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Formal and Informal Institutions in Development: Contexts, Resistance, and Leverage

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Institutions matter for growth and inclusive development. But despite increasing awareness of the importance of institutions on economic outcomes, there is little evidence on how positive institutional change can be achieved. The Economic Development and Institutions – EDI – research programme aims to fill this knowledge gap by working with some of the finest economic thinkers and social scientists across the globe.

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1 The design of development policy through the lens of Western benchmarking

The importance of institutions in the design of effective development policy is by now widely recognised by scholars and policymakers. Formal institutional dimensions, such as secure property rights, open political and economic competition, the rule of law, the separation of state powers, media freedom, and rational and efficient bureaucratic rules, are typically considered as essential building blocks in the drive towards economic development and prosperity. Similarly, dimensions such as empowerment, individual emancipation vis-à-vis traditional and group authority, and human rights have attracted widespread consensus in the social and human development field. Considerable effort has been therefore undertaken by international aid agencies and civil society organisations to promote the emergence and strengthening of these institutional features. This approach, however, has been criticised along different dimensions.

A first issue relates to a questioning of the idea that institutional building can be effectively stimulated or imported from scratch as a 'one-size-fits-all model'. In this respect, an increasing amount of attention has been devoted to the existence of evolving dynamics, where formal institutional dimensions interact with other 'slow or fast' moving dimensions, such as cultural traits and social norms (so-called 'culture' or informal institutions), physical and economic endowments, patterns of social stratification (e.g. social and economic inequalities), and structures of political power (e.g. political economy interactions). The non-linear aspect of these joint dynamics has highlighted in particular the importance of path dependency, the role of historical accidents, and the existence of 'critical junctures' along the development trajectory (the importance of 'history', in short). Because of this complex interactive process, at any point of time, one may expect the functioning of formal institutions and their effectiveness in promoting development to vary significantly with the cultural and historical context in which these institutions are embedded.

The cultural and historical embeddedness of formal institutions leads to another important element: the fact that focusing systematically on the role and implementation of Western-style formal institutions can be inappropriate and counterproductive in terms of development policy achievements. Specifically, the inadequacy of formal and informal institutions, hidden political constraints created by idiosyncratic pre-existing power groups and elites, coalition dynamics, business lobbying, or sources of legitimacy can indeed prevent or inhibit in a non-Western context the expected positive developmental effects that Western-style democracy, rule of law, and property right institutions have conferred in the past in that part of the world.

Likewise, and importantly, the active promotion of Western benchmarked institutions may be associated with negative cultural perceptions of a form of 'imperialistic/colonialist paternalism' among non-Western populations. This in turn is likely to stimulate countervailing resistance and even induce a cultural backlash, specifically when these institutions connect with domains that touch deeply on local traditional identity and worldviews.

These are common themes to the research projects undertaken in the Research Area 4 (RA4) of the Economic Development and Institutions initiative (EDI). In the next section, we briefly review the salient elements emerging from these studies. We then elaborate on the issue of how to resolve the crucial discrepancy between formal and informal institutions that

is often at the heart of the policy ineffectiveness found in several research projects. In particular, based on what we have learned from these studies, we outline different strategies to mitigate this discrepancy, and discuss their costs and benefits. Finally, we provide tentative conclusions from the perspective of external donors and agencies supporting developmental policy reforms.

2 Institutional embeddedness and cultural resistance

Covering several domains (governance and state; gender and family; the private sector), several RA4 studies highlight the importance of social embeddedness for institutional change and socio-economic outcomes. Some analyses also provide credible evidence of how attempts at various policy reforms (economic or media liberalisation, government decentralisation, women's rights and empowerment in local governance structures, trade liberalisation, etc.) were ineffective and poorly implemented because of the existence of specific political and cultural trade-offs, capture by traditional elites, or cultural resistance by sometimes the very people the reforms were intended to help.

2.1 Diversity of institutional dynamics

Some RA4 papers take a long-run perspective on the dynamics of formal institutions, emphasising specifically the importance of embeddedness in pre-existing cultural contexts and the role of historical conditions. This line of research highlights the diversity of the long-run trajectories of formal institutions across different countries or continents. For example, Jia, Roland and Xie (2021) point out a striking difference between Imperial China and pre-modern Europe in power structures between rulers, elites, and peoples that lasted over many centuries.

