

**Understanding Institutions:
Ten Institutional Perspectives
on Agricultural and Rural Development**

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National APIS Workshop on ASWAp II

Lilongwe, Malawi

October 24-27, 2016

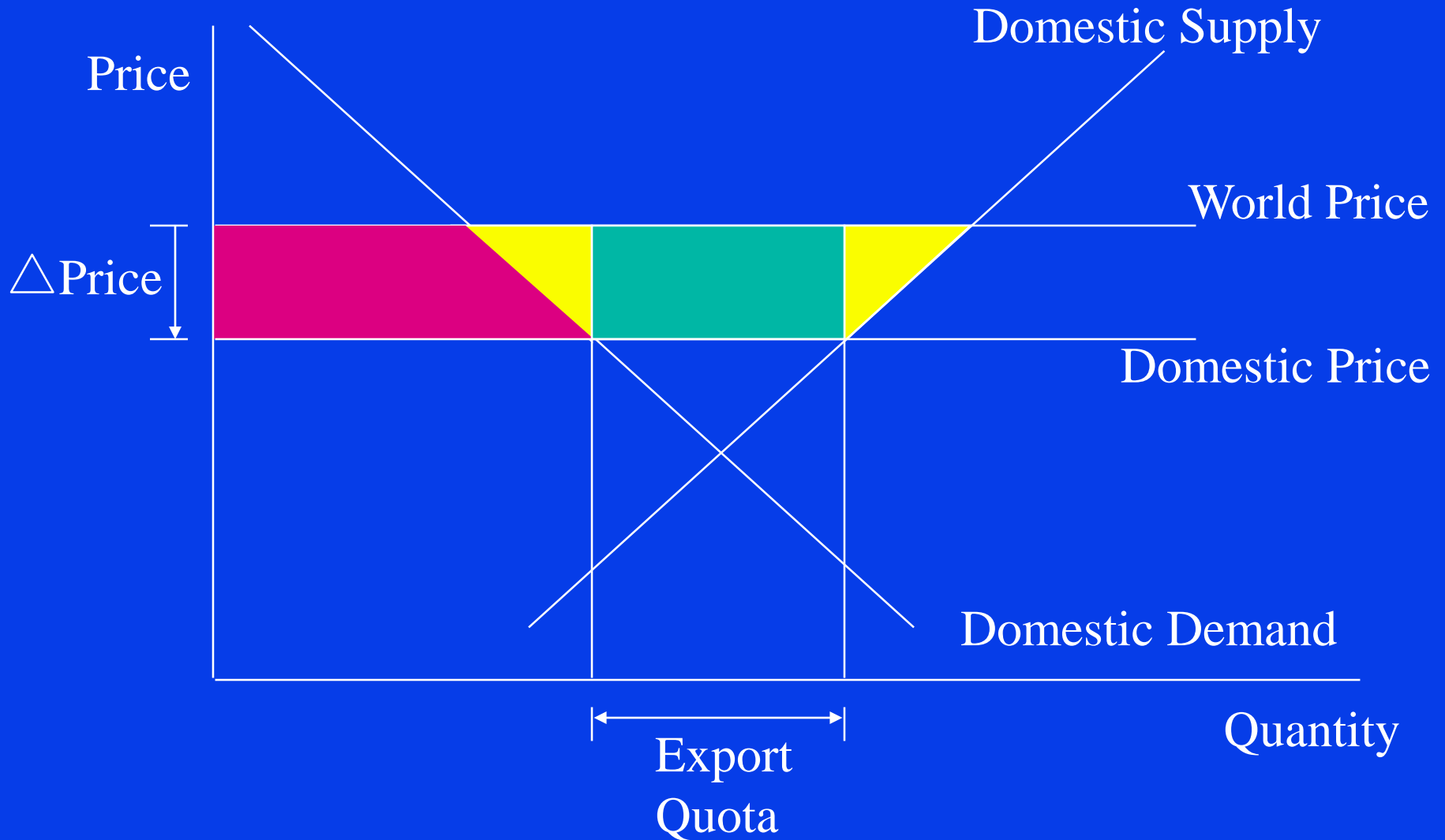
Objectives of the Presentation

- To present a conceptual framework for examining different institutional options for supplying different kinds of agricultural and rural services in a typical developing country
- To introduce a number of explicitly institutionalist perspectives with respect to the demand and the supply of agricultural and rural services

Objectives of the Framework

- To *clarify terms* like public and private goods
 - In order to address in a logical fashion the roles of the central government, local governments, the private sector, and civil society in agricultural development.
- To provide *practical steps* with respect to the substance and the process of institutional reform
- To understand which *institutional reform strategies* are more likely to succeed in different subsectors
- To encourage you to think “*institutionally*” about agricultural and rural development

What do you see?



