

**Institutions, Non-Farm Business and Accumulation in
Kipatimu Village, South East Tanzania**

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Abstract

In the wake of economic and political liberalisation in Tanzania, this thesis seeks to understand market development in one of the poorest and little studied rural areas of the country. Research questions concern the emergence of market coordination and its relationship with other forms of social organisation such as kinship and religion. The research approach applies formal and interpretive analysis to interview, survey and observation data gathered during a 12 month period. Primary academic emphasis is on economic theories of market functioning and development, with a central role for individual decision making. However, the study also attempts a degree of interdisciplinary engagement with concerns such as culture and identity more typical of sociological or anthropological approaches. Theoretically, institutions are at the heart of the analysis, while concepts such as transaction cost and contracts are also important.

The study finds that 'non-market' forms of social organisation support market activity as well as placing constraints on entrepreneurs, identifying a range of strategies adopted in response by such individuals. Implications for business growth, employment and public policy are discussed. Evidence is also found on the importance of non-agricultural activity and migration for the rural economy.

The main contributions of the thesis are: the empirical findings on a previously unstudied area of Tanzania; an enriched economic conceptualisation of market development that takes account of institutions and identity; a model of agreements between individuals in the presence of institutions; and an adaptation of the 'analytic narrative' approach to applied economic study in a developing country.

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1 Introduction: Rigidity and Change in Rural Communities

1.1 Chapter Introduction

1.1.1 Aims and Methods of the Study

The thesis is motivated by a number of puzzles. The aim of this first chapter is to present these puzzles, explain why they are important and describe how the study attempts to contribute to their solution.

The puzzles all relate to the emergence of a market economy in a poor society. There is a concern both with market development at a systemic level and with the factors that constrain choice at the individual level. The thesis also seeks to understand the most appropriate place for ideas from economics among those from other disciplines in trying to address these puzzles. Another important aim is to identify a research approach that can add to our knowledge of market emergence by the production and analysis of primary data within the constraints of a single researcher study.

Chapter 2 gives full and detailed discussion of literature relevant to the aims and methods of the thesis. The purpose of this chapter however is introductory: to set the scene and show the overall shape of the chapters to follow. To this end some terms such as 'norm' or 'institution' are used rather freely here. These are defined properly in the following chapter. Similarly, a number of important questions and arguments that have been much written about are incorporated in this initial overview with most discussion of the literature left for Chapter 2.

1.1.2 Chapter Overview

The remainder of this chapter is organised as follows. In Section 1.2, after a brief introduction to the study area, a number of the questions and concepts that run through subsequent chapters of the thesis are presented. These include the concerns and strategies of those people engaged in accumulation, the role of social institutions and the importance of individual identity.

Following this discussion of thesis themes, more contextual detail on the study area is provided. This detail includes national economic and political

developments of the post 1985 liberalisation period which have an important bearing on the mostly smaller scale analysis in the rest of the thesis.

Section 1.3 begins with the statement of thesis research questions. This is followed by an initial discussion of the research approach of the study and reasons for the selection of the study area.

Section 1.4 gives an outline of the remaining chapters.

In order to give a clearer introduction to the main themes of the study and how they fit together in the current chapter, the detailed relation of these ideas to the literature is slightly deferred. Chapter 2 considers in much greater detail the material discussed here in Section 1.2 with reference to the empirical and theoretical literature. Chapter 3 does the same for the selected research methods described in Section 1.3.

1.2 Economic Decisions in Context

1.2.1 Choice and Accumulation in Rural Tanzania

Most residents of the Tanzanian countryside at the beginning of the 21st century lived in poverty. Mean levels of rural per capita consumption were estimated at 73 US cents¹ per day by the most recent national survey, with 39 percent of rural people surviving below a poverty line of 44 US cents per day (United Republic of Tanzania 2002).

In the particular part of South Eastern Tanzania studied here, meals are typically a monotonous diet of cassava or the maize porridge *ugali*, eaten with small quantities of beans or dried fish when available. Most people own a small collection of second-hand clothing, often rather worn. Electricity and piped water remain a distant dream. Education is at best to primary level. Healthcare in the event of illness is very hard to afford. If asked what their main occupation is, the majority of people respond 'farmer'.

For people taking decisions in such minimal material circumstances, the avoidance of any significant reduction in consumption levels will clearly have much weight. In other words, planning for misfortune is important. Crops may

¹ Given in purchasing power parity (PPP) equivalent terms.

fail, goods may be stolen, sickness may strike. Any discussion of how people plan must consider responses to such examples of risk.

Producing or otherwise earning enough to sustain consumption often becomes harder in the later stages of life, when physical and mental resources weaken. Old age, then, can be thought of an 'inevitable misfortune' for which plans need to be made.

Much of this study attempts to understand the strategies of individuals to protect and improve levels of consumption in the face of risk and the problem of old age.

Broadly, consumption can be assured in two ways. Firstly, a person can acquire food and other needs by using or exchanging resources under their direct control. In the simplest case this can just mean using cash to buy what is required. It could also involve trading other assets, either for money or in kind. Another possibility is that an individual could control sufficient productive resources, such as land, to directly produce consumption needs. To develop the ability to maintain living standards in the event of risk in this way requires accumulation by the individual. This first approach can be thought of as the development of an 'individual asset buffer'.

A second way to attain any given consumption level is for other people to provide the necessary resources as transfers; that is, without direct compensation that can be interpreted as the counterpart to what has been provided in a transaction. For example, a sick person may have medical treatment paid for by an uncle or an elderly woman may be fed and housed by her children. The extent to which any given individual could expect to receive such assistance will clearly depend upon a considerable number of factors. The scope for individual agency in affecting this level of assistance, both ex-ante and ex-post, is correspondingly a non-trivial question. However, this study will argue that it is both an important question and one that can lead to useful insight. This second way of protecting consumption levels can be described as the development of a 'social asset buffer'.

In the discussion that follows, conformity or otherwise of individual action to social norms will be important in thinking about the role of agency in promoting

such social asset buffers. A central conclusion will be that the two strategies described above for the assurance of consumption levels cannot be understood independently of each other. There are tradeoffs in that actions taken by a person to improve their individual asset buffer may have detrimental effects upon their social asset buffer and vice versa. Consider for example an individual who receives a windfall of 100,000TSh¹. If they were to use this to purchase some second-hand clothes in Dar es Salaam, they could supplement their farming income by selling them locally. This would boost their individual asset buffer. Suppose, however, that their brother's wife's mother is unwell and requires an operation. Failure to contribute, especially if the windfall is known about, may do little for the prospects of help from that side of the family if the individual's crops should fail.

It is the contention of this study that the tension between the two methods of building asset buffers, vital in such circumstances of severe poverty, introduces rigidities into the rural economy. Actors are so involved in kin and other social relationships, with accompanying patterns of commitment, that their freedom to respond to economic opportunities is restricted. This is not a rejection of rationality as a way to interpret individual choices. However, rather than the fluid adjustment to price signals envisaged by simple microeconomics, the attention will rather be on the painstaking strategies of individuals who negotiate pathways, step by step, to accumulation, without losing more than they gain by undermining their social asset buffers.

1.2.2 From Community to Market

Since at least the writings of Adam Smith (1997[1776]), economists have recognised that specialisation by individuals is central to the productivity of a society. Concomitantly, economic development requires the organisation or coordination of individual activities in such a way as to support this specialisation.

Where a plot of land is too large to be cultivated by a single person, the efforts of several people may need to be combined at planting time. If some of the

¹ The equivalent of almost US\$ 115 in 2001 at the then prevailing exchange rate of \$1 = 876 TSh.

crop is to be sold, then a third party may need to arrive with a lorry at the appropriate time. Local shopkeepers need to be able to offer the farmers sugar, matches, soap and a host of other consumer goods. The availability of these depends of course in turn on the hinterland of a myriad processes taking place in the national and international economies.

Individuals who initiate activity as part of accumulation strategies must solve such coordination problems often. As well as finding a goatherd, a *hoteli*¹ owner wishing to keep goats may need the assistance of others to keep their establishment going while they travel to purchase the animals.

In this thesis, I will be concerned with two methods of achieving such coordination of individual activities. Under one set of solutions, economic action is carried out as an integral part of culturally defined roles such as those of kinship, or adherence to social norms. For example, people in the study area claim that groups of neighbours would gather to work on one person's plot during planting-time, then that individual would join in when it was time to plant another person's *shamba*². The *hoteli* owner mentioned above might turn to a son to look after their goats and to a cousin to run the restaurant in their absence. When economic action can be interpreted in this way as interleaved with wider social patterns it was described by Polanyi (1944) as 'embedded', a term that has found widespread use since by writers such as Geertz (1973), Granovetter (1985), van Ufford and Zaal (2004). Embedded economic activity has a distinguishing feature that is worth noting at this early stage; decisions which appear very similar in their immediate consequences may in fact appear very different when they are faced by different individuals. For example, the decision on how to compensate the goatherd for their work may be different if they are the *hoteli* owner's son than would be the case with an unrelated youth from another village, and different again for the daughter of a neighbour. In short, with embedded economic decisions, the identity of participants matters. Understanding the term very generally to describe any persistently reproduced patterns of activity, we can also think of this first way of organising activity as

¹ *hoteli* : guesthouse or hotel. Here the former sense is understood.

² *shamba*: plot or field

coordination by social institutions. Examples of such institutions include, for example: family, religion, and social roles such as 'farmer', 'an elder', 'a man'.

The second type of organisation that will be considered is market coordination of activity. With this system, the individual whose *shamba* is planted might give immediate recompense to those who help with the work. Whether this is given as money or in kind, this compensation can be understood as completely discharging any obligation to the workers that has been incurred by the plot owner. Under a market system, each good or service is produced and exchanged according to the conditions of its supply and demand. This process is anonymous in that decisions are based only upon the immediately relevant characteristics of participants: two equally competent goatherds can demand equal wages, two plot owners equally able to pay can expect to employ the same amount and quality of labour from third parties, in each case regardless of other aspects of the social identities of all concerned. With market organisation, any non-anonymous coordination that is necessary can be understood as taking place in formal institutions. Examples of these are, of course, banks, government and firms.

Here then are two different ways of coordinating economic activity. However, as with the descriptions given in the previous section of individual and social asset buffers, the intention is not to claim a sharp dichotomy. Indeed it will be precisely where the categories overlap that most attention will need to be focussed.

These two categorisations will prove to be helpful organising devices as the study seeks to understand economic activities. For different individuals, we can examine the importance to their economic interactions of embedded behaviours associated with social institutions such as kinship. This can be compared with their involvement in market-coordinated activities and any supporting formal institutions like banks or state agencies. Who is involved in which patterns of market and embedded coordination? Which of these seem to be more successful? How does this relate to the reliance on individual as against social asset buffers as a strategy to assure consumption levels?

A straight-forward conjecture is that successful accumulators would tend to become less dependent upon embedded coordination and more reliant on market coordination. For example, a wealthier farmer could pay cash for any labour required and thus avoid the obligations of communal labour exchange. As this farmer built up their individual assets, their need to remain engaged in such institutions in order to preserve a social asset buffer would diminish.

Even as it stands, this simple scenario points up an important tension that is reflected in the empirical material. An individual might need the leeway provided by an individual asset buffer to compensate for the reduction in social asset buffer when they withdraw from embedded arrangements. However, it may be that their accumulation itself depends upon their use of market rather than embedded coordination. The difficulty of escaping this circularity is what gives the need for step-by-step strategies rather than instant switching of resources. A person who sees a market opportunity must weigh the direct economic gains against any losses incurred in the embedded sphere. They may need to engage only partially in the market activity until the accumulated gains of this can offset further social penalties. For some individuals this process may continue for years, go into reverse or not get started at all. We should not expect to find a homogenous pattern of transition from embedded to market processes.

Although sufficing to demonstrate this feature, the simple conjecture outlined above is inadequate for a more thorough interpretation of economic activity. Rather than a shift away from socially embedded behaviour, it can be more helpful to look for changes in how economic activities are embedded. Returning to the example, paying labourers cash rather than relying on social commitment may be reasonably described as 'more market, less embedded'. However, closer consideration of detail raises interesting issues such as: how is the quality of work ensured, or what happens if a worker becomes unwell? The answers to these questions may lie partly in embedded social arrangements. This study will thus pay much attention to the cultural and social requirements of various forms of 'market' activity.

The awareness that even market coordination may not be independent of informal social institutions adds an extra burden to the strategising accumulator. Not only must they weigh the gains of market activity against the losses of withdrawal from some social commitments. They also have to find ways to preserve or renegotiate patterns of social engagement in order to support the market activity itself (Parkin 1972).

While we can enquire into the institutional prerequisites of any market transaction, there are two types of situation which throw the need for some kind of supporting context into sharp relief. One of these is where coordination of activity must take place over significant distance, causing problems of communication and asymmetries of information among participants. The second is where constituent parts of an activity are widely separated in time, where differences in ex-ante and ex-post negotiating positions as well as uncertainty over events that may occur between agreements add to these difficulties. Because such situations are prevalent in the context of a developing rural economy such as the one under examination, and because of the clarity with which they show the need for more than just atomistic, willing partners for successful market coordination, examples of both of these types will feature extensively in this thesis.

Just as we can seek to interpret the actions of individuals in terms of changes in ways of coordinating activity and dealing with misfortune, so we can consider aggregate effects. As before, there is a simple 'Great Transformation' conjecture whereby the local economy as a whole becomes less embedded and most citizens come to rely more upon personally accumulated assets than social assets for protection against hard times. As before, this can be refined by asking how the embeddedness of the economy changes with greater use of market coordination. What institutions, social as well as formal, are necessary to the development of markets (Platteau 1992)?

One particular aspect of individual decision-making is particularly relevant to aggregate economic outcomes. What can understanding the strategies of entrepreneurs tell us about likely growth patterns in the local private sector and the possibility for expanded employment? There is a much-commented shortfall

of indigenous African businesses to grow beyond the micro-enterprise level and much has been written on the formal institutional shortcomings that may perpetuate this situation (van Biesebroeck 2005). If the terms of social embeddedness for small firms are indeed as important for their development as this study suggests, then understanding these terms may be as vital as the analysis of formal institutions when thinking about how to support the nascent private sector in Africa.

1.2.3 The Tanzanian Context

Data collection for this thesis centred on a village in the South East of Tanzania. In common with a number of other African countries that found themselves in balance of payments crisis during the early 1980s, over the succeeding two decades Tanzania has undergone attempts at economic liberalisation, political reform and macroeconomic stabilisation.

At the end of the 1970s the Tanzanian economy was heavily regulated, with many activities being reserved for agencies of the state. The marketing cooperative movement had grown rapidly from its origins among the Kilimanjaro coffee growers in 1923 (Iliffe 1979) and following independence a series of compulsory marketing orders meant that many crops¹ could only be sold to such cooperatives (Coulson 1982), severely restricting the scale and scope of private trade. However, crop marketing boards under state control were introduced from the early 1970s as the independent cooperatives in turn lost favour with the nationalist government and were finally dissolved in 1976 (Havnevik and Hårsmar 1999 p. 50). Most significant food and cash crops could thereafter only be purchased from farmers by official village cooperatives and then distributed through state crop authorities. The external sector was under particularly tight control; all export marketing was carried out by government agencies such as commodity boards or parastatal companies while access to foreign exchange was limited and currency could only be exchanged at the officially set rate (Havnevik 1993; Wangwe, Semboja et al. 1998). In local terms, one result of this suppression of independent market

¹ All export crops and most major internally traded food crops produced by small farmers.

activity was the presence of only one shop, state operated, in the study village of approximately 5,000 inhabitants.

Beginning with the first Structural Adjustment programme in 1983, all of these restrictions had been eliminated by the late 1990s. The study village now has more than 20 shops, all privately run. When not made impassable by heavy rains, the roads of the South East churn with the lorries of private traders. By 1993, the parallel and official exchange rates had unified following the licensing of *bureaux-de-changes* and relaxation of controls on capital movements (Doriye, White et al. 1993). Private operators are now active in many export sectors, for example sales of prawns from the Tanga and Rufiji areas (Gibbon 1997c). In addition to these measures, there has been a large scale programme of sales or closures of state-run enterprises. There is little disagreement even among commentators with otherwise very different views on liberalisation that the performance of the crop authorities had been extremely poor, with serious deleterious effects on production and earnings (Ellis 1983; Havnevik and Hårsmar 1999). By 1998, 70% percent of 385 parastatals identified under this scheme had been divested (Wangwe and Van Arkadie 2000 p. 78).

