

## Unleashing the transformational power of informal institutions for rural development: an FAO perspective

by Vito Cistulli<sup>1</sup>

The [Agenda 2030](#) recognizes that strong and effective institutions are a necessary condition for the achievement of the [Sustainable Development Goals](#), and in particular extreme poverty and hunger eradication (Goal 1 and 2 respectively) It also adds that inclusive institutions are critical enablers of equity and are central to achieving the objective of leaving no one behind.

A large consensus exists on the important role played by rural institutions in development but what is still not very well understood is the interplay between formal and informal institutions. Indeed, the role of informal institutions in shaping the actual behavior of people and their organizations has been generally neglected not least because of the difficulty to identify, quantify and measure them.

Paraphrasing the famous quote from Thomas Reid that “*A chain is only as strong as its weakest link*” it is argued that institutions can only be strong and inclusive if the role of informal institutions (the weakest link) and of their relationships with formal institutions are well recognized, understood, and mainstreamed in the national governance systems. FAO efforts to supporting local informal institutions and fostering synergies with formal institutions are illustrated.

### *What does evidence say on the role of institutions in development?*

There is ample evidence that the quality of institutions<sup>2</sup> and development are strongly correlated ([North, 1990](#), [Williamson, 1996](#), [Ostrom, 2005](#); [Easterly, Ritzen and Woolcock, 2006](#); [Acemoglu and Robinson, 2008](#), [Chang Ha-Joon, 2011](#), [Rodrik et al. \(2004\)](#)). A cross-country comparison on the correlation between GDP per capita and governance indicators (Fig. 1) confirms that higher income per capita is strongly associated with the quality of institutions. So, for

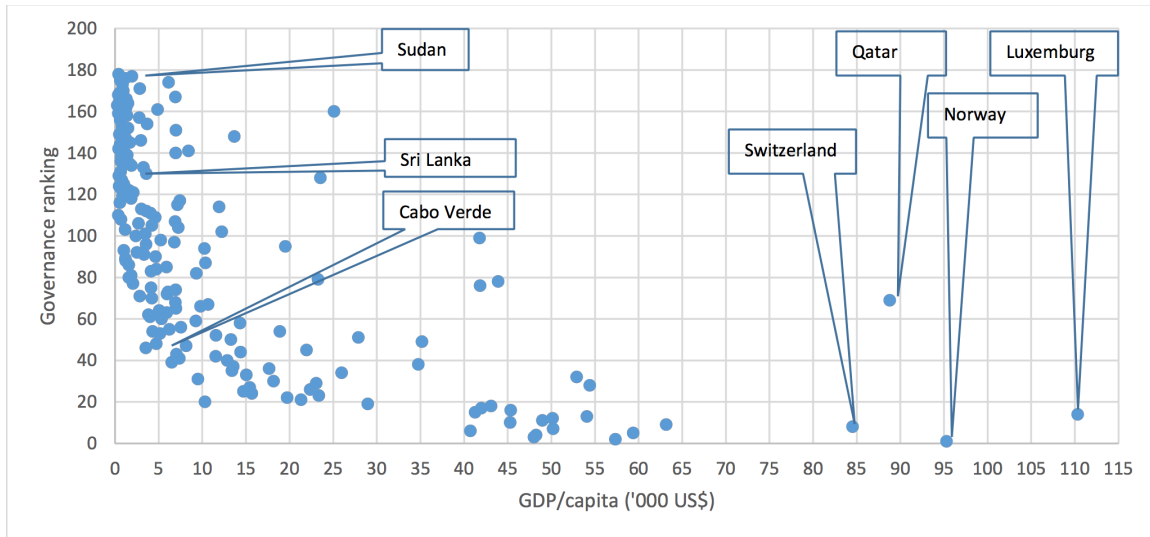
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<sup>2</sup> North (1990) defines institutions as the “*humanly devised constraints that structure political, economic and social interaction*” consisting of “*both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)*”.

example, among the 175 countries included in the list, Luxemburg has the highest governance quality score (178) and the highest GDP/capita (US\$ 110,000) whereas Sudan has the second lowest governance quality score (2) and the 52<sup>nd</sup> lowest GDP/capita (US\$ 1,900)

**Figure 1: Correlation between GDP/capita and Governance index<sup>3</sup>: average 2011-2015 for the GDP per capita and 2011 for the Governance Index**



Source: World Bank data on GDP/capita and [World Governance Index \(WGI\) 2011](#): own elaborations

There is also general consensus that the informal institutions influence the incentives and constraints that underlie individual and organizational behaviours and ultimately the quality and the sustainability of formal institutions (Bratton 2007, Casson et al. (2010). It follows that informal institutions are not *residual*, but *key* in shaping operationally-efficient institutions. Yet, despite the growing attention informal institutions have been receiving over the last two decades, empirical evidence on the interplay between formal and informal institutions in developing countries remains largely anecdotal.