Lower domestic food prices:

- ■ ■ Reduced income of farmers
- Net gain for consumers
- Income of quota-owners
- Deadweight loss in efficiency

OR

Increased smuggling of food out of the country:

- Lobbying by farmers to remove the quota
- Lobbying by quota owners to maintain the quota and to spend more money on law enforcement
- Bribery of customs officials
- Increased disrespect for the country's laws

Ten Institutional Perspectives

1. Beyond organizations to institutions
2. Beyond policies to institutions
3. Beyond goods and services to institutions

4. Beyond public and private goods to . . .
5. Beyond the state and the market to . . .
6. Beyond the public and private sectors to . . .
7. Beyond centralization to decentralization and . . .
8. Beyond production to provision

9. Beyond substance to process
10. Beyond experts to participation

1. Beyond Organizations to Institutions

- While organizations are institutions, the basic concept of institutions is more fundamental.
- Institutions are the **“rules of the game”**, which **prohibit, permit, or require** certain actions:
 - Formal or informal
 - Socially devised, recognized, and generally followed by members of a community, and which therefore impose constraints on the actions of individual members of the community.
 - Predictable, essentially stable, and applicable in repeated situations.

“When you see a pattern, look for institutions.”

Examples:

- **Macro-level institutions:**

- Affect behavior **throughout the economy**
- E.g. Basic laws of various kinds that define property rights, enforce contracts, and promote competition
- E.g. Institutional relationship between the Ministry of Finance and the Central Bank

- **Micro-level institutions:**

- Affect behavior **in a part of the economy**
- E.g. Specific rules and regulations in relation to particular organizations, markets, and contracts
- E.g. Food safety regulations

2. Beyond Policies to Institutions

- A **policy framework** establishes a strategic direction for policy makers and managers:
 - Vision
 - Objectives
 - Guiding principles
 - Strategies
- **Policy interventions** are government actions designed to affect people's behavior in line with the framework:
 - Food export quotas
 - Agricultural subsidies
- But even the latter must be undergirded by **institutions** in order to affect people's behavior.

Institutions are necessary to coordinate human activity

- They create incentives for people to behave in certain ways.
- Some of which are **beneficial** to society as a whole:
 - Production and exchange
 - Accumulation of physical and human capital
 - Development of improved technologies
- And others of which are **harmful**:
 - Opportunistic behavior
 - Rent-seeking – Lobbying for special government-created privileges

3. Beyond Goods and Services to Institutions:

- In any project, one can improve development outcomes by means of:
 - Physical investments
 - Research and technology
 - Capacity-building
 - Changing the “rules of the game”
 - While not trivial, changing the rules of the game may be easier, more effective, or even a precondition for other approaches to be effective
- “Sick organizations” may be sick not because the people are “bad”, but because the existing rules create incentives for people to behave in undesirable ways.**

Why the focus on institutions?

- Macroeconomic stabilization, liberalizing foreign exchange markets and international trade, and removing price controls on agricultural commodities have not been sufficient to generate a large enough agricultural supply response.
- African countries must also address a set of “second generation” issues -- **which are primarily institutional issues** -- in order to achieve desired rates of growth of agricultural development.

4. Beyond Public and Private Goods

Two characteristics which distinguish public and private goods

- **Rivalry:**
 - The extent to which one person's use or consumption of a good or service reduces its availability to other people.
- **Excludability:**
 - The ability of suppliers of a good or service to exclude from consumption those who are not willing to pay for it.