From 1964 to 1992, Tanzania was governed by the *Chama Cha Mapinduzi*¹ (CCM) under a one-party system. Although for over twenty years the President under this system, Nyerere himself is held to have played a central role in its demise (Gibbon 1995)². Following constitutional amendments in the latter year, opposition political parties were allowed to operate and in 1995 the first multi-party elections took place. These were followed by further elections in 2000 and 2005. Although the new parties have made occasional inroads in towns and cities, CCM support has remained firm in the countryside where most Tanzanians reside. The ruling party continues to enjoy an overwhelming parliamentary majority. The only area of the country where elections have involved serious social unrest and more than sporadic violent dispute has been on the islands of Zanzibar. Elsewhere, the transition to a multi-party system has

¹ *Chama Cha Mapinduzi*: Party of the Revolution

² Gibbon's account is very similar with those frequently given to me in conversation with study area residents.

been largely peaceful and elections free from widespread suspicions of unfair play. In contrast to several other African countries, two successive presidents have stepped down after serving the constitutional two terms with no hint of attempts at rule-changing to extend their tenure.

In the early 1980s Tanzania found it more and more difficult to arrange payment for even essential imports. Shortages of basic consumer goods, fuel and spare parts resulted. Havnevik (1999) relates how the growth of the second economy lowered tax revenues, restricting expenditure on public services and thus eroding the legitimacy of the state. Such pressures, along with the external shocks of the 1978 oil price rise, the East African Economic Community breakup and the Uganda war (Wangwe, Semboja et al. 1998), gave the government of Julius Nyerere little choice but to introduce a series of structural adjustment plans in the early 1980s, including elements favoured by the International Financial Institutions without going as far as those external agencies thought necessary on devaluation and trade control in particular. The refusal by Nordic donors to continue their support in the absence of agreement with the International Financial Institutions possibly represents the decisive final reduction in Nyerere's room for manoeuvre (Havnevik and Hårsmar 1999). In 1986, following his departure from the presidency, agreement was reached with the IMF for an economic recovery plan featuring all the usual stabilisation and adjustment measures. Despite the extreme reluctance that characterised the beginning of Tanzania's adoption of such policy change, the country has since become something of a model adherent to the economic management approach advised by the IMF and World Bank (Ponte 2000).

Table 1.1 gives data on some major indicators for the period since 1985. The restoration of aid flows and the access to credit allowed an immediate resurgence of activity and hence high growth figures that then fell away. However, a more sustained period of growth improvement has been observed since the mid-1990s. During the crisis years, inflation averaged over 30 percent but has gradually fallen to single digit levels.

In 1985, official reserves were insufficient to cover a single week's imports. By 2004, government reserves were equivalent to over 8 months of imports.

Another indication of improved economic control is the fall in the value of debt service requirements from almost 40 percent to just over 5 percent of annual imports. A major factor in this last development is the debt service relief since Tanzania became the fourth country to reach ‘decision point’ under the HIPC¹ initiative in November 2001.

One area that does not show such clear cut change is the trade deficit, which is at a similar level relative to GDP as in 1985. However, a 10 percent of GDP deficit when imports are limited by absolute forex unavailability is different from the same proportional deficit when access to credit has been restored. From a standard macroeconomic viewpoint, Tanzania should have a deficit at this stage in its economic development, provided the resources being borrowed from the rest of the world are being used to build up future productive capability rather than simply providing for current consumption. The observation of a large consumption component in imports by some authors (Wangwe, Semboja et al. 1998) is clearly a concern in this regard.

	1985	1990	1995	2000	2004
real GDP growth (5 year rolling average)	-0.5	5.8	1.8	4.1	6.4
inflation (CPI 5 year rolling average)	30.2	31.0	27.4	12.6	3.1
trade deficit as % of GDP	11.1	24.8	17.9	8.3	10.3
reserves in terms of months of imports	0.2	1.4	1.4	5.2	8.3
debt service as % of exports	39.9	32.9	17.9	12.8	5.3

Sources: Tanzania National Accounts (1994), World Bank (2006b), author’s calculations

Note: rolling averages calculated on previous 5 year period. Other values are for the year shown.

Table 1.1 Macroeconomic Indicators 1985-2004

In terms of liberalisation, political reform and macroeconomic stability then, the changes in national political and social arrangements since the crisis years of the 1980s have been wide reaching and not without substantial successes. However, very considerable heterogeneity of experience is likely to characterise this period, in different sectors, periods and locations. Any attempt at overall evaluation of the policy changes would have to consider these carefully. Although such an evaluation is well outside the aims and scope of the

¹ HIPC Initiative: The Heavily Indebted Poor Countries Initiative is a scheme set up in 1996 by the IMF and World Bank under which countries gain relief on multilateral debt conditional upon policy reform and the implementation of an agreed Poverty Reduction Strategy Paper (PRSP) .

current study, there is one crucial feature of this mixed experience that must be recognised. As Stefano Ponte (2000 p. 1017) states, post-reform Tanzania is clearly more 'business friendly' on a national level and in the cities but the benefits for rural people have been more questionable.

Dar es Salaam even in the early 1990s was a city showing the visible signs of economic crisis. Main thoroughfares were potholed; people had to cross the city by *chai-maharage*¹ converted from light trucks in order to communicate, as the phone system was extremely unreliable; central streets were still dominated by the facades of crumbling parastatal-run shops; international telephony was difficult to arrange and prohibitively expensive. Only a decade later there are several new office tower blocks; main streets are well maintained and feature a growing range of modern stores; the private *daladala*² are now purpose-built minibuses, on regularised routes; mobile phone coverage enables residents to bypass the landline system; international communication, including Voice over Internet, is available at cybercafés on every corner. The city is growing apace, not in the main with rough dwellings of the *favela* type but concrete-and-corrugated iron houses, built as long-term investments by people from all over the country, drawn in by the opportunity to make money. To make these observations is not to deny that the city still has to struggle with major problems including the provision of public services and utilities. However, although there has not been uniformly positive change, it is reasonable to claim that very significant improvements have been made, if only in particular spheres, and that in those areas at least there is a sense of dynamism that was previously absent.

In contrast, it is by no means as clear that the period of dramatic policy change outlined above has been associated with substantial advances beyond the cities and towns. Poverty in rural areas has remained both more pervasive and more persistent than in urban areas, as the following data published shortly after the study period indicate.

¹ *chai-maharage*: literally 'tea-beans' because the seating arrangement resembled diners around a table.

² *daladala*: small bus or minibus. In Kenya '*matatu*' is used instead.

	Mean Consumption Expenditure				
	mean TSh per capita per 28 days.			ratio to rural consumption	
	1990/1	2000/1	% increase	1990/1	2000/1
Dar es Salaam	14,896	21,949	47.3	1.94	2.57
other urban areas	12,733	14,377	12.9	1.66	1.68
rural areas	7,661	8,538	11.4		

	Median Consumption Expenditure				
	mean TSh per capita per 28 days.			ratio to rural consumption	
	1990/1	2000/1	% increase	1990/1	2000/1
Dar es Salaam	12,106	16,349	35.0	1.58	1.91
other urban areas	9,622	11,561	20.2	1.26	1.35
rural areas	6,300	6,860	8.9		

source: Household Budget Surveys (United Republic of Tanzania 1992, 2002) and author's calculations all values given in terms of 2000 TSh

Table 1.2 Changes in Rural and Urban Consumption 1990-2000

The data in Table 1.2 above indicate the different trends in rural and urban living standards during the 1990s. The figures suggest that there has been an increase in average consumption levels and that the countryside has not been entirely excluded from this. However, it appears that the gains have been very much larger in the built-up areas, where the initial level was already substantially higher.

The case of rural Tanzania then seems that it may typify the concerns of many commentators on liberalisation policy in Sub-Saharan Africa. There is some debate over whether, or to what extent, the majority of the population residing in these rural areas is benefiting from the effects of policies which appear to have brought significant benefits to sectors of the urban economy. Havnevik (1999), for example, holds that any small welfare gains to farmers from higher producer prices may have been more than offset by losses in state provided services under adjustment. On the other hand Ellis (1982) suggests that the higher level of such services in the 1970s may not have compensated for the effects of price controls and state coercion during villagisation.

This question is particularly important in the South-East, long one of the least developed of all Tanzania's regions, where this study is centred. There may be more shops and more commercial traffic but once away from village centres and trading routes signs of change are harder to find. Lifestyles continue to be characterised by very basic standards of diet, clothing and housing. Subsistence agriculture appears to be the predominant occupation, palm-wine

drinking the main opportunity for leisure. With growing drug resistance and in the absence of affordable alternative treatments, endemic malaria remains a debilitating burden.

One response by rural dwellers to this state of affairs has already been noted: migration. Examples of long- and short-term migration to urban areas, in search of employment, business opportunities, medical care, education or training abound in the material gathered for this study.

Another response is deagrarianisation. As has been noted in many other parts of Sub-Saharan Africa, ways of earning a living other than by farming are becoming more important in rural areas (Bryceson and Jamal 1997; Rigg 2006). Again, this thesis gathers information on many such non-farm economic activities and much attention will be given to how the coordination between individuals necessary for each of these activities is produced. The manner in which this coordination can best be interpreted as market activity or embedded activity will be considered.

This last point is apposite here because change in the culture in which embedded activity occurs can itself be thought of as another rural response to the evolving circumstances described. Evidence of such cultural change and its relevance to economic developments is another theme of the thesis. Perhaps the most visible shift in the study area is to be seen among the younger residents. With the licensing of independent radio stations and the arrival of television in urban migration destinations, global cultural influences have increased their reach into such physically isolated places. Most strikingly, since local businessmen acquired generators, regular showings of western films and MTV-like musical shows bring the images and sounds of developed-country lifestyles to entranced village audiences. One can observe the bare-footed children of impoverished farmers doing the very latest New York street styles of dance in the market place dust.

The existence of distinct intergenerational differences in engagement with certain forms of non-farm business activity is an immediately striking parallel between economic and cultural shifts. What appears as a diversification of livelihood portfolios in the aggregate can almost be described as a complete

withdrawal from farming among the youth, a trend noted by both Havnevik (1993 p. 80) and Ponte (2000 pp. 1023-25).

The withdrawal from economic activity in general by the state has been a common theme throughout the period of national-level policy change initiated in the 1980s. The urban response by non-state business actors appears to have been significant. This study seeks to understand the logic of and prospects for private sector development in a rural area. Of the issues mentioned so far, migration can appear as a flight from an unsuccessful local economy or as integral to business activity. The extent of deagrarianisation will determine whether the rural private sector is essentially about the commercialisation of agriculture or the construction of a more mixed village economy.

A shift from state to market as envisaged by structural adjustment theory and policies of liberalisation is not the only overarching interpretation that has been given to economic change since the crisis period. Ponte (2000) describes a move 'From Kinship to Contract' in rural labour relations and explains the advantage of choosing 'fast crops' such as tomatoes in facilitating the avoidance of claims on harvest proceeds by family members (Ponte 2002 p. 123). For Bryceson (1990), the concept of clientage is at least as important as either 'state' or 'market' in analysis of the Tanzanian economy, so that change in the degree of state regulation should be understood as a shift of the locus of patron-client networks. Havnevik criticises adjustment theory for what he sees as a fundamental understanding of the dominant mode of production in rural Africa (Havnevik 1993 pp. 144-147). Similarly, Gibbon laments that liberalisation policy is predicated on 'a population of actors/actresses who have no social ties or obligations to each other and who are all equally 'free' to exercise the same economic choices' (Gibbon 1996 p. 3).

As well as the question of how market organisation emerges from an embedded economic system, common to studies of societies in many other places and eras, the matter of private sector development in the Tanzanian countryside has a distinctive feature. This is the fact that from the period of the Arusha Declaration in 1967 to the middle of the 1980s, most forms of private enterprise were severely limited or banned entirely and the state strove through

its monopoly control of media, education and political organisation to unite society in its disapproval of the capitalist system. Although current national policy has completed its *volte face*, an attempt at understanding today's private sector must consider the lasting influence of previous official opposition. This legacy includes effects on formal institutions such as banks, agricultural extension and schools which can be important for the private sector. It also includes the effects on informal institutions that can support or hinder market activity in the ways described above; for example, in the case of the wealthy farmer who wishes to hire labour on a cash basis, if enforceability of work quality depends in part upon embedded obligations, the position of the farmer will be that much weaker to the extent that the very practice of wage employment has a lingering taint of social disapproval. As Bryceson observed in 1993, 'The legacy of traders as pariahs could not be removed at the stroke of a pen' (p.101) and 'The status of traders in Tanzanian society hangs in the balance' (Bryceson 1993 p. 206).

Another point that distinguishes the Tanzanian economy, along with others in East Africa is a particular division of the private sector along ethnic lines. Much business activity above the microenterprise level has in the past been dominated by Tanzanians with their family origins in Asia (Coulson 1982 p. 121; Bryceson 1993 p. 11; Wangwe and Van Arkadie 2000 p. 7). Although much of the material in this thesis is based upon geographical areas with little direct Tanzanian Asian involvement, there are significant interactions between such actors and some of the many local businesses whose activities straddle rural and urban areas. It is also hoped that some of the findings about how entrepreneurs can use embedded social patterns to support market transactions may throw light on how the ethnic concentration of particular activities may be sustained and so on the prospects for 'indigenous' African entrepreneurs seeking to enter such areas.

Of the more tangible factors relevant to the private sector in the study area, infrastructural shortcomings will be the most frequently mentioned. Above all, the seasonality of road access shapes the strategies of business and accumulation. The absence of electricity and telecommunications is important.

The quality of and access to the services of several formal institutions also features in the examination of local business strategy; for example: financial services, policing, business regulation and taxation.

1.3 Research Questions and Approach

1.3.1 Research Questions

The following questions refer to activity occurring within the study area or undertaken by residents of that area.

Is market coordination of economic activity emerging?

Is the embedded nature of economic activity diminishing or changing?

Is individual asset buffer accumulation becoming more important for some individuals than social asset buffer construction and if so for whom?

How do accumulating individuals seek to escape from, modify or use their involvement in embedded social organisation to support their market-coordinated activities?

What are the likely patterns of and limits to enterprise growth and the provision of employment?

How does the formal institutional environment influence the planning of local entrepreneurs?

1.3.2 Choice of Disciplinary Focus

The primary motivation for this enquiry is economic in that it springs from a concern with the ability of people to consume material goods and services.

The conceptual systems of several disciplines may contribute to an understanding of how people can maintain and improve their consumption levels in the rural Tanzanian context so far described. Because of the interest in this thesis in how the social coordination necessary to economic processes is produced, two disciplinary areas in particular could be drawn upon.

Where actions can usefully be interpreted as being the result of choices taken by individuals, and especially where these choices can be understood as rational in some sense, then the methods of economics may prove valuable.

Where such conditions do not hold, the more general analysis of social organisation has in the past been more the domain of sociology than economics. Given the task of examining how economic processes are embedded in the social system, sociological approaches to analysing collective entities such as kinship group and culturally shaped action such as adherence to social norms could be helpful. The use of such approaches to study economic processes in particular is often described in disciplinary terms as the area of economic sociology.

Four factors influence the balance between economic and sociological approaches in this study more in the direction of the former. The first is the central role played by arguments from economic theory in shaping the national policy reforms of the last two decades, along with the continued pre-eminence of economic argument in the discourse of the Tanzanian government, the Bretton Woods institutions and donor governments.

Secondly, and relatedly, the particular aspect of reform most directly relevant to the study is the structural adjustment aim of encouraging private markets. The functioning of such markets is the core subject matter of microeconomics, so it seems reasonable to attempt an analysis of business behaviour in the context of reform in these terms.

The third is the development within economics of a range of methods that aim to extend the scope of analysis beyond anonymous, atomistic market interaction to include institutional phenomena. As discussed in the following chapter, this is the area referred to in the literature as the New Institutional Economics, many of the techniques of which will feature in the interpretation of empirical material.

