes (see section 2).

In general, we assert that given the high costs of transition from one path to another, the influence of historically inherited mental models, and the collective action problems to mobilise institutional change, institutional change is essentially 'incremental' and occurs 'at the margin'. In practice, unintended and intended system shocks do occur. The impact of such shocks is highly variable not in the least because of the diversity in types of institutions and the interaction between them.[21] In practice, the 'institutional environment' is 'patchy' and can be of a contradictory nature. However, given its local variability, and given the room for interpretation when trying to apply rules to real-life cases, we see no particular contradiction between a slowly evolving 'tradition' on the one hand and the sometimes rapidly evolving ways in which tradition is re-interpreted and re-constructed on the other (Bayart, 1994; Berry, 1997). We would interpret path dependency first and foremost as a warning that institutional change cannot but be framed within a society's own terms. Institutional entrepreneurs (inter alia, development interventions) attempting to shape institutional change should realise this. Moreover, their actions are inevitably constrained by their specific articulation with the institutional environment.

[21] North (1990) among others illustrates the complexity of the interaction between informal and formal rules and rules and structures.

## 4.2. The role of local development interventions in promoting institutional change

The purpose of this section is to reflect upon the possibilities to induce or facilitate the process of local institutional innovation from the 'outside'. The basic questions are: How do local development interventions directly and indirectly change the ways people interact and think about themselves and each other? And how can these changes lead to a more equal distribution of entitlements and/or result in economies of scale in terms of increased co-operation and other positive externalities for development?

We will argue that many of the most effective strategies for alleviating poverty in the long run concern institutional changes that involve both the poor and non-poor and in principle favour both groups. This assumption is based on a social capital or positive sum game viewpoint, as was illustrated above. Nevertheless, the circumstances in which strategies that involve positive sum game effects have to be devised are often far from simple and sometimes part of the game requires 'simply' working at a redistribution of entitlements, which implies a kind of zero sum game perspective of intervention in favour of the poor.

Whatever the nature of any development intervention, it always influences local institutions. Given the complexity of institutional change processes, the scope, sustainability and direction of the local institutional changes it 'produces' is, however, often uncertain.[22] Proponents of the synergy view to social capital are generally optimistic with respect to the prospects regarding the contributions of development interventions to local social capital/institution building. Other authors are more sceptical about the role of external actors mainly because of the reasons set out in the previous section.

It is important to re-emphasise the importance of path dependency, which implies, inter alia, that something like an 'external' intervention is in part an illusion, and a dangerous one. 'External actors' will for example most likely be seen in terms of predecessors similar to them, even though in the external actors' eyes the similarity may be too remote to be noticed. Most development interventions are not aware of these processes, and this might eventually constrain bringing about the intended impact of the intervention. In addition, the 'impact' of a development intervention on the local institutional environment depends on the nature of the latter, which can vary substantially from place to place.[23] For example, if the level of social divisiveness is high it is more difficult to promote collective action. Similarly, if cultural identities and informal rules are more receptive to co-operation and solidarity, stimulating collective action becomes less difficult.

From the point of view of the development intervention there are essentially three (groups of) factors that determine its effect on local institutional change. First of all, the precise articulation between the intervention

[22] The indirect negative effects of development 'aid' on local institutions have been widely criticised. For example many interventions that targeted subsidies to the poor, while often falling prey to selection biases and not reaching the original target group (which can make the excluded even worse off), often had negative influences on existing norms and networks of mutual support. Those who benefited from the intervention had less incentive to abide by local norms of mutual support than those who were excluded and depended on these arrangements. A temporary intervention would leave many of those institutions of mutual support irreversibly damaged when the activities were discontinued (see for example, Ostrom, 1994; Sandefur and Lauman, 1998; Woolcock, 1998).