A simple taxonomy

Excludability

High

Low

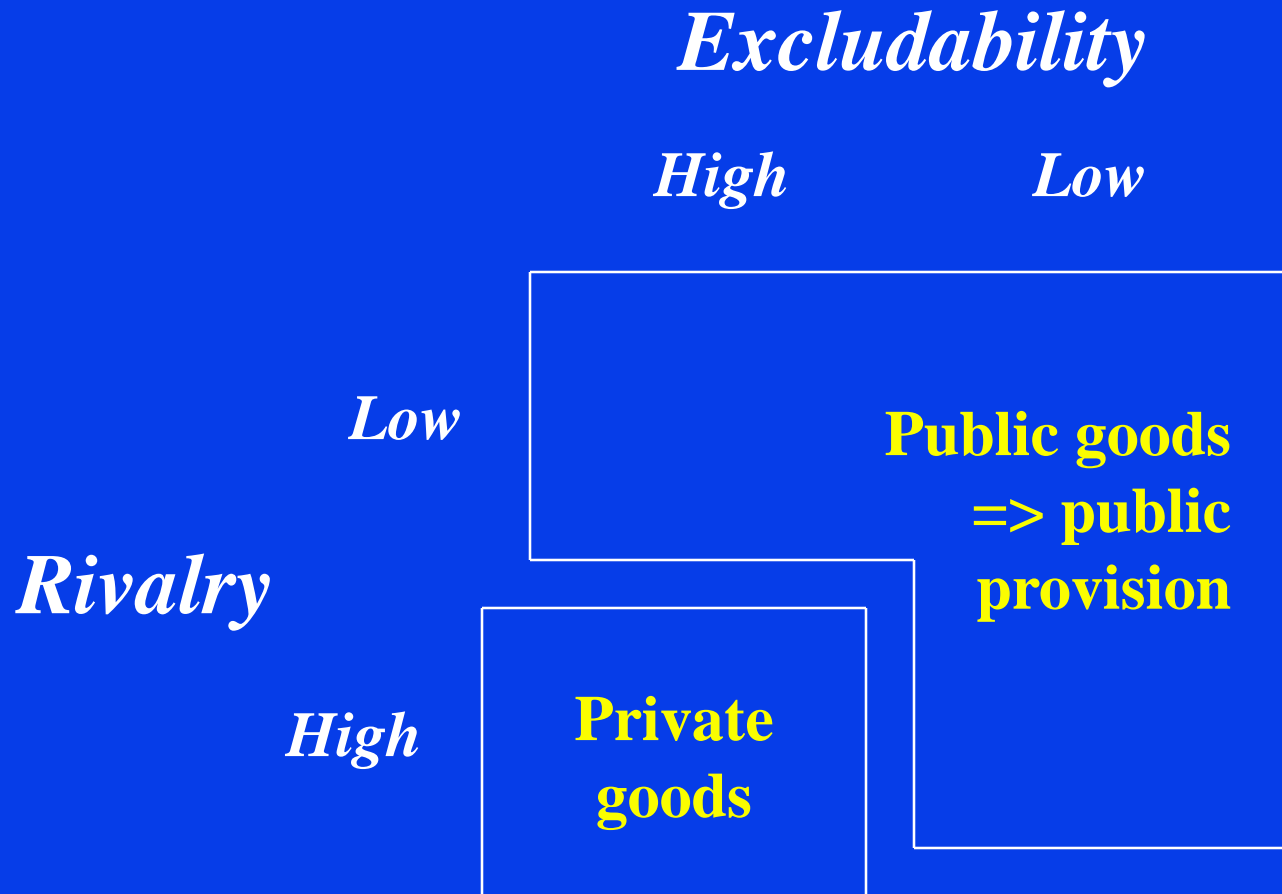
Low

Rivalry

High

Toll goods	Public goods
Private goods	Common pool goods

The previous confusion



Agricultural information and technology

- Weather forecasts
- Market information
- Legal and financial advice
- Soil analysis
- Basic research on plant nutrition
- Adaptive research on pesticides
- FTC course on farm management
- Open-pollinated seed varieties (non-hybrids)
- Hybrid seed varieties
- Improved livestock breeds
- Cultivators for small-scale farming
- Livestock vaccines
- Fertilizers
- Natural resource management

Public	Pri- vate	Toll	Common Pool

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Public	Pri- vate	Toll	Common Pool
✓			
✓			
	✓		
	✓		
✓			
		✓	
		✓	
✓			
	✓		
	✓		
	✓		
✓	✓		
	✓		✓
			✓

5. Beyond the State and the Market

Three Basic Coordination Mechanisms

- **Markets:**
 - Coordination by **exchange**
 - Voluntary, **one-on-one** exchange between two parties
- **Hierarchy:**
 - Coordination by **command and control**
 - Authority flowing, **one on many**, from the top to the bottom of successive levels of hierarchy
- **Collective action:**
 - Coordination by **common interest**
 - A group of people, **many on many**, acting together in pursuit of a common interest

