Capacity Development – Sida Working Paper No. 9

Institutions and Poverty Reduction – An introductory exploration

A Discussion Paper for Sida
April 2001

Pernilla Sjöquist

Sida

SWEDISH INTERNATIONAL DEVELOPMENT
COOPERATION AGENCY

Methods Development Unit

Contents

1 Introduction

The most important asset is… an extended and well-placed family network from which one can derive jobs, credit, and financial assistance.
– Senegal, 1995[1]

Poverty [is] inherited. If you were born to a poor father, he cannot educate you and cannot give you any land, or very little land of poor quality; every generation gets poorer.
– Uganda, 1998

People place their hopes in God, since the government is no longer involved in such matters.
– Armenia, 1995

This paper is a contribution to Sida's current review of its *Action Programme on Poverty Reduction*. Its starting point is the observation that good institutions are increasingly regarded as a *necessary condition* for social and economic relations to function well. As such, they are an important part in the analysis of economic growth and poverty. This view is reflected in recent work by international aid organisations, but also in the general debate between proponents of otherwise very different perspectives on development and poverty reduction.

Focusing on formal and informal rules, regulations, traditions and norms in society – that is, on institutional structures – is an approach to development which can be (and also is) applied to a diverse collection of issues. A rather substantial body of work is currently investigating the relationship between institutions and economic growth, while – at least to the knowledge of this author – much less attention has so far been paid to the role of institutions in poverty formation and reduction. Moreover, whereas it has been rather easy to show that institutions matter and are important for economic growth in general, it has proved a great deal more difficult to answer what exactly constitutes good institutions versus bad institutions in the development process.

Despite these difficulties the institutional framework as an analytical category is gaining ground internationally, within the academic world as well as outside it. This is reflected not least in the work of the World Bank (e.g. Narayan *et al.*, 2000; WB, 2000) and also of other international development agencies and networks. Against this background, the institutional aspect of poverty reduction was deemed an import-ant input in Sida's present review work, and this paper is the result of such an effort.

Why the interest in an institutional approach?

A number of events have triggered the recent interest displayed by agencies like the World Bank and the IMF in the importance of institutional conditions in the development process. The observed weak performance of many Structural Change programmes in Africa in the 1980s compared with the economic boom of the so-called 'Asian tigers' in the 1990s turned the focal point of much economic and political development debate away from deregulation towards issues of legal structures, policies and value systems. The prominent role of such institutional factors in the functioning of markets was further highlighted by the economic downfall that followed on the collapse of the former Soviet Union.

[1] All quotes are from Voices of the Poor: Can anyone hear us? by the World Bank. See Narayana et al., 2000.

The waves of democratisation that swept the world in the last decades of the 20th century and debate over governance and human rights have also drawn attention to institutional factors. Starting in the late 1970s with the downfall of the dictatorships in Portugal, Spain and Greece, most countries in Latin America, Asia, Eastern Europe and sub-Saharan Africa followed course. By the mid 1990s, for the first time in history, a majority of the world's population lived in countries with governments that had been appointed in free elections, and it has been argued that democracy is on its way to become a global norm (SKR 1997/98:76). However, the life of the poor is still tainted by oppression and powerlessness inside democracies as well as outside them. For instance, the gap between a democratic structure at the national level and different hierarchical arrangements at the local level may sometimes be vast, as has been the experience in India, among other countries.

The increased emphasis put on the multidimensionality of poverty is a third trend to have emerged in recent years. This implies that analysis of poverty-related questions needs to take account of a complex web of variables and linkages. Poverty as a multidimensional reality has brought issues of participation and empowerment into focus because research indicates that the role of the state (and also of NGOs) in the lives of the poor is limited, and that the poor primarily rely on their own informal networks for their survival and security (Narayan *et al.*, 2000). The importance of social norms, customs, informal rules and informal organisations has thus reached outside the academic traditions of social anthropology and sociology to receive renewed attention within the mainstream of other social sciences such as economics.

Purpose of the paper

As the title indicates, this paper's aim is considerably more modest than to tackle the very complex task of identifying institutions that are beneficial for poverty reduction. The institutional framework is put forward first and foremost as an analytical category useful for achieving a better understanding of the context within which poor people live and act. Hence the use of the notion 'institutional approach' to development and poverty reduction. The argument is that only after such an undertaking can issues of good institutions and institutional change be addressed.

Given the limited role the institutional approach plays in Sida's activities at this point in time, the purpose of this paper is twofold. First, it aims to deepen Sida's understanding of institutions generally, with a particular focus in their connection with poverty. This is done in a number of ways, starting with a brief introduction to the core concepts of institutions and organisations (section 2) and a discussion of their relevance in what is here labelled the 'established' approaches to development and poverty reduction (section 3). Next is a presentation of the institutional perspective from a theoretical viewpoint, followed by a few case studies that illustrate efforts to apply an institutional approach to the analysis of poverty and development (sections 4 and 5 respectively).

The second objective is to assist in the development of an appropriate analytical framework and set of tools within Sida. To achieve this, a few existing such frameworks are introduced throughout the paper, and comments are made on areas where institutional analysis may be suitable and beneficial to Sida's overall focus on poverty reduction. Although it is recognised that there is a need to develop a set of tools specifically designed for Sida's needs, this is beyond the scope of this study. Such an endeavour would require a much more thorough investigation than is possible within the framework for this paper and is therefore better left to studies more suited to the task.

It is worth emphasising that this paper should be seen as a starting point to what must become a continuous process of incorporating institutional analysis into Sida's mindset and structure. As such, it may deliver more unresolved questions and concerns than answers. However, by bringing together research and experiences from various sources, the paper will help point out the direction for future research into the role of institutions in poverty reduction (and what might constitute good institutions from that perspective), and the design of a full toolkit for institutional analysis of poverty.

2 Institutions – what do we mean?

The concept of institutions has assumed an important role in the analysis of economic and political systems over the last decades. Although there are probably as many definitions of institutions as there are authors writing on the subject, most agree on the basic idea behind the concept; namely that there are a number of written and unwritten constraints that together make up the societal context within which people interact and make decisions.

The definitions and distinctions introduced here rely heavily on the writings of Douglass North (see e.g. North 1990). This is not to claim that his definition of institutions is the ultimate one, nor that it expresses once and for all what institutions 'truly' are. But it is a characterisation that has received considerable attention and inspired many debates, and which due to its straight-forwardness offers a good foundation for discussing an institutional approach to development and poverty reduction.

Rather than providing a detailed assessment of important concepts, the aim of this conceptual discussion is to point out that including the institutional framework into the analysis produces a wider approach which vastly improves the understanding of a particular topic. The analytical starting point is at a rather general level; that is, to differentiate between organisations and institutions and to think about institutions in terms of formal and informal behavioural constraints. For a deeper understanding of a particular topic or process a more detailed analysis is needed, for which the various analytical frameworks presented throughout the paper may provide useful guidelines.

Institutions and the institutional framework

In North's (1990) terminology, the notion of institutions refers to 'the humanly devised constraints that shape human interaction' or, in short, *the rules of society*. Institutions help to reduce uncertainty in the individual's daily life and to structure human activity into lasting or repeated patterns of action. Institutions constitute social rules – as opposed to personal rules – that prescribe individual behaviour to recurrent interaction problems between human beings (Eriksson-Skoog, 1998). They can be *formal* (such as written policies, laws, rules and regulations) or *informal* (such as customs, traditions and conventions). The notion of 'institutional framework' should be used to cover both such for-mal and informal settings.

Two things require comment at this point. First, the reader should be aware that in this context the notion of 'constraints' does not necessarily carry the negative ramification that may otherwise burden it in everyday terminology. Within the institutional approach, constraints ought to be interpreted in the spirit of *guidelines*. Institutional constraints do on the one hand state what is not allowed in a society or community, but on the other identify what is considered normal and appropriate behaviour. Hence institutions do limit the individual's action space, yet at the same time they reduce uncertainty and award proper behaviour, adding a positive implication (North, 1990; Crawford & Ostrom, 1995).

Second, it should be noted that the concept of institutions is not free from the connotation of power. Quite the contrary; institutions do, in effect, determine the structure of formal and informal power arrangements and property rights. As a result, the institutional framework of a person will change with his or her position in society (Alston *et al.*, 1996).[2] Moreover, institutional arrangements are not insulated from the winds of change, i.e. institutions change over time, some rapidly and some more slowly (e.g. North, 1990). The notion of institutional change is developed further below.

The tendency of agencies such as the World Bank to ignore local hierarchies and to view local communities as depoliticised and static entities has been advanced as one of the main explanations of the failure of structural adjustment programmes in Africa (Mustapha, 2000). Most reforms within these programmes relied heavily on the creation and establishment of a market-friendly framework, with the labour market at its core, backed up by a safety net provided by local communities. The critique focuses on the WB's ignorance of the institutional matrix in which the reforms were planted and its use of a simplistic approach that failed to take into account the elements of power and institutional change.

Organisations

The term organisations, on the other hand, refers to 'groups of individuals bound by some common purpose to achieve objectives' (North, 1990, p. 5). Using a sports analogy, North lets 'institutions' indicate the *rules of the game* while 'organisations' covers the *teams or players that play the game.* The idea is that institutional constraints determine (in part) the opportunities in society, while organisations are created to try to take advantage of those opportunities.

Organisations include political bodies (political parties, parliament), economic bodies (firms, trade unions, family farms, co-operatives), social bodies (churches or religious groups, clubs, associations) and educational bodies (schools, universities, vocational training centres). These examples highlight the high degree of interdependence between institutions and organisations that prevails in society.[3] In practice, organisations and institutions both provide structures to human interaction. Conceptually the two are very different, however.

North argues that it is essential to try to distinguish the *rules* governing a situation (i.e. the institutional framework) from the *strategies* of the parties involved in it (i.e. interests and actions of the organisations). This is critical when analysing how institutions evolve and change over time, a point which will be elaborated in later sections of the paper.

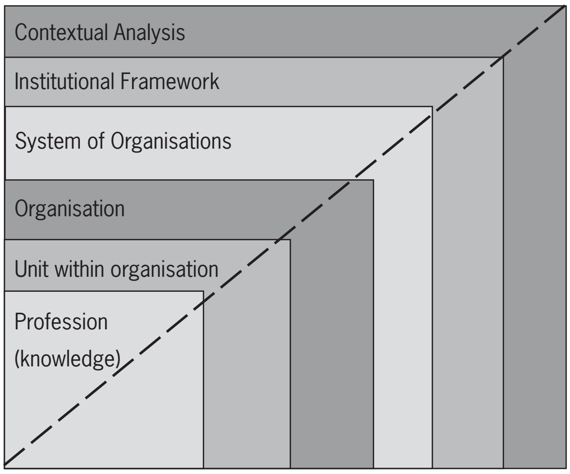
An illustration of the distinction between organisations and institutions is found in Sida's new policy on support to capacity development. Such support is defined as the combined efforts to back the development of knowledge, competency and well functioning organisations and institutions in poor countries. Here, knowledge is identified not merely as a means to increase productivity but also as a tool that helps in giving people an identity and enables them to participate fully in social and political life. But people's ability to use their knowledge is constrained by the institutional framework within which they exist. Hence, institutional analysis is regarded as instrumental for such a broad approach to capacity development. Sida's policy makes distinction between

[2] It should be noted that the institutional constraints could vary significantly due to gender per se.

