

March 2022 Synthesis Seminar

Session 2 – Case Studies Synthesis (RA4)

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Umbrella RA4 Synthesis Report
Formal and Informal Institutions in Development:
Contexts, Resistance, and Leverage

Jean Philippe Platteau and Thierry Verdier

- RA 4 Studies: 3 areas
 - Private Sector Development
 - Public sector, Governance and Conflicts
 - Family and Gender Norms30 research projects
- Synthesis reports for each area: Woodruff, Mokherjee, Baland-Guirking
- Common themes across research projects:
 - Interacting dynamics between Formal/Informal institutions
 - Context and History matter (path dependency, historical accidents, “critical junctures”)
 - “Western style” formal institutions in non-Western contexts: discrepancy issues (hidden political constraints, moving coalitions, sources of power and legitimacy, culture and social norms)can be counterproductive in terms of development policy achievements.

Road Map

- 1) Salient elements emerging from RA4 studies
- 2) Moving traditional institutions closer to formal institutions
- 3) Implications for aid policy and donors

Salient elements emerging from RA4 studies (I)

- **Context specificity and diversity of institutional trajectories:**

- Comparative political economy tradition: - Long run perspective on the dynamics of formal institutions across different countries or continents :
 - Role of pre-existing cultural contexts/historical conditions.

Ex: - Jia, Roland and Xie (2021): Imperial China and Premodern Europe:

Differences in power structures between rulers, elites and peoples: inclusive **and** exclusive institutional structures

- Auriol, Platteau and Verdier (2020): Institutional divergence in the Muslim world:

political tradeoffs which executive power faces in regulating interactions between **coercive forces** (military) and **legitimizing forces** (religious clerics)

Salient elements emerging from RA4 studies (II)

- **Context specificity, informal institutions and private sector dynamics**

1) Community networks in the process of industrialization and private sector development

ex: Dai, Mookherjee, Munshi and Zhang (2018, 2021): private sector growth in China in home market and export oriented sectors.

Dai, Mookherjee and Quan (2020): entrepreneurship in cotton textile and jute industries in Pre-independence India

Gupta, Mookherjee, Munshi, and Sanclemente (2018): resilience of production chains in China against Covid 19

Significant dynamic social increasing returns to network size: for dynamics of firm entry, concentration, firm size and productivity growth

«**Lock-in**» effects in allocation of resources across sectors

Salient elements emerging from RA4 studies (III)

- **Context specificity, informal institutions and private sector dynamics**

2) *Management and training practices to boost private / public sector's productivity*

ex: - Anderson and McKenzie (2021) : stimulating use of private markets for business services for small and medium sized firms (in Nigeria) led to disappointing results.

- Azulai, Rasul, Roger, and Williams (2020): training of public sector managers in Ghana
team-based training less effective than individual training.

 **existence of implicit group-related norm constraints and/or free riding incentives**

Salient elements emerging from RA4 studies (IV)

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- Uckat and Woodruff (2021) : expanding pool of potential female women managers previously excluded from market in readymade garment (RMG) factories in Bangladesh

mixed results: training leads to selection of better candidates.

No short run rise in productivity on lines managed by newly-promoted female trainees.

 **Issue of breaking path-dependent culture of low levels of promotion of women.**

Salient elements emerging from RA4 studies (V)

- **Context specificity : Unintended or perverse effects of institutional change**

1) Formal institutional processes may be subverted or perverted by local elites

ex: - Mehmood and Seror (2020) : political decentralization in Pakistan leads to judicial capture by local religious elites.

- Malik, Mirza and Platteau (2021): In Pakistan, political competition may not impose policy discipline on dynastic incumbents. Political decentralization yields perverse effects in some social-political situations (areas where dynastic politics and vertical patron-client relationships prevail).

- Forster, Khandewal, Machiavello, Malhotra and Teachout (2021):
trade liberalization reform in Myanmar ineffective for firms with political connections to military rulers. Economic liberalisation is no panacea. In some contexts (here, an authoritarian regime with biased state-business relations), it yields distorted effects.

Salient elements emerging from RA4 studies (VI)

- **Context specificity : Inhibition and resistance to formal institutional changes**

- 2) *Cultural resistance and backlash to formal institutional processes*

- ex: - Genicot and Hernandez de Benito (2019): Ineffectiveness of new land policy fostering female land rights in Tanzania: female members in village councils unlikely to demonstrate particular support for women's land claims, thereby reinforcing traditional patriarchal practices.
- Corno, La Ferrara, and Voena (2020): Strong support of women for the practice of female genital mutilations in Africa
 - Amirapu, Asadullah, and Wahhaj (2020): In Bangladesh female support for gender-biased norms and discriminatory practices regarding child nutrition and education.
 - Khan, Klasen, and Pasha, (2020): In Pakistan, disempowered women seem to hold more conservative and gender-biased views.
 - Blumenstock, Dube and Hussein (2021): In Pakistan, higher exposure to media featuring secular content on cultural and religious attitudes tended to enhance political support for religious parties. This looks like a cultural backlash.

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Cognitive and cultural constraints or rational calculations of short-term benefits at the expense of long-term costs for the poor and marginalized ? Example of widows' land rights in rural areas.

Moving traditional institutions closer to formal institutions (I)

Effects of policy reforms may be mitigated or impeded because of specific embeddedness with idiosyncratic power structures and informal cultural elements.

