



THE OECD DEVELOPMENT CENTRE
&
OECD DEVELOPMENT ASSISTANCE COMMITTEE – NETWORK ON
GOVERNANCE (GOVNET)

International Seminar on:

***Informal Institutions and Development: What do we know and what
can we do?***

11- 12 December 2006,

World Bank Office,
66 avenue d'Iéna, Paris

I. Background

1. It is widely recognised in both OECD and non-OECD countries that institutions play an essential role in shaping the development process. The functioning and operations of particular organisations are influenced by the enabling environment—the “rules of the game”/institutions—in which they are embedded. High quality institutions enable a better economic and investment climate, foster better governance and accountability, encourage trust, reinforce property rights and avoid the exclusion of sections of the population. The complex relationship between the informal and the formal institutional frameworks and their impact on pro-poor growth, capacity development and gender equality, which are all instrumental in reducing poverty is an area that is often overlooked.

2. Informal institutions - such as family and kinship structures, traditions, civil and social norms - are of high importance and can help or hinder development. Mutual help, family assistance and social capital are examples of “informally” organized solidarity and often the corner stone of the informal social security system. Credit and saving groups (*les tontines*), community-based health insurance schemes (*les mutuelles de santé*) and funeral associations bear testimony to the variety of different organizational forms that this help can take. Equally important, informal institutions such as the moral authority of village chiefs can also help to mediate disputes and constitute important informal accountability mechanisms, in countries where the power of formal government is limited.

3. Informal institutions, on the other hand, can impede growth and poverty reduction efforts. For instance, the same informal institutions that constitute the basis of informal social security can have perverse effects and turn out to be a “tax on success”. For example, a hard-working farmer in

Benin who has accumulated some wealth over the years has to share the fruit of his efforts with his enlarged family, including distant relatives. This implies that he is expected to pay the school fees for his nieces and nephews or the health costs if anyone in his entourage gets sick. This example illustrates how informal institutions can discourage entrepreneurship and capital accumulation. Some informal institutions like early forced marriages even violate human rights, in particular those of women. The recently released Gender, Institutions and Development Base of the OECD Development Centre provide an abundant source of examples (<http://www.oecd.org/dev/institutions/GIDdatabase>).

4. The seminar is premised on the idea that ignoring informal institutions can be costly for partner and donor countries alike. The effectiveness of aid can be substantially increased if informal institutions are taken into account, either by taking advantage of them in their existing state, by seeking to optimise their impact or providing incentives to change them or by adopting measures to alleviate their unwelcome effects. In some cases, donors have found that looking into political economy analysis (“drivers of change” approaches) can at least unveil some of the informal institutions that affect power relations in a country, and take action accordingly.

II. An international seminar on “informal institutions”: Why now?

5. There is an increasing awareness that “informality” in its various aspects matters for development. Examples are the emerging debate on the role of culture (“culture matters”), the findings of a four year work programme of the OECD Development Centre showing the decisive role of “informal institutions” for gender equality as well as the outcome of the Development Assistance Committee’s Network on Governance (DAC-GOVNET) team on “drivers of change analysis” drawing attention to the role of (informal) power structures as a key determinant for a successful implementation of reforms.

6. In the new context of a significant increase in aid, stronger governance and enhanced capacity of both formal and informal institutions will be needed if scaled-up aid is to be effective and have long term impact in recipient countries. The international seminar will directly contribute to one main objective stated in the *Paris Declaration on Aid Effectiveness* namely, to “increase significantly aid effectiveness as well as to support partner countries efforts to strengthen governance and improve development performance”.

III. Seminar objectives

7. The aim of this seminar is to take stock of the role of informal institutions in the development process; to assess their impact on development outcomes; to analyze the linkages and possible conflicts between informal and formal institutions; to derive policy lessons on how best to put informal institutions to the service of development; and, to identify areas for future work and collaboration.

Specifically, the “process oriented” aims are as follows:

- 1) Raising awareness to raise awareness through sharing experiences that ignoring the role of informal institutions for development is costly for developing and developed countries alike.
- 2) Good practice to provide examples of programs and policies that have successfully integrated or relied on informal institutions to achieve growth and poverty reduction
- 3) Policy dialogue to start a policy dialogue between policy makers and senior civil servants, academics, representatives from donor agencies from partner and donor countries alike on how to improve policy design and implementation in the light of the findings of the seminar

IV. Structure of the meeting

- 1 and half day with three plenary session and a half day of break-out sessions
- Focus themes of the breakout sessions are: “gender”, “governance, accountability and capacity development” and “private sector development”

V. Documentation

8. An overarching paper will be prepared prior to the seminar. A short issues paper will be prepared for each of the three focus themes of the breakout sessions. Related material already produced by the Development Centre and DAC-GOVNET will also be circulated. Following the seminar, an OECD Policy Brief summarising the principal conclusions will be prepared jointly by the OECD Development Centre and the DAC-GOVNET.

9. A dissemination plan for this and other outputs, as well as a communication plan for the event itself will be developed as soon as funding is secured. A broad coverage in the media and the participation of high level policymakers is expected.

VI. Participants

10. The seminar will be tailored to the following types of participants:

- Policymakers from donor and partner countries
- OECD Delegations
- Members of DAC networks and Working Parties
- Donor agencies
- Civil Society (NGO’s, producer groups and business associations)
- Academia

VI. Contacts

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