[3] Organisations are even sometimes referred to as 'physical manifestations of institutions' or 'institutions that have organisational form'. As institutions can often only be observed indirectly (except for written rules and laws), much empirical work finds it necessary to use organisational structures and activities (e.g. the police, health clinics, schools, religious and ethnic associations, kinship networks and sacred sites) as proxies for institutional arrangements.

institutions and organisations (and between formal and informal institutions) and distinguishes the following areas of support to capacity development:

Figure 1: A framework for capacity development analysis



NOTE: 'Contextual Analysis' refers to the physical environment.
SOURCE: Sida (2000).

A note on Sida's use of the concepts

A number of Sida activities are labelled 'institutional' or include the term 'institutions' in one context or another, such as activities regarding capacity building, institution building and institutional development. Within the framework presented here, most of these programmes would, however, be regarded as focusing on various aspects of *organisations*.

Interestingly, other programmes or projects that Sida supports may contain institutional elements (or even have institutional change as their main focus) but the term is rarely mentioned, or the institutional aspect never highlighted. In fact, if the distinction between organisations and institutions is maintained much of Sida's work may be regarded as focusing on institutions (both formal and informal), and in particular on *institutional change*.

However, as has been pointed out in an evaluation of Sida's work on institutional building, it may prove fruitless to argue for a complete change in terminology within Sida when it comes to organisations and institutions (Moore, 1994). Certain terms, like institution building, are firmly established within the international aid community, while in other contexts the institutional terminology allows for various interpretations due to its vagueness. In everyday Swedish and English the term often refers to organisations plus 'something more'. Therefore, the concept *can* cover activities that focus on organisational issues, as well as those that aim at changing various mechanisms that govern society. The important thing for Sida at this point is to be aware of the various associations surrounding the term 'institutions', and to clarify its own use of the term when so deemed necessary.

Two important implications follow on this brief conceptual discussion. One is the need to recognise and assess the consequences of the presence of institutional components in the design of projects and programmes that Sida supports.[4] Another is the recognition that Sida's partner in the development or aid dialogue will be an organisation of some form, even when the focus explicitly is on institutional issues. The significance of both these comments will hopefully become clearer with the reading of the remainder of the paper. In any case, they rest heavily on the basic distinction between organisations and institutions – and the usefulness of tying to discern what the *rules* governing a situation are from the *strategies* of the players involved in it.

[4] This includes such practical matters as duration of projects and project support, choice of partner and long term support strategies.

3 Established perspectives on development and the poor

This section relates the institutional approach to the more general debate on economic development and poverty reduction, which has been a very lively one indeed. It concentrates on 'established' perspectives or standpoints, namely the arguably key roles of the market, good governance and sustainable livelihoods strategies in promoting development.

The section does not provide a full overview of the three perspectives but attempts to capture general trends of importance to this paper. The market approach is taken to focus mainly on the economic opportunities and challenges facing poor people, while the governance perspective puts more emphasis on the social and political structures that govern the lives of the poor. The livelihoods debate is seen as reflecting the 'grassroots' and primarily rural approach to understanding poverty. However, the paper argues that the livelihoods approach is indeed linked to the structures provided by the other two and is thus not limited to the rural context.

The market, institutions and pro-poor growth

When it comes to the links between institutions, economic growth and poverty reduction, a considerable degree of consensus on two general statements is shared by researchers and others focused on development. The first is that economic growth is a necessary but not sufficient condition for poverty reduction, a view explicitly stated in Sida'*s Action Programme for Poverty Reduction* (Sida, 1997, p. 14). There are plenty of examples of countries for which positive or even high growth rates have not resulted in decreased poverty levels. On the other hand, poverty reduction has never been observed in countries showing negative or zero growth rates. In other words, growth does not necessarily transform into reduced poverty levels, but reduction in poverty is not likely to happen without economic growth.

The second is that institutions constitute one of the explanatory variables for economic growth. Some would even argue that the institutional context is perhaps the most essential of the variables explaining long-run economic development in particular.[5] This discussion focuses mostly on a set of formal institutions such as the system of property rights, the transparency of the legal system, legal enforcement and the resulting structure of transaction costs.[6] The fundamental idea is that *institutions are what make a market function well.*

[5] This is the basis for Douglass North's work on institutions and economic history that won him the Nobel Prize in Economics in 1993. See e.g. his Nobel lecture re-printed in Alston *et.al.* 1996.

[6] Whenever information can not be acquired effortlessly and without cost the act of transacting in the marketplace will be costly too. 'Transaction costs' is an broad concept which refers to 'the costs of running the system' (Williamson & Ouchi, 1981, p. 388) or 'the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements' (North, 1990, p.270). It can be said that transaction costs arise in three stages of an economic exchange: those of 'contact, contract and control' (Nooteboom, 1993, p. 285). Various types of information costs are typically *ex ante* transaction costs, while monitoring and enforcement costs are examples of ex post transaction costs. Transaction costs are influenced by the institutions that shape the economic structure in society. High transaction costs may be a result of weak formal institutions, or be associated with 'too' strong institutions that leave individuals (firms, entrepreneurs) with few rights. Informal contractual arrangements and monitoring systems are often mitigating strategies used to avoid or reduce high transaction costs.

The market and pro-poor growth

The debate over the market's role in economic growth in general – and in pro-poor growth in particular – does not attain the same degree of consensus. Although few researchers and practitioners today would dismiss the market mechanism as unimportant, views differ widely on the appropriate proportion of market orientation in the development process. This especially applies to the debate over multilateral aid programmes that are often contingent on various degrees of market reform. Yet it may be argued that the discussion has moved away from the rather simplistic 'market-versus-state' and 'profit-versus-planning' debate to centre more on the functioning of markets and their limited impact on poverty when not working properly.

This kind of reasoning is at the heart of a recent paper by Greeley, which claims that in cases where poverty reducing growth *has truly* occurred it has been achieved because reforms have created opportunities to use assets more productively, also for the poor (Greeley, 2000).

As an example, Greeley cites the reform of the irrigation market in Bangladesh which led to massive growth in private ownership of small-scale irrigation technology with substantial income gains for small farmers and for landless men and women who got more work as wage labourers. Moreover, the reform resulted in strong backward linkages to the input markets and forward linkages from increased consumption. In essence, the irrigation market in Bangladesh underwent a traditional type of market-oriented reform that focused on capital accumulation and led to poverty reduction, despite Bangladesh's low levels of human capital and poor ratings on most aspects of the governance agenda. What are the circumstances that would allow similar pro-poor growth in other countries? Greeley argues that the answer centres on 'the development of local opportunities through relaxing the institutional constraints that prevent the efficient functioning of markets' (Greeley, 2000, p. 3).

The freedom to exchange and transact

Further ideas about institutions, the functioning (or absence) of markets and their role in the lives of the poor come from Amartya Sen. He has encapsulated his thinking on poverty as capability deprivation into a theory in which human freedoms constitute the basis for pro-poor economic growth. Development can been seen, Sen argues, as 'a process of expanding the real freedoms that people enjoy' (Sen, 1999, p. 3). In this theory the expansion of freedoms is regarded as *both* the primary end of and the principal means to development. Interestingly Sen's theory does not lead to a diminished role for the market. On the contrary, the role of the market mechanism in development goes beyond its ability to contribute to economic growth; the freedom to exchange and transact is itself seen as one of the basic liberties that people have reason to value. He argues that the freedom to participate in economic interchange has a basic role in social living, and that 'the freedom to exchange words, or goods, or gifts does not need defensive justification in terms of their favourable but distant effects; they are part of the way human beings in society live and interact with each other (unless stopped by regulation or fiat)' (Sen, 1999, p. 6).

In Sen's view the full role of the market mechanism is actually *under*-appreciated, although not for its ability to enhance efficiency but rather for its role as one of the instrumental freedoms of development. He mentions various forms of labour bondage, which still prevail in many countries in Asia and Africa, and the persistent denial of the basic freedom to seek wage employment away from one's traditional bosses as examples of the absence of the freedom to transact. Likewise does he stress the crucial role of elementary business ethics and other trust increasing behaviour rules surrounding transactions, and the need for the explicit recognition of such issues in the analysis of development.

Institutions and the market mechanism

In conclusion, it seems as if much current development thinking centres on the idea that well functioning markets are important in the process of reducing poverty. However, it is increasingly being recognised that markets themselves are social and political structures composed of people with varying degree of power and influence, and with limited capacity to obtain the information they need. Problems of co-ordination may be substantial, and if too pronounced they may cause the market to cease to exist because transaction costs allied to an exchange become too high.

Thus, the importance of institutions is more and more accepted in the market-oriented school of thought on economic growth and poverty alleviation. Formal institutions such as legal structures and property rights often receive much of the attention but informal institutions are also attracting more interest, and rightfully so. Informal institutions and organisational structures (such as traditions and norms, ethnic relations or local associations) can be ways to mitigate problems of co-ordination in markets where formal institutions are not efficient or not present. Such informal structures seem to be the main support system for most poor people in the world.

Governance, social development and poverty reduction

Proponents of the governance approach to development tend to emphasise the social and political sides of people's lives rather than the economic. The focus is on social development, which may be defined as 'a process of enhanced individual and community well-being, capacity and freedom of choice, within an equitable and just society' (Sida, 1996, p.51). In particular, it is argued that social development depends 'not only on economic growth and getting the so-called fundamentals of macroeconomic policy right, but also on social policy and better distribution of the benefits of growth' (UNRISD, 2000, p. i).

Usually the benefit of the market is downplayed in relation to that of the public sector in the governance approach. In addition, the general shift in focus to the functioning of markets has helped to advance a renewed interest in the role of the state because it may be argued that well-functioning markets necessitate the contributions of a well-run public sector. Markets arguably need a well-informed, well-educated and healthy population and they tend to benefit immensely from the social stability offered by (functioning) democratic governance and acceptable levels of public provision. Moreover, many proponents of the governance approach stress the need for governments and public policy to create a decent society for all, as the market mechanism itself has no capacity to promote enhanced equality. Or, to use the language of the United Nations branch for research on social development, only the 'visible hand' of governments and public spirited people (as opposed to the 'invisible hand' of unregulated markets) can do so (UNRISD, 2000).

The BLAST-GALA paradigm of social development

It is worth mentioning the BLAST-GALA paradigm proposed by Sen in this context (Sen, 1997). The 'blood, sweat and tears' (or BLAST approach) and the 'getting by with a little assistance' (or GALA approach) characterise two different attitudes towards development. The contrast is between two major attitudes of development that see it as inherently an 'unfriendly' or a 'friendly' process, even though Sen underlines that this is only a distinction and that each can occur in pure or mixed form. BLAST is the 'hard' approach associated with the need for current sacrifices in return for better conditions and lives in the future. It is reflected in arguments concerning low welfare (low current consumption for increased investment and future growth), high inequality (high levels of inequality in early stages of development as a necessary evil), or intrusive authoritarianism (democracy should only be introduced once the objectives of growth and development have been achieved).

By comparison, the GALA approach is the 'friendly' view on development. It puts human development at the centre of the growth process and highlights development gains from improved educational and health status, from civil and political rights and from other non-material aspects of development – issues highly relevant to the governance agenda as well. Yet, as the focus of GALA is on the expansion of *human capabilities*, the implication follows that it is not enough to equate human beings with *human capital* and to treat them as 'instruments' in the economic development process. Instead, the direct importance of human capability expansion lies in its 'intrinsic value and its constitutive role in human freedom, well-being and quality of life' (Sen, 1997, p. 21). Thus, in addition to their role in promoting productivity and economic growth, social developments such as more education and health care must count as *directly* developmental as they help people lead longer, freer and more fruitful lives.

