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GOVERNANCE AND ACCOUNTABILITY – HOW DO THE FORMAL AND INFORMAL INTERPLAY AND CHANGE?

by

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Summary: Governance and Accountability – How Do the Formal and Informal Interplay and Change?

How do formal and informal aspects of governance interplay in the development process, and how does it change? How can partners and donors improve governance and accountability in settings where informal institutions and informal governance are strong?

To address these questions, it is worthwhile recalling that informal governance based on personal relations is the precursor for the formal governance models, which only came to dominate rather late in the history of development in OECD countries. Informal governance can thus be conducive as well as restraining for development. The interplay between informal and formal governance mechanisms should be analysed with attention to whether the goals pursued by the formal and informal governance, respectively, are largely convergent or divergent.

Informal institutions and governance mechanisms are often considered to be highly resistant to change. Yet, informal institutions and governance *do* change – sometimes quite rapidly. They can be changed by deliberate action if change efforts fit reasonably to the societal, institutional and political pressures for change. Most deliberate change efforts should expect to result in a recombination of formal and informal governance elements, depending not least on the underlying configuration of power and interests.

A very broad set of simultaneous movements and activities is required to enhance governance. It include, but is not limited to, economic growth and diversification; strengthening the accountability ties between a middleclass and the state; support steps towards a merit-based civil service; and press for increased transparency of public affairs.

Some preliminary policy lessons are derived from the analysis:

- Understanding how informal and formal governance interplay is a sine qua non for effective action. There is a lot of knowledge readily available, while more practical analytical tools need to be developed.
- Governance is about norms, power and politics, and improvement of governance is not a tea-party. There are limits to what external actors like donors can do, but they will do better by being aware of the nature of the game they are part of.
- Eliminating “bad” informal governance may not be the first priority. It might undermine patronage-based power systems without offering an alternative. “Good enough governance” can give room for considerable positive development
- A systems approach to governance is required. Good accounts of development trajectories focus on the simultaneous development and change of multiple factors. Keeping on searching for an ultimate answer is doing more harm than good.

Adopting these lessons can help addressing the simultaneously urgent and long term challenges of making formal and informal governance work better for poverty reduction.

1. Introduction: The rules of the game – how are they managed, and how much does it matter?

Formal and informal governance, accountability and institutions matter: In most Central Asian republics informal, clan-based networks dominate political life, thereby undermining the formal legal and electoral frameworkⁱ. In South-East Asian countries, informal, personal relations between big business and government have been instrumental for growthⁱⁱ - while the same kind of relations has stifled growth in Sub-Saharan Africaⁱⁱⁱ. On the other hand, in Tanzania, creating a formal association of business tax payers forced district tax authorities to greater formal accountability in what has hitherto been an informal system^{iv}.

So, it matters whether governance, accountability and institutions are more or less formal. This paper seeks to move the discussion beyond this observation, addressing three issues in the following three sections:

- How do formal and informal aspects of governance interplay in the development process, and how do they relate to the wider rules of the game in a society?
- How does governance change, and how can partners and donors harness informal governance structures and institutions for capacity development aiming at delivering pro-growth and pro-poor regulations and services?
- Which preliminary policy lessons can be drawn on how partners and donors can improve governance and accountability in settings where informal institutions and informal governance mechanisms are strong?

Institutions are in this paper defined as “the rules of the game in a society or, more formally, ... the humanly devised constraints that shape human interaction”^v. They are resilient social structures^{vi} of which some are informal. This means that they are rules based on implicit understandings and not accessible through written document or necessarily sanctioned through formal position^{vii}.

Governance refers broadly to how the formal and informal rules are managed and enforced, or how power and authority are exercised^{viii}. Like institutions, governance can be formal and/or informal – indeed, governance mechanisms are themselves institutions. *Accountability* is an element of governance, denoting how those governed (the agents in principal-agent theory) account for their actions to those with power or authority (the principals)^{ix}.

Discussing formal and informal governance across societal spheres, levels and periods is a risky endeavour. Sweeping generalisations may easily jump out of inconclusive evidence. This review has not found basis for such generalisations, except one: Nothing seems to indicate that there is any “right mix” or “proper way” to deal with the balance between formal and informal governance mechanisms. However, by understanding how formal and informal governance interplay and is shaped by structures, norms, interests and power, partners and donors can do better to promote long term capacity development for pro-poor outcomes.