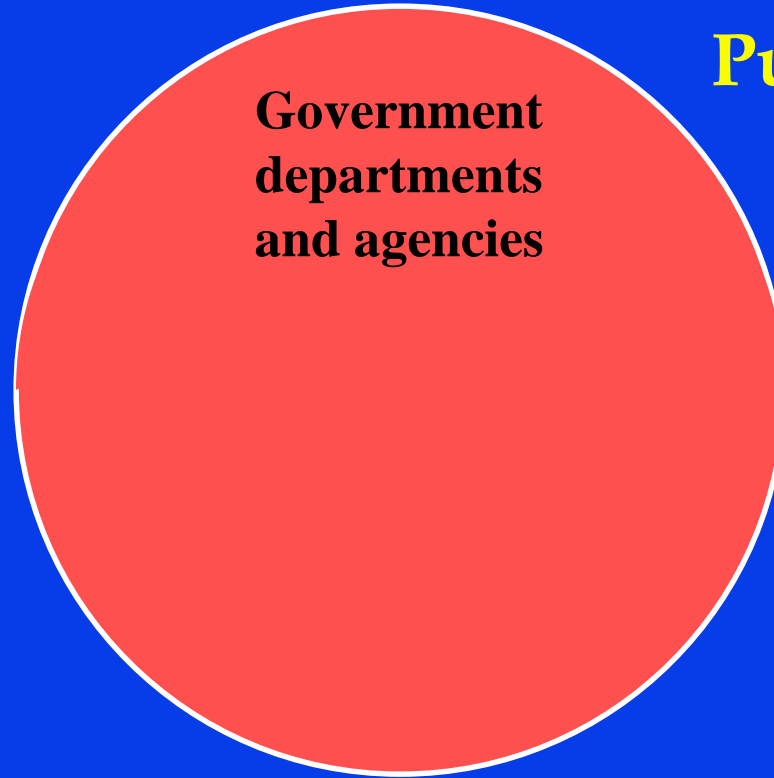
Relating type of goods to coordination mechanisms

- Excludability
 - High excludability (private and toll goods) makes markets possible
 - Low excludability (public and common pool goods) requires some form of collective action to overcome free-rider problems
- Rivalry
 - High rivalry (private and common pool goods) implies individual consumption
 - Low rivalry (public and toll goods) allows joint consumption: Either collective action and/or hierarchy may be necessary to ensure sufficient supply

6. Beyond the Public and Private Sectors

- All organizations comprise varying degrees of market-orientation, hierarchy, and collective action.
- In some cases, one mechanism is dominant.
 - Public sector: Hierarchy
 - (Commercial) private sector: Market-orientation
 - Civil society: Collective action
- In other cases, organizations are hybrids:
 - Public corporations and private hierarchies: e.g. public utilities, large firms
 - Public collectivities: e.g. universities
 - Market-oriented collectivities: e.g. cooperatives