The 'little help' part of the GALA acronym can come from interdependencies in the market (e.g. mutual gains from trade between members of various crafts or professions) or from public services that make people more capable of helping themselves or others. Consequently, there is no dogmatic conflict between the market and the state in this view. Rather, it is declared that 'the fact that social development may not work on its own to generate economic growth is fully consistent with the possibility, for which there is now a great deal of evidence, that it does strongly facilitate fast and participatory economic growth, when combined with market-friendly policies that encourage economic expansions' (Sen, 1997, p. 13).

Governance and participation of the poor

The regained interest in the role of the state and public sector investments has permitted the exciting possibility of a convergence of the concerns of the governance and participatory development agendas (Cornwall, 2000). The increased emphasis on poverty as multidimensional has lead to major shifts in the standpoints on citizenship and citizen participation within the governance approach. Citizen participation is no longer being viewed as only a way to ensure greater efficiency and effectiveness in public service provision, but also as a means to enhanced accountability. In addition, new forms of citizenship have been articulated that go beyond national identities that grant a bundle of state-supported social and economic rights – and legal equality – to include issues of agency and an expanded spectrum of rights.

This vision of 'inclusive citizenship' allows for participation to be viewed as a right of its own. It 'shifts the focus from invited participation in the planning and implementation of service delivery to the enhancement of people's capabilities to advocate for their entitlements from those who are charged with service provision, and the right to participate more actively in determining the shape of those activities' (Cornwall, 2000, p. 67).

Meanwhile, the desire to use lessons from successful small-scale participatory projects on the local level also in large-scale general development programmes has fuelled a simultaneous broadening of the focus (but in the opposite direction) within the participatory approach. This striving has led it closer to the issue of governance, and to an increased interest in the larger – often formal – institutional context of participatory projects.[7] This linking of the participatory view and the good governance perspective shows the *importance of institutions when extending the focus beyond the limitations of development projects*, whether on the macro or the micro level.

Institutions and the good governance agenda

Thus, from the perspective of institutional analysis it is evident that the governance perspective is all about institutions. It relies heavily on the creation of a suitable structure of formal institutions and organisations, but also on a thorough understanding and investigation of informal institutions and structures in order to achieve good governance. Moreover, formal – and informal – institutions define the social and political lives of both rich and poor, but their respective constraints look very different. When the focus is broadened from economic development and income poverty to social development and multidimensional poverty, we are in effect making use of institutional thinking each step of the way.

The Livelihoods approach to sustainable development

The development of Sustainable Livelihoods (SL) approaches within research institutes, NGOs and donor agencies in recent years amply reflects the increased emphasis put on the multidimensionality of poverty and the overall renewed focus on poverty reduction. SL approaches owe homage to the participatory approach in particular, but also to work on governance and the policy framework combined with a new focus on community-level institutions and processes. As already hinted at, SL approaches have a strong base in rural development projects and were originally mainly linked to agricultural and environmental sustainability. However, in line with a more comprehensive use of the term 'livelihoods', SL approaches are gaining importance also in urban poverty-related work.

What constitutes 'sustainable livelihoods'?

Definitions of livelihoods vary greatly in length, complexity and detail. One commonly referred to comes from work by Chambers and Conway in the early 1990s:

> 'a livelihood comprises the capabilities, assets (stores, resources, claims and access) and activities required for a means of living: a livelihoods is sustainable which can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihoods opportunities for the next generation: and which contri-

[7] Another elaboration is the internal critique of the Participatory Poverty Assessments (PPAs) as a consensus-based approach and the new focus on issues such as who participates and why. Who get excluded and who chose not to be included in participatory projects, and why? How homogenous are the poor and various subgroups used (such as men and women) and whom do the voices truly belong to that represent these groups in the participatory process? If the first (the up-scaling debate) has led to an increased interest in governance issues and formal institutions, the second (the 'who' debate) has led to an increased interest in informal institutions and structures in the immediate context of the project. See Cornwall, 2000.

> butes net benefits of other livelihoods at the local and global levels and in the long and short term.'
>
> (as quoted in Carney *et. al.*, 1999, p.4)

Sida's application of the term is much shorter and arguably more loose and openended:

> 'livelihoods' [is] a term which covers all forms of activities which ensure survival and enhance living conditions.'
>
> (Sida, 1996, p. 40)

Hence, at the most basic level, sustainable livelihoods are about the ways in which individuals (or groups of individuals) use resources in order to survive. Moreover, they are about how individuals prepare for and respond to changes in their environment.[8]

No single SL approach to poverty reduction exists among development agencies, rather a collection of frameworks and principles used to guide donor programmes and aid projects. Sometimes its impact can be limited, as in the case of Sida where livelihoods emerge as an alternative notion to wage employment and mainly as a concept that more accurately captures the participation of the poor in the productive life of a country (Sida, 1996). Thus, livelihoods are thought of as only one of a set of important elements of Sida's strategy for poverty reduction rather than as an alternative to sector-wide approaches, or as a means to improve intersectorial co-ordination. At the other end of the spectrum one finds the UNDP, which has the SL agenda as part of its overall sustainable human development mandate.

Some common themes among donor agencies in their SL work are a focus on assets (capital, resources) of the poor; emphasis on the need to understand and facilitate effective micro-macro links; and flexibility in the application of whichever framework used (Carney *et al.*, 1999).

The central role of institutions in SL frameworks

In general, SL frameworks try to outline how, given a particular political, historical and socio-economic context, different *combinations of livelihoods resources* result in the ability to follow certain *combinations of livelihoods strategies,* which in turn allow for certain *livelihoods outcomes*.

The main benefit of SL frameworks is that they put the poor and their conditions firmly at the centre of the analysis. Another is that they offer a holistic view of the lives of the poor that fits well with a multilevel conceptualisation of poverty. However, as is the case with most all encompassing and holistic approaches, this is also their main drawback. SL frameworks will inevitably run into problems of prioritisation and point of entry.

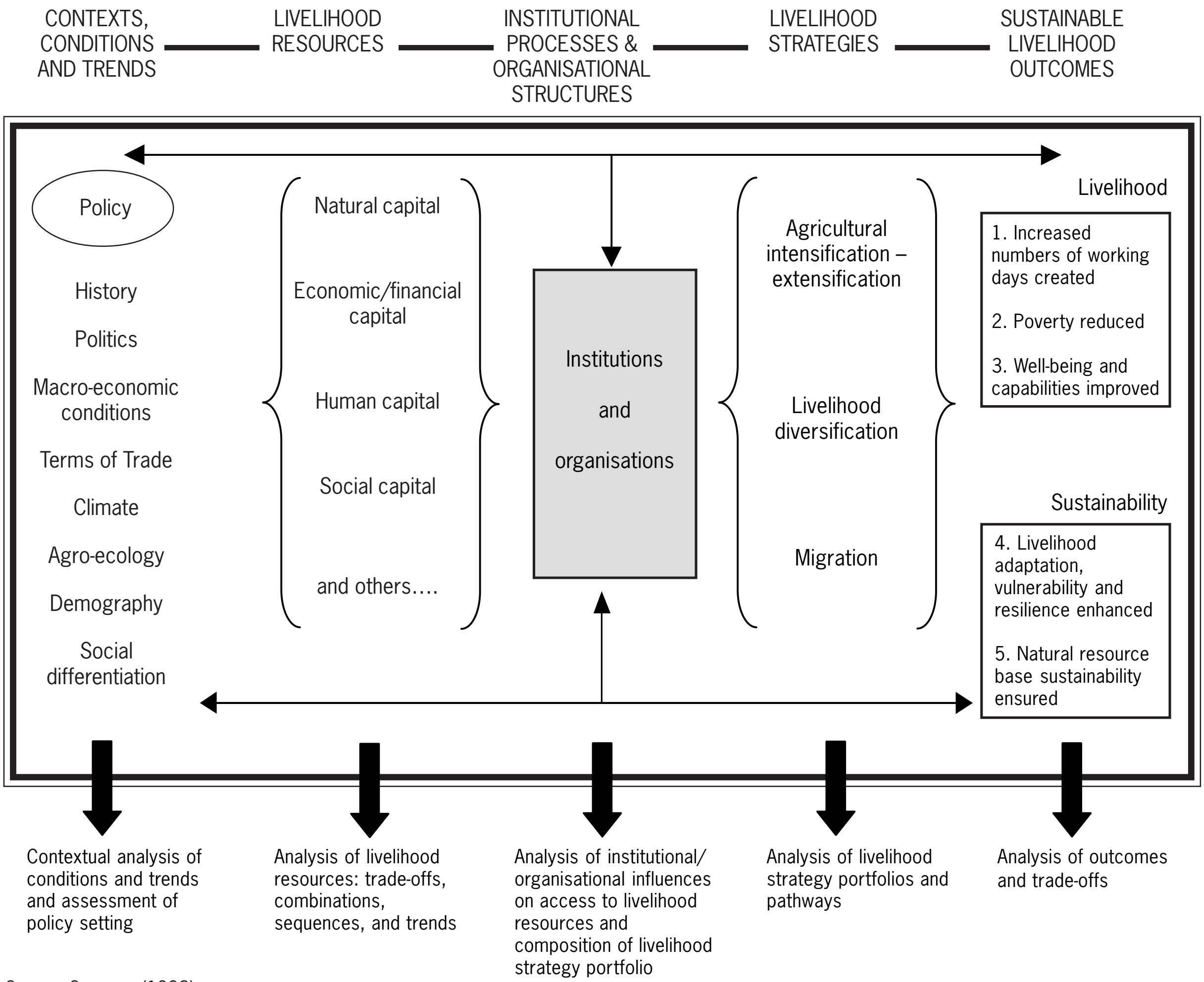
The way in which SL frameworks seek to cope with such challenges offers two features of interest for the this paper. The first is that the institutional setting is always an intricate part of an SL framework. Usually a box labelled something like 'economic, cultural and political environment' or 'transforming structures and processes' represents it. Second, the institutional setting may be –

[8] The idea of 'enhancing living conditions' is what differentiates livelihood strategies from subsistence strategies. It may be argued that livelihood strategies enable individuals to increase security by accumulating and investing in various forms of capital or assets. Such strategies are sustainable when they promote accumulation of all forms of capital (natural, societal, economic and human). Subsistence strategies, on the other hand, are more likely to deplete capital, causing a situation in which scarce resources are always being used. This leaves the individual with little or no margin for accumulation (Johnson, 1997, p. 6 ff.).

and often is – used as an entry point into the analysis of sustainable livelihoods. The framework used by IDS in its work on rural sustainable livelihoods neatly captures both of these points, which is found in figure 2.

The IDS framework is designed to act as a simple checklist of issues to explore when investigating an invention in support of sustainable livelihoods. Scoones (1998) claims that the key for any such intervention is to identify the institutional matrix that determines the major – and inevitable – trade-offs between the elements of the framework (e.g. between types of capital, livelihoods strategies and outcomes). The framework allows for the principle of 'optimal ignorance' on behalf of the investigator, while at the same time prompting him or her to trail core connections and linkages between the various elements.[9]

Figure 2: A framework for analysis of sustainable rural livelihoods



Source: Scoones (1998)

[9] The framework used by DFID looks slightly different yet it captures the same fundamental areas of investigation, namely the relations between a vulnerability context, livelihood assets, 'transforming structures and processes' (i.e. institutions and organisations), livelihood strategies, and livelihood outcomes. DFID has chosen to promote sustainable livelihoods through direct support to assets formation, and through support to improve the effective functioning of structures and processes (i.e. policy support, support to public and private sector organisations, markets, social relations, etc.). The link is empowerment and the idea that increased access to assets will make poor people better able to influence structures and processes so that these become more responsive to their needs (Ashley & Carney, 1999; Carney *et al.* 1999).