The final reason for an emphasis on economics is the epistemological and ethical position of the author. Briefly, it seems both good scientific procedure and respectful to human subjects to first attempt an interpretation of their behaviour as though they were capable of weighing alternatives and making

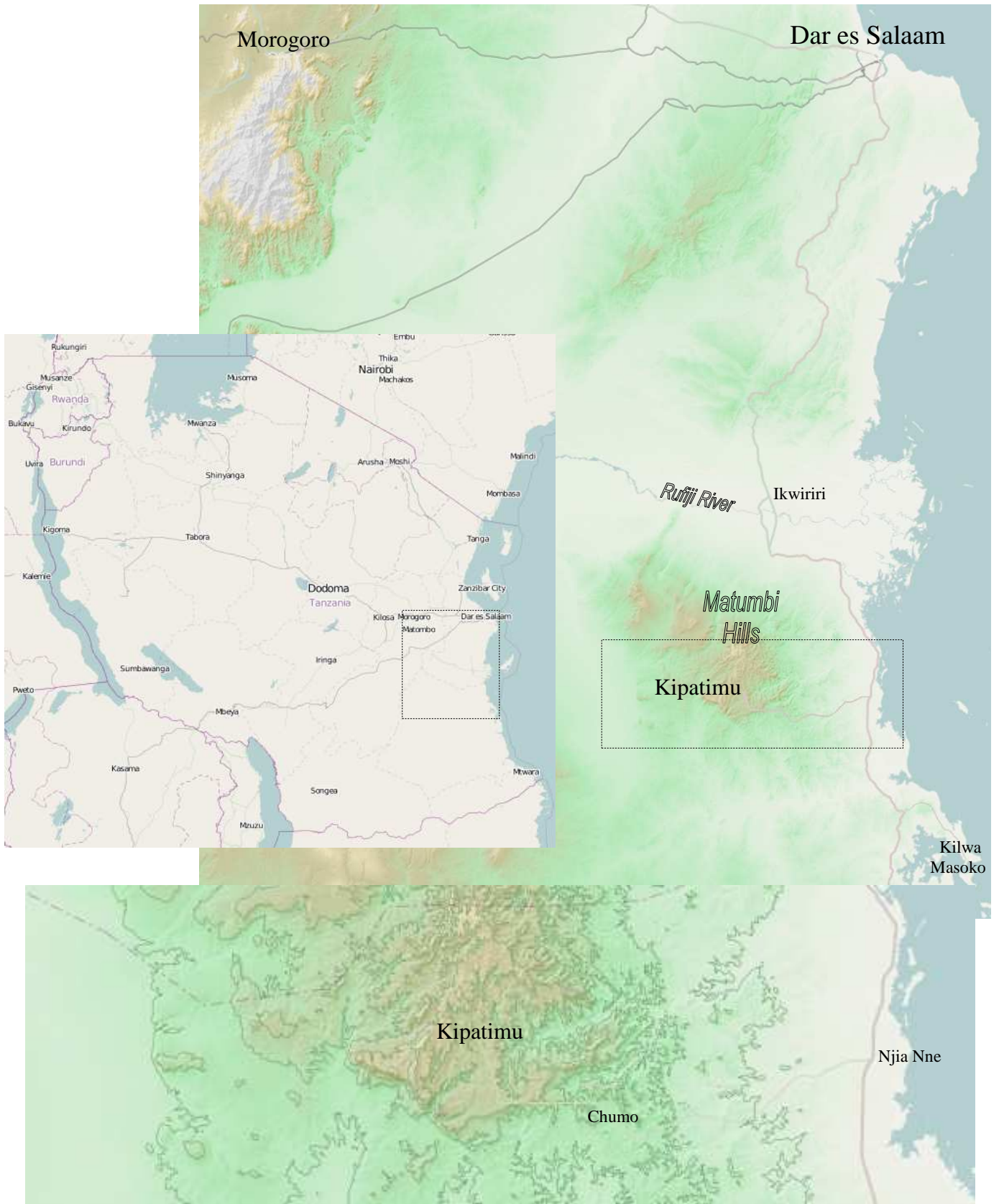
choices, without assuming that they are acting as the unknowing vessels of cultural forces.

This choice of an approach based primarily in economics should decidedly not be taken as a decision to embrace formalism and reject substantivism, to put the matter in terms of the classic opposition stated by Polanyi (1958). The starting assumption of this study is that economic coordination in both developed and less developed countries may be 'embedded', in Granovetter's (1985) sense, in patterns of social organisation beyond what is normally understood as the economic arena of production and exchange. Thus there is no assertion or assumption in this thesis that a 'market' can be understood as isolated from or independent of such wider social organisation. Rather, the research question concerning 'market coordination' asks whether the way that economic activity is coordinated within this broader social organisation may be changing so that it more closely resembles what is described as a 'market' in the developed world. Similarly, although the conceptual systems of economics are used, the study places great weight on detailed examination of the particular physical, social and cultural context within which economic activity occurs.

In this view of market activity as always embedded in wider social organisation and in the importance of detailed knowledge beyond quantitative data on prices and quantities, the approach of this thesis shares common ground with that of economic anthropology. From the work of Polly Hill (1963) on migrant cocoa farmers in Ghana to the more recent studies of Jean Ensminger (1996) on Kenyan pastoralists and Paul Quarles van Ufford on 'Ethnicities as Economic Institutions' (van Ufford and Zaal 2004), writers in this area have shown that ideas of choice and strategy, combined with attention to social and cultural specificities, can yield considerable insights into the nature and working of markets.

Broadly then, the theoretical *modus operandi* of the study can be thought of as: firstly to push the interpretation of activity as far as possible using the methods of New Institutional Economics; then to consider the explanatory advantage to be gained by a relaxation of the emphasis on individual choice which typifies

these methods. The research approach is more formally explained in Chapter 3. The final part of the current section describes the location of the study area and the reasons for its selection.



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Figure 1.1 Location of Study Area: Kipatimu Village in Lindi Region, Tanzania

1.3.3 Selection of Study Area

Tanzania is a large country characterised by a wide diversity of physical environments, natural resource availability, levels of infrastructure, types of economic activity, language and cultural practices. No study undertaken by a single researcher could hope to collect high quality data from a sample of sites large enough to represent this diversity, especially whilst collecting sufficient material from each location to throw light on the detailed local decision making processes which this thesis seeks to understand. Hence the choice of area in which to base the data collection for this thesis was purposive, with principal reasons for the selection made being as follows.

Lying south of the Rufiji river between the Indian Ocean and the Selous National Park, Lindi is one of the poorest and least developed regions of Tanzania. The hilly inland ward of Northern Kilwa is especially lacking in infrastructure and services. Kipatimu village, the ward centre, has no bank, post office, police station, telephone, piped water or electricity. The nearest point of access to any of these services is on the coast at Kilwa Masoko, eighty miles away. Perhaps most crucially, the thirty miles of road which connect Kipatimu to the main coastal road become impassable to motorised traffic for several months a year during the heavy rains.

Despite this status as especially marginalised and deprived, even by the standards of rural Tanzania, the area has somehow almost entirely escaped the attention of researchers and aid agencies. Kipatimu, the Matumbi Hills and Kilwa district itself in fact occupy a particularly neglected location, surrounded by other areas where the few writers who have concerned themselves with South East Tanzania have worked. To the north is the Rufiji river and flood plain, where Han Bantje and Kjell Havnevik carried out a series of studies before the liberalisation period (Bantje 1979, 1980, 1982) (Havnevik 1980, 1981, 1983) and Matthew Lockwood analysed the determinants and consequences of fertility levels in 1985-6 (Lockwood 1998). Off the coast to the east, Pat Caplan has studied a village society on Mafia island since the 1960s

(Caplan 1975; Caplan 1997). Around 200 kilometres to the south, the border zone from the coastal towns of Lindi and Mtwara inland to Masasi, Newala, and Nachingwea, along the former groundnut corridor has received some attention (Seppälä 1996; Seppälä and Koda 1998). Equally far-off, to the north-west, Jan Van Donge has written about social change and migrant traders in the Uluguru mountains (Van Donge 1992, 1993).

Although separated by distance, ocean or topography, several of the themes that emerge from this 'surrounding' literature are of relevance to the current study. One of these is the development of non-agricultural economic activity (Seppälä 1996), and relatedly, findings of disaffection with farming and rural life among the younger generations (Bantje 1979 p. 34; Seppälä and Koda 1998 p. 30). Havnevik studied the involvement of Rufiji residents in 32 non-agricultural activities, of which 27 were craft activities and the remainder extractive activities (Havnevik 1980). Many of these, such as tailoring and carpentry, also feature among the activities found in the Kipatimu area during the current study. Others, such as net making and honey collection, are not feasible in Kipatimu because of its very different location and ecology¹. Surprisingly, there is no mention in any of Havnevik's reports of palm-wine making, one of the most widespread activities in Kipatimu. Another striking result was that only 43% of Havnevik's respondents considered that lack of sufficient market for their products was a serious constraint, a much lower proportion than those who complained of difficulties in obtaining tools or raw materials (Havnevik 1983 p. 64). However, marketing was more often cited as a major problem for respondents living south of the river, because of the frequent interruption of transport links to Dar es Salaam. This is clearly closer to the experience of Kipatimu. Another very significant difference between Havnevik's surveys and the current study is that he makes no mention of private trade or finance activities. This clearly reflects that fact that, as discussed already, such activity was at the time severely restricted or even banned. It may also be related to the widespread view of these endeavours as 'unproductive' among

¹ Havnevik (1980) finds that the distribution of activities varies greatly between ecologically different zones. Unfortunately for comparison, the 'South Hills' zone was excluded from his survey because of poor road access to Tawi and Ngarambe villages. These two villages, in the 'foothills' of the Matumbi massif, mark the approximate midpoint of my own route up to Kipatimu by foot and bicycle.

policymakers and academics at the time (Bryceson 1993; Fafchamps 2004a). In any case, as studies of the size and nature of the parallel economy were soon to reveal (Maliyamkono and Bagachwa 1990; Bagachwa and Naho 1995), such private activity was probably widespread. Further evidence of this is provided by the much earlier work of Mascarenhas and Mbilinyi (1971) on the trade in Oranges to Dar es Salaam from Kisarawe, the district to the north of Rufiji. The findings of this study showed that not only was private trade extensive but that the practice of mortgaging orange tree crops against consumption loans was also commonplace (Mascarenhas and Mbilinyi 1971 p. 8).

These studies provide a great deal of detail on the number of people involved in various activities, along with attempts to estimate output, revenue and even returns to labour time in each case. However, there is little attention paid to the questions that concern the current study. For example: how coordination necessary for these activities is sustained; what strategies are used by individuals seeking to accumulate through involvement in the activities; and how the social context is related to each of these. One researcher working on the South East of Tanzania has addressed these questions. From a village study carried out more recently, Pekka Seppälä drew out three typical strategies (Seppälä 1996). A dominant pattern identified was differentiation by age in activity and dynamism, alongside the mediation of this process within local political and social logics. Seppälä cast the explanation of strategy in terms of access to, and investment in, social-cultural resources as well as material. The least successful, 'survival', strategy was represented by a woman. Her previous husbands were dead or imprisoned. Besides an inadequate plot of land, her livelihood depended on occasional day labouring and eight hour round trips into the forest to gather roots for sale as a snack. An intermediate, 'reproduction' strategy was followed by a woman involved in a wider range of activities. These included: a tea-room, financed by a rotating savings scheme; being a midwife; and growing cashew, rice and bananas. The most successful were young traders, engaged in an 'accumulation' strategy of diversifying from coconuts to cashews, purchasing lorries and enlarging land holdings.

The next theme in the 'South East' literature is the area of social norms, particularly concerning kinship relations. Caplan presents her main informant's own account of obligations and rights within marriage, as well as some of the ways that these can be enforced by formal and informal means (Caplan 1997 pp. 39-40). Her account of how choice is constrained in a village society stresses identity within kinship and other local networks, along with how this can be strategically invoked (Caplan 1975 pp. 36-38). Van Donge and Lockwood both describe how changing economic and political circumstances strengthen cooperation within smaller family units at the expense of authority within extended kinship groups. In each case, the increasing importance of trade and urban links contribute to this trend (Van Donge 1992 pp. 73,85; Lockwood 1998 p. 86).

A distinctive finding of Van Donge for the Ulugurus is the continuing importance of a matrilineal inheritance pattern. He attributes the practice among male migrants of leaving their wives behind, while maintaining relations with them, to the ability of women to enforce claims over property so that land is not appropriated in the man's absence. Further, he considers that the emergence of a landless labouring class is unlikely in the Ulugurus given the continuing ability of females to hold land (Van Donge 1992 pp. 84,92). Seppälä and Lockwood, in contrast, both find that although the societies they study were historically said to be matrilineal, they had long changed to a de-facto patrilineal state (Lockwood 1998 pp. 59-60; Seppälä and Koda 1998 pp. 29,44). In fact, even Van Donge describes matrilineal social structure as much weakened since migration and trade gained economic importance (Van Donge 1992 p. 73). All of this is in accordance with data obtained for the current study, as well as the survey of Beidleman in 1967 of tribes in the Eastern and Coastal area around Dar Es Salaam. Although his work is entitled 'The Matrilineal Peoples of Eastern Tanzania', Beidleman relates that contact with outside influences such as Arab traders and missionaries had already led the tribes closest to the Matumbi hills among those studied to adopt patrilineal practices well before independence (Beidelman 1967 p. 35).

Finally, the role of religion, local supernatural beliefs and their interaction in changing social relationships was discussed by Seppälä, Caplan and Lockwood. In particular, many of the details concerning the use of witchcraft or spirits to attack enemies, as well as the role of Islamic ‘experts’ in providing protection against these dangers, described by Caplan’s informant, closely relate to material gathered in the present study (Caplan 1997 pp. 104, 157-60, 181-84).

Both its low level of development and the lack of previous academic attention hitherto given to it relative to other areas contributed to the selection of Kipatimu for the current study. As a previously unresearched area, facing the serious difficulties described, there is a *prima facie* case for investigation. There is also a practical benefit, in that residents are unlikely to suffer from the ‘research fatigue’ reported in some other rural parts of the country where a disproportionately large number of studies seem to have been centred.

It is hoped that this thesis will contribute towards an understanding of economic activity and decision-making that may be helpful to those who are involved in planning interventions in the local economy. However, to achieve this, it would appear desirable to attempt an examination of the economic processes in the absence of such interventions. The chosen study location offers such an opportunity.

Finally, the selection of the Kipatimu ward had advantages specific to the researcher himself. The author had lived and worked as a teacher in the village for a 27 month period four years before the commencement of this study. As well as facilitating the process of orientation in the study area and equipping the researcher with much useful background information, the fact of this prior experience had benefits for the research methodology employed.

1.4 Structure of the Thesis

1.4.1 Outline of Chapters 2 to 7

This chapter has introduced the main aim of the thesis: to make an empirical and theoretical contribution to our understanding of market development in a

poor rural society. The research questions have been stated and initial discussion provided of the research approach employed. Some important concepts and distinctions have been identified such as the idea of individual and social asset buffers, and the possible role of social institutions in market coordination. Data have been presented on the national economic and political context for the study. The remainder of the thesis is arranged as follows.

Chapter 2 turns to the literature. First economic writing on market development in general is discussed, along with attempts to understand how such development is related to 'non-market' areas of life. Detailed consideration is then given to literature on concepts such as transactions, trust, contracts, networks and institutions. In the course of the review a 'concentric' set of concepts used in the subsequent production, analysis and interpretation of data is arrived at; in particular the definition used in the thesis for the central concept of 'institution' is given.

Chapter 3 describes the research approach and methodology of the thesis. This chapter describes the concept of an 'analytic narrative' and gives the reasons for the selection of this as the main research approach, rather than the presentation and statistical testing of formal models more common in applied economic studies. The methods used to produce and interpret primary data are also considered in detail.

The findings of the study are presented in Chapters 4 to 7 starting in the first of these chapters with data on the study area as a whole. The village level evidence is important for the analysis of data on individual accumulation strategies in subsequent chapters. After some preliminary but very significant material on the physical geography, politics and history of the study area in Kipatimu village, data from the survey of all households are set out. This includes demographic information and the distribution of household assets, with which a measure of wealth is constructed. Having considered data at the village level, household level and individual level, attention then turns to findings on a concept that seeks to link different levels of analysis and is central to the thesis: social institutions. The institutions in the study area are divided

into three types: formal, semi-formal and informal. Data on each institution are presented in turn.

Chapter 5 concentrates on the activities of individuals who engage in economic activity and the strategies they employ to achieve the coordination with others necessary for the success of this activity. To understand the problems facing such coordination and the strategies used to overcome these, it is necessary first to consider the details of each activity. Potential problems are then characterised as 'vulnerable transactions', often associated with the coordination of activity across barriers of time, distance or asymmetric information. At this point a formal model is presented which is used in the following analysis of strategies. The model attempts to organise discussion of how choices about the agreements an entrepreneur seeks to make with others are influenced by the characteristics and personal history of individuals, along with their relationships to social institutions such as the state, religion or kinship. Using this model, a detailed examination of the study evidence seeks to understand why particular strategies are adopted by particular individuals for particular kinds of transactions.

In Chapter 6 evidence on how entrepreneurs balance the building of an individual asset buffer against the need not to unduly damage their social asset buffer is presented. Threats to accumulation are partly conceptualised as the demands of social institutions such as state or kinship. However, it is further argued that the strategy of entrepreneurs is complicated by the need not only to deal with demands on accumulated assets but to do this while retaining the support from social institutions shown to be important for successful economic coordination in Chapter 5. To analyse study evidence on strategy that chapter's formal model of agreement in the presence of prior institutional rules is extended.

The final chapter considers the answers which can be given for the thesis research questions stated in the opening chapter. For each of the six questions the evidence obtained by the study is summarised and conclusions drawn. After this some further theoretical and methodological implications of the study

are discussed. The thesis concludes by considering the relevance of its findings to policy and further research.