#### *Interplay of rural-urban formal and informal institutions*

The conventional thinking is that informal institutions prevail in the rural areas and formal institutions in urban areas. But globalization, economic development,

<sup>3</sup> [The World Governance Index](#) is a composite index based on 5 sets of indicators: Peace and conflicts, Rule of Law, Human Rights and Participation, Sustainable Development, and Human Development. It is calculated for 179 countries and each country receives a score that allows comparison across countries and their ranking from level 1 equivalent to the highest score (highest quality of institutions) and level 179 equivalent to the lowest score (lowest level of institutions).

migration, better infrastructure, technology, etc. are considerably reducing this dichotomy. As a result, the traditional informal practices of rural communities now interact with the rules and regulations of urban and global markets. The rural-urban environment becomes "a dynamic, transformative, and reciprocal arena linked at the macro level not only by economic activities and geography but also significantly by the social fabric of individual and family networks" (Drescher and laquinta, 1999). It follows that institutions (both formal and informal) and their networks are also influenced by their spatial dimension.

So what do these changes and interlinkages mean for rural transformation? The complexity of the cumulative impact of these changes is still poorly understood, but such understanding is of fundamental practical importance so as to develop effective and inclusive institutions. Undoubtedly, there is still a spatial diversity between parts of the countries that are dominantly rural and urban areas but it is the space between these two poles made up of complex cross-sectoral interactions and institutional network ties taking place within the rural-urban spectrum that is becoming increasingly important but remains largely unexplored. The case of the *desakota* zones (a Bahasa Indonesia term meaning village-town) in South-East Asia urbanization illustrates these trends very well (Box 1).

**Box 1. Interplay of formal and informal institutions in desakota zones (Indonesia)**

In the desakota zones, rural and urban economic and institutional systems co-exist. Informal institutions prevailing in rural areas systems interact with formal institutions that are generally dominant in urban areas. In these areas, the hegemony of both is minimum and their interplay rather complex. For example, the erosion of informal institutions can open new opportunities for the alleviation of poverty if, for example, constraints imposed by the resistance of casts or religious differences are removed due to the higher dilution of these groups in desakota zones. On the other hand, top down formal institutions can disrupt governance systems that have proved to be effective over time (e.g., the subak system in Bali). Where informal institutions for collective action are being lost and are not effectively replaced by the state, legitimacy, acceptance, accountability, trust, compliance and sanctions will also be lost and the whole governance of rural-urban transformation will be at risk.

Overlooking the increasing interplay between formal and informal institutions may result in policies and governance systems unable to promote balanced and sustainable rural transformation. Understanding the transactions, relationships and networks linking informal institutions among them and with formal institutions is therefore essential for effective design of support programmes targeting smallholders and local communities

*Different forms of interactions*

Informal institutions are often viewed by policy makers as inefficient and therefore as a constraint to development and "modernization". This perception is not

confirmed by the evidence and in any case cannot be generalized. As a matter of fact, informal institutions can interact in various ways with formal institutions. (Helmke & Levitsky 2003) identify four possible interactions that may take place (Tab. 1).

In weak formal institutional systems, which is the case of many developing countries, substitutive and competing formal-informal institutions do often prevail. But in other contexts, informal institutions may play different roles simultaneously. In some countries of Latin America, for example, indigenous laws may conflict with, converge with, or substitute for state law. Finally, within the co-evolution process of formal and informal institutions, what was previously considered informal can become formal. In several Andean countries, for example, constitutions have been reformed to formally recognize indigenous laws (Yrigoyen Fajardo, 2003).