Scoones stresses the importance of *institutional processes* (as embedded in a matrix of formal and informal institutions and organisations) to 'mediate the complex and highly differentiated process of achieving a sustainable livelihoods' (Scoones, 1998, p. 11). Moreover, he argues that a description of the relationships between SL variables and outcomes does not come especially far without a clear understanding of the social structures and processes through which sustainable livelihoods are achieved. Thus, sustainable livelihoods analysis in this interpretation aims directly at understanding the intricate web of formal and informal institutions and organisations that governs the possibilities and actions of the poor.

In summing up it is apparent that the livelihoods concept is closely linked to the notions of institutions and institutional framework. As soon as the focus of development shifts to a broader perspective that relates poverty-reducing efforts to the support of meaningful livelihoods the analysis must also become wider. Institutional thinking is a natural part of this.[10]

Concluding remarks

This section reveals how the established viewpoints on development all attempt to include institutional thinking in their analysis in their efforts to increase their understanding of the functioning of markets, good governance and sustainable livelihoods. In other words, the focus will inevitably be on the institutional setting once the goal is to reduce ignorance of what makes market work well, how the poor use markets, how the poor might be excluded from certain transactions, how governance can be improved to increase efficiency and ensure participation of poor people at local and national levels, or how poor people use the resources available to them to assure them the best possible livelihoods.

To this extent, the institutional approach does not offer a totally new perspective on development and poverty reduction. It rather lifts into the foreground structures and processes that have always been present and highly important in the real world, but usually ignored or regarded as too complex to include in most analytical and theoretical frameworks developed by academic institutions or donor agencies. In doing so the institutional approach induces major shifts in the analysis of poverty, changes which are increasingly affecting much theoretical work concerning poverty and also the work of many international aid and development organisations.[11]

[10] One example of this view is Havnevik's essay on pathways to increase the understanding of development in rural sub-Saharan Africa. For him, indigenous rural institutions reflecting social, ethnic and cultural diversity of rural Africa hold the key to understanding the dynamics of agricultural and rural change, and thus for local economic development. See Havnevik, 2000.

[11] One example is the report *Voices of the Poor: Can anyone hear us?* by the World Bank. It uses an institutional approach to investigate some 400 Participatory Poverty Assessment (PPA) studies compiled in 50 countries with more than 40,000 poor people being interviewed. See Narayan *et al.*, 2000.

4 The institutional perspective on poverty reduction

In section 3 it was argued that institutions are an intricate part of the established views as soon as these strive to increase their knowledge of the context of the poor within their respective focal areas. Consequently, in this section the institutional approach is put forward as an analytical instrument that helps in putting the poor at the centre of the development discussion. Moreover, it contributes to the development process by ensuring that an appropriate set of questions is raised as early as possible in the design of projects or policies aimed at poverty reduction. The last notion is highly relevant for donor agencies such as Sida.

A second dimension to institutional analysis investigates one particular institution (or a set of particular institutions) and their role in the lives of the poor. One example can be the effect of various legal restrictions on the activities or empowerment of the poor, another the role of various monitoring processes (formal or informal) in local credit or insurance arrangements. Clearly the two dimensions are closely interrelated and benefit greatly from being done in conjunction with each other.

Putting the poor at the centre of a contextual analysis

So what does an institutional approach to poverty reduction do? This paper argues that institutional analysis does a number if things. First and foremost it makes clear that poor people face restrictions in all facets of their lives (the economic, the social and the political) and that some are formally constituted while others are not. Second, this forces the researcher to include the full situation of the poor and to avoid conducting fragmented research in which micro-macro linkages and cross-sectorial linkages are ignored. Finally, as a result institutional framework analysis improves and assists in formulating the appropriate set of questions to be asked when investigating a particular situation. In this way institutional thinking offers an analytical framework which – if used appropriately – puts poor people at the centre of the analysis of poverty reduction, and which helps in keeping them there as the project or programme evolves.

That institutional analysis offers a comprehensive way of thinking about complex issues has been acknowledged by a number of authors. Greeley, for example, pays much attention to institutions in his work on pro-poor growth. There he demonstrates the importance of public investment in supporting the material needs of poor people and takes a specific interest in the role of such investment in the functioning of markets. In particular he notes:

> '[The] need to identify, in specific contexts, the opportunities for public investment to bolster the functioning of markets through institutional innovations……. suggests a re-emphasis in our app-roach to poverty reduction stemming from the need to analyse the circumstances under which poor people do actually engage in the market. The need is to understand the institutional constraints – market or non-market – that limit their livelihood opportunities'
>
> (Greeley, 2000, p. 4)

In essence, Greeley argues that a strategy for pro-poor growth has to be based on asking the right set of questions, which always has to start with the following two (and in this order):

1. What institutional constraints – market or non-market – limit the livelihood opportunities of poor people?
2. What institutional design will help poor people make use of their assets, especially their labour?

> This paper agrees that these constitute key questions for any poverty reduction strategy and maintains that they should be at the core of Sida's updated *Action Programme for Poverty Alleviation.*

At this point it should be noted that Greeley's statement of key questions combines the market-based approach with the livelihoods perspective on income opportunities for the poor. In doing so he inescapably ends up emphasising the importance if institutions in his suggested strategy for propoor growth. In fact, there is nothing within the livelihood approaches that prioritise between market and non-market solutions to livelihood outcomes.

Another example is Scoones, who offers a list of virtues of institutional analysis for the policy and practice of sustainable livelihoods. According to him, institutions matter because (Scoones, 1998, p.12):

- Understanding institutional processes allows the identification of restrictions/barriers and opportunities (or 'gateways') to sustainable livelihoods.
- An institutional approach sheds light on the social processes that underlie livelihoods' sustainability.
- An approach that emphasises both formal and informal institutions and underlying rules and norms suggests a complex and 'messy' institutional matrix mediating the process of livelihoods change.

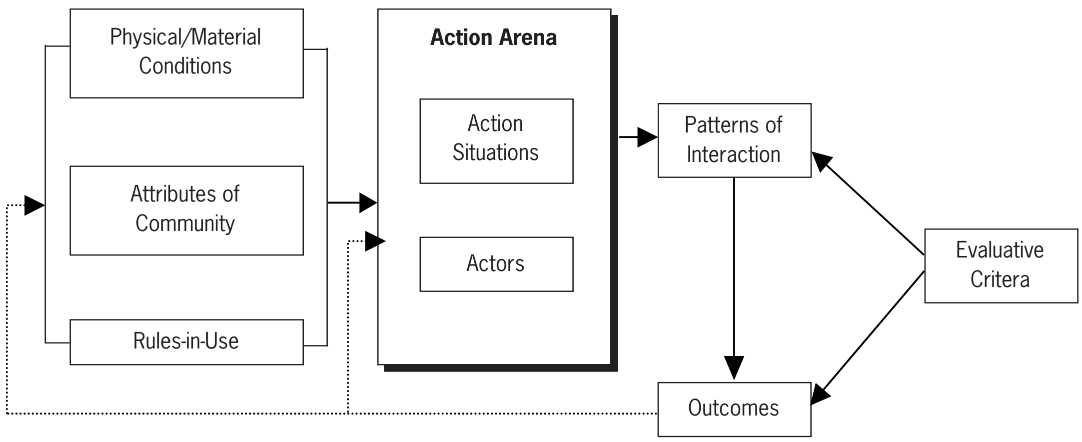
> A core view of this paper is that as soon as it is decided that a support programme or aid project should put the poor at its centre there is no escape from dealing with issues of an institutional nature. Institutional analysis thus becomes an intricate part of pro-poor policymaking and project design.

But just how is this done? The frameworks offered so far have both made the distinction between organisations and institutions and showed that they are part of the larger context that affect individuals. Yet none of them have offered a deeper investigation into the actual content of the boxes representing organisations and institutions. Hence, they run the risk of letting institutions become 'black boxes' where all sorts of residual variables get dumped. One attempt to go further in a structured manner – and to colour the box if not white then at least grey – is the AID framework presented below.

The Institutional Analysis and Development (IAD) Framework

The Institutional Analysis and Development (IAD) Framework has been developed by Ellinor Ostrom and her team at the Workshop in Political Theory and Policy Analysis, Indiana University, USA. The IAD framework is a multitier conceptual map, which helps to structure the analysis of so-called commonpool resource problems and has been used in the projects and fieldwork of the Workshop. The framework is summarised in figure 3.

Figure 3: A Framework for Institutional Analysis



SOURCE: Ostrom, E. (1999).

Within the IAD framework the first step in analysing a problem is to identify a conceptual unit called the *action arena*. This unit can be used to analyse, predict and explain behaviour *within* institutional arrangements. The term refers to the *social space* where individuals interact, exchange goods and services, solve problems, dominate one another, or fight.[12] Usually the analysis of a particular problem stops at this identification and proceeds to investigate the resulting patterns of interaction and outcomes, and to the evaluation of these. That is, the focus lies on the right hand side of the figure and the analysis commonly takes the form of predictions of the likely behaviour of individuals within such a given structure.

When the institutional approach is adopted, however, two additional steps must be taken. First, the action arena must be seen as dependent on variables that specify the situation, and motivational and learning structures must be analysed. That is, the left side of the figure must be incorporated into the analysis. Second, the linkages between two or more action arenas must be investigated.

For the institutional part of the analysis the IAD framework has identified three areas that together influence the action arena, namely the state of the world (physical constraints), the general attributes of the community (culture) and rules (rules-in-use). It puts emphasis on the need for all three sets of variables that make up the institutional framework. In particular, it argues that rules – in the more narrow sense used within IAD – can never by themselves be both a necessary and sufficient condition for the structure of actions, and for their outcome.

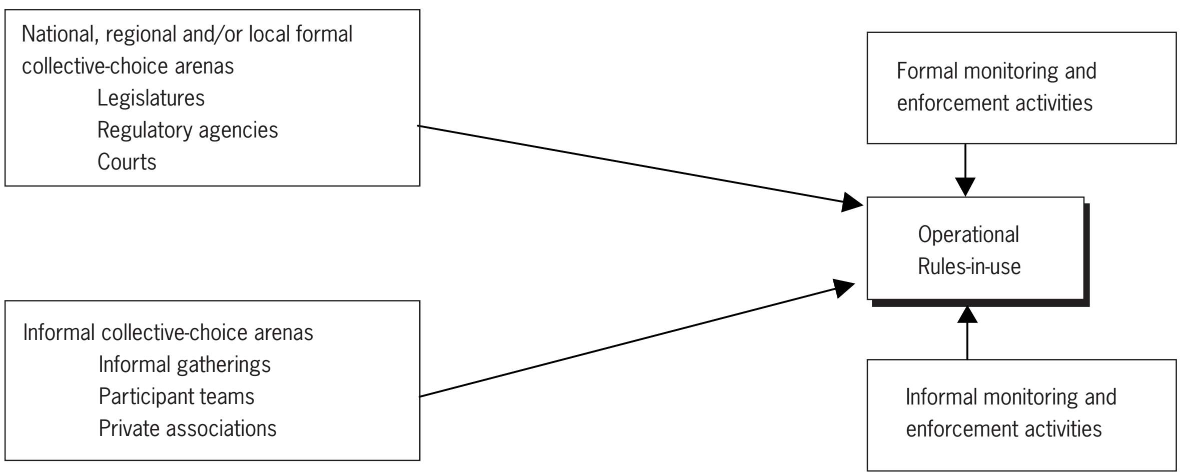
[12] Action arenas are made up of two components: the action situation and the actors in the situation. The action situation refers to a set a variables identifying (1) the set of participants, (2) the specific positions to be filled by participants, (3) the set of allowable actions and their linkages to the outcome, (4) the potential outcomes that are linked to individual sequences of actions, (5) the level of control each participant has over choice, (6) the information available to participants about the structure of the action situation, and (7) the costs and benefits (i.e. the incentives and deterrents) assigned to actions and outcomes. Under actors the set of assumptions made on the actors in the situation must be made explicit. This includes issues regarding endowments when actors enter the situation, values and preferences of the actors, how actors received and use information, and the choice process used by actors when evaluating alternative activities. Together, these two collections of variables make up the action arena that will help give a clear understanding of the problem at hand. See Ostrom (1999) for a more detailed description and examples of these concepts.