- 3 strategies to reduce discrepancy:
 - **“Institutional Laissez-Faire Approach”**: modernization theory
Growth and asset accumulation lead overtime to endogenous changes in institutions, culture and social structures in ways which make them congruent to process of economic development. Payoffs change and human behavior and social norms adjust.
 - **“Institutional Radical Approach”**: hypermodernist perspective
Cultures and informal structures: powerful and persistent dragging forces to market-oriented growth / social development (Harrison and Huntington 2000).
Need to be overcome by radically reforming cultural characteristics. New institutions imposed by force,
 - **“Institutional Gradualist Approach”**: piecemeal reforms / leverage on both types of institutions.

Moving traditional institutions closer to formal institutions (II)

- **“Institutional Laissez-Faire Approach ”:**
 - Overlooks the importance of institutional resilience and inertia, and the time needed for cultural adjustment.
 - Neglects two-way interactions and feedback effects between formal and informal institutions: major actors may instrumentalize informal institutions for their own profit.

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 - Neglects two-way interactions and feedback effects between formal and informal institutions: major actors may instrumentalize informal institutions for their own profit.
- **“Institutional Radical Approach”:**
 - Requires a strong implementation capacity (see trade liberalization in S. Korea, Taiwan and Turkey (Fernandez and Rodrick 1991).
 - May face strong resilience of traditional institutions (ex: clanic structures in Kyrgyzstan under USSR Guirkinger, Aldashev, Aldashev, and Fodor 2021)
 - Potentially leads to “cultural backlash” : In Turkey, pious and poor parents avoid sending children to secular schools to better transmit their religious identities (Sakalli 2019, Meyersson (2014). Cultural resistance existed even under Atatürk, yet it was lingering and muted under authoritarian rule.

Moving traditional institutions closer to formal institutions (IV)

- **“Institutional Gradualist Approach”:**

Benefits :

Costs :

Moving traditional institutions closer to formal institutions (V)

- **“Institutional Gradualist Approach”:**

Benefits : - Gradual and stepwise measures minimize redistributive effects both economically and culturally. They also reduce political uncertainty by mitigating the threat to established power structures.

- Easier to implement with popular support (Platteau and Wahhaj, 2013; Gulesci et al., 2021).
- Relaxes political economy constraints of reforms by sequentially exploiting fluidity of stepwise reform-supporting coalitions during the process of institutional change (Dewatripont and Roland 1992a, 1992b, 1995).
- From a social psychology point of view: maintain motivation and support for socially determined goals and outcomes within a “window” of conceivable aspirations (Genicot and Ray 2020).

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Costs : - Existence of institutional complementarities: change along one dimension may not be effective, if strong complementarity with another unreformed dimension.

- Credibility issue of marginal changes (ex: Amirapu et al. (2020): provision of exemptions regarding the ban on child marriage in Bangladesh harms the credibility and enforceability of the new policy).
- Ineffectiveness in front of high resilience of traditional institutions at shaping beliefs and constraining individual behavior.

Moving traditional institutions closer to formal institutions (VII)

- **“Institutional Gradualist Approach”: Leveraging on institutions**

Moving traditional institutions closer to formal institutions (VIII)

- **“Institutional Gradualist Approach”**: Leveraging on institutions

- 1) Leverage on traditional structures to promote effective institutional change

build upon community horizontal support networks (reciprocity and mutual help, entrepreneurship, common pool management)

- ex:
- Gupta et al. (2019), Dower et al. (2021): castes or clan networks fill gaps related to government or market failures.
 - Dai et al. (2020): community-based networks in China: contribute to private sector resilience against Covid shocks.
 - Libois et al. (2021): Community networks in Nepal for forest management (information diffusion and trust building).
 - Lowes et al. (2021): “tribal age groups in the DRC” and monitoring of delivery of local public goods

Moving traditional institutions closer to formal institutions (IX)

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- 2) Leverage formal institutional structures to promote changes in informal arrangements

ex: Uckat and Woodruff (2021), Uckat (2021) : training project moving women into firm’s management positions in Bangladesh has the effect of increasing women’s bargaining power in households: purchase of goods for personal consumption and remittance.

Moving traditional institutions closer to formal institutions (X)

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- 3) Allow joint functioning formal / informal institutions on identical domains

ex: legal pluralism where formal law coexists with customary law (Aldashev, Platteau and Wahhaj. 2012; Platteau 2017).

Implications for Aid Policy and Donors (I)

- 1) Avoid biased benchmarking and “development paternalism”
- 2) Policy stability and a long-term view
- 3) Tradeoffs between radical and gradual reform policies

Implications for Aid Policy and Donors (II)

1) Avoid biased benchmarking and “development paternalism”

- Policy assessment is often implicitly compared to benchmark set-ups biased towards “western style” criteria (gender formal equality/shared decision-taking). This may be counterproductive. Especially true in domains related to human and political development (gender, empowerment) – see Guirkinger et al., 2021b on women’s views on polygamy.
- Discrepancy with local cultural preferences and reference points: delicate balance to be found.

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2) Policy stability and a long-term view

- “Time-to-build” incentive compatibility constraints associated to institutional changes
 - Significant persistence of informal structures in front of formal top-down reforms.
 - Adjustment time associated to behavior coordination and changes in group norms.
- Need for stable, long term and context-sensitive perspective about institutional change.

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3) Tradeoffs between radical and gradual reform policies

- *Radical approach*: benefits of signaling policy commitment and gains of policy complementarities across institutional dimensions. May be OK if strong implementation capacity is available.
- *Gradual approach*: relaxes political economy constraints, and mitigates strong cultural resistance.
Implies support for pluralistic institutional reform systems, (formal/informal) and for flexibility
- Stimulate complementary transfer structures to reduce individual’s short-run costs of behavioral/belief change
- Target aid policy on domains where informal and formal structures can be leveraged and show complementarities.