2. How do informal and formal governance relate?

This section presents a framework for analysing the relations between formal and informal governance, building on some of the rich literature on the subject which has emerged over the last 20-30 years.

2.1 *The long journey from informal towards formal governance*

It is worth recalling that governance – which in this paper is used as a purely descriptive term for how authority and power is exercised – has originally been informal. During history it has been gradually codified into formal rules, from the first written laws of King Hammurabi some 3700 years ago, to the tight web of laws, rules and regulations directing behaviour in today's OECD countries, both in relation to the political, economic and civil society^x.

Arguably, history could be viewed as a process of ever increasing formalisation of the informal rules and governance mechanisms, made necessary by the increasing complexity following the ever increasing

specialisation and division of labour^{xi}. From this functional viewpoint, formalisation of rules and governance would be expected to accompany economic growth and diversification, while it would not be in strong demand before an economic “take-off”, nor would there be an apparent functional logic for it to come later.

A closer look at development in OECD countries as well as in “late-comers” reveals several important qualifications to this grand story.

First, while the perception that laws should underpin development is very old^{xii}, formalisation of many governance aspects have appeared much later than industrialisation and urbanisation. Male suffrage was only widely adopted in now developed countries in 1907, and universal suffrage only in 1946. “Modern” bureaucracy only saw the light early in the 19th century, with central banking and patent laws following in the 1830-40s^{xiii}.

Second, industrialisation may seem to have been driven as much by informal personal relations as by formal rules. The informal relations were often closely linked to patronage, corruption and incestuous links between big business and political power. In the “time of giants” in the U.S. in the late 19th century, a few powerful individuals controlled virtually all major industries, with close relation to banking and politics. Bribery was part of the game, with a railroad baron boasting that “if he wanted state legislation, he could buy it and if necessary he could buy Congress and the judiciary as well”^{xiv}. This was not unique to the land of opportunities: the leading industrialist in small Denmark at the same time also used bribes, falsified accounts, established monopolies and influenced politics and legislation – and still, few if any would doubt his positive significance for the country^{xv}.

Third, the informal relations seem often based on deep rooted institutions which do not succumb easily or automatically to the functional “demands” of the economy. Singapore’s record of sound government rests on informal governing institutions as well as attributes of the formal government sector^{xvi}. In South Korea, it has been convincingly argued that a century-old system of informal patron-client relations was behind the country’s push for high growth, rather than formal rules^{xvii}.

Summing up, this leads to the proposition that *elements of informal and relation-based governance can be important parts of successful development trajectories*. However, a closer look at the difference between formal and informal governance is warranted.

2.2 Trust in persons or trust in rules – the difference between relation- and rule-based governance

Informal governance can be rule-based – that is, based on informal, but none the less effective, rules for how authority can and cannot be exercised. However, a particular important subset of informal governance mechanisms is based on trust in persons, rather than on a formal contract. This is an essential feature of what has been labelled *relation-based governance*, which by its very nature is informal. In economic society, it compares to formal rules-based governance as shown in Table 1:

Table 1. Differences between Relation-Based and Formal Rule –Based Governance^{xviii}

<i>Relation-Based Governance</i>	<i>Rule-Based Governance</i>
Relying on private and local information	Relying on public information
Complete enforcement possible	Enforcing a subset of observable agreements
Implicit and non-verifiable agreements	Explicit and third-party verifiable agreements
Person-specific and non-transferable contracts	Public and transferable contracts
High entry and exit barriers	Low entry and exit barriers
Requiring minimum social order	Requiring well-developed legal infrastructure
Low fixed costs to set up the system	High fixed costs to set up the system
High and increasing marginal costs to maintain	Low and decreasing marginal costs to maintain
Effective in small and emerging economies	Effective in large and advanced economies

When relation-based governance dominates, there is thus no strong formal state authority effectively regulating the market, enforcing contracts and ensuring property rights. The state may, by the very absence of a strong capacity to regulate, have a high degree of autonomy from economic and civil society. The non-state actors have not developed effective broader, formalised governance mechanisms, which can discipline the state and make it accountable – as for example elections or enforceable charges of unconstitutionality. Governance will instead take place mainly by personalised relations. Politics both at national and sub-national level will be dominated by bargaining of power and interests organised along patron-client systems in clans, ethnic groups, extended families etc. This can be congruent with governance in civil society dominated by strong enforcement of social norms and values about appropriateness linked to family, age, gender roles, etc., as well as common cultural beliefs and logics of action^{xix}.