Just as with the earlier frameworks, the IAD framework differentiates between individuals, organisations and institutions. The IAD framework does this in a somewhat different manner, however. As can be inferred from figure 3 and the discussion so far, it segregates organisations and institutions by letting organisations be part of the *action arena*. The action arena is in turn identified as being dependent on the institutional context. This implies a causal relationship between the two, where organisations depend on the institutional context. But organisations in return affect the institutional context via a feedback mechanism based on evaluations of outcomes, which implies that the relationship is circular rather than linear.

Another difference is that institutions are grouped along the lines of culture and rules-in-use in the IAD framework instead of along formal and informal institutions. In the IAD framework the term 'rules' is given a somewhat more restricted meaning than elsewhere in this paper; 'rules' are *enforced prescriptions* about what actions are required, prohibited or permitted in the action arena that is being investigated. 'Attributes of the community' (or culture) refers to the norms of behaviour generally accepted in the community, the degree of homogeneity of preferences of those living in the community and the distribution of resources among those affected.

Thus, in the IAD framework the cultural variables can loosely be seen as covering the notion of informal institutions. The 'rules' concept is, however, a mix of informal and formal institutions as it classifies rules according to their impact on an action arena, an approach that has proved very useful for empirical work. 'Rules-in-use' (or working rules) are the set of rules to which participants would make reference if asked to explain and justify their actions to fellow participants in the action situation. These are the rules used by individuals when they make decisions, and they do not have to overlap with the formal laws and regulations governing a particular nation or society. The idea is summarised in figure 4.

Figure 4: Relationships of Formal and Informal Collective-Choice Arenas



SOURCE: Ostrom, E. (1999).

The IAD framework offers a structured but more detailed way of thinking of institutions as contextual variables to a specific situation. It is the view of this paper that the action arena could refer to other things beside common-pool resource activities, and that as such the frameworks can be applied to a variety of poverty-related issues.

Investigating the role and functioning of specific institutions

This is a rather common field of research, which is not always defined as 'institutional'. Frequently studies of this type focus on the effects of reform on certain formal institutions, such as tax reform or pension system reforms. Unfortunately the analysis often lacks the institutional context component argued for in this paper. That is, research into the functioning of a particular institution ought not be delinked from its context, the web of other institutions and organisations in which it is set.

As opposed to the generalised and 'flow-chart'-inspired models and frameworks introduced so far, models used in this kind of analysis tend to be of two different forms: highly technical and abstract, or descriptive case studies where an analytical framework is designed and adopted to the particular study (usually not formalised diagrammatically or otherwise). When combined, these two approaches can give a very interesting picture of how a particular institution works.

One example of the first type is George Akerlof's 1976 model of the caste system. In his paper, Akerlof introduces caste as an 'indicator' in a formalised model with imperfect markets and costly information. An indication is a prediction of the behaviour of the economy and the behaviour of individuals based on a limited number of easily observable characteristics. In this case, the individual interprets the world around him or her based on the caste of the other party to an exchange. This setting allows for multiple equilibrium outcomes of which one is the case when the caste system is sustained as it meets the expectations of all agents. What drives the model is that it is costly for the individual to be the one who disobeys the social rules governing caste. 'If the punishment of becoming an outcaste is predicted to be sufficiently severe, the system of caste is held in equilibrium irrespective of individual tastes, by economic incentives; the predictions of the caste system become a self-fulfilling prophecy' (Akerlof, 1976).

Important for both types of analysis (i.e. highly formalised models or descriptive case studies) is the dynamic aspect of the research. Either a static model is adopted in which the effects of shocks to the system examined, or the patterns of change an institution undergoes over time are scrutinised in detail. This latter approach is often used for studies of informal institutions.

One example is Gun Eriksson-Skoog's comprehensive study of the evolution of the soft budget constraint in Tanzania (Eriksson-Skoog, 1998). The soft budget constraint refers to the phenomenon of non-binding financial constraints commonly found in socialist economies, due to which lossmaking firms come to expect future bailout by some financial institutions or the state. The notion is much more than a bookkeeping identity; it is a description of certain behavioural characteristic of the planner as well as a reflection of a dynamic commitment problem for the state. In the study, the soft budget constraint is defined as 'the prevalence of expectations that one party will accommodate the financing gap of another party' (Eriksson-Skoog, 1998, p.57). This is a description of a behavioural rule for social interaction, which shapes expectations and informs individuals about what behaviour to anticipate in recurrent situations. In other words, it is a description of an informal institution.

Eriksson-Skoog investigates the various reasons for the existence of the soft budget constraint, its emergence and maintenance, and its persistence during Tanzania's transition to a post-socialist state. She shows how formal institutional change was not followed by a simultaneous change of this informal institution as it continued to offer a solution to a problem – the negative financial gap – which in fact grew even more acute during the reform process. Moreover, it offered a mechanism for managers, bureaucrats and members of the political leadership to defend their threatened positions during a period of great insecurity. Reform of the socialist system did not put an end to the application of the soft budget constraint in Tanzania, which is part of the explanation of why it also failed to improve the performance of state-owned firms in the country. Nevertheless, over time the application of the soft budget constraint has been reduced as it has been modified with the changing environment.

The meaning and importance of institutional change

That institutional change is an important aspect of Sida's work was hinted at earlier, and is hopefully evident to the reader by now. Sida might be involved in institutional change via its funding of, for example, programmes to strengthen the legal system in countries of the former Soviet Union, or programmes that support the development of democracy in various parts of the world. Information campaigns about HIV and AIDS prevention in Africa ultimately aim at changing behaviour patterns surrounded by taboos in most countries. Likewise, programmes focusing on women's rights and gender equality aim to loosen restrictions on economic and political freedoms of women that are often dictated by a mix of laws, rules, customs and value systems.

Less obvious is, perhaps, the element of institutional change in more technical oriented projects. Yet building, for example, a new school that offers education to the children of the poor may have a significant impact on the institutional structures of a village and even threaten to alternate the local power structure over time. In cases where landowners and traditional rural bosses do not perceive themselves as benefiting from literate agricultural labourers they might object to such developments and invest resources in lobbying against it. The list of examples could be made long, but the essential point is that whenever a development programme or project aims at changing – or results in changes to – the structure of incentives within which people interact, one is in effect involved in a process of institutional change.

Often the challenge for development programmes is to make sure these changes also reach the poor, and that the outcomes for the poor are the intended ones. This implies both an understanding of the institutional matrix in which the programme is planted so as to (as accurately as possibly) anticipate the process of institutional change that will follow. Predicting the outcomes of institutional change processes is not easy, however. It may even be argued to be impossible: institutional change is, after all, a process involving human interaction in which unexpected events may occur. Nevertheless, there are some general findings on the evolution of institutions and those will be presented below.

However, it is beyond the scope of this paper to conduct a thorough examination of the most important institutions for poverty reduction, to develop a successful institutional blueprint for supporting poverty reduction and to delineate what constitutes the significant process of poverty-reducing institutional change. Yet, these are interesting – and much needed – topics for further research.

The notion of institutional change

As with the definition of institutions, there are a number of descriptions of institutional change and the various forces behind it. Arguably, what they all aim at describing are the feedback mechanisms that allow individuals (or households, or firms, or organisations, or whichever analytical unit used) to influence the institutional structures governing human interaction in the economic, political and social spheres of life.

Referring back to the IAD framework we remember that institutional analysis implies taking also the left side of figure 3 into account; that is incorporating the set of variables that make up the institutional context and which affect the activities of the actors in the action situation. If the focus is on understanding institutional change, a third element of the picture not discussed so far becomes relevant, namely the dotted arrows leading from the 'outcomes' box back into the box for institutional variables, and into the action arena. The processes represented by these arrows determine how agents (individuals, household, organisations) induce and shape the direction of institutional change.

When discussing institutional change in this wide sense it is apparent that one runs into the challenge of having opened Pandora's box of ideas regarding social change that have occupied brilliant minds within the social sciences for many centuries. In recognising this, some pragmatic choices have to be made, which in this case amounts to allowing the ideas of Douglass North to form the basis of the discussion once again. This is justified simply on the grounds of coherence; the distinctions between institutions and organisations (and formal and infor-mal institutions) used so far are influenced mainly by his writing.

The process and sources of institutional change

North argues there are two basic sources of institutional change: relative price changes and changes in preferences. Both alter the incentives of individuals in human interaction and may bring about changes in the institutional setting.

Changes in relative prices include changes in the ratio of factor prices (due to changes in the ratio of land to labour, of labour to capital, or capital to land); changes in price of information; and changes in technology (North, 1990, p. 84). Some of these are caused by factors external to the framework (such as changes in land/labour ratios due to war or epidemic decease like the plague in medieval Europe), but most are endogenous. Changing relative prices leads to changes in bargaining power among individuals, and hence to efforts to reconstruct economic and political contracts. Such efforts can either be solved within the existing institutional context, a process represented by the arrow going back into the action arena in figure 3, or lead to institutional change. The arrow feeding back into the institutional context box in the same figure represents this latter case.

Changes in preferences or tastes are a more complex process and much less is known about its sources and mechanisms. Yet a few things can be said. First, preferences work as a filter through which relative price changes are sorted out. In this way tastes affect the extent to which these induce institutional change or not. Second, the price people have to (or are willing to) pay for their convictions and behaviour will influence the extent to which new ideas or ideologies are expressed. If the cost of articulating ideas that differ from the social norm is low, changes in preferences may very well be a source of institutional change. If, on the other hand, the cost of breaking a written rule or a rule of conduct is very high, the individual will in most cases be reluctant to do so and the institutional setting remains unchanged.

The process of institutional change can thus be described in a simple fashion as a bargaining process in which the party who stands to improve his or her position if the institutional structure is altered may very well set aside resources to attempt to do so (North, 1990, p. 86). Even though this might sound straightforward it may actually be a rather complicated story. The costs – in economic, social and political terms – associated with institutional change are in most cases substantial, a notion that is explored further below.