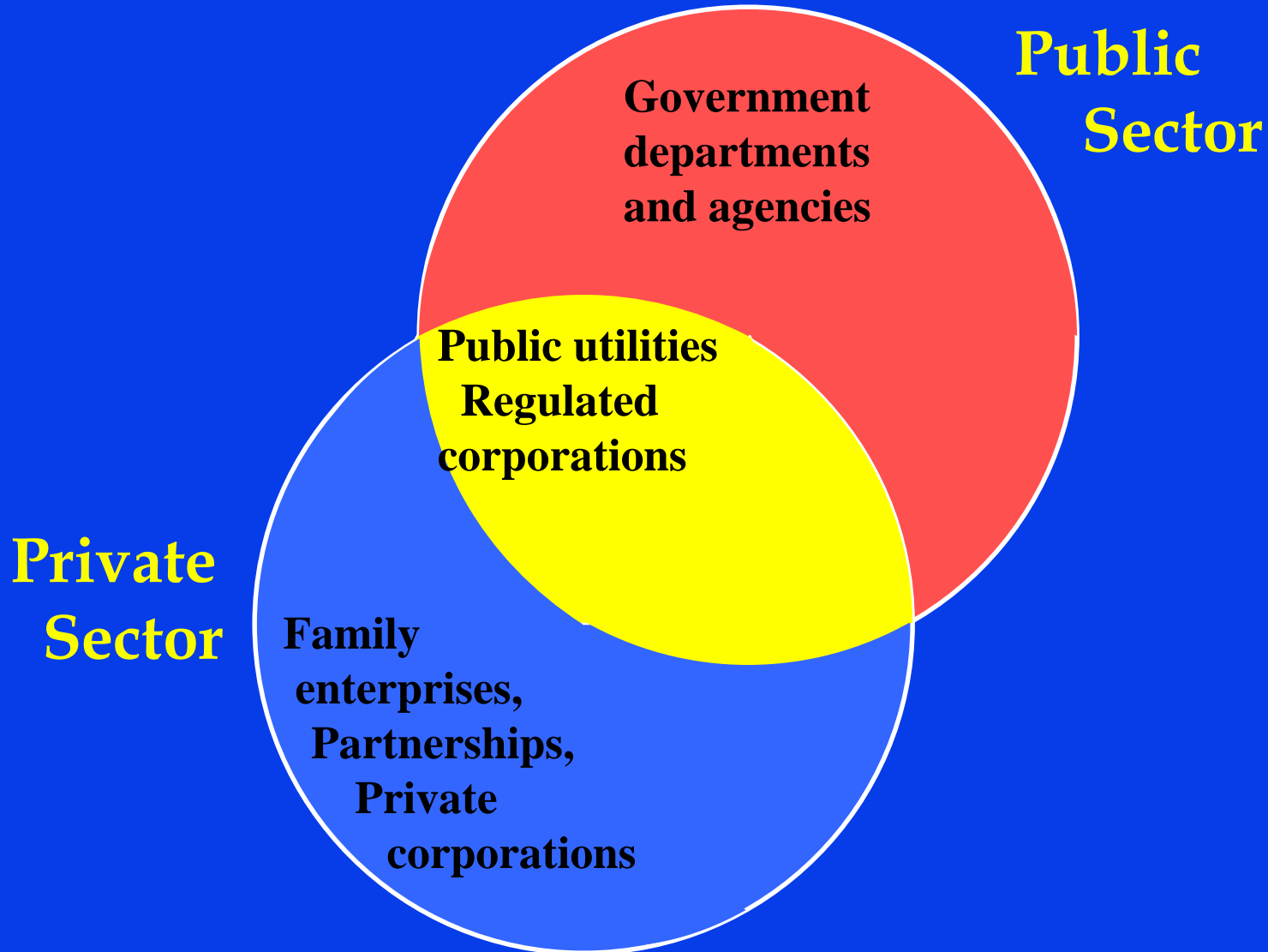
Organizations



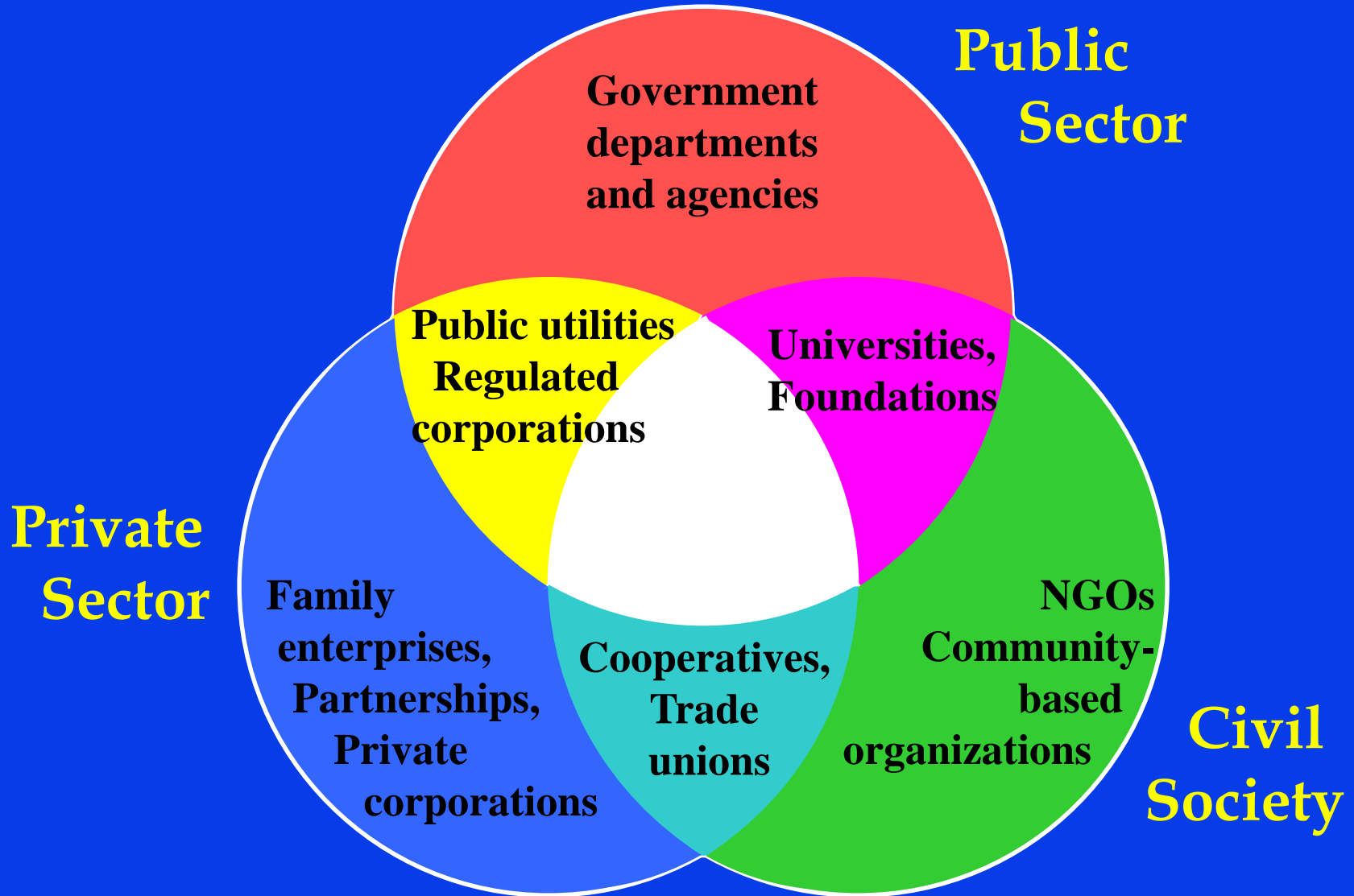
**Government
departments
and agencies**

**Public
Sector**

Organizations



Organizations



7. Beyond Centralization to Decentralization

- **Decentralization:**

- The transfer of authority and responsibility for various government functions from higher to lower levels of government, as well as to communities and the private sector.