In developed countries formal rules clearly dominate both economy and state. This has for the public sector been the case to such a degree that rule and procedure based public administration has been challenged by more “modern” variants, particularly “new public management”. However, both “old” public administration and “new public management” are building on the application of uniform norms, processes, criteria and tools, which can be made transparent and explicit. The key distinction explored here is therefore not between variants of rule-based governance, but between relation- and rule-based governance.

All countries will display mixture of relation- and rule-based governance mechanisms, but in developing countries informal mechanisms – particularly relation-based governance - will tend to be relatively stronger than in developed countries. This forces attention to how formal and informal governance interacts.

2.3 The relations between formal and informal governance

How will the introduction of different non-relational governance mechanisms “fit” with the environment of informal, relational governance? What happens when rules are introduced in a setting where relations – and other informal governance mechanisms – are strong?

In Singapore and South Korea it can be argued that informal governance has complemented or even substituted formal governance. Leaders have used formal and informal governance to press for one fairly consistent set of developmental goals. Illicit rent-seeking, nepotism and other variants of informal governance may have accompanied these processes, but they were never the dominant goal.

The situation has been different in other circumstances, as evidenced in box 1.

Box 1. Undermining the effectiveness of formal governance mechanisms in Uganda^{xx}

In 1990, the Uganda Revenue Authority (URA) was established and given operational autonomy in return for meeting agreed targets. It was exempt from civil service rules concerning recruitment, retention, pay and conditions; and operated on business principles. Expatriates filled most top positions, with the expectation that they would be relatively inured to political pressure and patronage. A relatively independent board of directors was supposed to give policy directions and oversee operations, but has in practice remained involved in day-to-day operations.

Initially, URA was a resounding success: Revenues increased from 7 percent of GDP in 1991 to 12 percent in 1996. However, the initial highest-level political support for the URA faded, the autonomy of senior management eroded, and the building of a merit-based cadre of staff failed as appointments based on patronage came to dominate. As a consequence, corruption – which the very establishment of the URA was intended to redress – was a decade after the establishment of the URA perceived to be chronic, pervasive and well organised.

Governance reforms with elements of both “old” and “new” public management were thus in this case not long term effective in a political context shaped by informal institutional imperatives of retaining power through patronage and personal rule.

Initially, the formal governance was fairly effective, but may none the less have accommodated informal interests which were not compatible with URA's official goals. As informal goals changed to put more emphasis on power preservation, the informal governance became a directly competing system, with capacity to largely undermine the effectiveness of formal governance.

The complex interplay between the formal and informal is also visible at local level, in the relation between indigenous, mostly informal organisations and the formal “modern” public sector organisations.

Box 2. Two faces of Informal Local Government Institutions in Karnataka^{xxi}

Informal local government institutions in Karnataka draw their legitimacy from custom and tradition, and are largely rooted in the system of caste. Though still very patriarchal as custodians of “traditional” norms and rules, they have been able to adapt to changing circumstance, and to perform a wide range of useful, collective activities. These include organising social activities, dispensing informal justice, providing financial and moral support to those in need, and maintenance of local law and order.

The informal institutions exercise public authority at local level through mechanisms distinctly different from those employed by “formal” state institutions. Though their decisions are not absolutely enforceable, they manage to enforce most of their decisions through social pressure. They carry with them the social tensions and gender bias inherent in rural societies. Social conflicts and tensions within the villages are constantly negotiated and managed, sometimes in an oppressive manner, by the informal institutions, but they are neither wholly benign nor totally oppressive institutions.

Despite Karnataka’s long history and impressive record of democratic decentralization, the local informal institutions are not shrinking or fading as elected local government institutions (*Grama Panchayat*) become more institutionalised and influential.