2 Linking Market Development to Institutions

2.1 Introduction

2.1.1 A Review of Literature and Discussion of Concepts

As established in the opening chapter, the central theme of this thesis is the development of markets in poor rural areas. The emphasis in this thesis on choice theoretic economic analysis was also explained. The current chapter applies this emphasis in reviewing the literature on market development. In the process, detailed discussion is provided of a number of concepts which play a central role in addressing the thesis research questions.

2.1.2 Chapter Overview

The next section considers how interest in markets among writers on developing economies has changed over recent decades. The academic impetus of the current study originates in the literature discussed here¹. Some questions about markets that often occur in writing on developing countries are mentioned, including that of the relationship between 'market' and 'non-market' spheres of activity. The following sections each review the use of particular theoretical perspectives in the literature on market functioning and development. These include: transaction costs, property rights, contracts, institutions, norms, trust, 'social capital' and networks.

Following the general discussion of literature on markets, the second part of Section 2 presents an expanded chapter outline, giving more detail on these concepts and an explanation of the order in which they are considered.

2.2 The Role of Markets in Economic Development

2.2.1 Market promise, market puzzles

Within economics, the theoretical argument for the efficiency of market coordination has long been well established, even in the presence of

¹ This discussion deals with the importance of understanding market development in general. Appendix 3 provides more specific justification for the concern of the thesis with the rural non-agricultural private sector in particular.

uncertainty (Arrow and Debreu 1954). While the optimal division between market and state coordination has constituted the paramount area of economic policy debate, the social desirability of primary reliance on market mechanisms in substantial areas of production and allocation is largely accepted. In terms of the empirical record, it is not controversial to claim either that high levels of productivity and incomes in the developed world have been associated with an ever more sophisticated division of labour, or that the increasingly complex organization of economic activity has been substantially coordinated by markets (Landes 1969).

For the less developed countries however, observers have described two major differences in the form of economic coordination. Firstly, markets are said to be less well functioning. Secondly, larger areas of activity take place outside of the market domain.

Standard introductions to the economics of developing countries stress that market failure is more frequent and widespread than in the developed nations: *"Markets in LDCs are permeated by imperfections of structure and operation"* (Todaro and Smith 2006 p. 519). When the analysis is taken further, it is common to typify developing country markets as more often poorly-functioning, segmented or entirely absent (Arndt 1988). The corollary of these arguments of course is that the role of the state vis- à-vis the market needs to be larger in such countries. Historically, development economics has thus been more generally well disposed toward intervention than the subject's mainstream.

Increased attention to state failure since the 1970s (Kreuger 1974) along with the wider political and intellectual currents described in the opening chapter have made simple interventionist appeals less easy. However, if one is permitted to leave aside a 'plague on both your houses', neither-politics nor commerce, NGO-led third-way to economic development as delusory and unworkable (Cooke and Kothari 2001), this merely sharpens the need for an understanding of how developing markets work. If state action as an alternative to the market has become more problematic, the important question for policy is how best to complement market coordination. Any solutions to this must be based in an analysis of how markets succeed or fail.

The second distinguishing characteristic of poorer countries with which development economics has long grappled is that many activities that take place within the market sphere of western countries are commonly coordinated by non-market mechanisms. Examples include the importance of social intermediation in purchases of commodities by individuals (Wood 1999), credit provision (Besley, Coate et al. 1993; Besley and Levenson 1996), insurance (Dercon, De Weerd et al. 2006) and employment (Alexander and Alexander 2000). In each of these cases, many of the interactions that structure behaviour seem more associated with cultural roles such as kinship or gender than with market exchange.

Where anthropologists have written about economic activities in the developing world, their accounts have routinely been more closely fused with such matters as cultural practice or the specifics of personal histories. Exchange is rarely anonymous in this literature, being interpreted rather within its context of particular individuals and their social interrelationships. Examples for Sub Saharan Africa range from pioneering studies of Ghanaian Cocoa Farmers in the 1960s (Hill 1963) to work on the effects of structural adjustment in Tanzania in the 1990s (Booth 1994; Seppälä 1996). Perhaps this is unsurprising for a discipline that is 'working in' in a sense from a broad concern with human action to the particular arena of economics. Certainly, from this perspective the attempts of economists to understand this arena while abstracting from much of its broader cultural and social setting have not always seemed impressive and indeed sometimes provoked strong criticism (Hill 1986).

With renewed impetus given to the study of markets by the relative loss of faith in state action described, there has been a shift in the treatment of the relationship between these two distinctive developing economy characteristics. Whereas pervasive non-market coordination was hitherto seen as a 'response to' or a 'retreat from' failing markets, economists have begun to take a more nuanced view of causal direction. On the one hand, it is asked whether the widespread reliance on extra-market mechanisms could act as a block on market development (Fafchamps 2001). Correspondingly, there are empirical investigations into the kind of non-market activity that may be positively helpful

for market functioning (Murphy 2002; Quarles van Uffor and Zaal 2004) . Finally, some development economists have begun to re-examine the very idea of what ‘a market’ consists of, beyond anonymous individuals and atomistic transactions. What non-market coordination is required for market coordination to take place (Platteau 1992; Platteau 1994a, 1994b; Fafchamps 2002, 2004)? When this question is asked, a ‘non-market’ method of coordination such as social role or moral norm may be understood not as alternative to a market-based solution, nor as just a beneficial environment for such a solution. Rather, it may be viewed as a constitutive and inseparable part of market-coordination itself. As a consequence, rather than seeking to abstract from the extensive non-market activity we observe in developing countries, our analysis of economic processes can learn much from detailed attention to this activity.

2.2.2 Organising Concepts for the Analysis of Market Development

The remainder of this chapter presents the major themes in the economic literature which has sought to address these questions. By its very nature, the examination of links between dyadic market exchange and forms of interaction that involve greater aggregation and diversity of content generates conceptual schemes which cut across normal categorisations and levels of analysis. This presents difficulties in sequencing for such a review as this. Whilst all the contributions discussed here aim at an account of organisation that is coherent in terms of the rationality of single market interactions, they differ in the largest aggregate or most general social property to which they make appeal. The solution adopted in the following sections is to approach the relevant literature in order of the largest or most general level of analysis used. This concentric scheme is consistent with a metaphor of economists ‘working out’¹ from narrowly economic concerns, in counterpoint to the ‘working in’ of other social sciences noted already. However, it is primarily an organisational device and should not be taken to pre-judge causal direction between levels of analysis, nor to imply that successive layers of analysis necessarily supersede or improve upon the preceding approaches.

¹ Or ‘colonisation’ of the other social sciences by economics, as Ben Fine has argued often. For example, (Fine 2002)

Section 2.3 begins then with a focus on the smallest possible unit of market activity by applying a standard economic concept, that of cost. The transaction cost literature offers a route into the understanding of how market and non-market phenomena are related which retains the most basic building block of microeconomic theory at its core.

The property rights literature discussed in Section 2.4 broadens the attention just slightly from the cost of exchange itself. It investigates how individuals are able to control assets in the absence of transactions, as well as how this control is transferred during exchange.

As has been pointed out already, the two sides of a transaction often become separated in time or space. In addition, the terms of an exchange between two individuals may become dependent upon other transactions, or even non-market interactions, between the same people. The applications of contract theory presented in Section 2.5 seek to understand how these more complex forms of economic coordination are achieved.

Some analyses of contracting behaviour invoke the actions and motivations of third parties in accounting for transactions between the pairs of individuals that have hitherto remained central. In Section 2.6, on institutions, the discussion moves explicitly onto approaches that deal with multiple actors. As well as this expansion of scope, another trend which begins with the move from transaction costs to property rights gains prominence here. That is, the increasing significance of the specific identities of actors and their relationship to other specific individuals, as opposed to anonymous interaction on homogenous terms of exchange.

The penultimate Section, 2.7, broadens the scale again to discuss the relationship to market activity of social phenomena that are manifest in entire populations or categories of actor, rather than in groups or specific networks of identified individuals. The roles of social norms and trust have been stressed in much literature on market processes, though the manner of their operation has been treated in a number of different ways. After a critical examination of some of these, the chapter concludes with some reservations about the usefulness of two concepts often found in parts of the literature.

2.3 Transaction Costs

2.3.1 Coase, Williamson and the Boundaries of Market Coordination

Thinking about which of market and non-market coordination is likely to be used in particular activities by considering the cost of transactions is an approach that is generally traced back to the famous contribution of Ronald Coase (1937). The problem which Coase was attempting to solve was to explain the existence of firms in economies and the limits of their expansion. On the one hand for example, why should an entrepreneur always ask an employee, her warehouse manager, to do a stock check; could she not instead hire an outside contractor at a competitive rate when necessary? Conversely, why should firms ever subcontract; if a supplier is making a profit by providing a firm with subcomponents, why not internalise this margin by making them in-house? If markets are the most efficient form of coordination, then all activity should be organised on the basis of atomistic individuals making spot deals. If coordination within firms can reduce costs, then all economies should eventually consist of a single large firm.

Coase's answer to this question had the merits of simplicity and, as he pointed out, consistency with the marginalist tradition of Marshall. The key lies in the observation that there are often costs associated with organising any economic transaction. Although market competition can minimise the cost of any good or service needed by an individual producer, there are circumstances where the cost of coordinating such a market transaction can more than cancel out this advantage. In such cases, individuals will resort to non-market coordination and activity will be organised within firms. Where gains from market competition exceed the cost of transactions, outsourcing is chosen and the boundary of firm and market is crossed.

More will be said about the nature of these market transaction costs. First though, it is important to note the significance of the Coasian idea for the present study. This is, of course, that the approach offers a way to understand the respective roles of market and any form of non-market coordination, not necessarily only that within firms. Specifically, we can ask whether coordination

according to kinship role or cultural norm can sometimes be preferable to market coordination because of savings in the cost of transactions.

Much work on family firms has incorporated this transaction cost perspective. For example, Tony Yu uses the idea to explain how Chinese family businesses can acquire and maintain a high level of international competitiveness (Yu 2001). Others have sought to analyse the choice of entrepreneurs between relying on family members or employing outsiders in these terms (Bhattacharya and Ravikumar 2004).

Attention need not be restricted to cases where the activity can be viewed as carried out by family 'firms', at least metaphorically (Cain and McNicoll 1988). Indeed, in one of the most often cited papers on the subject, Robert Pollak claims that an advantage of transaction cost analysis is precisely that it allows a richer account of family organisation and structure than the standard economic treatment of the household as a production function (Pollak 1985). In this article, Pollak argues that the cost of different transactions can help explain why some activities are coordinated within families, rather than by formal organisations like firms or the state.

Two related features of the Coasian approach to understanding the boundaries between different forms of coordination appear to have particular appeal in the context of this study. Firstly, this view leads one to predict that in an environment where the costs of transactions are relatively high, one would find relatively more activity coordinated by non-market means. This is the finding, for example, in the work of Dyer and Mortensen on *Entrepreneurship and Family Business in a Hostile Environment: the case of Lithuania* (Dyer and Mortensen 2005). Secondly, as the costs of market transacting change over time, or perhaps from location to location within a country, there should be a corresponding shift in the relative roles of market and non-market coordination (Ben-Porath 1980).

Although I have segued here from Coase in 1937 to the subsequent applications of 'transaction cost' analysis, the phrase itself does not appear in the original article. It was not until the work of Oliver Williamson (Williamson 1975, 1979), forty years later, that significant academic attention returned to

this area and 'Transaction Cost Economics' emerged as an influential set of ideas. Within this school, efforts have been made to go beyond the Coasian delineation of boundaries. The patterns of coordination methods explicable by transaction cost considerations are in turn interpreted as possible 'governance structures' for markets themselves. This exemplifies the movement, mentioned above, from regarding non-market coordination as a reaction to market failure to an understanding of such coordination as a constitutive part of the market.

Another conceptual development made by Williamson is also highly pertinent here. He pointed out a weakness in the original Coasian account of firm limits. In cases where low transaction costs make market sourcing more attractive than in-house supply, this account does not explain why a firm cannot nevertheless buy up its suppliers and simulate the workings of a market inside the expanded organisation, along with the low transaction costs of this coordination method. Williamson argues that the incentive structure of the low cost market environment cannot be preserved when transactions are internalised (Williamson 1985 Ch. 6).

The implications for early market development are profound. As noted, an attraction of the transaction cost perspective is the potential it appears to have in helping to understand the change from non-market to market coordination. However, Williamson's argument implies that substantial difficulties can exist in attempting to describe intermediate stages of this process. Particularly in a situation where much existing activity is structured by non-market means such as kinship or custom, it may be hard to explain how some limited aspects of coordination can acquire the characteristics of market transaction, while remaining inside the broader non-market pattern of behaviour. If one retains a clear distinction between market and non-market, this observation resonates with an old concern in the study of economic development. Could a focus on transactions shed any light on the corrosive effect that the emergence of commercial relationships has on existing social structures, according to Marx and others (Marx and Engels 1998 (1848))¹? On the other hand, if one accepts

¹ This refers to the famous '*All that is solid melts into air*'. Of course, in his less polemic work, Marx is much closer to the Granovetter position that social relationships are altered, rather than simply replaced, with economic development.

that the two forms of coordination always coexist (Granovetter 1985), then Williamson's point about whether non-market entities can replicate market coordination internally may be helpful in understanding how some areas of social interaction become more 'market like' than others.

These remarks anticipate the discussion of successively higher levels of aggregation in the remainder of this chapter. Before moving on to this, a little attention to some actual sources of transaction costs in poor developing economies is given to indicate more clearly how these ideas have been applied in the literature.

In their work on the decision of households in Kenya to participate in maize markets, Renkow, Hallstrom et al. consider a range of transaction cost types (Renkow, Hallstrom et al. 2004). These include: search costs of locating partners with whom to deal; bargaining costs, comprising elements such as the opportunity cost of negotiation time and the cost of verifying information provided by the other partner; screening costs such as the checking of maize quality; and costs of monitoring and enforcing the terms of deals once agreed. The authors find that such transaction costs are associated with reduced involvement in a market with the consequent loss of potential welfare gains from trade. They also draw policy conclusions in arguing that the transaction costs most implicated in this case could be reduced significantly by better public infrastructure provision.

Hayami, Dikshit and Mishra analyse the structure of the waste processing industry in Delhi (Hayami, Dikshit et al. 2006). Some potential trading partners in this context face a problem: while one person may be able to provide tools such as a cart for litter transportation, and another person is willing to contribute labour time in using the cart in return for an agreed rate, there is considerable potential for opportunistic behaviour. For example, the labourer could sell some of the waste collected to a person other than the cart provider. The writers here argue that transaction costs of supervision necessary to prevent such abuse are large enough to preclude such arrangements from taking place in most cases. The exception is when both parties have a sufficiently shared social background that reputation effects can militate for

honest behaviour. Similar considerations arise over the transaction costs of checking waste quality. This leads, it is held, to a pattern of economic activity that is highly influenced by 'community membership'.

With increasing demand for milk, herders have the opportunity of gaining higher incomes by selling their cattle's output, but high transaction costs may prevent this. Such is the possibility examined by Holloway and others in the case of Kenya (Holloway, Nicholson et al. 2000). Again, there are costs of marketing such as searching for potential buyers and screening them for honesty; costs of bargaining, including dealing with officials whose approval for trade is needed; and costs of enforcement, to ensure that payment is received. There are also costs involved with physical delivery and the cost of bearing risk, particularly significant with a product so susceptible to spoiling as milk. Furthermore, some of these transaction costs are scale-dependent, meaning that smaller producers are less likely to be able to enter the market. That such an asset barrier can persist is itself related to high transaction costs in the credit market. The main policy advice drawn from these findings is that cooperative forms of marketing organisation can lower some of the main transaction costs and so widen access to the benefits of market participation.

2.3.2 Information Costs and Measurement

The concept of information cost is frequently used by writers interested in the detailed working of developing country markets. This contrasts of course with the assumption in the paradigmatic models of developed, competitive economies that all agents have full and freely acquired knowledge. The fundamental significance of questioning this assumption is reflected in the fact that 'information economics', pioneered by Akerlof, Stiglitz and Spence, has itself become an influential approach in the analysis of markets (Akerlof 1970; Spence 1973; Stiglitz 1975).

The cost of information is always included by Williamson and others when enumerating different types of transaction cost. In fact, Stiglitz has himself stated that information costs are a type of transaction cost (Stiglitz 1994 pp. 33, 174). Conversely, some writers hold that information cost is the more general

category, including transaction costs as a subset (Casson 1999). To illustrate the latter position for example, consider the need to make sure that a trading partner conforms to the agreed terms of a deal. Such 'enforcement costs' are another commonly cited category of transaction costs in the writing of Williamson and his followers. However, perhaps enforcement can be viewed as a combination of informational requirements: most obviously there is the need to know whether the other person is in fact conforming or not; then we might include information about the 'type' of individual we are dealing with in terms of likely honesty; beyond this, the availability of information will affect third-party enforcement, whether by formal legal means or by reputation effects, in the degree to which the terms of the agreement and the behaviour of each party can be known by others.