- **Which government functions?**

- Roads and footpaths
- Water supply and sanitation
- Irrigation and drainage
- Agricultural extension
- Natural resource management
- Basic health services
- Basic education
- Local security

Two major institutional challenges:

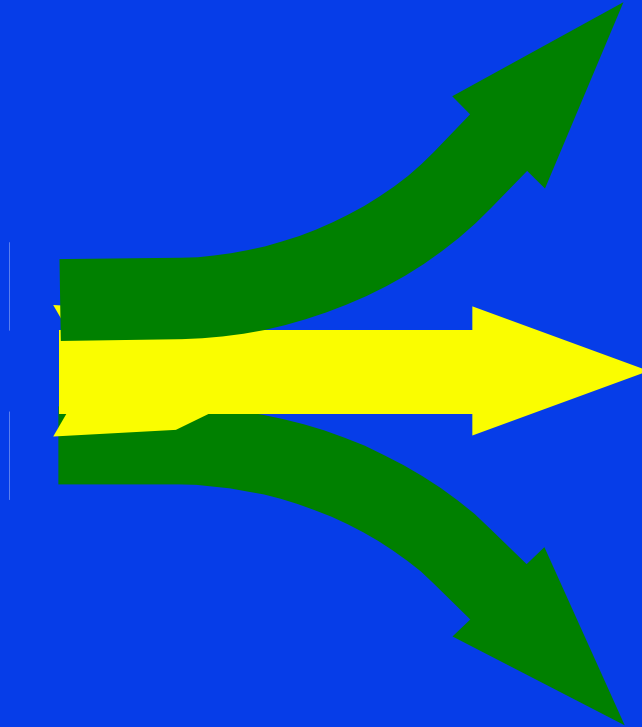
1. National framework for decentralization:

- a. Administrative => deconcentration
- b. Political => devolution
- c. Fiscal => full decentralization