[23] Klitgaard (1994) uses the illustrative image of socio-cultural soil conditions to refer to the nature of the institutional environment.

and the local institutional environment plays an important role, especially in the early stages of the development intervention. To understand this process it is necessary to *deconstruct the concept of development intervention.* Secondly, the specific intervention strategies that development interventions employ determine the scope and path of local change. The effects of any intervention strategy involve complex processes of change. Finally, there are a number of *design and implementation principles* that as a whole determine the nature of the institutional innovation processes. Such design and implementation principles include the following elements: the *participation* of the local population in different phases of the development intervention; *co-ordinated efforts* between the public, private and collective action organisations involved; *local ownership* of the relevant activities and resources; the nature of providing/targeting activities and resources; the intervention's *outreach* in terms of the geographical and socio-economic focus and concentration of activities, etc. A further elaboration of these principles is beyond the scope of this paper, especially since there are no clear blueprints as to how the process of local institutional embeddedness and innovation had best be approached.

A discussion of specific design and implementation principles is also beyond the scope of this paper. However, we do consider it important here to obtain at least a basic view of the concept development intervention from an institutional perspective. The next section deals with the issue of deconstructing the concept of development intervention. The subsequent section will outline the main strategies or mechanisms with regard to promoting local institutional change.

#### 4.2.1. Deconstructing local development intervention

*"The concept of intervention needs deconstructing so that we recognise it for what it fundamentally is, namely, an ongoing, socially-constructed and negotiated process, not simply the execution of an already-specified plan of action with expected outcomes" (Long and Van der Ploeg, 1989: 228).*

In this paper, we limit our observations to development interventions involving a physical presence at the local level (hence excluding the national and regional policy environment that affects the local level). We assume that local development interventions involve a specific activity or group of activities with a starting point and a finishing point (or continued over a period), and intended to accomplish a specific (range of) objective(s). Development interventions at the local level are carried out by organisations which focus on a specific project or manage a portfolio of different projects. Local development interventions are state (e.g. an extension office), private (e.g. external NGO) and collective action (e.g. co-operatives) organisations that operate at the level of the group, community or locality (the local level).[24]

[24] In this paper, the terms development intervention, organisation and project are used indiscriminately to refer to the same concept. On the concept of "locality", see Bastiaensen and De Herdt (forthcoming).

Each development project inevitably becomes part of the local institutional environment. Upon initiating work in a certain locality, new social structures of intra-project interaction and project-community interaction are brought about. Local people are hired, meetings are organised, resources and/or services are provided, etc. External rules (procedures, regulations, values,...) meet local rules. Implicit and explicit bargaining processes arise within the project, between the project and the local population and among the local population; these will determine the control over and the allocation of project resources and the effectiveness and (indirect) effects of project activities with regard to the locality. Each project represents a potential for institutional innovation because through its specific articulation with the local population and its activities it affects the way people interact and think about each other, themselves and their livelihoods. The potential for institutional innovation might not be realised however, in that the project cannot but confirm and strengthen established practices and modes of thinking.

The definition, implementation and evaluation of development projects involve a number of stakeholders who differ in terms of objectives and the degree of control over the project. The simplest distinction between stakeholders is between project staff and the intended beneficiaries. However, such a distinction probably does little justice to reality, in that the development organisation often consists of several groups of stakeholders, each with explicitly or implicitly different strategies. For example, there might be considerable differences between the objectives and attitudes of the regular field staff (who might be local people) and the management of the project. Moreover, the local population does not consist of a homogenous group of possible beneficiaries, but is likely to consist of different subgroups and people with different socio-cultural characteristics and different levels of wealth and power and hence different interests vis-à-vis a specific development intervention.[25]

[25] For a critique of the idea of the homogenous local community see for example Agrawal and Gibson (1999), Leach et al. (1999).

To be more specific, the project should be treated as a social space within which the existing social structure will be developed, contested, negotiated and rethought. Concomitantly, "we should expect an inclusive public sphere to be fairly messy and conflict-ridden, a focus for discontents. That is one of its most important functions. Access to public debate and a valuing of plurality and dispute are core elements of a "socially inclusive process" (Mackintosh, 2000: 91). On the other hand, the social space provided by the project should of course be more, rather than less, inclusive in comparison to the local institutional environment.