Similarly, Auriol, Platteau, and Verdier (2020) focus their attention on explaining institutional divergence across various countries with large Muslim populations in the Middle East and Asia. The pattern of institutional dynamics and the extent of policy reform is driven by the political trade-offs that the civil executive power faces in regulating the interactions between a coercive force (the military, which has the capacity to support but also displace civil authority) and a legitimising force (the clergy, who have the capacity to promote – or not promote – legitimacy beliefs regarding civil authority in society at large).

2.2 Context specificity and private sector dynamics

The context specificity of informal institutions is also much highlighted by RA4 studies that analyse the dynamics of entrepreneurship and private sector productivity growth in developing countries.

A first set of papers investigates the role of community networks in the process of industrialisation and private sector development. In the case of China, Dai *et al*. (2018) study the contribution of birth-county-based community networks in the growth of private enterprises. They present a simple network-based model of entrepreneurship dynamics estimated using administrative data that covers the universe of registered firms over the 1990–2009 period. Their analysis has rich implications for the dynamics of firm entry, concentration, firm size, and productivity growth, and indicates significant dynamic social increasing returns to network size.

In the context of pre-Independence India, Gupta *et al*. (2018) consider the role played by community networks in the emergence of entrepreneurship in the cotton textile and jute industries. For both industries, the authors construct a yearly panel dataset of active entrepreneurs by community, using business registers of the directors of listed firms in

upstream and downstream activities of the industry concerned, and coding their respective community identities from their names. Controlling for price and other industry-wide shocks and community characteristics, the analysis indicates significant community clustering of entrepreneurs. In addition, the dynamics of active entrepreneurs from different communities are characterised by quantitatively important, non-linear amplification effects of early community presence. This is again consistent with a network-based entrepreneurship model in which the entry of new entrepreneurs is based on productivity-enhancing help provided by incumbents from their own community.

Extending their network-based analysis of entrepreneurship dynamics in China to the case of international trade, Dai *et al*. (2021) present interesting evidence that community network-based spillovers are stronger among domestic producers than among exporters. A plausible explanation for this relates to the fact that community-based networks started to promote industrial development when China was little integrated in the world economy. This feature in turn partially locked the relevant community into the home market, rather than promoting a focus on exports. Importantly, the authors suggest that this path-dependent pattern of industrial development may be a source of misallocation of resources, whereby the increased profitability of low value activities (production for the home market) at a given point of time discourages the choice to pursue higher value activities (exporting) later.

A second set of papers focus on management and training practices to boost the private sector's productivity and development. As suggested by a substantial body of evidence, context is also key to understand the difficulty in improving such features at small- and medium-sized firms in lower-income countries. For instance, in their experiment with smaller firms in Nigeria, Anderson and McKenzie (2020; 2021) highlight the challenge of stimulating the use of private markets for business services. Their analysis indicates that resolving information asymmetry issues by informing firms about the quality of providers is not enough: firms very rarely purchase accounting or marketing services on the market.

In the same vein, viewing training as organisational culture rather than simple individual specific skills acquisition, Azulai *et al*. (2020), use an experiment in Ghana to investigate how the training of public sector managers can improve management practice. Surprisingly, though, they find that team-based training is less effective than individual training. Implicit group-related norm constraints and/or free-riding incentives may explain this result.

Uckat and Woodruff (2021) illustrate in the context of readymade garment factories in Bangladesh an alternative approach to improve management practices: expanding the pool of potential managers to include groups. In their case, they consider women previously excluded from consideration for promotion into managerial positions. This is a key relevant feature of their analysis, as there is often a path-dependent culture leading to inefficiently low levels of promotion of females, because of lack of experience selecting women for promotion, as well as cultural resistance on the part of co-supervisors and production workers to working under the authority of women (Macchiavello *et al*., 2020).

Recognising these problems with selecting the best female candidates, Uckat and Woodruff (2021) propose a diagnostic tool intended to improve the selection process of the best female candidates. Through a cross-randomised design, they provide training on use of the diagnostic selection tool. The analysis indicates that training on the use of the diagnostic tool caused firms to select better candidates. However, there does not appear to be significant

improvements in productivity (at least in the short run) on the lines managed by the newly promoted female trainees.

2.3 Inhibition and resistance to formal institutional changes

Other RA4 studies consider formal institutions in specific countries at given moments of time. Again, they emphasise how their functioning is affected by the cultural and historical context in which they are embedded. Importantly, these analyses also highlight how formal institutional processes may be subverted or perverted by religious, political, or economic elites.