There are several types of interactions between the informal and the formal system: The informal institutions influence formal elections; there is overlap of leadership; they intervene in selection of beneficiaries for government anti-poverty projects; and they perform supplementary informal resource mobilization. As such, they are complementary to, rather than competing with the formal governance system.

The examples above fit a simple typology for assessing how the formal and informal may relate, as shown in table 2:

Table 2. A typology of relations between formal and informal governance^{xxii}

	<i>Effective formal governance</i>	<i>Ineffective formal governance</i>
Convergent objectives of informal and formal governance	Complementary	Substitutive
Divergent objectives of informal and formal governance	Accommodating	Competing

When objectives are converging, informal governance can complement formal governance, or substitute it, if it is not effective. On the other hand, informal mechanisms pursuing divergent objectives would accommodate to effective formal governance, while compete about primacy when formal governance is weak.

These contrasting examples lead to the proposition that *informal and formal governance elements interplay dynamically. Informal governance may at different points in time enhance and/or undermine aspects of formal governance, respectively, and understanding the interplay requires a specific empirical analysis.*

Summing up, this section introduced informal relational governance as the precursor for the formal governance models which only came to dominate rather late in the history of development in OECD countries. It was argued that informal relational-based governance can be conducive as well as restraining

for development. The interplay between informal and formal governance mechanisms should be analysed with attention to whether the goals pursued formally and informally, respectively, are largely convergent or divergent.

3. Changing how the rules of the game are managed

Though much can be gained by a nuanced understanding of the precarious balances between formal and informal governance, this is only half of the challenge: How do informal governance change, and how can donors and partners contribute to changes leading to increased capacity for poverty reduction?

3.1. *The good news: Many sources of change*

Informal institutions and governance mechanisms are often considered to be highly resistant to change, and at best changing slowly and incrementally. Yet, informal institutions and governance *do* change – and may change quite rapidly: The century-old practice of foot-binding in China disappeared within a generation^{xxiii}.

In politics, apparently solidly rooted institutions may also disappear quickly: In Mexico, the *Partido Revolucionario Institucional*, PRI, governed from 1929 to 2000, and the incumbent president traditionally selected his successor from the ranks of the party through a practice known as the "dedazo", or finger-pointing. The practice was abandoned because the increasingly competitive and fair electoral environment, where other parties threatened the power monopoly of the PRI, allowed local PRI leaders to contest the practice^{xxiv}.

Social norms related to authority also change through what can be considered as *practical actions* taken by numerous individuals – not with any intent of changing informal governance institutions, but with the effect that change happens, as evidenced in Box 3.

Box 3. Youth migration undermining traditional indigenous authorities in Bolivia^{xxv}

In the Bolivian Andes, indigenous people have over the last 20 years struggled to get formal government recognition of their traditional *ayullu* authorities, which have governed social and economic life in the villages in accordance with century-old customs and practices, including administering justice according to old customs. As part of the "Popular Participation"-reform introduced in 1994, the traditional authorities gained official recognition, a recognition that has since been strengthened by Bolivia's ratification of international resolutions about the rights of indigenous peoples.

Paradoxically, at the same time the *ayullus* become at last formally recognised and gain a voice vis-à-vis the formal state, their effective authority in the villages is undermined by the effects of migration: Youngsters, who temporarily or permanently seek their fortune in *El Alto*, a poor but vibrant city close to the capital La Paz, lose respect for the traditional rural authority structures when they are exposed to urban life. El Alto has grown to around 500.000 inhabitants over a couple of decades only, and features internet-cafes, cell phone coverage and other amenities of modernity.

Socio-economic and demographic pressures – in this case rural-urban migration – thus changes informal governance mechanisms. The *ayullu* leaders may well have a stronger voice with the government, but they have a weaker one with their sons and daughters.

Focusing more narrowly, governance is about how rules are managed, and how power and authority is exercised, formally and informally. This provides an important handle for understanding one of the short-term drivers of the change of formal and informal governance: The *power and interests* behind the governance mechanisms, vested in persons and groups. Such persons and groups take deliberate *political action* with the very intent of changing or preserving the rules of the game as well as how these rules are managed^{xxvi}. They do so to pursue a mixture of narrower interests of the individual, the group or clan, and

wider interests in promoting the provision of public goods. Donors are in this sense also political actors, pursuing a mixture of altruistic and narrower foreign policy interests.