Efficiency, stability and path dependence

The sources, together with the process of institutional change, outlined so far may give the impression that the resulting institutional structure is the efficient one – a result not too unexpected given that North is an economist. This is not the case, though. There is nothing in the way institutions emerge and evolve which ensures allocative efficiency in the resulting institutional structure. After all, there are many institutional solutions to a particular problem and, given the process of negotiation, agents with strong interests will put substantial resources into securing the structure that fits them the best. The result is a pattern of institutional change possibly characterised by 'institutional lock-in', where inefficient institutions (such as inefficient property rights structures) may indeed survive even in the long run.[13]

North argues that that the most important point about institutional change is that it is overwhelmingly incremental. That is, institutional change happens on the margin and usually over long periods of time. Stability of the institutional framework is accomplished by the complex web of formal rules vested in a hierarchy (where each level is more costly to change than the previous one) and informal constraints with a persistent ability to survive, as they have become part of habitual behaviour.[14]

In investigating the resulting pattern of institutional change, North draws on results from Arthur's work on increasing returns to technology and self-reinforcing mechanisms in equilibrium selection (Arthur, 1994). Arthur mentions four reinforcing mechanisms: (1) large set-up or fixed costs, (2) learning effects, (3) coordination effects, and (4) adaptive expectations. North argues that all four apply to the institutional context too, thus allowing for 'increasing returns to institutions'. For example, set-up costs are high for formal institutions such as laws, but also for informal ones due to costs of trial and error. Learning effects exist as people learn how to survive and benefit from a particular institutional structure. Also, there are coordination effects as adhering to a rule is beneficial for the individual as long as everybody else does. Finally, adaptive expectations occur as increased adherence to the rules means people will expect that they will be there for a long time. With time they are regarded as permanent (Eriksson-Skoog, 1998).

[13] This is a development in North's thinking over the years, which is pointed out by the author himself. In earlier writings North maintained that changes in relative prices would lead to more efficient institutions. In other words, the institutions that survived relative price changes would do so because they offered the most efficient way for people to solve their resource allocation problems. See *The Rise of the Western World: A New Economic History* co-authored with R. Thomas, 1973, Cambridge University Press.

[14] It is often assumed that informal institutions are more 'sticky' than formal ones, i.e. that it takes longer to change traditions and value systems compared to e.g. formal legislation. Although a highly plausible assumption under most circumstances, the reverse may also hold true: changes in value systems may force formal rules and regulations to change to 'keep up with their times'. This underlines the high degree to which informal and formal institutions are linked and the great influence they – most preferably – have on each other. If the formal institutions in a society are not in synch with the informal ones, a very unstable situation may develop, as the transition experience in the countries of the former Soviet Union may exemplify.

In short, North claims that increasing institutional returns combined with costly information and transaction costs determine the pattern of institutional change. The result is characterised by the possibility of multiple outcomes, possible inefficiencies, lock-in and path dependence. Path dependence refers to the idea that the consequence of small events and changed circumstances can determine solutions that, once they prevail, lead on to a particular path of development. In North's view the distinction between institutions and organisations – which exposes a pattern of interaction between the two that impacts the direction of institutional change – offers the best analytical framework for investigating why certain economies perform better in the long run than others.

Institutional change and the poor

The discussion illustrates how the poor are vulnerable to sources causing institutional change (in particular relative price changes) while they at the same time have weak positions in the negotiation process that affect the direction of such change. Using the analogy of figure 3, it could be stated that the feedback mechanism represented by the arrow into the institutional variables box is very weak (or non-existent) for the poor – at least when it comes to formal institutions. This realisation is behind the increased focus on empowerment of the poor in much current pro-poor development work.

Another issue which can be deducted from the above examination is the fact that institutions – in particular informal constraints such as conventions, traditions and customs – may constitute both an obstacle to and an opportunity for the pursuit of livelihoods strategies by the poor. Institutions set parameters within which people prepare for and respond to changes in their milieu. Certain informal institutions or organisational structures may facilitate collective actions and, thus, allow individuals to transcend the limitations of acting in isolation. In doing so they increase the chances of the poor to affect the formal institutions governing their lives. On the other hand, institutions may encourage conformity and work to maintain the status quo, often continuing the agony of the poor (Johnson, 1997; Shivakumar, 1999).

Concluding remarks

By now, two aspects of the institutional approach should have become apparent. First, as presented in this paper, institutional analysis is mainly a tool for improving the general analysis of poverty reduction and development. The approach laid out here suggests institutional thinking as a means to achieve poverty reduction, not as an end in itself. To the extent that issues such as democracy and gender equality are defined as institutions this stance may be debated, however. Yet using the institutional approach as a way to better understand the constraints faced by poor people can always be regarded as a minimum requirement for successful poverty alleviation design. Moreover, the issue of what constitutes good institutions from a poverty reduction point of view will ultimately have to be based on such an analysis. This is an interesting area for further research.

The second aspect concerns the view of the individual within the institutional school of thought. Within institutional frameworks, individuals are seen as creative and active beings, very much capable of changing their situation – if given the opportunity to do so. This also applies to the poor. In line with freedoms-based approaches and other agentoriented views, the individual is not regarded as primarily a passive recipient of the benefits of cunning development programmes. Rather he or she is seen as someone how acts and brings about changes; who is a member of a larger social group; and a participant in economic, social and political activities.

5 Illustrations of institutional analysis at work

This section uses three empirical studies to illustrate the application of an institutional approach to studies of poverty. Even though the studies presented here all have an explicit focus on institutional settings, they differ quite substantially in their methodologies and scope. Unfortunately, none makes explicit use of a formalised framework similar to those presented in this paper, although they utilise ideas and concepts found in the institutional approach.[15]

That the studies presented here all deal with the African context is not an intentional choice. Rather, it is an outcome of the selection criteria of an institutional approach combined with a focus on poverty. It appears that this explicit link is commonest in studies about the African continent.

There are also numerous poverty-related studies that do not subscribe to an institutional approach but which focus directly or indirectly on formal and informal institutional structures. Such work has not been included in this short illustration, but is indeed a good source of information for the future development of specific analytical tools at Sida.

An institutional approach to rural development in Tanzania

Havnevik and Hårsmar (1999) have conducted a study on rural development in Tanzania that makes use of institutional thinking as outlined in this paper, though no specific institutional framework is developed or adopted. They differentiate between institutions and organisations and view institutions as 'rules, norms or enduring practices that are social in character, in that they are conducting human interaction' and (Havnevik & Hårsmar, 1999, p. 42). However, the authors prefer to distinguish between 'pragmatic' and 'organic' institutions rather than formal and informal, since, in their opinion, this terminology better describes the way in which institutions are formed. Like informal institutions, organic institutions take the forms of codes of conduct, conventions or norms. But the notion is more descriptive as it implies a spontaneous and unintentional evolution of behavioural constraints out of human interaction over time.[16]

The Havnevik and Hårsmar study tries to shed light on the puzzle of increased growth rates in agricultural production in official statistics at the national level and the perceived lack of development and improved living conditions in rural Tanzania even after the introduction of economic reforms. The issue at stake is why a country so heavily dependent on agriculture – it accounts for about half of the country's GDP and occupies some 75 percent of its population – does not show signs of increased rural development in response to deregulation and market liberalisation. Hence this is an example of a study of the role of institutions and institutional change in one particular market, agriculture.

[15] It should be noted that, in general, the use of structured models of institutional analysis in the form outlined in this paper appears to be rare among empirical case studies of institutions in a development and poverty context. This is a weakness as it makes comparisons between studies difficult and perhaps also fails to contribute effectively to the theoretical development of the field.

[16] This distinction was originally made by Carl Menger and is found in Gun Eriksson-Skoog's study of the soft budget constraint in Tanzania (Eriksson-Skoog, 1998). Havnevik and Hårsmar refer to and rely on her work when conceptualising their institutional approach.

The first part of the study investigates growth patterns in Tanzania. It concludes that poverty is still pervasive and that it remains primarily a rural problem. The authors validate the commonly held view of weak rural response to reforms, although such a conclusion was not straightforward due to the doubtful quality of data from Tanzania's rural areas. Havnevik and Hårsmar propose the hypothesis that the smallest agrarian holdings of less than two hectares of land (which account for about 80 percent of holdings and 50 percent of the planted area) have been caught in a 'combined productivity and sustainability gap'. This means that smallholders have too limited resources to practice intensive agriculture and to buy necessary inputs such as fertilisers and improved grains to enhance production, and that they have insufficient land to maintain long enough fallow periods from a sustainability perspective (Havnevik & Hårsmar, 1999, p. 25).

After investigating development patterns in the agricultural sector the authors claim there are reasons to believe that non-economic factors affect investment and output in agriculture after liberalisation of this specific market. They use institutional thinking when analysing a number of liberalised markets, such as various markets for fishing, cotton and cashew nuts. When comparing the findings for these with those for agriculture they find that investment through diversification is a common phenomenon in the agricultural sector in rural areas of Tanzania. In particular, they state that 'diversification should be understood as the active orientation that peasants and others take in order to combine different elements into a dynamic complex' (Havnevik & Hårsmar, 1999, p. 74). In the remainder of their study they interpret diversification as a recurrent investment strategy among the rural population in Tanzania that does not only stem from economic considerations, but that to a certain extent may be regarded as culturally embedded.

The next step becomes to find what factors may explain this pattern of diversification into a large number of income generating activities that is found in most rural areas in Tanzania. In order to do this the authors use a matrix in which they summarise findings from 18 case studies and areas with regard to a number of possible explanatory variables. The outline for the matrix with the chosen variables (but for an arbitrary number of 6 areas instead of 18) is found below:

Table 1: Factors possibly explaining investment patterns, Tanzania.

	Area 1	Area 2	Area 3	Area 4	Area 5	Area 6
Local Control						
Land Rights						
Social Capital						
Price Development						
Climate						
Market Access						
Land Scarcity						
Ethno-linguistic Differences						
Macroeconomy						
Credits						
Straight Investments						

Source: Adapted from Havnevik & Hårsmar, 1999.

The assessment is not of an econometric nature and the process admittedly suffers from subjective judgements, although the authors argue that these have been done in a careful manner. A 'Y' in the one of the cells in the table indicates that the factor is present, a 'N' that it is not. For land rights a 'C' is used to indicate customary land rights, and a 'L' is used under Macroeconomy to indicate that the market has been liberalised and that the economy is reasonably balanced.

Using this matrix Havnevik and Hårsmar find that a *combination* of decreasing access to land, labour and credit should be the main reason why increasing numbers of peasants turn to diversification. It turns out that availability of credit is not such a decisive factor as might be anticipated. The authors conclude that if prices are increasing, credits may not be necessary for the type of investment they are looking for, that is basic productivity-increasing investment by agricultural smallholders. The Land Rights variable cannot be excluded, however. Nor can the one measuring social capital. The authors offer the following interpretation: the economic liberalisation process has led to conflicts over land as customary land rights have not adapted to the new situation, which in turn has led to increased uncertainty over rights to control and access land. As it becomes difficult to distribute land to children, the young generation turns to petty trading or engages in other economic activities than farming, or migrates. Access to agrarian labour has thus been reduced and tension builds up between generations. This in turn erodes the social capital of the local community, which in turn reduces the chances to use unpaid labour, to get hold of informal credits or to take risks in agricultural investments (Havnevik & Hårsmar, 1999, p. 80).

The above scenario indicates that diversification is a response to uncertainty and 'push' effects, which force people out of agriculture and into other economic activities. That this is not necessarily the case is indicated by the fact that diversification appears on all levels of the population in rural Tanzania, not just among the poor. Moreover, it has been found that diversification takes different forms for different sections of society. One possible interpretation forwarded by the authors is that diversification also serves the purpose of enhancing the cultural identity and is a reflection of the peasants' efforts to maintain independence from urban structures and from involvement by the state. Thus, diversification in rural Tanzania seems to be a strategy that has elements of risk aversion, cultural parochialism and resistance towards external dependency. In addition it may be argued that diversification is a cultural characteristic common to Africa in general.