For instance, Mehmood and Seror (2020) consider the consequences of the 1999 military coup in Pakistan. They show how political decentralisation, paving the way for clerics holding powerful positions in local government, induces a deterioration of judicial independence. Interestingly, their analysis shows that some of the resulting resource benefits accruing to local religious leaders are appropriated by the military ruler, thereby motivating the latter to pursue the decentralisation reform in the first place.

Similarly, Forster *et al*. (2021) examine a 2013 trade liberalisation reform in Myanmar, providing evidence that firms with political connections to the military rulers were protected from its effects in the way it was actually implemented. This is true both for the extensive margin (connected sectors were less likely to be liberalised in the 'de jure' reform) and the intensive margin (within those sectors subject to the 'de jure' reform, those politically connected were less likely to implement the 'de facto' reform).

In the same vein, Malik, Mirza and Platteau (2021) focus on the role of political dynasties vis-à-vis other politicians on local development. In a context of widespread electoral clientelism, their analysis highlights the unexpected fact that political competition may not impose policy discipline on dynastic incumbents. As a matter of fact, localities marginally won by a dynast witnessed a drop in various measures of local development compared to localities marginally lost. This negative effect, observed to be more pronounced in close elections, suggests that political dynasties tend to use their political visibility and intergenerational incumbency advantages to block local development. The underlying strategy seems geared towards perpetuating the dependence of their clients. The explanation proposed by the authors is based on the presence of two types of clientelistic politics: hierarchical clientelistic relations, in which the political patron supplies livelihood-protecting goods and services to their poor and submissive clients, on the one hand; and more horizontal clientelistic relations, in which the political patron supplies livelihood-enhancing goods to more ambitious clients, on the other. While entrenched dynasts tend to fit into the former pattern, non-dynastic leaders better fit the latter definition.

In an area touching family structures and women's rights, Genicot and Hernadez de Benito (2019) provide a vivid example of the strong persistence of traditional institutions and cultural resistance to formal institution-building. They consider The Village Land Act of 1999 in Tanzania, which supposedly provides an example of an ambitious policy aimed at changing traditional land property and inheritance practices in favour of women. Their analysis shows, however, that 20 years later, women still own little property independently of their husband and are particularly vulnerable in the event of divorce or widowhood. Importantly, there

seems to be some degree of cultural resistance in the sense that female members of the village councils hold more conservative views than their male counterparts when it comes to the widow's rights, particularly when they do not have a son. Even though the new land policy aimed explicitly at fostering female land rights by encouraging female participation in village land councils, female members were unlikely to demonstrate particular support for women's land claims, thereby reinforcing traditional patrilineal practices.

In the same vein, using demographic health survey data from Africa, Corno *et al*. (2020) report the strong support of women for the practice of female genital mutilation, even though they are themselves the first victims of this practice. Although 58% of all female respondents had undergone genital mutilation, as many as 37% of all women support the practice and believe it should continue. Relatedly, Amirapu *et al*. (2020) report interesting evidence on female support for gender-biased norms and discriminatory practices in Bangladesh, regarding child nutrition and education. Likewise, using implicit association tests among women in Pakistan, Khan *et al*. (2020) find a correlation between a measure of internalised gender bias and women's participation in household decision making. Disempowered women seem to hold more conservative and gender-biased views, as if being placed in a dominated position reinforces their support for patriarchal values.

Blumenstock, Dube, and Hussein (2021) provide another illuminating example of cultural backlash. They analyse the consequences a drastic media liberalisation policy pursued in Pakistan in 2002, in which the country moved from a single state-controlled radio station with culturally conservative content to a decentralised network of hundreds of private stations broadcasting various content (including from foreign non-Islamic countries, such as the US and India). Unexpectedly, higher exposure to diverse media featuring secular content on cultural and religious attitudes tended to enhance political support for religious parties, as well as the increase of enrolment of children in madrasas focusing on Quranic studies. This 'backlash' effect can be explained by the deliberate cultural resistance of religious conservative households to modernising influences.