Whether deliberate action to change governance mechanisms will succeed so as to achieve intended development outcomes depends not only on whether the power supportive of the change are stronger than those whose interests would be negatively affected. Box 4 and 5 illustrate that it also depends critically on the design of new governance mechanisms.

Box 4. Failure of popular justice in Uganda^{xxvii}

In 1987, as part of a decentralisation scheme, Local Councils (LC) in Uganda was granted judicial authority as tribunals of “popular justice”. They were intended to provide expedient, inexpensive and culturally appropriate justice for the less powerful who would not have capacity to use the weak, state-sponsored formal legal system.

However, the intended benefits of community justice did not materialise. Particularly, the new system failed to protect women’s customary land rights, and unofficial payments to LC officials often exceeded costs paid in magistrates’ court. LC courts were male dominated, and women taking a marital land dispute case to court would confront a council filled with her husband’s relatives.

Disgruntled with the informal ‘rule of persons’ that operates in the LCs, women seek out magistrates or legal aid clinics whom they perceive to be autonomous of local society and who would operate according to a ‘rule of law’. They need to borrow power from outside the local arena to go against local elites using informal institutions for purposes of social control – for which same reason LC officials often act as gatekeepers trying to prevent women seeking external litigation.

Exploiting informal mechanisms in this case allowed local might to impose itself, questioning the often held belief that informal community-based governance mechanisms are per se better than centralized state mechanisms.

Box 5. Reducing corruption in community development projects in Indonesia^{xxviii}

Can corruption be reduced by changing the rules of the game – and which mechanisms provide the best results? This was tested 600 villages all about to start building a village road as part of a nationwide village-level infrastructure project in Indonesia. Two different mechanisms were applied in the villages: In some villages, the “normal” likelihood of a formal audit by national authorities of 4% was increased to 100% - e.g. the villages knew that a audit would take place. In other villages, grass-root participation in monitoring the projects was strengthened, while a third group of villages acted as control group.

In the control group, missing expenditures were around 30% of project costs, with the key leakage occurring through delivery of smaller quantities of materials than invoiced. This waste was reduced to around 22% - e.g. by one third – where formal audits were announced and implemented, while the strengthening of the more informal grass-root participation reduced missing wages somewhat, but had little overall effect.

In this case, changes in formal top-down accountability were at least in the short run more effective than strengthening of more informal bottom-up of accountability.

The discussion so far leads to the presentation of a simple typology of sources of change of informal governance as shown in table 3, exempting violent change (e.g. war, social upheavals, major natural catastrophes) from the discussion:

Table 3. Sources of change of informal governance mechanisms^{xxix}

<i>Source of Change</i>	<i>Mechanism and Pace of Change</i>	<i>Examples and outcomes</i>
Exogenous factors reducing functional appropriateness of informal mechanisms	Changing actors' cost-benefit calculus and outlook, can be relatively rapid	Need to comply with international quality standards for export has pushed formal environmental regulation in Central America. Economic growth in China push enforcement of commercial regulations
Cultural evolution	Change in societal values, very slow	Gradual erosion of kinship-based norms of responsibilities for extended family
Social pressures	Differentiation of groups; discordant beliefs and conflicting institutions; can be relatively rapid	Urbanisation, strong demographic but weak economic growth fostering political contenders exploiting traditional and religious values.
Technological change	Change in access to information and communication over distance; can be rapid	The internet and mobile cell phone technology changes marketplaces, social/political mobilisation processes and parameters for control of citizens.
Change in social distribution of power and resources	New rounds of bargaining; often incremental	Erosion of clientelism through growth of relatively autonomous middle class
Intentional political action to change formal governance	Change in design or effectiveness of formal mechanisms; can be rapid	Reduction of corruption through audits in Indonesia; increased revenue collection through agencizing of tax authority in Rwanda and Uganda
Intentional political action to change informal governance mechanisms	Formalisation, change in design or effectiveness of informal mechanisms; can be rapid	Taxpayer association enforcing accountability of local government in Tanzania; media scrutiny of malfeasances in Kenya.