Havnevik and Hårsmar find *uncertainty* to be the common denominator behind all of these arguments. In particular they find that diversification – interpreted as a strategy for articulating a local, political or cultural identity in reaction to an intrusive state – in the Tanzanian setting can be understood as a way of avoiding something that historically has created many and often substantial disruptions in rural livelihoods. In other words, continuous and at time dramatic shifts in state policies related to agriculture, to rural settlement and to local government under colonial rule, African socialism and the liberalisation phase have resulted in a lack of trust in the state and its institutions.

Looking into yet another set of studies, they find that the level of trust between people is indeed very low in Tanzania, and that in particular the relationship between the rural population and the state is characterised by massive distrust. In a participatory poverty assessment study 76 percent of the respondents stated that there were fewer people they could trust in 1995 than there had been in 1991. Also, the share of people worthy of 'high trust' had declined, while the share of people who earned only 'low trust' had increased. This held true for all different categories of people, as shown in table 2:

Table 2: Change in trust towards different groups, Tanzania.

	1991		1995		Change	
	Low	High	Low	High	Low	High
Family	3	66	3	59	…	-
Fellow tribesman	1	27	3	20	+	-
Cell leader	-	30	3	25	+	-
Village chairman	3	29	5	21	+	-
Extension Worker	9	22	15	17	+	-
Health clinic nurse	3	29	6	23	+	-
Traditional leader	19	15	28	10	+	-
District officials	6	17	9	12	+	-
Central government officials	6	22	10	16	+	-
Co-operative officials	11	19	23	9	+	-
Traders	8	11	13	7	+	-
Strangers	22	11	32	5	+	-

Source: Adapted from Havnevik & Hårsmar, 1999.

Close to the notion of trust is that of social capital, and in another study cited by Havnevik and Hårsmar an index of social capital was designed and applied to the rural context in Tanzania. The result is a surprisingly high correlation between social capital and average household income. If half of the population in one village were to join one of the voluntary local organisations included in the index, average household income, for all households, would be 20–50 percent higher. One explanation is that social capital leads to improved information about other actors, another that it leads to a higher level of informal insurance.

Taking all of this together, the authors find as a preliminary conclusion 'that lack of trust, and lack of 'social capital' in a wider sense, might be a serious hindrance to market development in rural Tanzania' (Havnevik & Hårsmar, 1999, p. 84). Another conclusion is that increased uncertainty regarding ownership of and access to land has detrimental effects on rural development and poverty reduction, as land is perhaps the most central asset to rural dwellers.

The legal status of women and poverty in Africa: Tanzania

Along with the renewed focus on poverty reduction among development agencies comes the finding of the increased 'feminisation of poverty', that is the fact that the share of women among the poor in the world is increasing. The common argument is that unequal access to economic opportunities is the defining factor for this feminisation of poverty.

In a recent paper, Rwebangira (2000) argues that despite these findings African governments still fail to adequately address the root causes of poverty among women and there families. Moreover, she pushes the common argument one step further by suggesting that 'the stagnation and lack of momentum in the economies of African countries are to a significant extent due to their leaders' persistent disregard of their women, whose sector (agriculture) is the backbone of the African economies' (Rwebangira, 2000, p. 65). That is, improved overall economic development is closely linked to women's role in the economy as they are main actors in the agrarian sector, which is still the most important economic sector for a majority of African countries. Hence, constraints faced by women in this sector become highly significant.

Using Tanzania as a case study, Rwebangira shows how inferior legal structures contribute to the development of poverty among women by first of all denying them valuable livelihoods tools and, second, by reducing security (particularly old age security) and establishing incentives structures that do not encourage women to use their full productive potential. In essence she focuses on the (formal and informal) institutional setting that shapes the incentive structure for female engagement in the agricultural sector of the economy.

In her work Rwebangira centres on constitutions, family laws and property laws relating to productive resources such as land, credit and livestock since she finds that these legal regimes have direct impact on poverty. In an overview of the legal status of women in Africa she outlines how the national constitutions of Uganda, Ethiopia, Eritrea and South Africa all prohibit sex as a basis of discrimination, while in Kenya, Tanzania, Zambia, Zimbabwe, Lesotho and Namibia sex is still permitted as a basis for discrimination under the national constitution. She also points to the general trend of enforcement being an Achilles' heel even in such cases where family law and property laws allow for female inheritance and ownership of for example land. Implementation of formal laws are usually hampered by two forces; first the application by courts of certain requirements (such as a 'letter of no objection' signed by the husband) and, second, the precedence given to traditional and customary laws (in particular to inheritance of land and other immobile property).

In the case of Tanzania, empirical findings suggest that cultural and traditional practices with negative outcomes for women still prevail and that patriarchal power relations put ownership, control and management of resources in the hands of men. This despite the fact that women are the main producers, accounting for over 75 percent of food production. These findings reflect the weak legal status of women and their lack of bargaining power at the household level.

Tanzania's constitution allows discrimination on the basis of sex although Article 24 recognises every person's right to own property, including women. When it comes to succession and inheritance laws there are three parallel regimes at work: Customary laws, Islamic laws and Statutory laws. The first two are the laws applicable to most women in Tanzania. Rwebangira reasons that Customary laws and clan power relations are significant in a country where patrilineal societies constitute about 80 percent of the ethnic identities (Rwebangira, 2000, p.68). A general finding from the African context is that when customary and religious laws are given precedence over other legal regimes, it usually has a negative impact on the status of women.

According to the customary law regime in Tanzania, a daughter can only inherit if there are no sons or if the sons are dead, and they did not leave any male offspring. In the event a daughter does inherit she cannot pass on the inherited immovable property to her own children, as they will belong to a clan different from her own. Moreover, the Customary Law regime does not give widows any inheritance rights in their own right. A widow has three choices: to go back to her own people, to live with her childre, or to be inherited by a relative of her deceased husband.

Rwebangira's research reveals four main finding (Rwebangira 2000, p. 68, ff.). The first is that women's labour in Tanzania is expropriated through marriage and inheritance laws, coupled with the practice of law enforcing agencies such as courts and clans that discriminate against women and hand over the fruits of their labour to men. This in practice denies women a 'creative role to empower themselves economically', to use the author's language. A second finding is that despite Tanzania's record of promoting equality and egalitarian principles since independence, very little has been done to improve the women's legal status and to protect their rights. Out of 351 new laws enacted between 1975 and 1995, she finds only eight that had gender-based implications, and out of these only two (the Education Act of 1975 and the amendment to the Co-operative Societies Act of 1991) had a focus on the impact on women's poverty.

A third finding was that women's economic rights are not a government priority. This is based on the fact that the government did not act upon reforms likely to enhance the economic position of women. One example is the Law on Succession that has been shelved by successive governments since 1968. The fourth finding is that even though there are a number of NGOs that actively work with gender issues and women's rights in Tanzania, the political constituency of women is still weak. Women are therefore not taken seriously by leading parties and politicians.

Rwebangira finds it amazing that Tanzania, being such a poor country, in this manner fails to motivate its most ready investors (women) into the mainstream of the economy – agriculture. She concludes that for Tanzania to reduce poverty among its female population, women have to be given a stake in the prosperity of their families and communities in order to encourage them to think beyond mere subsistence. In her opinion, this can be done only if women are granted a firm legal status backed by serious structural support to ensure implementation of gender-related policies.

Formal institutions in pro-poor policy processes: Sub-Saharan Africa

How to turn statements about the objective of poverty reduction, which are often at a high level of abstraction, into processes of government decisionmaking and implementation is an interesting and difficult question. Greeley and Jenkins examined the extent to which the goal of poverty reduction has been mainstreamed into processes of government decision making in a sample of six Sub-Saharan African countries (Greeley & Jenkins, 1999). In their paper they develop an analytical framework for linking policy areas with important elements of the pro-poor policy process, which is shown in table 3.

Table 3: An assessment matrix for poverty alleviation policy areas and processes.

Policy areas	**Elements of a pro-poor policy process**		
	Constitutional, legal and governance framework	Consultation process	Obtaining and using information on poverty
National development planning, budget allocation and expenditure management.			
Government policy towards economically productive sectors			
Approaches towards social sectors and safety nets			
Restructuring relations among levels of government			

SOURCE: Greeley & Jenkins (1999).

The four policy areas were chosen based on their ability to show evidence of potentially replicable innovations concerning the links between process issues and poverty reduction policies. These were looked at from the perspectives of institutional and procedural features in each of the three focal areas of the matrix. That is, the framework was used to identify the governance context, the consultative process and the generation and use of poverty information in facilitating the evolution of mechanisms that orient policy decision-making towards the objective of poverty reduction.

The findings indicate that in the sample countries of Benin, Ghana, Mali, Mozambique, Tanzania and Uganda examples abound of 'improving practices' among national governments in their efforts to try to deliver on commitments to poverty reduction. Mali constitutes an example of the provision of a framework for the process of consultation, decision-making and even monitoring of the poverty reduction goal by law. The authors maintain that 'there is some evidence that, as a result of Mali's legal provisions, certain associations representing the poor have become more assertive, and sections of the bureaucracy have become more open to influence from such groups' (Greeley & Jenkins, 1999, p. 11).

In Uganda, an elaborate planning and information gathering process has been adopted, resulting in explicit poverty-prioritisation criteria. A National Poverty Eradication Action Plan (PEAP) is in place, which is continuously revised in the light of the finding from the Uganda Participatory Poverty Assessment Programme (UPPAP). Moreover, within the five-year Public Investment Plan (PIP) – which allocates annual development budgets – government programmes and projects are prioritised based on their contribution to the eradication of poverty. Only projects targeting the improved quality of life of the poor qualify as category one projects and are thus protected from budget cuts. The land reform process in Mozambique is an example of how substantial efforts in information campaigning and local participation managed to bridge conflicts between vested interest of rural households and commercial agriculture.

The list of case-based examples could be made considerably longer, but for the purpose of this study it is more important to stress the analytical framework used as a model that incorporates aspects of the institutional setting, in particular the formal setting, into pro-poor policy assessment. It tries to link poverty policy with implementation and in so doing puts the governance process at the centre, which in effect connects the macro with the micro level of the analysis. In a similar analysis of only one country (instead of a synopsis of six) the analysis could of course be made much more explicit and include informal institutional attributes, as well as benchmarks for evaluation.

6 Closing comments and recommendations

This paper argues that adopting an institutional approach in the analysis of poverty and design of poverty-alleviating development schemes is beneficial in a number of ways. The essential claim is that if the poor are to be put at the centre of the development analysis, a better understanding of the context in which they lead their lives and make decisions has to be reached. Institutional analysis contributes to such an understanding by lifting into the foreground the constraints that face the poor when they formulate strategies to make the best use of their available assets.

Institutional analysis at work in Sida

There are a number of ways in which institutional analysis could be useful for Sida. A few will be hinted at here even though the discussion stops short of suggesting specific frameworks for different tasks in the organisation, as this is beyond the scope of the present paper. Hence, it is recommended that a study is commissioned that thoroughly investigates how to incorporate institutional thinking into analysis at various levels within Sida. Such a study should also design a specific toolbox with appropriate frameworks and questions.