Most of the above studies are thus useful additions to the recent and growing literature highlighting the existence of cognitive constraints impeding development and the emancipation of the poor and marginalised sections of the population. In particular, poor people often demand policies that confer short-term benefits at the expense of long-term costs and anti-poverty programmes (Khemani, 2015; Anderson *et al*., 2015; Dal Bo *et al*., 2017; Bardhan and Mookherjee, 2020; Bardhan *et al*., 2020). What needs to be stressed, though, is that instead of being cognitively constrained, the preferences of the poor may express rational calculation: as argued long ago by James Scott (1977), the poor value a guarantee of their subsistence more than their liberty. Thus, widows in rural Tanzania may choose not to support legal moves towards making them inherit the land of a deceased husband because this would antagonise their in-laws, to whom they can turn for help when under duress.

3 Reconciling traditional institutions with formal institutions?

A central theme of the projects undertaken in the RA4 of the EDI initiative is the idea that effective policy reforms are mitigated or impeded because of their specific embeddedness within idiosyncratic power structures and informal cultural elements. In particular, the building-up of classic 'Western-style' institutional dimensions, which are often viewed as fundamental to support economic and social development, seems to lose its effectiveness and come into conflict with local and traditional contexts. From a policy point of view, this leads to the crucial question of how to reduce this fundamental discrepancy and move along a path where traditional institutional structures and formal institutions are reconciled with each other. There are three approaches to institutional change here. At the two extremes, one finds the 'Institutional Laissez-Faire' approach and the 'Institutional Radical' approach. In between is a third approach, the 'Institutional Gradualist'. In this section, we discuss these alternative perspectives and their likely costs and benefits.

3.1 The 'Institutional Laissez-Faire' approach

The 'Institutional Laissez-Faire' approach is based on the long-standing view, inspired by modernisation theory, that economic growth and asset accumulation lead over time to endogenous changes in institutions, culture, and social structures in ways which make them congruent with the process of economic development (Bauer and Yamey, 1957; Lewis, 1955; Hirschman, 1958). Behind this view is the idea that changes in economic endowments and assets progressively and negatively affect the incentives and opportunity costs to follow traditional values and/or social norms antagonistic to capital accumulation, risk-taking, and development. In other words, once basic institutions, such as property rights, the rule of law, and the guarantee of physical security, are established which encourage investment, productivity growth, and economic exchanges, then other social and cultural dimensions will gradually adapt to this changing environment. This is well expressed by Arthur Lewis when he argues that religious beliefs may evolve and be reinterpreted depending on the economic environment confronting societies (Lewis 1955). The modernisation view also applies to power structures and political institutions, as attested by Lipset's (1959, 1960) original account of the relation between socio-economic development and political democracy.

This view has been criticised for one basic reason. It overlooks the importance of institutional resilience. Indeed, an extensive literature stresses the long-term persistence of institutions beyond their material determinants (see, in particular, Sokoloff and Engerman, 2000; Acemoglu *et al*., 2001, 2005) and highlights 'institutional inertia', whereby institutions which emerged as a response to environmental, material, and technical conditions fail to adapt to new conditions. Further, even when such change occurs, modernisation theories are silent on the time it takes for these traditional, informal power structures to adjust to the changing material conditions.

More generally, an 'Institutional Laissez-Faire' approach neglects the two-way interactions and feedback effects between the formal and informal spheres of institutional structures. For instance, the political economy of development is replete with situations where a dominating group has the power to divert 'de jure' institutions into 'de facto' institutions that serve its interests (Acemoglu and Robinson, 2008). These institutions, in turn, may reinforce existing

traditional structures in the society or may elevate into leadership positions individuals with traits best suited to ensure their functioning and their survival. Such mechanisms generate non-linearities and the possibility of multiple dynamic trajectories, some of which are strongly dependent on initial conditions, and lead to outcomes very different from those predicted by the modernisation view.

3.2 The 'Institutional Radical' approach

To the 'Laissez-Faire' perspective, one may oppose a 'Institutional Radical' approach. This view emanates from a somewhat 'hyper-modernist perspective' (Rao and Walton, 2004), which acknowledges cultures and informal structures as powerful and persistent dragging forces unsuited to market-oriented growth and social development (Harrison and Huntington, 2000). Along this perspective, the discrepancy between people's traditional behaviour, beliefs, social norms, and collective rules, on the one hand, and modernity, on the other, can be overcome only by radically reforming cultural characteristics. To do this, new institutions have to be imposed by force, creating unavoidable tension and conflict with traditional power structures.