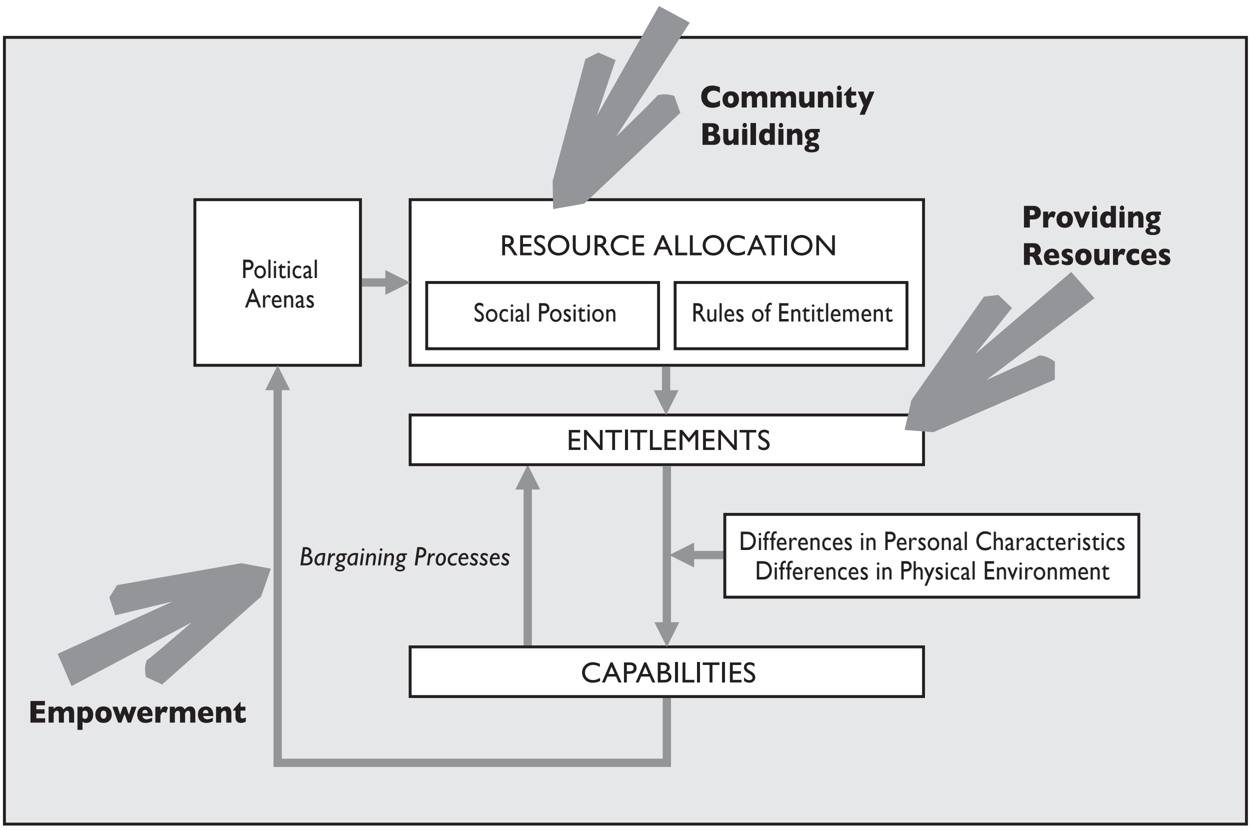
The performance (e.g. outreach) and impact of the project in a given locality are determined by the balance between the specific synergy between project and local community on the one hand and the internal integrity of the project on the other (see section 3.3). The latter factor refers to the ability of the project to become a sufficiently independent, capable and fair actor in the locality and not to fall prey to local power dynamics. The former refers to establishing inclusive and participatory relationships with the local community.

In general, both concepts - integrity and synergy- constitute the essence of the articulation between intervention and locality and encompass most of the points dealt with in this section. In the light of deconstructing development intervention and assessing the perspectives from which contributions to local institutional change processes can be made, time and effort should be devoted to further translating them into operational issues that can be studied and taken into account in project planning and implementation.