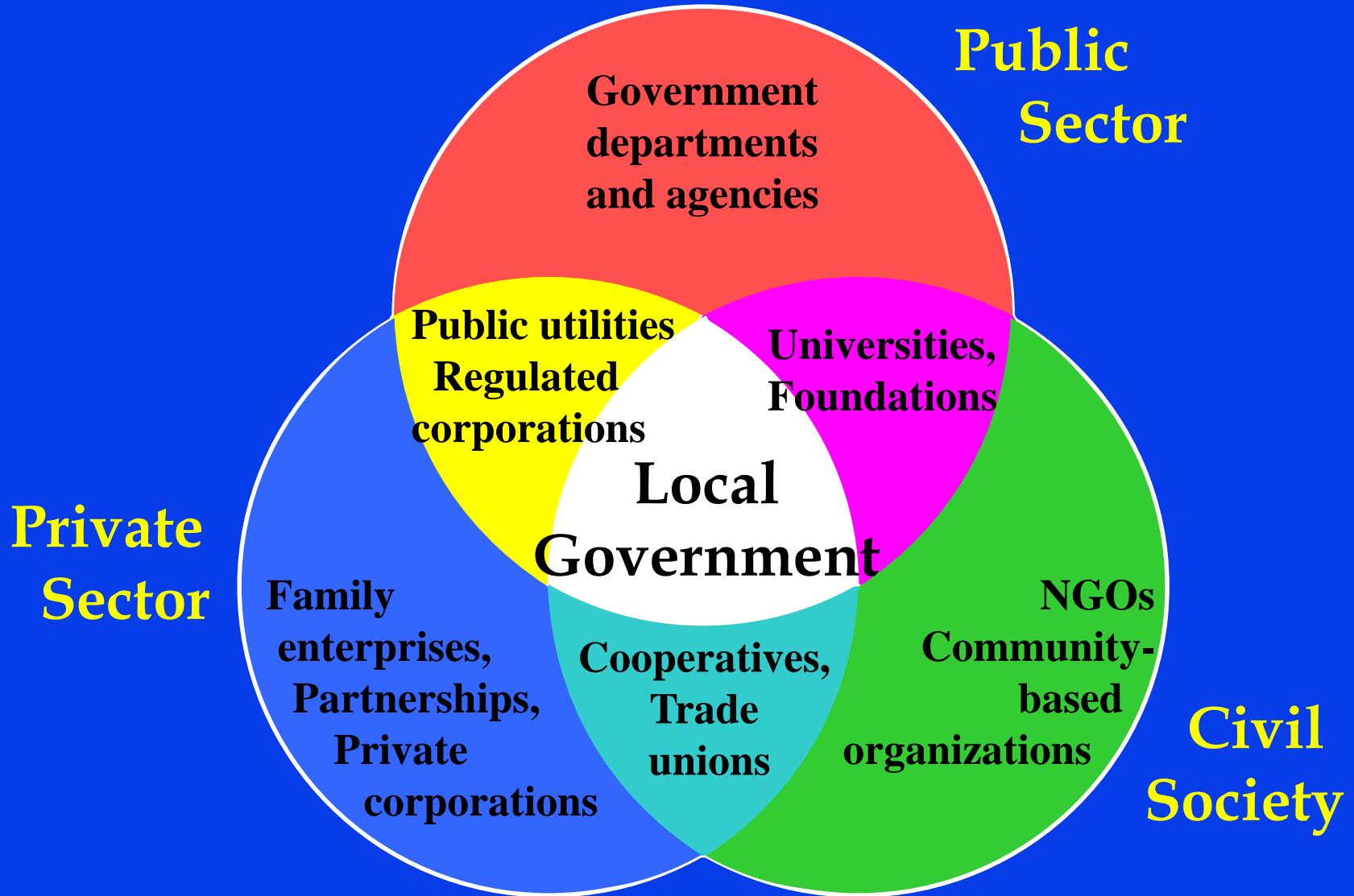
2. Service-level institutional arrangements in relation to each service – generally characterized by **co-production (or co-management)**:

- The joint production (or management) of a particular good (or resource) by two or more different types of organizations in order to benefit from the comparative advantage of each

Decentralization



Organizations



8. Beyond Production to Provision

- **“Production” activities:**
 - Transforming inputs into outputs
 - E.g. Constructing a village water supply system
 - E.g. Maintaining a local road or footpath
 - Often referred to as “delivery”
- **“Provision” activities:**
 - Deciding the scale and quality of such infrastructure investments
 - Arranging for production and financing
 - Monitoring production and use
 - Often referred to as “funding” or “financing”

Contracting out vs. force accounts

- Contracting out provides local governments with greater flexibility, and enables contractors to achieve economies of scale that local governments cannot achieve.
- However, due to transactions, information, and supervision costs, both approaches involve incentive problems:
 - In negotiating and enforcing contracts, and
 - In supervising the work being done.
- In particular, due to **asymmetric information**, both contractors and employees may engage in **opportunistic behavior** such as shirking. There is a trade-off:
 - Opportunistic behavior is costly, and
 - Collecting more information in order to reduce opportunistic behavior is also costly.