Under certain circumstances, reformers with enough power may certainly induce radical changes. For instance, from 1922 to 1936, Mustapha Kemal Atatürk undertook radical reforms to modernise Turkey and erase the legacy of dominance long exerted by religion and tradition. A comprehensive set of policies was implemented, ranging from compulsory secular education, restrictions on wearing religious symbols in school, and the closure of religious orders, to the extension to women's voting rights, their right to be elected to public office, and the separation between governmental and religious affairs in Turkey.

Nonetheless, state policies directly aimed at institutional change generally fail to produce effective and long-standing changes to existing traditional institutions. In this respect, Guirkinger *et al*. (2021a) provide a striking example of the extraordinary resilience of traditional structures to radical policies implementing drastic institutional change. More precisely, they investigate the effects of the Soviet policies to eradicate clanic structures in Kyrgyzstan. Several decades of Soviet rule strongly repressed clanic identity, imposed massive asset expropriation on clan leaders, and undertook the systematic execution or deportation of clan members to Siberia. In spite of all this, clanic identity survived and after the fall of the Soviet Union, clans regained their importance in the social and political life of the country, even though their main traditional functions, centred around nomadic pastoralism, have largely disappeared.

Beyond resilience, the radical approach can even generate a cultural backlash. For instance, Sakalli (2019) shows that after secularisation in Turkey, the residents of provinces with higher pre-secularisation levels of religiosity were less likely to send their children to secular schools relative to others. Poor, pious parents avoided sending their children to secular schools to better transmit their religious identities, thereby foregoing the economic benefits associated with human capital investments. This is also consistent with Meyersson's (2014) converse and paradoxical finding that in localities where the Islamists came back to power in the 1994 municipal elections, there has been an increase in female participation in secular high school education.

In a different context, the possibility of cultural backlash inherent in the radical approach is also illustrated by Fouka (2020). She examines how in the US, a specific assimilation policy – language restrictions in elementary schools – affected the integration and identification of minorities with the host country later in life. She exploits the fact that after the First World War, several US states barred the German language from their schools. What she finds is that, rather than facilitating the assimilation of immigrant children, the policy instigated a backlash, heightening the sense of cultural identity among the minority. Indeed, affected individuals became less likely to volunteer in Second World War, and more likely to marry within their own ethnic group and to choose German names for their offspring.

One of the reasons explaining the strong resilience of traditional structures in the presence of a forced top-down imposition of formal institutions, is the internalisation of informal norms and cultural values and their transformation into individual preferences (Bisin and Verdier, 2001; 2010). This internalisation allows for the persistence and transmission of traditional values to future generations, even in the absence of an explicit policy or will to perpetuate them. Another reason relates to the fact that choosing a non-traditional option sometimes requires the anticipation of the long-run effects of the policy reform on the emergence of a 'new social equilibrium'. Such an equilibrium may require coordinated actions, which may be individually harmful if undertaken alone. In this respect, resistance to radical reforms may be all the stronger as these reforms involve radical changes that destabilise the status quo and have consequences that are hard to visualise.

3.3 The 'Institutional Gradualist' approach

In between the preceding, somewhat extreme perspectives, one may envision a more gradualist approach to institutional reforms. A first argument in favour of gradualism is that radical changes may imply large redistributive effects, both economically and culturally. It may also generate much uncertainty and threaten established power structures. Large enough support in favour of the reform is therefore harder to secure. More gradual or stepwise policies, which only marginally affect established interests at a given point in time, may be easier to implement with popular support (Gulesci *et al*., 2021; see also Aldashev *et al*., 2012). As emphasised by Dewatripont and Roland (1992a, 1992b, 1995) in their analyses of the policy trade-off between a 'Big Bang' and 'Gradualism' on reforms in the transition economies of the 1990s, a gradualist strategy significantly relaxes the political economy constraints of reforms and may sequentially exploit the fluidity of stepwise reform-supporting coalitions in the process of institutional change.

Relatedly, reforms that have little distributional consequences are arguably easier to carry out, in contrast with those questioning established hierarchies. For instance, the success of community forest management in Nepal can be partly ascribed to the fact that the benefits of the reform were spread across all villagers and were, in a sense, Pareto-improving (Libois *et al*., 2021).

From a social psychology point of view, a gradualist approach also keeps socially determined goals and outcomes within the 'window' of the conceivable aspirations of individuals affected by the reform, thereby maintaining their motivation and support (see Genicot and Ray (2020) for a theoretical discussion of this mechanism). In this respect, public policies radically promoting Westernised values may be too distant from local norms

and generate frustrations, conservatism, or a backlash, especially when a large share of the population feels disenfranchised. This may well explain, for instance, part of the recent rise of Islamic fundamentalism (Platteau, 2017).