For current purposes it is necessary to note these differences between the conceptual schemes, rather than to attempt any judgement between them. Nor is it vital to decide, *ex ante*, whether information costs are likely to prove more significant in the interpretation of market activity than other transaction costs (Bowles and Gintis 1993).

The idea of information cost has been applied to a range of issues in development microeconomics. Perhaps one of the best known, and certainly one of the earliest, examples is sharecropping. Since at least the work of Marshall, observers have been puzzled by the persistence of this practice in many countries, in the face of its apparent inefficiency relative to both land rental and wage labour (Marshall 1920). While differences in attitude to risk are able to explain why sharecropping can be pareto-superior to a pure rental agreement (Cheung 1969), it is harder to account for a landlord's preference for sharecropping over wage labour using this argument alone. Introducing the idea of information asymmetry adds considerable purchase to the theoretical conceptualisation of such arrangements. If the effort of an employed labourer cannot be costlessly observed, a risk-neutral landlord will prefer to lease land in return for a share of output rather than pay a fixed wage, even though her expected revenue may be lower, because of the monitoring costs that would be associated with direct employment. This explanation is also more satisfactory in

that the effects of the tenant or worker's actions and abilities on output riskiness, that is, the problems of moral hazard and adverse selection, are acknowledged (Stiglitz 1974).

The analysis of sharecropping needs to deal with factors such as risk sharing, employment contracts, agricultural input provision, repeated interaction between parties, and potential interlinkages with credit agreements (Bhaduri 1973; Newbery 1977; Braverman and Stiglitz 1982). Such a personalised system of relatively complex transactions can be contrasted with the brief, simple and anonymous transactions of an urban food market. However, economists have also investigated the effects of information costs in such settings, which might be expected to conform more closely to the ideal of an efficient, competitive market. In their empirical study of food markets in Kinshasha, Minten and Kyle described significant efficiency losses associated with imperfect information (Minten and Kyle 2000). Among other effects, they found an asymmetry in the way that prices adjust, suggesting an explanation based upon consideration of how the reactions of individual stall holders to cost changes are linked by buyer responses. On the one hand, suppose that a seller faces rising costs and wishes to raise their price. They know that their customers will immediately be aware that the price has gone up with two likely results: they will buy less in the first instance from that seller and will quickly begin to check the prices of other sellers for a cheaper alternative. On the other hand, if one seller gains a cost advantage and wants to cut prices, they know that in the short term they will increase sales only through the first of these mechanisms, higher purchases by existing customers. With costless information, a price cut would lead to an immediate attraction of buyers from other stalls, mirroring the effect of a price rise. As Minten and Kyle observed however, there is no transmission route through which customers of other stalls quickly become aware that the first seller has reduced their price.

In this study, the authors treat information costs as a subset of transaction costs, albeit an especially important one. The significance of these considerations for understanding how the market functions is underlined by

their empirical finding that transaction costs have more importance for sellers' profit margins than costs such as storage or transport.

Of course, in addition to customer selection of provider, another route through which pricing decisions can be linked is by direct communication between sellers. Such was the situation described by Theresa Osborne in isolated rural markets where Ethiopian farmers sell their grain (2005). In this case, the number of sellers is relatively small and tight-knit. Information about pricing is freely shared and there is a degree of social pressure working for price conformity. The effect of information cost here is found in the asymmetry of knowledge between farmers and traders about urban grain prices. Along with credit market imperfections, Osborne estimates that these costs result in farmers receiving a price around 3 percent below what would be expected in a competitive market.

Besides providing general illustration of the way that information and other transaction costs have been used in empirical work, these two examples are of direct interest to this thesis. As will be seen, several markets in the study area are characterised both by remoteness from adjacent stages in marketing chains as in Ethiopia and by low levels of cooperation among sellers, more like the markets of Kinshasha than the tight-knit groups described by Osborne.

As the concept of transaction cost became more widely used, it was commonly criticised on the grounds of being very difficult to measure and in consequence lacking in empirical justification (Simon 1991). In subsequent years there have been a large number of applied studies lending support to transaction cost measurement as a valuable analytical approach (Shelanski and Klein 1995; Rindfleisch and Heide 1997; Key, Sadoulet et al. 2000). Despite this body of evidence, it appears reasonable to claim that ambiguities in how to define and operationalise this set of ideas in applied work remain.

The transaction then will be an important focus for the interpretation of research data. In following sections I will discuss the successively wider levels of analysis at which economic organisation has been examined. First, however, I consider the issue of property rights. In one sense, these can be thought of as more basic even than the transaction- for why would one party give any kind of

good or service to another, if they could simply appropriate what they required without need for reciprocation or negotiation?

Note that this is not (only) a rhetorical question serving to introduce another passage of theoretical discussion. As will be seen in the presentation of research data, there are actually certain individuals in the study area who have been unable to engage in business activity because of exactly this problem.

2.4 Property Rights

2.4.1 Coase (again) and the Importance of Property Rights

The three decades following the publication of *The Nature of the Firm* saw both the deepening understanding of competitive market efficiency and the emergence of 'Development Economics' as a sub-discipline. From the outset, the attempt to account for widespread exceptions to the former was thus a common theme for writers involved in the latter.

In 1960, Coase published another paper, *The Problem of Social Costs* (Coase 1960). This provided a perspective from which to understand market failure which has, remarkably, given rise to a second important school of analysis often labelled 'The Property Rights' approach. The principle argued for in this paper, which has come to be known as 'The Coase Theorem', has found extensive application in work on developing economies, as well as influencing such globally significant arrangements as schemes for carbon trading.

As implied in the title of Coase's paper, the form of market failure with which it is principally concerned is that caused by externalities. The famous theorem is essentially a sufficiency argument, claiming that as long as property rights are clearly established, the existence of externalities will not prevent the socially efficient market outcome. To outline the logic of this position, and see how it might apply in a context typical of the present study, a simple example follows.

Suppose that a bar owner B typically earns a profit of b Tsh per day by selling palm wine. A businessman A buys a milling machine and runs this for α hours per day, saving local women the work of pounding maize into meal for *ugali* and earning a profit of a TSh per day. Unfortunately, A 's machine is located

next to his home, which is rather close to B 's bar and the noise from its operation is unpleasant for customers wishing to enjoy their drinks and socialise. This negative externality means that both a and b will be influenced by α . We can suppose that A will seek to maximise his profit $a(\alpha)$ by choosing some optimal level of $\alpha = \alpha^*$. Accounted for in this decision will be all the factors we might expect: cost of fuel, opportunity cost of his time, demand for milling services, and so on. However, in setting $a'(\alpha) = 0$ to maximise his profit, A will not be allowing for the negative impact of his milling business on the palm wine bar owned by B . If we assume that $b'(\alpha) < 0$ then clearly α^* will not maximise the total profits $a+b$. The socially optimal value of α would be found where $a'(\alpha) = -b'(\alpha)$, which for under most reasonable assumptions about the respective profit functions would hold for a value of $\alpha = \alpha^{**}$ where $\alpha^{**} < \alpha^*$.

This gives the conventional result that a negative externality leads to socially excessive production. The insight of Coase was to consider the possibility of negotiation among actors. In the current example, this means that the bar owner might find that it is worth her while to offer the businessman a cash payment in return for an agreement to reduce the number of hours his machine is used per day. It is plain that some level of reduction could be the subject of an agreement of this sort which would be attractive to both parties. However, how would this compare with the socially optimal outcome α^{**} ?

To answer this we can assume that B offers a payment of P TSh per day in return for a negotiated limit of α^N hours of milling per day. If there is no agreement then A will choose $\alpha = \alpha^*$ as argued above, giving profits to A and B respectively of $a(\alpha^*) = a^*$ and $b(\alpha^*) = b^*$. However, if a deal can be made then profits will be as follows.

$$A \text{ with agreement} \quad a(\alpha^N) + P = a^N + P \quad 2.1$$

$$B \text{ with agreement} \quad b(\alpha^N) - P = b^N - P \quad 2.2$$

To keep things simple, I assume the Nash bargaining condition that the terms agreed upon will equally share the total extra profit generated by agreement. In

other words the extra profit each person makes under the agreement will be equal:

$$P + a^N - a^* = b^N - b^* - P$$

so

$$P = \frac{1}{2}(b^N - b^*) - \frac{1}{2}(a^N - a^*) \quad 2.3$$

Under these conditions, *B* will decide what limit to propose to *A* by solving

$$\max_{\alpha^N} b(\alpha^N) - P \quad \text{or} \quad \max_{\alpha^N} \frac{1}{2}(b^* - a^*) + \frac{1}{2}(a^N + b^N) \quad 2.4$$

and since the first term in the latter formulation is constant this is equivalent to

$$\frac{1}{2}(b^* - a^*) + \frac{1}{2} \max_{\alpha^N} (a^N + b^N) \quad 2.5$$

We can see that the value of α chosen by *B* will be precisely the value α^{**} which maximises total profit from both businesses under agreement, the socially optimal solution.

When faced with the situation described, there are of course other solutions that might be proposed. The bar keeper could take legal action to restrain the businessman's use of the machine, or this could be accomplished by a regulatory mechanism on noise pollution. A state official could attempt to calculate and enforce the socially optimal number of milling hours per day α^{**} .

The power of Coase's argument is the conclusion that all that is necessary are property rights and the ability to exchange. If these requirements are met, there is no need for legal enforcement or any other form of third party regulation in order to achieve the socially desirable level of production. Furthermore, when information costs and other transaction costs are considered, the Coasian solution may be better than these alternatives, arriving at the social optimum more reliably and cheaply.

2.4.2 The Basis of Property Rights

Given the potential implications for market functioning, it is of particular importance for studies of developing economies to understand how property

rights become defined. Harold Demsetz proposed an explanation based on anthropological studies of American Indian societies (Demsetz 1967). In this view, when changes to economic circumstances make the Coasian solution to externality-induced inefficiency sufficiently attractive, appropriate property rights are likely to emerge. On one side of the balance are the potential efficiency gains from overcoming the externality. On the other are the costs of first defining the property rights and then of negotiation and exchange between parties. It is on the latter that Demsetz concentrates, positing that property rights will be defined once the gains from 'internalising' externalities exceed such transaction costs. Returning to the example above, suppose that the milling machine had been donated to the village by a foreign NGO and that the businessman was allowed to operate it on the grounds of his technical knowledge. In such circumstances it might be much harder for him to accept *B*'s proposal of payment in return for limiting his operating hours. He is supposed to be offering a service to the women of the village so does not have the right to use the machine in exactly the way he wishes in order to maximise his profit. The opprobrium that *A* would face for entering into such an agreement may represent a transaction cost large enough to outweigh the potential gains in total profitability of the two enterprises, so no agreement is viable and the externality-induced inefficiency persists¹. This situation may change however, were a new road to bring traders who can afford beer rather than palm wine. In the changed circumstances, the potential gain to *B* from limiting the milling hours may enable her to offer a much increased payment *P* to *A*. He in turn may be able to use this to make some public donation which obtains official recognition for his ownership of the machine.

In the same paper, Demsetz considers the implications of different forms of property rights for market efficiency: communal ownership, individual ownership and state ownership. One of his points has featured prominently in subsequent analysis of, and policy prescriptions for, land ownership arrangements in

¹ Note that I am restricting attention to the efficiency of the two markets for milling and palm wine only for simplicity. The arguments can be extended to general equilibrium in all markets. Here it is clear that the 'socially excessive', unlimited quantity of milling machine time may be preferable to the restricted sense of 'social optimum', especially for the women who may otherwise have to pound maize while their husbands visit the palm wine bar!

developing countries. This is the observation that the incentives for individuals working land that is jointly owned lead to inefficient underinvestment, whereas exclusive property rights promote social optimal levels of land improvement by owners.

With Armen Alchian, he went on to describe a form of ownership important for the current study (Alchian and Demsetz 1972). Whereas Coase had attributed the existence and shape of firms to the idea of economising on transaction costs, Alchian and Demsetz conceptualised the firm as a joint activity¹ featuring a particular constellation of property rights. These included the presence of one central actor who owns the contractual rights to agreements made with all other participants, including the rights to terminate these unilaterally. This actor also owns the 'residual rights' and the right to sell all of these ownership rights, in other words to sell the firm. The 'residual' refers to any earnings, net of agreed costs, and can be either positive or negative. The allocation of this residual to the single central actor means that her incentives in negotiating contracts with other participants, insuring and guarding against risk, as well as in deciding her own level of effort and investment are such as to maximise efficiency.

In considering the extent to which it is helpful to conceptualise some non-market coordination forms such as enterprises which utilise kinship relationships as 'firms', this account is more challenging than the general Coasian idea of transaction cost saving. However, in the details of conformity or departure from this account, there is also the possibility of a more fine-grained perspective.

As I allowed in Subsection 2.2.2 above, theoretical precision has to make some concessions to organisational manageability in the sequencing of concepts here. As Alchian and Demsetz make clear, the owner of a firm does not 'own' all the resources used by the firm, most notably the employees. Contractual agreements are important and these are the subject of the following section. On the other hand, two features of their model are more clearly 'property rights'. Firstly there is the ability to sell the firm. Secondly, there is the issue of

¹ They use the term 'team production process' to describe a situation of increasing technical returns to cooperation.

residual rights. In the analysis of Oliver Hart, property rights do in fact play a more fundamental role than contractual rights in determining residual rights and thus firm efficiency (Hart 1995). I return to this in the section below.

Prominent among those who draw policy prescriptions for developing economies from ideas about the importance of property rights, and one who is vocal in advocating such policies, is Hernando de Soto. He stresses the role of clear property rights in improving the access of poor people to credit markets, along with the efficiency arguments already rehearsed, and cites much empirical data on the extent of assets held on an informal basis by the poor as evidence of the potential gains from clearly defining ownership (de Soto 2000). These views have not been without influence on policy but have also attracted criticism on both empirical and ideological grounds (Nyamu-Musembi 2006).

Another view of property rights may offer some insights into these controversies, as well as a more parsimonious theory. Yoram Barzel considers the basis on which property is held by individuals and distinguishes between 'economic' and 'legal' property rights, viewing the first of these as more useful for economic analysis (Barzel 1989). He holds that most writers tend to concentrate, explicitly or implicitly, on legal property rights. This term refers to those rights granted, if not always enforced, by the state. Economic property rights in contrast are defined in terms of the expected value that an owner is able to realise from the asset, either directly or through trade (Barzel 1989, 1994). Barzel then defines 'transaction cost' to mean the cost to an individual of protecting or realising this property right value.

This emphasis on what people are actually able to do with their assets, and at what cost, is surely of greater relevance to many contexts in developing economies than the legal position. It is in line with criticisms from those who observe that formal land titling has not had the hoped for results, such as Nyamu-Musembi. At the same time, the 'economic' property rights view does more justice to the way de Soto approaches ownership. Although it is true that his work favours formalising property rights, he does not see this as a sufficient measure on its own; he places great emphasis on the high transaction costs,

including the regulatory and legal system failures, that prevent poor people from using their assets efficiently (de Soto 1989).

As a special case of his definition Barzel (1994) understands well-defined property rights to exist when transaction costs are zero. Applying this to the Coase Theorem, he points out that the requirements of well defined property rights and costless exchange are in fact the same thing. However, while it is clear that adopting Barzel's definition of property rights means that zero transaction costs are formally sufficient for the Coase result, it seems to me that there may be some advantage in the retention of the 'property rights' condition. To state that efficiency requires zero transaction costs is more general but less informative; it is perhaps neither so simple nor so desirable to change the associations of a widely used term. The formulation 'well-defined property rights and zero transaction costs' draws attention to the particular social arrangements under which assets are held as well as to the way these assets can be exchanged. In a sense, the Theorem tells us everything and nothing. For some economists, like George Stigler, the implications are that government need only protect private property, allow free exchange and markets will do the rest; for others, and some would claim that Coase himself is among them, the action is all in the 'only': the message is that we should concentrate on the non-trivial question of how transaction costs can be minimised, with the important hint that some kind of property rights enforcement can play a central role.

Revisiting his ideas on the emergence of property rights, Demsetz attempts to relate this process to three changing characteristics of economies which he terms *compactness*, *productivity* and *complexity* (Demsetz 2002). He argues that increasing productivity raises the need for individuals to trade and so is linked to decreasing compactness, as interactions move outside of well-known social groups. As wealth increases, the variety of goods demanded rises, production becomes highly diverse and specialised, and all this activity requires some method of coordination.