### 4.2.2. Strategies for promoting local institutional change

In this section we will briefly discuss a range of strategies directly or indirectly aimed at influencing local institutions. Some strategies are specifically directed at the poor while others aim to cover the local population as a whole. We distinguish three types of strategies, which can be located in several parts of the institutional map (see figure 4 below). Our classification aims to unravel some of the complexities of the causal relationships between development intervention and institutional change. The different strategies should not be seen as exhaustive, nor as mutually exclusive. In practice, combinations of these strategies will be found in one and the same development project.

***Figure 4. Mapping poverty interventions***



***1. Providing/targeting resources***

The immediate reflex when pondering how to fight poverty is perhaps to consider interventions which provide 'basic needs' resources. Such an approach would imply a rather indirect strategy of institutional change. Outreach and the sustainability of the intervention, to mention only two major design principles, are crucial in the causal relationship between the transfer of resources and local institutional changes.

It is useful to distinguish between transferring or targeting private goods and providing public or toll goods.

With respect to private goods, access to resources improves the capabilities of the poor. Transferring resources to the poor improves their bargaining position vis-à-vis other local stakeholders (e.g. moneylenders, landlords) and might lead to structural changes in the relationships between the poor and other groups. In other words, transferring resources to the poor is a potentially powerful tool in fostering (through the improved capabilities of the poor) sustainable beneficial changes in the institutional environment that will sustain improved entitlements to resources for the poor.

The question remains whether or not the transfer of resources only has temporary effects. Without a closer examination of the institutional change which accompanies this transfer of resources, this question cannot be answered. It should be stressed that the prospects for a sustainable influence on the poor will depend to a large extent on whether a project constitutes a (permanent) institutional innovation that generates continuous access to additional resources. In addition, there might be a hidden contradiction in the logic of the project intervention, as on the one hand it tries to increase people's capabilities (by transferring resources to the poor) while on the other hand, by doing just that, it confirms people's dependency on the project. Another problematic issue with regard to the transfer of resources to the poor is the danger of adverse selection and targeting failure in general (e.g. Van de Walle, 1998).

An often less problematic alternative to projects of resource transfer to the poor would be to focus on specific deprivations in capability that are most suffered by the poor but also by other non-poor people. The provision of public goods (roads, communal wells,...) or toll goods (electricity, health care centres,...) in principle improves the capabilities of communities as a whole, including those of  the poor. For example, a project that concentrates on education and health services is in fact targeting a specific cause of poverty which might have relatively more significant effects on the livelihoods of the poor but which would at the same time also benefit the non-poor -and thus cause the latter to be interested in the service as well (e.g. Sen, 1995). However, poverty being a multidimensional concept, an institution which tries to support one particular capability should be aware that access to the services it provides may be restricted by the existence of other deprivations which the poor might face (De Herdt, 2001).

Preferably, public good projects should be combined with for example collective organisation building or educational efforts - i.e. by strategies of direct institutional change. Such activities can strengthen the maintenance of public goods as well as constitute incipient paths of local institutional change.

***2. Empowerment***

Although the former types of interventions could as a matter of fact be categorised as 'empowerment' as well, given that they focus on increasing individual capabilities, we propose using the concept to group strategies aimed at strengthening the institutional capacity of vulnerable groups. An important task for external development intervention indeed lies in facilitating organisational processes involving the poor. This group of strategies focuses on organising the poor in new groups and organisations or supporting and facilitating existing processes of organisation among the poor. The provision of legal services, infra-structural facilities, or other resources to new local groups are examples of the latter. Beyond that, the most vulnerable sectors of society often cannot be reached as individuals, therefore they need institutional advocates to speak for them (Mackintosh, 2000: 88).

Facilitating the organisation of the poor goes hand in hand with different processes of education (see for example Uphoff and Wijayaratna, 2000: 1879). Activities like the promotion of formal education, popular education (practical topics), meetings to strengthen the awareness of local groups of their cultural identities (thereby strengthening the self-confidence and pride of vulnerable groups) can contribute to empowering the poor or strengthening cooperation between local stakeholders.