An institutional gradualist approach also has drawbacks. A first issue arises when there is uncertainty about the distribution of the costs and benefits of a reform. It may then be the case that a radical reform, which is initially opposed by important sections of the population, eventually comes to receive their support once uncertainty has vanished. Fernandez and Rodrik (1991), who have developed this argument, illustrate it with the help of trade liberalisation reforms in Taiwan, South Korea, and Turkey. In these countries, the trade liberalisation move was authoritatively imposed by an autocratic ruler against the wishes of the business community. It is, nevertheless, striking that the reforms became gradually accepted ex post by important group coalitions.

A second issue stems from the existence of complementarities between different institutional dimensions. Introducing some institutional change along one dimension may then fail to produce any effective outcome, if there is a strong complementarity with another dimension which is not reformed at the same time.

Another issue with gradual reforms relates to their credibility: marginal changes may appear too hesitant, with too many exceptions, so that the proposed policies do not credibly support a viable alternative. An interesting illustration is provided by Amirapu *et al*. (2020), who investigate the consequences of a strengthening of the ban on child marriage in Bangladesh. The results of the policy are disappointing as they find overall little effects on beliefs and attitudes towards early marriage. One possible explanation is the fact that the provision of exemptions harms the credibility and enforceability of the new policy. Alternatively, these exemptions may signal that the policymaker is actually more conservative than previously believed.

More generally, formal institutional reforms designed to preserve some traditional norms and practices may fail to change beliefs about what should be the socially appropriate behaviour. Given the resilience of traditional institutions at shaping beliefs and constraining individual behaviour, gregarious practices in line with tradition may have a high degree of persistence in the face of such institutional reforms. In these cases, a more comprehensive approach, whereby the specific reform is also accompanied by policies targeted at collective beliefs and attitudes, may prove more effective.

Rather than directly confronting the logic and functioning of pre-existing traditional institutions, an alternative aspect of a gradualist approach may be to look for domains where such structures may show useful complementarities and leverage these to promote effective institutional change. Particularly useful in this regard are informal structures, including support networks of reciprocity and mutual help, and traditional common pool management institutions. These horizontal institutions may better adapt to new opportunities and changing conditions. This is well demonstrated by studies by Gupta *et al*. (2019) and Dower *et al*. (2021), indicating how old horizontal networks based on castes or clans may fill new gaps left vacant by market and state failures. An interesting case pointed out by Dai *et al*. (2020) also analyses how community-based networks can usefully contribute to private sector resilience against aggregate shocks, such as Covid-19 infection rates and the associated lockdown measures taken to mitigate the epidemic.

Similarly, Libois *et al*. (2021) provides a clear example in Nepal of how community networks, and their associated role of information diffusion and trust building, can be used as successful pillars of forest management and, therefore, as effective substitutes for formal public institutions. On the same vein, Dower *et al*. (2021) and Lowes *et al*. (2021) highlight other examples of traditional institutions, which by fulfilling new roles and adapting successfully, may end up reinforced and persist, even if their original function loses in importance. In the first case, clans, previously organised around the management of common pastures in a semi-nomadic society, provide financial services to private entrepreneurs. In the second case, age groups (e.g. initiation groups of men entering adulthood) in the Democratic Republic of the Congo act as a social structure that facilitates grassroots monitoring of the community implementation of public goods projects, and therefore ensure some effective provision of public goods.

Conversely, there is scope to leverage formal institutional structures to promote indirectly changes in informal arrangements within communities. An example is Uckat and Woodruff (2021)'s training project, which facilitates the movement of women into firm's management positions. Uckat (2021) traces the effects of such a programme from the factory to the households, and shows that women selected for training increase their bargaining power in their households, especially related to the purchase of goods for personal consumption and remittances to family members.

Another mechanism which also helps reduce the discrepancy between formal and informal institutions is to openly allow their joint functioning in the same domains. An interesting example is legal pluralism, where formal law coexists with customary law. Once specific dimensions are fixed by the formal structure, one may leave individuals free to choose between various legal systems of arbitration and dispute managements (formal and informal) to resolve their conflicts. This type of mechanism allows for some flexible implementation of the law compatible with traditional beliefs and social structures, eventually leading to a convergence of the two systems (Aldashev *et al*. 2012). The experiences of legal pluralism in the Ottoman Empire or, in the present day, in Indonesia, offer interesting illustrations of the beneficial effects which such an approach may engender (Bowen, 2003; Kuran, 2004a, 2004b).