The price system is prodigious in its ability to do this, but a properly functioning price system for an economy that contains a great many different specialities must have the support of a social-legal system

that imparts confidence in the execution of agreements... The private-property system has become more important because its institutional arrangements can cope with the changed nature of economizing problems more effectively than the collective control system. (Demsetz 2002 pp. S664-5)

Again, the interest is in the particular arrangements for holding private assets, rather than in a general theoretical assertion of market efficiency. Property rights are not a prescription but a puzzle, the understanding of which lies in questions to do with how legal systems function, how confidence in trade relationships is established and social organisation.

2.4.3 Applied Studies on Property Rights

Turning to the empirical literature on developing economies, attention has indeed been paid both to the assessment of the effects of property rights and the details of how these are enforced in practice. The overwhelming majority of this work has concentrated on land ownership rights¹, apart from the literature on the private non-agricultural sector². The account in the latter of weak formal legal institutions and their effects is discussed in Appendix 1. Although this thesis is predominantly concerned with the diversification of economic activity away from farming, it is worth noting some of the findings of the former for two reasons: because of their relevance to property rights issues beyond the land and because rural non-farming business remains closely linked to agriculture in several ways.

When the effect of property rights over land on farmer investment in that land was examined in two areas of Ghana in 1995, a significant positive relationship was found in one area and a weaker one in the other (Besley 1995). This contradicted the results of another study which included these two areas published in the previous year (Migot-Adholla, Place et al. 1994). Neither analysis limited itself to formal title rights. Both considered the range of actual options which farmers had in using or disposing of their land, so allowing for informal social norms as well as for any legal rights. For example: whether the

¹ This applies even to work which specifically addresses de Soto's ideas, although he himself does not concentrate only on land tenure rights.

² An interesting exception is the area of rights over water. Easter and Rosegrant find that definition and enforcement of appropriate private rights is an important issue to resolve if water markets are to be a socially efficient means of allocating scarce resources (Easter, Rosegrant et al. 1999).

farmer was able to lend the land, give it away, bequeath it or mortgage it. So what could have caused such a difference in findings?

Noting this inconsistency, Brasselle, Gaspart and Platteau attribute it to the fact that causality between tenure security and investment can run in either direction (Brasselle, Gaspart et al. 2002). On the one hand, clearer property rights may encourage investment for several reasons: farmers' expected marginal benefit from greater output is larger; land can be more easily used as collateral in obtaining loans; and farmers can optimise their holdings of land by trading on the land market. However, on the other hand, under many informal systems of granting land use rights, increased investment can itself improve the farmer's claim on land, giving more secure tenure. Examples of this include planting tree crops or carrying out improvement such as terracing. The effects of this endogeneity upon isolating the effects of tenure rights were only allowed for in the work on Ghana by Besley (1995). Brasselle et. al. cite a range of studies on African land tenure which did not allow for investment endogeneity, observing the weakness of any clear evidence for effects of land rights found in this body of empirical material (Brasselle, Gaspart et al. 2002). They then present their own analysis of data from Burkina Faso, in which they do take steps to allow for investment endogeneity, but again report no strong evidence of a land tenure effect. Considering the puzzle of why empirical demonstration of this effect remains so elusive, while remaining so theoretically compelling, they make a number of conjectures. Firstly, it may be that current understandings of informal tenure arrangements are inadequate. Secondly, such arrangements may give more security than is often assumed, relative to ideals of formal land title and enforcement. Thirdly, it may be extremely difficult to capture the subtle and complicated operation of informal tenure systems with formal survey methods.

As a consequence, standard empirical tests of the impact of land tenure security on investment incentives are likely to be deficient, which may account for the lack of assurance effect found in this and other studies despite its rather uncontroversial character from a theoretical standpoint. To improve on this situation, it is necessary to go beyond the veil of rather simple definitions of land rights to identify the social context in which they are embedded. This is bound to be a very arduous task involving the use of more complex

methods than the standard household survey questionnaire commonly used by economists (Brasselle, Gaspart et al. 2002 p. 402).

Thus in the case of Africa, the project of measuring tenure effects appears to have led back to a need for better understanding of how land ownership rights are created and sustained.

Clearly, if it is common for an informal system to operate as well as formal legal rights¹, it will be important to consider the interaction between these mechanisms, as well as understanding each in its own right. Jan van Donge examined a number of disputes over land in Tanzania's Uluguru mountains (Van Donge 1993). He noted that there was little evidence of individuals able to control land independently of local social support, as might be expected in a context of perfectly enforced legal title. While it is unsurprising, almost tautological, that the informal basis for land rights should require such a social basis, van Donge also found that legal claims were similarly dependent upon the mobilisation of local support. In his description, the formal courtroom almost becomes an arena for the continuation of struggles between group alliances. Courts are reluctant to impose judgment based on written evidence, because such evidence can rarely be shown to have been witnessed by both sides to a dispute. Under the informal system, land rights are regularly renegotiated; a clear cut formal definition of rights would prevent the 'structural amnesia' (Van Donge 1993 p. 209) which is needed for the functioning of this social construction of land entitlements. As in *Jarndyce vs. Jarndyce*, van Donge finds that the resources expended upon court cases often drag on for years and exceed the value of assets at stake. It could be that a more assertive formal court system could help to limit this 'breakdown in the social construction of reality' (Van Donge 1993 p. 197).

Rather than allowing a farmer to cut through the knot of social claim and obligation by imposing individual rights then, so speeding up her ability to adjust the way she uses land in response to economic change, this need to mobilise sections of the social milieu in order to mount a legal case may form

¹ Little (2003) describes how property rights can be sustained *entirely* by informal means in a modern society with no state legal apparatus whatsoever in his study of Somalia.

part of the braking mechanism on such adjustment¹. Similar patterns have been found in diverse locations and periods. David Parkin (1972) found that young Giriama traders in Kenya were accumulating wealth and land to rival their elders; however, they nevertheless had to be careful in renegotiating relationships and continue to observe certain norms in order to obtain the support of older men whose role as witnesses to land ownership rights was essential for establishing legal claims. Rao (2005) described a situation in the Santal Parganas, India, where a patriarchal system of inheritance disadvantages women. Despite this, women are frequently vocal amongst the most active defenders of threats to this system, because when they need to obtain legal recourse over any issue it is important to have the support of kin elders.

Such considerations take us into the higher levels of social generality which are the subject of the sections to follow. If understanding 'Property rights' means looking in detail at agreements between trading partners, relationships with third parties or such broader concepts as social norms, then the Stiglerian view of market interaction, with clear property rights anonymously and identically defined by the law will not suffice.

2.5 Contracts

2.5.1 Forms of Agreement and their Role in Market Coordination

To the model of market activity which has been built up thus far, with the transaction as basic unit and property as near ubiquitous element² we now add the question of communication between individuals prior to completion of the transaction. What is the role of deliberate signals given by each party in motivating the exchange behaviour which comprises a transaction? More concisely³, what is important about the terms of agreement between transacting individuals, the 'contract'?

¹ This is an example of how the 'rigidities' to which I refer in Chapter 1 can be caused.

² Barter in services is the clear exception where property is not involved in exchange. A commonly discussed example in work on rural development is the practice of labour exchange: in the simplest form 'You help me plant my field today and I'll help you plant yours tomorrow'.

³ The generality more explicitly shown in the 'less concisely' form is exploited later on in the thesis.

When our bar owner sells a bottle of *mdafu*¹ to a customer, for example a farmer, we can say that she is agreeing to provide him with a bottle of palm wine, sufficiently fermented but not sour and the use of a plastic cup, conditional on his payment. He is agreeing to give her, say 60 TSh cash, conditional on her giving him the wine and cup. For the transaction to be completed, the two sides to the exchange will be fulfilled within a few moments of each other. It will be extremely easy for either party to check whether the other has indeed met their obligations under the agreement.

In such a situation, it seems that little is added by discussing the ‘contract’ beyond the picture of market exchange inherent in the details of the transaction and the property rights involved. If there is failure of either side to deliver, this is likely to be interpreted as an outright abrogation of property rights; any consequences are implicit in whatever form of property rights enforcement are taken to apply in this context.

However, when the fulfilment of the two sides to a transaction are more widely separated in time, distance or degree, the form of the contract between parties can become far more interesting. To illustrate how the degree of ‘work’ that this contract needs to do can become (prohibitively) large one needs only to consider the vanishingly small likelihood of a transaction between bar owner and farmer which is identical in almost all ways apart from the fact that payment is made one day after the palm wine is provided.

The range of such coordination gaps that need to be bridged by contractual agreement in practice is well illustrated by the work of Masakure and Henson on farmers in Mashonaland, Zimbabwe (Masakure and Henson 2005). This research looked at the motivations of people who had chosen to produce ‘under contract’ for a firm which exports high-value crops like mangetout to supermarkets in the UK and elsewhere. Formerly, such farmers grew crops which they could consume themselves or sell in local markets, thus bearing all production and marketing risk themselves. After agreeing to grow crops for the firm, the producers received reliable supplies of favourably-priced inputs on credit and a guaranteed minimum price for all produce of the required standard.

¹ *mdafu*: fermented coconut sap or ‘palm wine’

With sales of surplus crops at local markets, transactions would have been predominantly of the simultaneous exchange type, as with the palm wine bar. Under the new system, the two sides of the arrangement were fulfilled to different degrees, at a variety of times and in two locations. The firm had to provide inputs at planting time and payment to the farmer after harvest time at their depot, as well as advice during the growing season in the fields. For their part, farmers had to allocate a stipulated area of land to the crop and supply produce of acceptable quality after harvest at the firm's depot.

Among the principal motivations stated by producers for entering into this arrangement were higher expected incomes, lower price uncertainty, reliability of input supplies and spillovers of knowledge gains into production of other crops. Note that three of these involve perceptions of reduced uncertainty; this is perhaps striking because the prior blend of own-consumption and instantaneous market sale has been replaced by a multi-stage transaction spanning the entire crop cycle from planting to marketing. The contract has to be sufficiently convincing for the farmers to form low subjective estimations of risk, despite this gap between initial agreement and planting of the required area and final receipt of payment.

Another example, this time from the theoretical literature, is relevant to this thesis' concern with when kin-based enterprises might start to employ non-family members. Bhattacharya and Ravikuma model a family firm, analysing the decision of succeeding generations on whether to continue running the business themselves or to employ an outsider (Bhattacharya and Ravikumar 2004). In their model an employee would, clearly, be offered payment. In return, they would decide whether to accept the contract, and if so whether to put in a 'high' or 'low' level of effort. The outsider is taken to raise firm productivity even with low effort; however, the family is unable to observe which effort level is actually put in. To interpret this in the terms I have used above, this information asymmetry is caused by the fact that the outsider's side of the bargain, their work effort, will be made at a variety of times and places rather than in instant reciprocation for payment with both sides to the arrangement present. In this case, Bhattacharya and Ravikumar examine the conditions that

the family should build into the contract. Firstly, the worker should stand to gain more than they can earn elsewhere as a minimal condition. Secondly, the worker should profit more from exerting 'high' effort as long as the impact on firm productivity net of the extra payment required for this remains positive. The authors find that the firm will not choose to employ a non-family member in this way until the business has grown to a certain threshold size. Although a simple model, this conclusion accords with casual observation of informal family businesses at least.

The detailed study of contractual forms has received substantial attention within economics since the work of Alchian, Klein, Williamson and others in the 1970s (Klein, Crawford et al. 1978; Williamson 1979). Improved understanding of how contracts are affected by risk aversion and imperfect information were soon applied to issues in developing economies; for example:, sharecropping (Cheung 1969; Bardhan and Rudra 1980; Allen 1984; Braverman and Guasch 1984; Nabi 1986; Guyer 1988), farmer credit (Binswanger and Sillers 1983; Platteau and Abraham 1987) and farm labour (Stern 1985; Boadu 1992; Schaffner 1995; Pal 1996). Applications to low income countries remained concentrated in such agriculture-related areas, apart from some work on subcontracting between local and multinational enterprises (Lall 1980). Attention to the nature of contracts as a general feature of private sector market coordination took longer to emerge. Mead (1984) addressed the question of when an activity could be more efficiently undertaken by a group of small firms in a developing country than within a single firm, a situation which he described as 'dis-integration'¹. Such use of market coordination might economise on managerial and financial resources which are more scarce in developing economy firms. Working in the opposite direction are the relatively high costs of contracting in a developing economy context.

Renewed interest in private sector development from the late 1980s and 1990s saw many attempts to assess the environment for market growth in African countries. This work was initially dominated by the discussion of phenomena that affected parts of, or entire market systems such as physical infrastructure,

¹ Interestingly, Mead writes in the year that the article on 'flexible specialisation' by Piore and Sabel (1984) appears.

business networks, trust or 'social capital'. These broader conceptualisations are discussed in the sections which follow. There was comparatively little detailed study of the agreements between actors, perhaps because the frequently observed absence of strong legal systems seemed to imply a marginal role for contracts. For a period, two strands of literature ran on isolated parallel courses. One group of writers were describing the barriers presented to market development by low trust, poor governance, 'weak civil society' and other generally unfavourable conditions (World Bank 1997; Collier and Gunning 1999). All the while, work on the kind of specific microeconomic issues described above made progress in analysing contractual arrangements which could allow successful market coordination in the presence of risk and imperfect information, without the assumption of well-functioning formal enforcement systems (Udry 1990; de Janvry, Fafchamps et al. 1991; Besley, Coate et al. 1993; Besley 1995; Van den Brink and Chavas 1997).

It is perhaps fair to describe the latter, detailed studies, as concentrating on issues of static efficiency rather than likely routes to economic development in the sense of productivity enhancing sophistication in the division of labour¹. Improved farm earnings or better insurance against misfortune may be desirable in themselves, and provide the basis for growth. However, they do not suffice to understand the microeconomic basis of observed processes such as the increasing role of non-agricultural activity or rapid urbanisation. Arguably, the two approaches really began to converge with the work of Marcel Fafchamps and his collaborators on contracts among informal manufacturers and traders (Fafchamps 1996, 1997; Fafchamps and Minten 1999). In 2004, Fafchamps drew together the insights gained from a number of such studies in his book on market institutions in Africa (Fafchamps 2004a). I present next the model of contract enforcement contained in this work in some detail².

¹ An exception being Rotating Savings and Credit schemes which are more directly relevant to market development.

² With some minor adjustments to notation.

2.5.2 Fafchamps and Contract Enforcement in a Developing Economy

Concepts such as social norm, trust and reputation have been central to the post structural-adjustment literature on private sector development. However, the usage of this terminology has not always been consistent and ideas appear to overlap or to operate at different levels of aggregation. In my view, Fafchamps' model provides an extremely useful structure around which to organise discussion of this area. It is referred to throughout the remainder of this chapter and at various points elsewhere in the thesis.

setup of the model

a 'creditor' gives k to a 'debtor' at time 0

the debtor promises to give the creditor f at time 1

This definition of two points of time gives what I refer to above as the 'separation' between the two sides of the transaction. Such a setup is common in contract analysis.

If k and f are both sums of money, the model represents a loan and its repayment. If k is a good and f money, the debtor is buying goods on credit. If k is money and f is a good then the creditor is buying in advance. If k is a sum of money and f is an amount of money whose size depends upon the state of the world at time 1 , then the creditor is purchasing insurance from the debtor.

These are Fafchamps' interpretations. Other are also possible. For example, k could be a sum of money and f could be a good, the amount of which is dependent upon the state of the world at time 1 . In this case, k could be a consumption loan extended to a farmer by a businessman in return for a share of the crop at harvest time, where the exact quantity of crops f to be paid by the farmer depends upon factors such as the weather.

With this setup, Fafchamps then looks at three decisions. Initially each actor has to decide whether to enter into this arrangement. Then at time 1 , the debtor decides whether or not to fulfil their commitment to pay f to the creditor. A vital insight of such models of contracting behaviour is the recognition that the latter

influences the former, so we begin the analysis with this choice of the debtor at time 1.

debtors choice at time 1

debtor decides whether or not to pay f to creditor

if they comply they incur the cost of supplying f

if they default they may incur some kind(s) of punishment cost

a rational debtor is assumed who will only comply if the cost of doing so does not exceed the punishment cost of defaulting

formally the debtor will comply at time 1 if and only if

$$\pi(f, \tau, \varepsilon) \leq G(\tau, \varepsilon) + P(\tau, \varepsilon, C) + EV(\tau, \varepsilon) + EW(\tau, \varepsilon)$$

2.6

where

π = the debtor's utility valuation of f

τ = the debtor's 'type'

ε = the state of the world

C = form of the contract

G = utility cost of 'guilt', internalised norms

P = utility cost of coercion: threats, force, court action

EV = utility value of future relationship with creditor

EW = utility value of reputation

In inequality 2.6, the left hand side is the value to the debtor of what they must pay if they comply with the contract. The right hand side is the total value loss caused by all punishments that will be incurred should they default. The fact that each component is written in utility terms instead of using absolute cash values is important for some applications, as will be seen below. This is why the type of agent ' τ ' can appear in each valuation. Similarly, all valuations can depend upon events which were not fully known at time 0, so ' ε ' is also an

argument of each value function. Abstracting from these points, we can consider the central structure of contract enforcement incentives

$$G + P(C) + EV + EW \qquad 2.7$$

P stands for the range of direct sanctions that can be brought against the debtor in the event of default. This captures the effects of whatever formal legal enforcement system is available, as well as extra-judicial physical pressure. The scope for legal enforcement is clearly influenced by the way the contract has been made: a written and witnessed document, covering every detail of obligations by each party in every scenario is more likely to result in effective court enforcement than, say, a purely verbal agreement which did not quite cover circumstances as they turned out.