***3. Community building***

Community building can also be characterised by the promotion and facilitation of co-operation and dialogue between different groups. In many local communities, conflict rather than co-operation is the rule. On the other hand, as a working hypothesis it is maintained that key actors are tied to each other in a situation of cooperative conflict (Drèze and Sen, 1989), their interests being partly convergent, partly divergent. A development intervention should be aware of these differences in interests in the first place in order to avoid the deflection of project objectives. These conflicts and different interests should be made explicit in order to work towards co-operative solutions in function of local development (Johnson and Wilson, 2000). Subsequently, an active negotiation framework should be established that will work towards win-win solutions (Leeuwis, 2000). The two essential requisites for local negotiation are the perception of mutual interdependence and the ability to communicate (ibid.). With respect to the latter, in strongly divided back-to-back communities it is often very difficult to establish frameworks of communication.

To be sure, community building is not about getting the community to act as one body. Such an objective would be impossible to achieve if we take seriously the claims that on the one hand, “no actor, whatever his or her position, will ever allow to be reduced to a mere instrumental role in the service of other actors” (Foudriat et al., 2000: 511), and, on the other, that each player’s view is bound to be partial in the double sense of objectively and subjectively biased. From these suppositions, it must follow that the approach is limited to connecting or re-connecting the various partial views which are represented and defended by different key players and does not aim to streamline every single one of these views and integrate them into a unified, externally imposed concept of development or well-being. Development is not so much a process of learning new things as of un-learning or re-interpreting old patterns and ideas (Kozakaï, 2000).

Moreover, the practice of community building should not be limited to setting up meetings and seminars. As we have already pointed out above, institutional change is a public good and as such it is prone to under-investment and free-riding behaviour. Another way of working towards change in current practices and perceptions might be to try to induce a ‘system shock’ and show the population that the present way of doing things is indeed ‘problematic’.[26]

[26] In Nicaragua, for example, this activity is sometimes informally referred to as patear el perro (literally: kicking (or waking up) the dog).

However, ensuring the participation of all key stakeholders in the exercise of community building is not sufficient since “the more powerful may exert and extend their ‘power over’ during participatory and partnership processes” (Johnson and Wilson, 2000: 1892). It is indeed often difficult for powerful local groups to acknowledge the potential gains of co-operating with weaker and vulnerable groups. Therefore, community building and empowerment should be considered in combination rather than as alternatives between which an agency should choose.

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## Annex I. Comparative governance advantages of different institutional sectors

A major advantage of the institutional trinity approach as set out in 3.2. is that it helps to stimulate theoretical reflection on the comparative governance advantages of the different institutional sectors. The main purpose is to reflect upon the institutional design of project and policy interventions, in particular with respect to the question as to which institutional players had best be made responsible - and how they should be combined in order to optimise the provision of the different types of goods and services.

The point of departure for establishing the typology of goods is the well-established theoretical efficiency advantage of the free market as a decentralised coordinating and information processing mechanism.[27] From this point of departure it follows that (state or non-governmental) development interventions should be very reluctant to substitute for the market provision of goods and services and should always prefer to contribute to the creation of new and/or more perfect markets whenever private market delivery fails in practice. It should be underlined, however, that this theoretical and practical superiority of the free market only applies to the provision of private goods and on condition that appropriate institutional foundations for an acceptable functioning of the real market (free flow of information, independence of transacting parties,...) are in place (Picciotto, 1995; Sen, 1999). Both the state and the collective action sector have a crucial role to play in creating and sustaining appropriate foundations for the functioning of the market. In the terminology of Picciotto, they respectively provide for essential government and civil goods.

[27] This indisputable theoretical characteristic of the free market follows from the 'Fundamental Theorem of Welfare Economics' (e.g. Milgrom and Roberts, 1992).