4 Implications for aid policy and donors

Based on the previous discussion of the research undertaken under the RA4 of the EDI project, this section sets out implications for donors and development aid policy.

4.1 Biased benchmarking and 'development paternalism' can be counterproductive

A first important conclusion emanating from several RA4 studies is the fact that institutional policy design reflecting predetermined, implicit, Western-specific benchmarking dimensions can be counterproductive in poor developing countries. This is especially the case when that intervention involves changing behaviour and decision making processes that are strongly embedded in local social and cultural contexts.

Specifically, in domains related to human and political development, such as gender and empowerment issues, quantitative analyses typically focus either on formal rights, decision taking, or a set of selected outcomes. In terms of policy assessment, these elements are often implicitly compared to predetermined criteria, such as gender formal equality or shared decision taking. Implicitly, these benchmark set-ups may offer partial, and potentially biased, views of female agency that do not fit with the cultural preferences and reference points of the local contexts in which the policy is implemented. In this regard, several policy interventions can be viewed as authoritarian, or as an expression of 'development paternalism', consequently inducing resistance and opposition by the very people the policy is supposed to be help. For instance, on gender equality issues, women may be more conservative than hypothesised by well-meaning reformists. Guirkinger *et al*., (2021b), for example, indicate that in West Africa, women's views on polygamy may be much more nuanced than expected. The RA4 studies dealing with female genital cutting or the age of marriage show that women may express very conservative views on practices which are typically perceived as oppressive in the West.

4.2 Policy stability and a long-term view

As demonstrated by several RA4 papers, informal and traditional institutional structures are often slow-moving variables, showing significant persistence in the face of formal top-down reforms. Even when legitimately accepted by the local population, the coordination of individual behaviour and changes in group norms take time to adjust to new institutional environments. This implies that formal institutional reforms can only be effective if implemented within stable and sustained governance structures, as perceived by the local agents. Donors should account for this 'time-to-built' incentive compatibility constraint associated with social transformations in developing contexts. When framing their aid policy (and its evaluation), they should therefore not focus on short-term results and quicky measurable outcomes. Rather they should adopt a stable, long-term, and context-sensitive perspective about institutional change, to promote sustained changes and resilience in development outcomes.

4.3 Trade-offs between radical and gradual reform policy

The previous discussion also identified important margins of trade-offs between radical versus marginal institutional changes. Compared to a gradual approach, an 'Institutional Radical' approach enjoys the benefits of signalling policy commitment, as well as the gains of policy complementarities across institutional dimensions that are tackled at the same time. On the other hand, it encounters more stringent political economy constraints, and may induce strong cultural resistance from parts of the population that lose out. Several implications can be drawn for donors to promote ways to avoid these trade-off margins.

First, when political constraints are particularly strong, a radical approach may not be feasible. In such a case, aid policy should preferably stimulate gradual and marginal changes in endowments and resources that over time open the emergence of moving coalitions along the reform process.

Similarly, in domains where cultural resistance is a serious issue, aid policy can favour the implementation of a gradualist approach with the support for mixed institutional reform systems, whereby specific dimensions are fixed by the formal structure, while other dimensions are left to the functioning of traditional structures. As already discussed, legal pluralism is an example of such a mechanism, one that allows some flexible implementation of the law compatible with traditional beliefs and social structures.

Often individuals may also appear resistant to progressive social changes because they fail to anticipate the consequences of this stance and focus therefore on their individual, short-run costs. One solution to this dilemma is to ensure that resources and endowments can be provided to reduce these short-run costs. In that case, donors can contribute to this dimension by stimulating complementary institutional structures implementing the transfer of resources through various channels, such as insurance systems, money transfers, information diffusion, and coordination mechanisms.

Finally, with regards to alleviating the discrepancy between formal and informal institutions, the most promising implication for aid policy is perhaps to target domains where these structures show useful complementarities. As suggested by the analyses of Gupta *et al*. (2018), Dai *et al*. (2020), Dower *et al*. (2021), Libois *et al*. (2021), and Lowes *et al*. (2021), significant policy performances can be obtained through development projects that leverage on traditional horizontal structures, such as support networks of reciprocity and mutual help, and traditional private sector or common pool management institutions.

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