**Table 1 Typology of interactions between formal and informal institutions**

	Effective formal institutions	Ineffective formal institutions
Compatible	Complementary	Substitutive
Conflicting	Accommodating	Competing

Source: (Helmke and Levitsky, 2003)

*What can be done to strengthen synergies between formal and informal institutions towards inclusive and sustainable rural development?*

In order to face the emerging development challenges in general and rural in particular, notably demographic trends, urbanization, climate change, markets volatility and their impacts on rural transformation, it is compelling for the developing countries to adapt both rural and urban institutions taking into account their increasing interconnections as well as the interactions between formal and informal institutions. Key condition for the adaptation of institutions to be conducive to a sustainable and inclusive rural development is a meaningful participation of local communities and rural local institutions in policy decision making, through governance mechanisms that address asymmetries of power among stakeholders, can increase community's adaptive capacity. There are three critical components to promote effective and inclusive institutions for rural development and poverty reduction.

1. First is promoting the social legitimacy of formal institutions by:
  - i) strengthening synergies between formal and informal institutions;
  - ii) improving coordination between the central and decentralized levels of policies and strategies as well as between all the actors involved;
  - iii) enhancing inclusive participation in stakeholder-driven policy-making,

- and; iv) improving access of local people and communities to pluralistic and financial services.
2. Second is strengthening the rights and capacities of vulnerable communities through capacity development and knowledge dissemination for improving the inclusion of rural populations, particularly youth and women.
  3. And a third is recognizing the territorial diversity, which influences the outcomes of national policies.

### *Insights from FAO work at the country level*

Genuine government commitment for tackling the complex issue of rural development and poverty is unlikely to develop where there is not an organized, politically active, mobilized and empowered local constituency pushing the issue higher on the public and political debate. The greater the distance between political and economic institutions and informal institutions the higher will be the risk of vulnerable geographic areas and populations to be excluded from development opportunities and the advantages to be captured by organized groups and those that are closer to political elite.

In its strategic framework FAO has paid special attention to the role of inclusive institutions to achieving the objective of hunger eradication and rural poverty reduction. In its new medium term plan 2018-2022 it renews and steps up its efforts to supporting the development of rural institutions and particularly informal institutions in line with the view of Agenda 2030. Central to FAO's contribution to the elimination of rural poverty is the development of the capacity of governments and other stakeholders to strengthen rural institutions and organizations that empower rural people, with a focus on the most marginalized, particularly youth and women.

FAO applies a three-pronged approach in its support to countries in developing quality and inclusive institutions that combines micro (local), meso (sectoral) and macro (national) level actions.

1. At the micro-level, FAO contributes to the community and local governance through its Dimitra Community Listeners' Clubs, which enable rural people to participate more actively in the economic, political and social life of their communities, thus contributing to strengthening the rights and livelihoods of marginalized groups and social cohesion. Instrumental in supporting local communities are also the increased efforts of FAO to enhance partnerships with grassroots organizations. The most recent agreement was signed in 2016 by the Director General of FAO with the [Self-Employed Women's Association](#) (SEWA), an Indian association with 2.2 million members that offers its members access to a wide range of networks and services aimed at empowering rural households and enable them to better participate in policy dialogue.

2. At the meso-level FAO focuses on breaking the vicious circle that links limited access to rural services of the majority of smallholders and poverty and food insecurity in rural areas. Collective action through producer organizations helps smallholders improve their access to services, including rural finance, which is expected to unlock the potential of smallholders, which make up over 80% of farming households in the world, to contribute to and benefit from socio-economic growth and to ensure a broad-based impact on rural livelihoods. A strong contribution to this achievement is provided by the [Forest Farm Facility](#) (FFF) programme, a partnership launched in September 2012 between FAO, IIED and IUCN, and AgriCord to: i) strengthen smallholder, women, community and indigenous peoples' producer organizations for business/ livelihoods and policy engagement; ii) catalyze multi-sectoral stakeholder policy platforms with governments at local and national levels; iii) link local voices and learning to global arena through genuine participatory processes/communication and information sharing.
3. At the macro-level, FAO supports countries in strengthening vertical and horizontal coordination of institutions and facilitating inclusive policy dialogue including through multi-stakeholder platforms that will enable countries to overcome the bias between top-down and bottom-up policies and the disconnect between national policies and the priorities and needs of local stakeholders. Co-ordination is also required between national policies and international co-operation efforts, often based on short term and narrowly targeted projects that can exacerbate fragmentation of policy and programme interventions and generate local dependency on external aid.

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