**1. Government goods** (e.g. policy implementation, enforcement of the law,...) concern a number of fundamental services provided by the state in order to guarantee an acceptable performance of a free market economy. Examples of such essential goods are the administration of commercial law, the implementation of social and environmental regulations and the management of social safety nets. The provision of these services requires top-down expert knowledge as well as independence and integrity. It is therefore best to have them supplied by an autonomous state administration, provided it is governed by appropriate management and incentive systems.[28] In practice, the provision of these goods requires the presence of a state administration capable of effectively implementing government policies,[29] as well as a well-defined, reliable and morally sound justice and police system.

[28] Besides the theoretical comparative governance advantages of each sector, there remains of course, within each sector, a problem or challenge of appropriate, effective and efficient internal management practices.

[29] The definition of the policy itself is however a public good which requires a mix of state and collective action engagement in order to reach an adequate supply.

**2. Civil goods** (e.g. civic action, mobilising public opinion, definition and maintenance of professional standards,...) are activities and services directed towards "exhorting, motivating, and restraining the actions of the state, and [...] calling attention to the excesses of free and unrestrained markets" (Picciotto, 1995: 10). All of these have in common that they require interaction between more than one sector. Depending on the activity, this will be between the market and the collective action sector (e.g. professional standards, facilitation of organisational processes) or between the state and the collective action sector (e.g. lobbying and advocacy work). The goods and services that refer to the latter interaction can also be regarded as (semi)-public goods instead of as civic goods.

When appropriate levels of government and civil goods are provided the free market has a clear governance advantage in the provisioning of private goods. Besides these types of goods, there are however three other types of goods with regard to whose provision the market sector does not have a natural comparative advantage. Leaving government and civil goods aside, figure 5 summarises the conditions of four different types of goods, categorised according to the two criteria of excludability and subtractability.

***Figure 5. Types of Goods***

| | | Excludability | |
|---|---|---|---|
| | | High | Low |
| Subtractability | High | Market Goods | Common Pool Goods |
| | Low | Toll Goods | Public Goods |

Source: adapted from Picciotto (1995).

**3. Private goods** (e.g. food, machinery, credit,...). These types of goods are characterised by subtractability (consumption of the good/service by one person diminishes its availability to others) and excludability (access to the good/service can be denied to other users/consumers at an acceptable cost). The provision of these goods and services will be optimally guaranteed by decentralised coordination in the free market. Competing private enterprises or entrepreneurs are thus the most efficient suppliers of these goods.

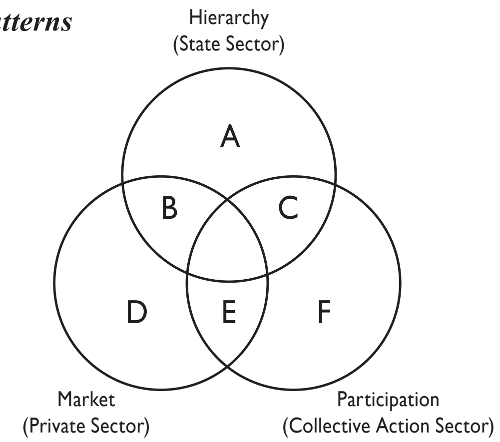
**4. Common pool goods** (e.g. collective pastures, forests, irrigation water,...). These goods are subtractable but lack excludability. In other words, consumption by one person depletes the total availability of the stock, while at the same time it is too difficult or costly to exclude individual users from access to the resource. Since people can access these goods without having to pay for them, the market is not an appropriate mechanism to govern the supply and demand of these goods. It is indeed impossible to put a price on the utilisation of these resources, because non-excludability implies that users can easily 'free-ride'. As a consequence, the aggregation of decentralised individual self-interested behaviour almost inevitably leads to over-exploitation of such resources. Following the well-known 'tragedy of the commons' (e.g. Hardin, 1968) and 'logic of collective action' (e.g. Olson, 1965) arguments, individual users will have incentives to overuse common resources, since they reap the full benefits of overutilisation, while sharing the negative consequences of such behaviour with all other users (Ostrom, 1990: 2-8). This traps resource users in a Prisoner's Dilemma situation, where the pursuit of their individual interest (over-utilisation) leads to collective disaster. Hierarchical governance (e.g. rationing and policing resource utilisation by the state) is a first option when remedies for such 'market' failure are considered. However, without the active participation of the resource users themselves, such a hierarchical policing agent often faces irremediable information problems (i.e. with respect to how much of the resource can be used in total, who uses the resource, when and how much) (Ostrom, 1990: 11-2). This implies that the governance of the utilisation of common pool resources had best be organised by the (local) collective action sector, i.e. with a large degree of local participation in the definition and enforcement of resource utilisation rules.