Agricultural Development: Five Basic Strategies

1. Coherent policy framework

=> Improving incentives across the sector

2. Economic liberalization and privatization:

=> Enabling the commercial private sector

3. Restructuring government:

=> Strengthening core public sector services

4. Democratization and participation:

=> Empowering civil society and rural communities

5. Decentralization:

=> Strengthening local governments

Linking Strategies with Subsectors

Subsectors Strategies	Strategy & policy Food & nutr. policy	Agribus. & mtk. Rural finance Land policy	Energy, transport Res. & Extension Animal resources	Sust. Land res. mgt. Forestry Fisheries	Water resources Rural infrastruct. Water & sanitation
Coherent policy framework					
Private sector development					
Restructuring government					
Participation					
Decentralization					

Qualifications

- While some linkages between subsectors and strategies are quite general across countries – such as agricultural marketing and private sector development – other linkages will be influenced by particular country-specific characteristics:
 - Size: India vs Swaziland
 - Federal vs. unitary states
 - Level of development
 - Social and human capital

Primary vs. supporting strategies

Who is being empowered?

- **Land policy and administration: Private farmers** buying, selling, and renting land within a national legal framework being administered by local governments
- **Community forestry: Local communities** managing local forests with the support of national Forestry Department
- **Water supply and sanitation: Local governments** making decisions about the type and scale of water supply systems within a system of national water standards and fiscal transfers from higher levels of government

9. Beyond Substance to Process

- **Substance:**

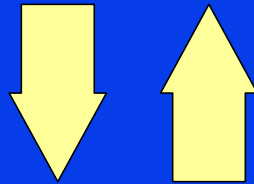
- Concerned with analyzing how existing institutions (rules) influence the provision of goods and services in an economy in terms of criteria such as efficiency and sustainability
- Relates to the operational level of analysis

- **Process:**

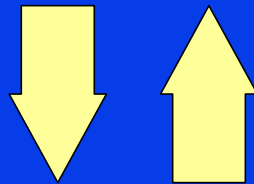
- Concerned with how self-governing societies, or self-governing groups within society, go about changing the rules in order to improve the provision of goods and services.
- To be effective, new rules must be not only prescribed, but also invoked, applied, and enforced.
- Relates to the governance and constitutional levels of analysis

Levels of an institutional system

Operational Level



Governance Level



Constitutional Level

10. Beyond Experts to Participation

- **Participation:**

- “Process by which stakeholders influence and share control over policy and development initiatives, and the decisions and resources which affect them.”

- **Stakeholders:**

- “Those affected by the outcome – positively or negatively – or those who can affect the outcome of a proposed reform.”

Participation is important:

- To help establish the credibility of the government with respect to the proposed programs/reforms
- To help assemble relevant information, particularly concerning the existing institutional arrangements
- To help deter rent-seeking activities
- To help instill ownership in the programs, and thereby reduce the costs of implementing them

« **Participation is the process by which governments exchange power and authority for information** »

Degrees of participation

- **Information dissemination:** One-way flow of information.
- **Consultation:** Two-way flow of information.
- **Collaboration:** Bringing all relevant stakeholder groups to the same rule-making table.
- **Empowerment:** Giving stakeholder groups responsibility for administering all or certain aspects of a new public policy (rules).

Working with stakeholders

- For genuine ownership, stakeholders must be involved before the implementation stage.
- Reform managers must work skillfully with different stakeholder groups, recognizing both their relative influence and importance.
- **Stakeholder analysis:**
 - “The identification of a project’s key stakeholders, an assessment of their interests, and the ways in which these interests affect project riskiness and viability.”
 - Classification of stakeholder groups according to two criteria -- importance and influence

Stakeholder analysis

Importance

High

Low

Influence

High

**Primary
participants**

**Potential
problem-
makers;
monitor closely**

Low

**Facilitate
participation**

Keep informed

<i>High</i>	Primary participants	Potential problem- makers; monitor closely
<i>Low</i>	Facilitate participation	Keep informed

Summary

- Institutions are the “rules of the game” which govern the patterns of interaction among the different actors in a given arena, both between and within organizations.
- It is important to link institutional reform strategies with subsectors. The choice of an optimal strategy will depend upon the nature of the good or service in question.
- The effectiveness of any one of these strategies also depends on having good institutions (rules) and involving stakeholders in an appropriate way in the development of these rules.

Thank You