- *Country analysis:* One section of the country analysis should focus explicitly on the country's institutional setting, from the perspective of poverty reduction and the situation of the poor. Preferably it is given its own heading which clearly indicates its institutional nature. The aim should be on outlining the institutional setting of the poor, both the formal and informal. Particular attention should be given to the legal position of the poor, e.g. constitutional rights, affirmative action schemes, social security and laws affecting the ability of the poor to hold important assets such as land. If possible, informal institutional constraints and arrangements should be addressed. These could include issues such as the prevalence of informal insurance or credit arrangements in the country, but also specific values or customs that influence the action space of the poor such as clan or caste systems. Institutional thinking might be incorporated in other parts of the country analysis as well.
- *Sector analysis:* It has been argued elsewhere that the missing link between Sida's country strategies and the project documents is a sector analysis (Lindahl & Karlström, 2000). If country-specific sector analysis were to become standard, an institutional approach would be an essential part of the overall analysis. Issues such as the functioning of markets, important legal and political structures, corruption, social capital and civil society affecting the sector may be incorporated.
- *Project proposals:* Institutional analysis can help to move Sida from justifying projects on the basis of needs to instead offer solutions to constraints. This may be achieved by incorporating the question 'why is this a problem?' in the evaluation process and not stop at 'how can Sida contribute to this problem being solved?'. An example concerning investments in infrastructure is given in a recent INEC discussion paper on pro-poor growth. When the analysis incorporates 'why' it finds that the solution to improve poor road conditions in country X is not to supply new roads, but rather to help the government collect taxes and help rid the road authority of corruption and financial swindles (Lindahl & Karlström, 2000, p. 26).

Institutions, established perspectives and Sida

The overview of established perspectives on development demonstrates how they all increasingly have come to focus on institutional elements as their respective agendas have evolved. Within the market-oriented school of thought, institutions are rendered important for the functioning of markets and the social and political aspects of markets are more widely recognised. The governance approach almost per definition focuses on institutional aspects surrounding development, and local informal institutions and aspects of voice have become more important over the years. Finally, the sustainable livelihoods agenda is closely linked to the institutional approach as it uses institutional thinking to shed light on why poor people choose certain livelihood strategies over others.

From these findings, two general comments can be made in relation to Sida. The first is that even though Sida's current *Action Programme for Poverty Alleviation* mentions livelihoods, it does not recognise the powerful link between sustainable livelihoods and the institutional approach when focusing on the situation of the poor. One conclusion of this paper is that a poverty reduction strategy needs to include the core questions: i) what institutional constraints – market or non-market – limit the livelihoods opportunities of poor people?, and ii) what institutional design will help poor people make use of their assets (labour, land, knowledge, endowments)? It is therefore recommended that Sida introduces institutional- and livelihoods thinking in its updated *Action Programme*, as well as in various analytical documents such as country analysis or project evaluations. This is a means for putting the poor at the centre, and to help keep them there.

A second general comment concerns Sida's organisational structure. It seems as if establish perspectives have influenced Sida's operational layout. Without pushing the argument too far, INEC, DESO and NATUR may be regarded as representing, in turn, the main concerns of the market, governance and livelihoods approaches to development. If a more holistic approach is to guide Sida's work – which is implied both by the adoption of the notion of poverty as multi-dimensional and of an institutional approach – the setting for day-to-day activities needs to facilitate co-operation between various parts of the organisation. Another recommendation is therefore that a future study on institutional tools at Sida takes a closer look at what organisational structures or mechanisms will best secure information-sharing and competency-building within Sida.

With regard to holistic approaches, a final point (originating from the sustainable livelihoods literature) is worth making; namely that – setting the difficulties of *conducting* holistic analysis apart – such analysis does not necessarily exclude projects of a mainly sectoral nature. In other words, holistic analysis does not require holistic intervention. What is important is that a holistic perspective – such as institutional thinking – is used at the design phase to ensure cross-sectorial linkages are taken into account. 'The acupuncture approach' is a useful analogy, found in the writings of Ashley and Carney (1999). A good acupuncturist makes a holistic diagnosis of his or her patient, followed by very specific treatments at key points. The holistic diagnosis does not mean needles everywhere.

The issues of good institutions and institutional change

This paper maintains that, even though it may be called otherwise, much of Sida's work can be regarded as focusing on institutions and, in particular, on institutional change. It also maintains that the institutional framework is an important factor in explaining patterns of economic growth and development. This said, one might wonder why these particular issues are those least covered by the paper. This is not because they are judged unimportant. Quite the contrary: the question of what constitutes good institutions for reduced poverty levels and what institutional change is necessary to bring about such a reduction are two greatly important (but highly complex) questions. They are therefore considered to need a more careful exploration than could be undertaken in this introductory paper.

There are a number of interesting areas for future research relating to the various aspects of good institutions and institutional change for poverty reduction. One is the interplay (or lack thereof) between formal and formal institutions and organisations in economic development, another to link the institutional approach with a gender perspective on development and poverty. A third is to use an institutional approach to investigate conditions for successful development programmes. This includes issues like why a programme such as the Greemen Bank micro-financing scheme arguably has been highly successful in some parts of the world but much less so in others. A fourth is to use institutional thinking when looking into the limited impact of even successful programmes in lifting poor people above subsistence levels of income. The list of motivating topics for research can be made much longer and is at this point admittedly speculative. Therefore it is recommended that Sida specifies what subject areas relating to institutions and the institutional context of the poor it finds worth while investigating further. Only then can the imperative questions of what constitutes good institutions for poverty reduction be addressed.

References

Akerlof, G. (1976) 'The Economics of Caste and of the Rat Race and Other Woeful Tales' in *Quarterly Journal of Economics*. Vol. 90, pp. 599 – 617.

Alston, L.J., T. Eggertsson and D.C. North (1996) *Empirical Studies in Institutional Change*. Cambridge; New York, NY; Melbourne: Cambridge University Press.

Arthur, B.W. (1994) *Increasing Returns and Path Dependence in the Economy.* Ann Arbor: The University of Michigan Press.

Ashley, C. and D. Carney (1999) *Sustainable Livelihoods: Lessons From Early Experiences*. London, UK: Department for International Development.

Carney, D. with M. Drinkwater, T. Rusinow, K. Neefjes, S. Wanmali and N. Singh (1999) *Livelihoods Approaches Compared: A brief comparison of the livelihoods approaches of the UK Department for International Development (DFID), CARE, Oxfam and the United Nations Development Programme (UNDP).* London, UK: Department For International Development

Cornwall, A. (2000) *Beneficiary, Consumer, Citizen: Perspectives on Participation for Poverty Reduction*. Sida Studies No. 2. Stockholm, Sweden: Sida.

Crawford, S. and E. Ostrom (1995) 'A Grammar of Institutions' in *American Political Science Review* Vol. 89, No. 3, pp. 582–600.

Eriksson-Skoog, G. (1998) *The Soft Budget Constraint. The Emergence, Persistence and Logic of an Institution.* Stockholm, Sweden: The Economic Research Institute at Stockholm School of Economics.

Greeley, M. (2000) *Pro-Poor Growth: A Review of Three Issues Informing the Current Policy Agenda*. Paper prepared for the expert consultation conference on the OECD poverty reduction guidelines, Callantsoog, Netherlands, 13–14 September 2000. Ref.: Institute of Development Studies, University of Sussex, UK.

Greeley, M. and R. Jenkins (1999) *Mainstreaming the Poverty-Reduction Agenda. An Analysis of Institutional Mechanisms to Support Pro-Poor Policy Making and Implementation in Six African Countries.* Draft paper prepared for the meeting of the SPA Working Group on Poverty and Social Policy, Paris, 19–21 October 1999. Refs: Institute of Development Studies, University of Sussex, and Birbeck College, University of London, UK.

Havnevik, K. J. (2000) 'The Institutional Heart of Africa: An Issue Overlooked? in K.J. Havnevik with E. Sandström (eds.) *The Institutional Context of Poverty Eradication in Rural Africa*. Uppsala, Sweden: Nordiska Afrikainstitutet.

Havnevik, K. J. and Hårsmar, M. (2000) *The Diversified Future. An Institutional Approach to Rural Development in Tanzania.* Expert Group on Development Issues (EGDI) study for the Swedish Ministry of Foreign Affairs. Stockholm, Sweden: Almqvist & Wiksell International

Johnson, C.A. (1997) *Rules, Norms and the Pursuit of Sustainable Livelihoods*. IDS Working Paper 52. University of Sussex, UK: Institute of Development Studies.

Lindahl, C. and B. Karlström (2000) *Poverty, Economic Growth and Aid*. Discussion paper for Sida/INEC, August 2000.

Moore, M. (1994) 'Instituitonsbyggande i biståndet – paradoxer och erfarenheter' in *Biståndet utvärderat, Årsbok 1994*. Stockholm, Sweden: Sida.

Mustapha, A.R. (2000) 'The Politics of Economic Reforms: Implications for Institutions and Poverty in the Rural African Setting' in K.J. Havnevik with E. Sandström (eds.) *The Institutional Context of Poverty Eradication in Rural Africa*. Uppsala, Sweden: Nordiska Afrikainstitutet.

Narayan, D. with R. Patel, K Schafft, A. Rademacher and S. Koch-Schulte (2000) *Voices of the Poor: Can anyone hear us?* Oxford University Press for the World Bank.

Nooteboom, B. (1993) 'Firm Size Effects on Transaction Costs' in *Small Business Economics*. Vol. 5, No. 4., pp. 283–295.

North, D. C. (1990) *Institutions, Institutional Change and Economic Performance*. London; New York, NY; Melbourne: Cambridge University Press.

Ostrom, E. (1999) 'Institutional Rational Choice: An Assessment of the Institutional and Development Analysis framework' in P. Sabatier (ed.) *Theories of Policy Process.* Boulder, CO: Westwiev Press, pp. 35–71.

Rwebangira, M. (2000) 'The Legal Status of Women and Poverty in Africa with Special Reference to Tanzania' in K.J. Havnevik with E. Sandström (eds.) *The Institutional Context of Poverty Eradication in Rural Africa*. Uppsala, Sweden: Nordiska Afrikainstitutet.

Scoones, I. (1998) *Sustainable Rural Livelihoods. A framework for Analysis.* IDS Working Paper 72. University of Sussex, UK: Institute of Development Studies.

Sen, A. (1997) *Development Thinking at the Beginning of the 21st Century*. STICERD Discussion Paper, DERP No. 2. London, UK: London School of Economics and Political Science.

Sen, A. (1999) *Development as Freedom*. New York, NY: Oxford University Press.

Shivakumar, S. J. (1999) *The Place of Indigenous Institutions in Constitutional Order*. Paper prepared for the All-Africa Conference on African Principles of Conflict Resolution and Reconciliation, Addis Ababa, Ethiopia: November 8–12, 1999. Ref: Workshop in Political Theory and Policy Analysis, Indiana University, Bloomington IN 47408

Sida (1996) *Promoting Sustainable Livelihoods*. Stockholm, Sweden: Sida.

Sida (1997) *Minskad Fattigdom. Sidas Programme för att bekämpa fattigdomen.* Stockholm, Sweden: Sida.

Sida (2000) *Capacity Development as a Strategic Question in Development Cooperation. Policy and Guidelines for Sida*. Sida Working Paper No 8. Stockholm, Sweden: Sida.

SKR 1997/98:76 *Demokrati och mänskliga rättigheter i Sveriges utvecklingssamarbete.* Stockholm: UD-IC/ Regeringskansliet.

UNRISD (2000). *Visible Hands. Taking Responsibility for Social Development.* Geneva, Switzerland: United Nations Research Institute for Social Development.

Williamson, O. E. and W. G. Ouchi (1981) 'A Rejoinder' in A. van de Ven and W. Joyce (eds.) *Perspective on Organisation Design and Behaviour*. New York, NY: John Wiley.

World Bank (2000). *Attacking Poverty.* World Bank Report 2000/2001. Oxford; New York, NY: Oxford University Press.

Sida

SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
S-105 25 Stockholm, Sweden
Tel +46 (0)8 698 50 00   Fax +46 (0)8 20 88 64
Homepage: www.sida.se

ISBN 91-586-8770-X