3.2. *The more mixed news: Few pointers at promising areas of action*

The typology allows a more nuanced analysis of whether there are converging pressures for and incentives to change at different levels, or whether change in governance mechanisms is sought implanted against all odds. The typology should also support a systems view on governance and change: Given the multiple related layers fostering or constraining change, changes in governance are not the passage from one order – e.g. informal governance – to another. It may be better viewed as rearrangements in the patterns of how multiple governance mechanisms are interwoven in a complex system, where changes in one layer produces multiple effects which in the end may feed back on the apparent “mover”.

The less good news are therefore that the typology developed above does not tell which deliberate “political actions” by domestic or international actors will be effective for pro-poor outcomes in a given environment shaped by structures, norms and interests.

Does this mean that there are no pointers at all to areas of action and related broader socio-economic developments which seem particularly promising for enhancing formal or informal governance and reducing e.g. rent-seeking? Extreme cautiousness is warranted because the sole mentioning of such areas tends to be interpreted as if the magic bullets have, finally, been found. Correlation may easily be mistaken

for causality, and the scope for changing complex systems by altering a few variables assumed to be independent may be grossly overestimated.

With all these caveats, there are four interlinked areas or issues which again and again pop up in literature, and which may at least deserve their part of the attention.

First, growth linked to economic diversification, technological development and competitive domestic and international trade can get a long way without strong formal governance in place. But such growth still seems to be a basic accompanying or dynamic factor eventually pushing rule-based governance forward. Governance may matter for growth, but the opposite is also the case^{xxx}. Interestingly, however, where sheer geographical distance was earlier a barrier to how far personal relations could reach out, modern communication technology actually removes this barrier – for example, purely informal, relation-based criminal networks can now operate globally.

Second, at the societal level, some processes must gradually halt or break the vicious circle of strong, informal social governance mechanisms weakening or crowding out a stronger state, which again reinforce informal, vertical social control mechanisms and eventually leave the state as prey for capture, rather than as vehicle for development. External military treats to the existence of a state have historically disciplined state and society to develop bonds which have changed the relative autonomy of the state in some parts of the world, notably in Europe. This no longer being an acceptable change factor in the international order, the focus is mostly on domestic factors. Here, the emergence of a broader *urban economic and professional middle class* able to hold the state accountable for delivering basic public goods (security, urban infrastructure, urban property rights) is often singled out for holding promise^{xxxii}. Evidently, such a middle class development would be linked to economic growth, though not necessarily pro-poor growth – and heavy losses of members of this group due to migration to OECD countries or the HIV/Aids pandemic would weaken it significantly.

Third, and linked to the above, a relatively *independent bureaucracy* recruited based on merit may appear a necessary, though not sufficient condition for developing an efficient state bureaucracy^{xxxiii}. Many observe the difference in this regards between more successful Asian states and less successful African ones, whose civil service lost independence and ethos in the first decades after decolonisation. Unfortunately, recognising that a merit based civil service is necessary at some point in time does not give clues on how to restore such a service resilient to the informal pressures of patronage politics.

Finally, the importance of *transparency* as a measure to increase the cost of making competing informal systems work has been singled out as an overlooked elements in governance reform attempts^{xxxiii}. Donors can insist on increased transparency, particularly as a means of strengthening accountability between government and citizens, and they can include support to independent media and investigative think-thanks etc. in their governance portfolios.

Summing up, governance mechanisms do change, and they can be changed by deliberate action. As with other transformational change processes, successful change efforts must fit reasonably to the societal, institutional and political pressures and incentives for change. While the overall long term direction of change may be towards formal governance at the expense of or through the formalisation of informal governance mechanisms, most deliberate change efforts should expect to result in a new recombination of formal and informal governance elements, whose configuration will depend not least on the underlying configuration of power and interests. The more divergence between formal goals of e.g. poverty reduction and informal goals of e.g. rent-seeking and power preservation, the harder will informal governance mechanisms compete and seek to subvert formal mechanisms.

Within this broad range of options and constraints, it is likely that a very broad set of simultaneous movements and activities is required. This would include, but not be limited to, economic growth and diversification; strengthening the accountability ties between an emerging urban middleclass and the state;

support steps towards making merit count more in the civil service; and press for increased transparency and disclosure of public affairs and public-private relations.