**5. Public goods** (e.g. national defence, rural roads, economic policy,...). These are goods and services that lack both subtractability and excludability. Since the benefits of investments in these goods cannot be appropriated individually (no price can be charged), private initiative in the market will inevitably lead to an undersupply of these goods and services. In addition, the lack of subtractability makes it useless to organise (local) users to safeguard individual utilisation rights, since consumption has no effect on the total availability of public goods or services. As a consequence of both these elements, hierarchical governance by the state has to play a major role in the provisioning of public goods. Of course, since nobody can be asked to pay a price for these goods, the danger of poor or inadequate quality supply as well as the excessive cost of provisioning are facts that have to be considered. Needless to say, the performance of state administrations remains an issue. Sometimes, this drawback can be overcome by directly involving other institutional players in the provisioning of the good. As a result, a variety of hybrid arrangements, ranging from co-production to state production with civil participation, will come about. Sometimes, the performance of the state administration will be kept in check largely by internal sanctioning mechanisms and, ultimately, by public participation in the political processes governing states. It is essential for the process of the state supply of public goods to be monitored by agents with sufficient political clout.

**6. Toll goods or club goods** (e.g. sewage systems, toll roads,...). These goods lack subtractability but are excludable. The latter implies that a price can be charged to individual users and that non-payers can be excluded). They are most adequately provided by a combination of the market and hierarchy. Hierarchy is needed to determine and guarantee the rule system that governs supply and demand with regard to toll goods. Once a sufficiently stable and credible rule system is in place, private enterprises can subsequently be expected to be the most efficient providers for such goods.

Picciotto's tentative framework of the basic principles of comparative institutional advantages is summarised in Figure 6. A final important comment needs to be made here. For the performance of economic, social and political processes to be appropriate, the different sectors and their respective activities have to interact and be complementary. In other words, there is also a theoretical need for the attainment of some kind of global institutional coherence. This requirement may imply that partial institutional optimality (according to the theoretical comparative advantages) may rationally need to be sacrificed in order to reach a higher level of global coherence. For example, we can accept the theoretical advantage of the free market in the provision of private goods. It is in fact based on a mathematically formulated theorem that can be proved unequivocally. However, we also know that the free market requires a number of institutional conditions (global policy, independent and articulated justice system) that are often not met in practice. This can imply for example that for a number of strategic private goods (e.g. food staples), state supply might represent the best attainable (in a 'second best' sense) institutional option despite its theoretical and practical deficiencies. As has been pointed out above, Picciotto's framework of comparative institutional advantage should therefore not be used as a simple checklist to determine the optimal institutional location of activities, but rather as a flexible conceptual tool to guide reflection on choices of institutional players.

***Figure 6. Institutional design patterns***




| | Nature of project goods | Dominant parameters * | Institutions | Examples |
|---|---|---|---|---|
| A | Government | H | state agencies | justice, police |
| B | Toll | M, H | public or regulated private corporations | public utilities |
| C | Public | P, H | hybrid organisations | policy, rural roads |
| D | Market | M | private corporations, farmers and entrepreneurs | farming, industry services |
| E | Civil | P, M | NGOs, private service organisations | public advocacy, professional standards, civic action |
| F | Common Pool | P | local organisations, cooperatives | natural resource management |

* Parameters: H = Hierarchy; P = Participation; M = Market
Source: adapted from Picciotto (1995: 11).

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