EV is based on the value to the debtor of their relationship with the creditor after time 1. Specifically, the degree to which this relationship will be worth less to them if they default rather than paying f as required at time 1. If the creditor is a person with whom the debtor is unlikely to trade again, or is one of a large number of partners, representing only a small part of the debtor's dealings, then EV is probably small. On the other hand, if the creditor is a partner with whom the debtor does a significant amount of business and expects to continue trading for a long period in the future, they may fear that failing to pay f would jeopardise this valuable relationship and EV is likely to be large. Unlike P , the term EV captures a motivation for conforming to agreements which does not involve any formal state-provided legal system. Such motivation is often referred to as a 'repeated interaction effect'.

EW is similar to EV , except that it measures the debtor's concern about loss of value in future relationships with all individuals other than the creditor themselves. For example, if the debtor defaults and this becomes widely known, other individuals may in future refuse to do business with them. Such motivation to conform is known as a 'reputation effect'. This is another example of a 'private ordering' mechanism, independent of any formal legal system.

G stands for ‘guilt’. This term represents the value that the debtor would place upon being free from guilty feelings in the case of conformity, compared to the situation of default. Clearly this is the effect most challenging to interpret for microeconomic theory. One approach would be to treat G as a residual, representing motivation which cannot (yet) be given a formal economic explanation. Another would be to call for a fundamental reform of standard theory, so that the conformity of behaviour to certain norms can enter directly into the individual’s utility function, as in the proposal of Akerlof and Kranton (Akerlof and Kranton 2000; Davis 2007).

In the introductory chapter, the research approach of this study was characterised as principally ‘economic’ and to a lesser extent ‘sociological’. An important aspect of this balance can be stated in terms of the contract enforcement model. In considering how agreements are made and sustained, I explore the scope for, and the usefulness of, using recent microeconomic methods to shift the interpretation of some phenomena from G to P , EV and EW .

The debtor’s decision at time 1 will directly determine whether the second side of the transaction is fulfilled; namely, the delivery of f to the creditor. However, since both parties are aware of this at time 0, their assessments at this point of the debtor’s likely later action will affect their own decisions on whether or not to enter into the agreement; in other words, whether or not the transaction will take place at all.

creditor’s choice at time 0

the creditor has to weigh the risk of default by the debtor against the potential gains from trade if the debtor complies by paying f at time 1

formally, the creditor will agree to the transaction and pay k at time 0 iff

$$\Pi(k) \leq E(\Pi(f) | \Omega) = \Pi(f)P(\text{compliance}) = \Pi(f) \int_{T} \int_{E(\tau)} dF(\tau, \varepsilon | \Omega) \quad 2.8$$

Π = the creditor’s utility valuation of f and k

Ω = information available to creditor at time 0

F = subjective joint cumulative distribution of τ and ε

$E(\tau)$ = all states of world in which debtor of type τ complies

T = set of all debtor types

The double integral in 2.8 expresses the potential complexity of the creditor's decision, neatly arranging three crucial concepts: information, state of the world and debtor type. The creditor must form a judgement about the likelihood of relevant events that may occur between times 0 and 1. In the case of a consumption loan to a farmer, for example, the possibility of pest attack may reduce the creditor's subjective estimate of the probability of debtor compliance. This would reduce the expected utility of the debtor's repayment and if this falls below $II(k)$ the whole agreement would be prevented. Different individuals may respond differently to the same circumstances, so the creditor must also consider what they know about relevant characteristics of the debtor and how this will affect the likelihood of repayment in different states of the world. Better information should increase the creditor's subjective probability estimate of debtor compliance in several ways. For example, by enabling them to select partners who are more likely to comply at time 1 in more states of the world or who face higher costs of default under mechanisms G , EV or EW . Alternatively, it may aid in contract design, so that C becomes more significant in more of the likely scenarios.

The interpretation of research data below gives due weight to the role of information and uncertain events. The concept of 'debtor type', however, is found to be pivotal.

debtor's choice at time 0

at time = 0 the debtor has to weigh the benefit of receiving k against the cost of providing f or of being punished, depending upon whether they comply at time 1

formally, the debtor will agree to the transaction at time 0 iff

$$\pi(k, \tau') \geq \int_{E(\tau')} \pi(f, \tau', \varepsilon) dF(\varepsilon | \tau') + \int_{E^c(\tau')} [G(\tau', \varepsilon) + P(\tau', \varepsilon, C) + EV(\tau', \varepsilon) + EW(\tau', \varepsilon)] dF(\varepsilon | \tau')$$

2.9

or

$$\pi(k, \tau') \geq E(\pi(f, \tau', \varepsilon)) + E(G(\tau', \varepsilon) + P(\tau', \varepsilon) + EV(\tau', \varepsilon) + EW(\tau', \varepsilon)) \quad 2.10$$

τ' = the debtors true type- known to them of course

$E^c(\tau')$ = all states of the world where debtors of type τ' default

The important point here is that the debtor themselves may well not know at time 0 what they will do at time 1 . When, as has been discussed for the Tanzanian case, levels of uncertainty are high, there may be contingencies with non-negligible probabilities in which the value of retaining f at time 1 becomes far larger than the costs of punishment for default. Even an agent who has cooperative intentions at time 0 may not be sure that they would decide to repay at time 1 in all circumstances.

It has been argued that for this reason contracts in Africa tend to be more flexible than in developed economies with more predictable environments (Bigsten, Collier et al. 2000). Clearly, if punishments for non-compliance are inadequate, a creditor may be unwilling to deal for fear of default. However, if punishments are excessively heavy, a prospective debtor who would comply in most likely situations would fear the cost of default in the, albeit less likely, event of unfavourable events. Furthermore, empirical work suggests that repeated-interaction EV is more suitable than formal mechanisms P in such contexts, where more frequent breaches need to be tolerated; presenting their evidence from Madagascar, Fafchamps and Minten point out that it can explain the apparent paradox of a higher rate of default on agreements between people who have stronger long-term relationships (Fafchamps and Minten 2001 p. 234).

The 'multilateral punishment' rule followed by the merchants in Avner Greif's account of eleventh century trade around the Mediterranean sea is a case of reputation-based RW enforcement (Greif 1993). The merchants, based in the towns around the African and European coasts, each operated a number of trading vessels and so needed to depend upon representatives, or 'agents' to do business on their behalf in remote ports. Clearly, there was much potential for profitable default by these agents on agreements with the merchants; a lot

of temptation to be resisted by *G* alone. Formal legal mechanisms *P* with the requisite international reach were almost entirely non-existent. A single agent would work for several merchants, so the loss of future business with any one of them alone might not outweigh the one-off gains from default, thus limiting the role of the repeated-interaction effect *RV*. Compounding the weakness of *P* and *RV*, the great distances involved made information on the actual behaviour of agents harder to obtain. Using the evidence of letters between merchants and other surviving documents such as contracts and price lists, Grief explains how a reputation mechanism *RW* was able to overcome these problems, providing credible punishment to default and hence making workable the agreements upon which the system depended. The exchanges of letters provided information on agent behaviour and the merchants' rule of never using an agent who had previously defaulted on agreement with any other merchant provided the punishment.

A more recent example of *RW* enforcement is described by La Ferrara in her analysis of credit transactions in Ghana (La Ferrara 2003). These transactions involve the provision of investment loans by more wealthy individuals to less wealthy individuals and pose some intriguing questions. In examining the motivation for repayment, and the reason why the children of wealthy people have a better chance of receiving credit themselves when in need, La Ferrara identifies inter-generational enforcement effects. As there is little subsequent interaction between lenders and borrowers, or between lenders in successive generations, repeated interaction *RV* cannot play a significant role. However, if lenders in general refuse to loan to the children of repayment defaulters, those children will be less able to support their parents in old age, providing an effective 'indirect' sanction. Similarly, if wealthy individuals all follow a rule of lending to the children of those whose parents were lenders, their own children will be more likely to receive credit, if needed, assuming that the wealthy are a minority. La Ferrara points out an implication of the latter generalised *RW* enforcement which has wide relevance for economic activity organised around kinship relations: if a reputation for assistance-provision gives access to more favourable treatment, the recipients of assistance correspondingly face reduced expectations from future interactions; this may mean that the immediate terms

of the transaction may need to be more generous to those who are not gaining the better long-term prospects via reputational credit. In particular, this may mean that loans between kin may feature an interest rate below that found in dealings with non-kin, a finding that concurs with much empirical evidence.

The study of contracts and their enforcement offers then a way to understand how coordination can be sustained when transactions move beyond instantaneous, face to face exchange. However, this approach raises in turn a number of questions. There is the matter of defining what each party is required to do, of specifying the contract *C*. As the real world in which economic exchange takes place is complicated and uncertain, it may be impossible or too costly to specify what each party must do in every possible circumstance, so contracts will be incomplete. What will determine the duties of contracting parties when situations unforeseen in the original agreement arise (Hart 1995; Besley and Ghatak 2001)? Then there is the question of how the information requirements of agreement and enforcement are met: how do information asymmetries affect contract specification; how is the knowledge of actor behaviour required for effective reputational enforcement *RW* transmitted (Udry 1990; Leffler, Rucker et al. 2000; Schmitz 2006)? Finally, even if a convincing contractual enforcement mechanism can be identified, how does this initially come into being (Dow 1987)?

This chapter has reviewed market coordination beginning with the transaction as elementary particle. Next the property rights involved in transactions were discussed and now the idea of agreements between the two concerned parties has been included. Thus far, consideration has been given only to the agency of these two individuals. Outside effects such as state protection of property rights, legal enforcement of contracts or the following of reputation based rules for the punishment of defaulters have been taken to act impersonally and uniformly. In seeking to answer the questions raised in this review, many writers have gone further. It is to this next stage that the following section moves, by attending in detail to the behaviour and motivations of other individuals in addition to the two transacting parties.

2.6 Institutions

2.6.1 Use of the Term 'Institution' in Applied Studies

If the criticism of early economic analyses of developing countries in Gunnar Myrdal's *The Asian Drama* has a dominant theme, it is the neglect of institutional factors (Myrdal 1968). Certainly, there has been a burgeoning of attention paid to this area in more recent literature, with writers on development investigating the function of institutions in many economic activities. The conceptualisation of institutions is dealt with below, followed by discussion of particular features of institutional analyses. First, however, to indicate the range and diversity of this literature, I give two examples of the roles ascribed to institutions in market organisation.

Richard Posner has written extensively on the importance for economic development of legal systems that effectively protect property and contract rights (Posner 1998). In terms of the Fauchamps model this corresponds to formal institutions which provide direct enforcement P of contracts. Other writers have also found empirical support for the significance of political systems, the reasoning being that these systems affect how efficiently the state property rights regime can be adjusted to changing circumstances in the course of market development (Scully 1988).

At a much smaller scale a frequently studied example is the organisation of informal savings and credit among groups who all know each other; in such analyses, attempts are made to show how individual conformity to contributions and repayment rules can be enforced by the threat of sanction by other group members. Van den Brink and Chavas apply their formal model of such mechanisms to the case of *upato*¹ in Tanzania (Van den Brink and Chavas 1997). Another problem with such lending schemes arises from the need for flexibility in contracts discussed above; as allowance must be made for default caused by factors outside the borrower's control, their incentive to use the loaned funds so as to best ensure their ability to pay is reduced. Hermes et. al.

¹ *upato*: earnings, enrichment, achievement or profit are possible English translations.

present evidence from Ethiopia on how the this moral hazard problem can be addressed by the institution of group lending (Hermes, Lensink et al. 2005).

As these examples show, the 'institutions' studied by those interested in economic development have included a wide variety of social phenomena. In terms of scale, the emphasis in this study is on institutions which affect individual incentives rather than the interaction between institutions and national economic outcomes. Whilst one might like to think that this offers a clear principle for focusing attention, however, it must be recognised that a major appeal of institutional analysis is precisely the insight it offers into the micro-level incentive implications of entities and behaviours at a much higher levels of aggregation.

Another way that variation among institutions can be conceived is the formal/informal distinction. Given the relative weakness thought to characterise the formal institutions of developing economies¹, it might again be expected that this distinction suggests an emphasis on the latter type for this thesis. In fact, although it is true that informal institutions feature more strongly in the analysis of research data, several formal ones have a role and the interface between the two categories is also of much significance. A number of writers have dealt with such interaction in areas of relevance to the present study, including work on credit markets, where the normal approach is to understand how informal lending serves as an alternative to the use of the formal financial sector (Udry 1990; Besley, Coate et al. 1993; Van den Brink and Chavas 1997). Contrary to a view of developing economy credit markets as segmented (Nissanke 2001), however, Jain (1999) describes a more symbiotic relationship between the sectors. This arises from the observation that banks often lend amounts which are not sufficient for the planned investment, leaving entrepreneurs to raise the remainder of their capital through informal routes. Jain reinterprets the commonly made distinction between formal lenders who have a cost advantage in accessing funds and informal lenders who have can obtain information on borrowers more cheaply. In his account, by only lending to those borrowers who are able to raise part of their capital from informal

¹ As considered in Subsection 2.2.1 above. See also the discussion of evidence in the literature on the African rural non-agricultural private sector in Appendix 1.

sources, the formal sector can make use of the informal sector's superior information in order to screen applicants.

The theme of individuals being simultaneously engaged with both categories of institution also appears in the work of Theisen on labour market participation in Tanzania (Theisen 2005). The evidence in this paper supports a view that hours of formal sector employment are rationed, even for those who do have such jobs, and that informal work such as family enterprises or home self-provision are used to supplement formal earnings. This is hardly startling to anyone with even a little knowledge of Tanzanian conditions and the rather anodyne policy conclusions drawn are still less so

An important policy implication is that in a country like Tanzania, there may clearly be a need for interventions, either from the Government or from international aid organizations, in order to alleviate poverty problems in periods of economic recession (Theisen 2005 p. 2481).

Furthermore, one could object that the assumption made in Theisen's model of an entirely exclusive division of time between formal and informal work also appears to miss vital elements of the way Tanzanians have to combine activities. However, interaction between formal and informal employment remains an important area to understand, featuring significantly in the material collected for the current study. Besides the participation decision on which Theisen concentrates, the roles of formal earnings as a source of capital and as insurance against the riskiness of business income are also given weight.

In the Section above dealing with property rights, the issue arose of the existence of both formal and informal systems for the maintenance of rights over land. In such cases the interaction between the two categories of institution can be deeper than simply a matter of single individuals being involved in both types. The empirical studies discussed all show how the functioning of formal institutions can become interlinked with that of informal ones, making it necessary for individuals to deal with both to achieve desired ends (Parkin 1972; van Donge 1993; Rao 2005).

Finally, insurance against consumption shocks is often distinguished between provision by formal and by informal institutions. A substantial literature has built

up on the extent to which households in developing countries are able to smooth consumption or pool risk using informal methods such as saving, gift exchange or extended family obligations (Rosenzweig 1988; Deaton 1992; Ravallion and Chaudhuri 1997; Dercon and de Weerd 2002; Dercon 2005; Dercon, De Weerd et al. 2006). While this work has considerable relevance for the current study, attention has focussed on static efficiency rather than growth, at least until recently (Dercon 2004). Empirical analysis has also tended to aggregate the ex-ante and ex-post effects of risk, despite the careful modelling of this distinction in the theoretical sections of such studies. Both of these limitations are addressed in the paper by Elbers, Gunning and Kinsey (2007) in which a 49 percent shortfall in asset accumulation over a 50 year period due to risk is predicted using data from Zimbabwe, with ex-ante changes in behaviour accounting for two-thirds of this reduction. As with the case of credit and property rights institutions, consideration is given to the interaction between formal and informal sectors (Dercon 2005). However, unlike those other areas, there has so far been little detailed discussion of individuals who use both formal and informal means of coping with risk. Attention in the economic consumption smoothing and risk-pooling literature has centred on quantifying the effects of existing risk coping institutions at aggregate levels such as village or community. The concern of this thesis is more with the prospects for change in such arrangements and so with the way that individuals are able to transfer their reliance from informal to formal institutions. Nevertheless, the comment of Jonathan Morduch that *“private informal mechanisms that are effective in reducing vulnerability can retard economic growth and social mobility”* (Morduch 1999 p. 188) expresses the importance of risk-coping institutions for understanding what this thesis has conceptualised as ‘rigidities’ in the ability of the economy to respond to new opportunities.