4. Preliminary Policy Lessons

What preliminary policy lessons can be drawn from the discussion above? Five lessons are offered as the conclusion of this paper.

1. *Understanding informal and formal governance is a sine qua non for effective action.* This is no small lesson, nor is it as trivial as it may sound: There is a lot of knowledge available demonstrating how informal and formal governance and institutions interplay; how informality is not necessarily the enemy of development; how the specific configuration of norms, interests and formal/informal mechanisms can be analysed; and how this can inform and improve decision-making. It is not trivial because of the pervasive tendency not least of donors to focus on OECD-country variants of “old” and “new” public management approaches; and launching these in development countries without doing the homework of understanding the messy and complex reality of informal governance and institutions.

2. *Governance is about norms, power and politics, and improvement of governance is not a tea-party.* Informal governance mechanisms are in many countries rooted in rather narrow power structures, bargaining between interests, and patterns of coalitions and conflicts between patronage systems. This may play out in arenas of shared and conflicting norms and values, many of which are radically different from those of donor staff and small urban intellectual elites. Dealing with these issues to enhance capacity for pro-poor outcomes is not free of conflict and tensions, because poverty reduction objectives often are sharply conflicting with the power preservation prerogatives of the informal system as well as with basic norms. There are for many good reasons limits to what external actors like donors can do in such settings, but being aware of the nature of the game they are part of is likely to enhance performance.

3. *Eliminating bad governance may not be the first priority.* “Zero-tolerance” policies vis-à-vis corruption and semi-authoritarianism may ride the moral high ground and exhibit firmness and idealism to tax-payers in donor-countries concerned about their charity. But should such policies be effective, they might well undermine patronage-based power systems without offering any alternative but chaos. “Good enough governance”^{xxxiv} can give room for considerable positive development, as the lessons of history demonstrate. This is not complacency, and it does not imply giving up values and long-term goals; it is simply necessary for achieving practical results on the ground. It does not make life easier for donors, and it does create uncomfortable dilemmas. There is, unfortunately, no way around them.

4. *Adopt a systems approach to governance.* The most sobering accounts of development trajectories focus on the simultaneous development and change of multiple factors, with complex feedback mechanisms between them which can only be fully perceived with the benefit of hindsight. This also applies to government and accountability. Keeping on searching for the ultimate answer – hailing first that the state has a primordial role, then assigning primacy of the economy, then focusing on institutions, and then on the privileged role of civil society and its alleged capacity to exert accountability – is doing more harm than good in a world where the political incentives driving donor organisations make them susceptible to the collective adoption of the fads of the moment. In governance, there are factors that should definitely not be overlooked – but they are never the only ones to focus on, and different country realities will result in different combination of promising options for action.

5. *Develop networks and tools to enhance donor and partner capacity to deal with informality, governance, and the political issues involved.* Essential knowledge to move forward in this area is located in universities and think-thanks, not least in the South. The broken or at least weak link between academia and development practitioners needs to be re-established, and multi-disciplinary approaches pursued. More practical tools and approaches based on sound concepts are also needed to assist donor and partner staff in dealing with the sensitivities and complexities of the governance theme.

The lessons above may surely need to be nuanced and complemented. Pursuing the avenues they indicate will not provide simple answers, because simplicity is not effective when dealing with complex societal systems and processes. But going in this direction can push the boundaries and broaden the scope of what must be discussed to deal with the challenges of governance. It is both timely and vital to deal with these challenges in a considerate manner.

Notes:

ⁱ Collins, K. (2002). "Clans, Pacts, and Politics in Central Asia." *Journal of Democracy* **13**(3): 137-151.

ⁱⁱ Hamilton-Hart, N. (2000). "The Singapore state revisited." *The Pacific Review* **13**(2): 195-216, Li, S., S. H. Park, et al. (2003). "The Great Leap Forward: The Transition From Relation-Based Governannec to Rule-Based Governance " *Organisational Dynamics* **33**(1): 63-78.

ⁱⁱⁱ Walle, N. V. D. (2001). *African Economies and the Politics of Permanent Crisis, 1979-1999*. Cambridge, Cambridge University Press.

^{iv} Lerise, F. "Decentralised Cooperation and Joint Action: Building Partnerships Between Local Government and Civil Society in Africa - Same Case Study." *ECDPM Archive*.

^v North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge, Cambridge University Press.

^{vi} Scott, W. R. (2001). *Institutions and Organizations*. Thousand Oaks, Sage.

^{vii} Zenger, T. R., S. G. Lazzarini, et al. (2001). *Informal and Formal Organization in New Institutional Economics*. St. Louis, Washington University.

^{viii} Scott, W. R., op.cit., Hyden, G., J. Court, et al. (2004). *Making Sense of Governance: Empirical Evidence from 16 Developing Countries*. London, Lynne Rienner Publisher, Kjær, A. M. (2006). "Governance theory and changes in urban bureaucracy: strengths and weaknesses." Forthcoming

^{ix} Author's definition, departing from principal-agent concepts. It captures how those given power (agents) account or should account to those empowering them (principals), e.g. to voters if *de facto* power really grew out of elections - or to military, business or clan/ethnic groups if they are the real principals sustaining the executive agents.

^x Hyden, G et al., op.cit, operates with 6 functional dimensions and institutional arenas of governance, they are here collapsed to 3.

^{xi} Jütting, J. (2003). *Institutions and Development: A Critical Review*. Paris, OECD, Li, S. et al. op.cit.

^{xii} In the Danish "Jutlandic Law" from 1241 is was solemnly stated: "With law shall country be built"

^{xiii} Grindle, M. S. (2004). "Good Enough Governance: Poverty Reduction and Reform in Developing Countries." *Governance: An International Journal of Policy, Administration, and Institutions* **17**(4): 525-548.

^{xiv} Li, S., et al., op.cit

^{xv} Lange, O. (2006). *Stormogulen*. Copenhagen, Gyldendal.

^{xvi} Hamilton-Hart, N. (2000). "The Singapore state revisited." *The Pacific Review* **13**(2): 195-216.

^{xvii} Srivastava, M. (2004). *Moving Beyond 'Institutions Matter' Some Reflections on How the 'Rules of the Game' Evolve and Change*. London, DESTIN, LSE: 1-32.

^{xviii} Li, S., et al., op.cit

^{xix} Scott, W. R. ,op.cit.

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- ^{xx} Robinson, M. (2006). "The Political Economy of Governance Reforms in Uganda." IDS Discussion Paper 386.
- ^{xxi} AnanthPur, K. (2004) "Rivalry or synergy? Formal and informal local governance in rural India", IDS Working Paper, No. 226, Institute of Development Studies, London.
- ^{xxii} Helmke, G. and S. Levitsky (2004). "Informal Institutions and Comparative Politics: A Research Agenda." *Perspectives on Politics* 2(4): 725-740.
- ^{xxiii} Helmke, G. and S. Levitsky, op.cit.
- ^{xxiv} Ibid.
- ^{xxv} Danida (2000). Capacity Assessment and Reviews of IBIS. Copenhagen, Danida.
- ^{xxvi} Scott, W. R., op.cit.
- ^{xxvii} Khadiagala, L. S. (2001). "The Failure of Popular Justice in Uganda: Local Councils and Women's Property Rights." *Development and Change* 32: 55-76.
- ^{xxviii} Olken, B. A. (2005) Monitoring Corruption: Evidence from a Field Experiment in Indonesia.
- ^{xxix} Scott, W. R. (2001), Helmke, G. and S. Levitsky (2004), Srivastava, M. (2004)
- ^{xxx} From a narrow linear causality concept, this is obviously disturbing. From a systems perspective, looking at feedback loops of mutual influence, this is perfectly understandable.
- ^{xxxi} Migdal, J. (1988). *Strong Societies and Weak States*. Princeton, Princeton University Press.
- ^{xxxii} Migdal, J., op.cit, Rauch, J. E. and P. B. Evans (2000). "Bureaucratic structure and bureaucratic performance in less developed countries." *Journal of Public Economics* 75: 49-71.
- ^{xxxiii} Kaufmann, D. (2005). Myths and Realities of Governance and Corruption. Washington D.C., World Bank: 1-18., Paul, E. (2006). Improving Public Outcomes in Developing Countries. Belgium, University of Liege.
- ^{xxxiv} Grindle, M. S., op.cit.

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