2.6.2 Institutions Conceptualised

Having introduced some of the prominent themes in writing on institutions and development, I now pick up the ‘concentric’ account of market theory from preceding parts of this chapter. Thus far, this account has described market coordination in terms of pairs of contracting individuals, transacting to

exchange property and services. Widening this picture to include the interaction of more than two individuals at a time has three principal motivations. Firstly, many ways in which contracts are thought to be enforced require third party action, particularly *P* and *RW* in Fafchamp's model of enforcement. Secondly, observation suggests that individuals do not contract on terms which are differentiated only by conventional economic variables such as endowments of property or skills: differences in the roles of individuals within institutions are also significant in deciding who deals with whom, and on what terms. Finally, we find that it is at the level of institutions that the analysis of change in coordination methods can best be understood; this includes both change within market coordination and change between non-market and market coordination.

The discussion above in this section has applied the term 'institution' fairly liberally to social phenomena including legal systems, banks, insurance companies, firms, families, saving and loan associations, clan elders and gender groups. Can 'institution' be given a useful definition and how does the idea of 'institution' allow us to understand the interaction of multiple individuals in ways that satisfy the three motivations described?

Starting from the requirements of contract and property rights enforcement, 'a set of rules which is followed by all individuals' is clearly a candidate to be considered as an element, at least, of any suitable definition. Indeed, in one of the most widely cited definitions in the literature, Douglass North writes "*Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction*" (North 1990 p. 3). North is prominent in a resurgence of interest in institutions since the late 1970s, distinguished from earlier writing on economics and institutions by greater acceptance of mainstream economic techniques and assumptions of rational optimisation. This later approach, often referred to as the 'New Institutional Economics', shares much common ground with the earlier school, which achieved near-hegemony in United States academia between the wars (Hodgson 1998). North's statement above, for example, recalls the definition by John Commons in 1931 of an institution as "*collective action in control,*

liberation and expansion of individual action" (Commons 1931 p. 649). By setting rules then, a society or collective of some kind can reduce transaction costs for pairs of individuals by protecting property rights and facilitating credible commitments. In addition, as rules can distinguish between different individuals, or groups of individuals with different characteristics, an analysis of institutions as 'rules' may shed light on the second of the three motivations listed above. Finally, the third motivation, understanding of changes in market-coordination, may be assisted by examining changes in the related social rules.

This is all very promising but before examining in further detail the potential of the 'rules' interpretation of institutions, one very important question raised by this interpretation must be answered. Why do the individuals obey the institutional rules? If there are individuals who are prepared to break the terms of contracts, or even to steal property, why should we think that these people would refrain from such behaviour because of the existence of an institutional rule? There are two main types of explanation and although both often occur together in the literature I deal with them separately here, for clarity of presentation.

One approach is to suggest that individuals in society 'internalise' the institutional rules: that is, they follow them to some degree without regard to, or in departure from, calculations of self-interest (Platteau 1994b; Bandiera, Barankay et al. 2005). With regard to the older institutionalist school, this recalls the statement of Thorstein Veblen that "*institutions are an outgrowth of habit*" which cannot be fully accounted for the rational calculations of forward-looking individuals (Veblen 1909 p. 628). In terms of Fafchamp's model of contract enforcement, 'internalised' rules correspond to conformity in order to avoid feelings of guilt G which the breaking of such rules would cause. Explanations like these which rely on assumptions of non-rational behaviour are a focus of the final section on norms and trust below.

Here, I concentrate on accounts of institutional rule adherence which stress the role of rational decision-making by optimising individuals. This emphasis is associated with greater use of the choice-theoretic tools of formal economics than was found among the earlier writers on institutions. However, this is not to

claim that non-formal analysis implies rejection of individual rationality as a basis for understanding institutions

It is uncontested that in the sphere of human action social entities have real existence. Nobody ventures to deny that nations, states, municipalities, parties, religious communities, are real factors determining the course of human events. Methodological individualism, far from contesting the significance of such collective wholes, considers it as one of its main tasks to describe and to analyze their becoming and their disappearing, their changing structures, and their operation... ...The reality of a social integer consists in its directing and releasing definite actions on the part of individuals. Thus the way to a cognition of collective wholes is through an analysis of the individuals' actions... ...There is no need to argue whether a collective is the sum resulting from the addition of its elements or more, whether it is a being *suigeneris*, and whether it is reasonable or not to speak of its will, plans, aims, and actions and to attribute to it a distinct "soul." Such pedantic talk is idle. A collective whole is a particular aspect of the actions of various individuals and as such a real thing determining the course of events. (Mises 1949 pp. 42-3)

If we confine ourselves to rational, optimising individuals then, the only answer to the question of why they obey any institutional rule must be "because they calculate that it is in their best interests to do so". That calculation may be based only upon the possible actions of a transacting partner, such as a refusal to trade again in future with the first individual or perhaps even violent assault against property or person; respectively, *RV* and *P* in Fafchamps model. However, in such circumstances we are in the realm of private ordering involving only the two parties to a transaction and thus do not need to invoke 'institutional' explanations at all. On the other hand, the individual's calculation may depend in some part on the possible actions of a third party, such as the imposition of a fine or a future refusal to trade; respectively Fafchamp's *P* and *RW*. In this case, the behaviour of the third party, whom we can call an 'enforcer', may render the first person's decision to follow the institutional rule entirely consistent with rational optimisation. Of course though, this explanation only raises another question in turn; why does the third party carry out whatever action contributes in this way to the first person's decision to conform? In other words, why does the enforcer enforce? If we propose that another rule of the institution is that enforcers must enforce, then explaining

why enforcers keep to this rule can require the invocation of further 'enforcers of the enforcer', and so on in an 'infinite regression' (Aoki 2007 p. 5).

There are two ways to maintain a strictly rational account of institutional rule given this potentially Chinese box character of enforcement. One, which does not appear to have been seriously pursued in the literature, is to accept that chains of the "enforcer of the enforcer of the enforcer..." type may actually extend without limit¹. The key to the other is implied in the word 'can' of the final sentence in the paragraph above. The causal chain may also come to a finite end if some layer of enforcement is reached at which it is in the best interests of the enforcers at that level to take the relevant enforcement action, given the behaviour of the other individuals already involved. In this case there would be no need for further 'enforcers of enforcers'. If the actions so generated in the final layer of enforcers lead to a situation in which each and every individual also finds that conformity to the institutional rules is in their own best interest, given the behaviour of everyone else, we have an account of rule following consistent with rational self interest. In terms of the game theoretic perspective frequently used to analyse the economic role of institutions (Schotter 1981; Milgrom, North et al. 1990), this situation corresponds to a Nash equilibrium.

Avinash Dixit (Dixit 2003) provides two models which show how such an equilibrium of rule following behaviour is possible, even when there is no repeated interaction among pairs of individuals and so no relationship based contract enforcement *RV* in Fafchamps' terms. Both models involve a single third party, whom individuals can pay for overseeing their transactions with other individuals. In the first model, the third party supplies information on the past record of transaction parties, so facilitating a multilateral enforcement mechanism *RW* based on reputation. Under this system, people who cheat face an increased risk of being punished by future partners and this can be sufficient to deter dishonesty. In Dixit's second model, punishment is carried

¹ This seems formally feasible, though it would push assumptions of individual calculating capacity somewhat, even by the usual standards of economic theory. If the number of possible enforcers must be finite, single individuals could be involved in multiple roles. The important point would be that any formal representation of the space of possible rules and actions is likely to be uncountable, and so a chaotic, unending causal sequence could exist within it. Although this is principally of theoretical interest only as it stands, it is important to note that once the perfect rationality assumption is dropped, more 'realistic' ways to resolve the infinite regression problem become available.

out directly by the third party and neither relationship nor reputation effects need be invoked for contract breaking to be deterred effectively. This is an example of how Fafchamp's P enforcement can be successfully endogenised, rather than having to depend upon assumptions of smoothly functioning legal institutions. In both models, as well as showing that the transacting partners are motivated to behave honestly, Dixit describes the circumstances in which the third party information broker/enforcer will themselves be motivated to provide accurate information or carry out appropriate punishments. The logic of the model can be summed up by beginning with a simple prisoner's dilemma.

Figure 2.1 shows the one-shot payoffs of two transacting partners, A and B. We assume that $W > H > C > L$ so Cheating is the dominant strategy for both partners and (Cheat, Cheat) the sole Nash equilibrium. If A and B trade repeatedly, the folk theorem tells us that the threat of mutual reprisal can establish the (Honest, Honest) outcome which makes both parties better off. However, here we are assuming that there are many potential individuals with whom to trade, so no necessity for dealing with the same person more than once. How can the addition of a third party help maintain the pareto-superior situation in which individuals do not cheat?

		Trader B	
		Honest	Cheat
Trader A	Honest	H,H	L,W
	Cheat	W,L	C,C

Figure 2.1 Prisoner's Dilemma in Dixit's Private Enforcement Model

In Dixit's second model¹, each individual wishing to transact can choose to pay a fee F for the services of an intermediary who promises to punish any partner who cheats them. The punishment will involve future refusal to intermediate on behalf of that individual, who will thus only be able to achieve the Nash payoff C in future transactions. In order to compare this threat with the temptation of gaining a large lump sum $W-H$ from cheating on the intermediated transaction,

¹ This diagram and exposition are based upon the summary of the models given by Dixit in (Dixit 2007)

we can convert the latter to a per-period flow equivalent using the interest rate r . Then the condition for each transacting individual to prefer honesty becomes

$$r(W - H) < H - F - C \quad 2.11$$

The right hand side gives the loss in per period income following punishment. The individual would earn C instead of H from future transactions and no longer have to pay the fee F .

This explains why transacting partners who use the intermediary's services could find it more attractive to remain honest, if the intermediary implements the punishment rule as promised. However, it remains to be seen why this condition should hold. One of the two traders may offer the intermediary a bribe in return for being allowed to cheat without subsequent punishment. Clearly, the maximum they would offer would be $W - H$. The intermediary would refuse this bribe and implement the punishment rule honestly if

$$r(W - H) < F \quad 2.12$$

The right hand side here represents the future loss in income from the cheated individual who observes the intermediary fail to inflict the promised punishment on their partner. If we combine 2.11 and 2.12 we can see that the fee F must satisfy

$$r(W - H) < F < H - C - r(W - H) \quad 2.13$$

Since the lower and upper bounds on F are respectively increasing and decreasing with r , we can see that for low enough interest rates there are solutions for F . If r is large enough, on the other hand, there may be none. This agrees with intuition about the difficulties of enforcing rules in contexts associated with high interest rates: high levels of uncertainty, preferences weighted towards present consumption and high inflation.

An interesting point to observe is that although this model does not require repeated interaction between transacting individuals, it does depend upon repeated dealing between these individuals and the enforcement intermediary. In a sense, the ongoing nature of the institutional rule compensates for the transience of individual relationships.

Comparing his two models, Dixit shows that when the intermediary enforces honest behaviour by direct punishment, as opposed to simply providing information on each trader's history of transacting, they are able to extract more of the generated surplus in the form of fees and are thus less likely to provide less of their services than is socially optimal; on the other hand, direct enforcers may be able to extract more than the value that their intermediation adds to transactions, in a socially sub-optimal equilibrium (Dixit 2003). Avner Grief also compares these two forms of rule following inducement in his analysis of merchant guilds in medieval Europe (Grief 2006). The problems of economic coordination he discusses in this work share many features with what I describe in this thesis as 'dealing with distance'. Grief outlines the situation facing merchants travelling to do business in locations subject to the control of foreign rulers. Any merchant who was cheated in such a far-off place was unlikely to be able to seek redress through any formal legal channels P , which at that stage were not well established, especially with respect to international linkages. As a single merchant normally represented only a small fraction of the trade between the home and host locations, the foreign ruler tempted to obtain a one-off gain by allowing the cheating of a merchant would not be deterred by the future loss of trade with that individual RV . Grief presents evidence that in several cases, a reputation effect RW was an effective restraint on such plunder by foreign powers: if information about the cheating of one merchant was able to spread among all other merchants from the same home location, who then refrained from dealing with the dishonest ruler, the potential loss of future trade could be large enough to outweigh the benefits of cheating. To postulate the requirements that merchants a) share information and b) boycott any foreign destination where any one of them is cheated would therefore satisfy the requirements of an interpretation of 'institutions as rules', in the sense that behaviour in accordance with rules would overcome the economic coordination problem in hand.

However, there remains the matter of why the merchants would find it in their own interests to follow these rules. Accounting for this is made more difficult still by a characteristic of the situation prevailing in the event of an incomplete boycott. As Grief notes, the marginal value of an individual embargo breaking

merchant to a ruler could greatly increase in such circumstances. This could make enforcement of honesty on the basis of repeated individual transaction viable. Grief's historical evidence supports this theoretical suggestion by showing that embargo breakers were well treated and that sanctions did break down in this way when a significant minority of traders were prepared not to take part in them.

Grief argues that the reputation mechanism *RW* based on the two rules given above is insufficient and that in order to understand the many cases where merchant's rights were successfully protected it is necessary to explain how these rules could be systematically enforced. He suggests that this enforcement was carried out by the organisations known as merchant guilds. Guilds could grant members benefits in their home areas such as a share of monopoly rents and reduced taxation, so the threat of exclusion from guild membership gave the organisation the leverage necessary to induce compliance with declarations of embargo against foreign territories (Greif 2006 p. 104).

This has resonance with the much observed tendency in modern African cities for concentrations to arise in particular neighbourhoods and activities of individuals with family origins in the same rural area. Such urban segmentation is sometimes interpreted in terms of chain migration effects and desire to access the support of other individuals with a common background (Banerjee 1983). A particular aspect of the latter is the use of the 'community mechanism of contract enforcement' to overcome commitment problems in business activity (Hayami, Dikshit et al. 2006). Seemingly in tension with these views however, are studies of migrants which stress the weakness of ties within the urban area relative to the continued importance of links with people in the sending village (Frayne 2004). It seems possible that effects similar to those proposed by Grief for the mediaeval guild may play some part in explaining how urban community contract enforcement works and how the role of links back to the area of origin in this process could enable it to be effective even if some aspects of cooperation within urban areas are relatively weak. That is, urban migrants may act in certain ways to support fellow migrants, not (only)

because of any reciprocity or other considerations at play among urban residents, but because of enforceable expectations of behaviour held by their mutual rural connections.

The Thesis Definition of 'Institution'

In this thesis then, 'institution' will be taken to mean something that fulfils both of the above criteria. That is, something that provides rules which both guide the behaviour of individuals in economic transactions and which it is in the interest of a sufficient number of individuals, on sufficient occasions, to follow.

This interpretation is of necessity stated in abstract and general terms given the variety of actual instances of 'institutions' to which it needs to apply. In the discussion of literature here and the examination of research evidence below, I attempt to show that this conceptualisation is not so broad as to lose analytical usefulness. Nevertheless, in order to clarify the general gloss given above and in particular to expand upon what is meant by 'sufficient', I next consider some examples of the 'somethings' which are described as institutions in this study.

As discussed above, the literature on institutions and economic development has been concerned with both formal and informal institutions. The interpretation used in this thesis is taken to cover both categories. Hence on the formal side we have such institutions as the local government, police, health systems, private firms and political parties. Informal institutions include amongst others: kinship, savings clubs, rotating labour sharing arrangements, musical *ngoma*¹ groups, religion, anti-witchcraft, and social roles associated with sex or age.

With such examples in mind, we can remark on some points of interpretation. Firstly, 'sufficient' in the general definition given above means 'sufficient for the institution to persist in time'. So a particular political meeting or crowd at a single football match will not themselves be considered as 'institutions' for the purposes of this study. This requirement corresponds to the idea of 'regularity' in Greif's definition of institution '*An institution is a system of social factors that conjointly generate a regularity of behaviour*' (Greif 2006 p. 30). My definition

¹ *ngoma*: traditional music of tribe, often with dancers

differs from this in stressing more directly the institution's role in economic behaviour but is less specific in detailing the nature of the 'somethings' that generate the behaviour, beyond the role of rules. As Aoki notes, writers differ on whether they treat individuals as part of institutions, 'players of the game', or whether institutions are better understood as the institutional rules and the equilibrium in which these rules are followed (Aoki 2001). I remain catholic here for two reasons. Firstly, for applied work such as this, an organising heuristic is more important than theoretical closure. Secondly, as will be seen, my approach gives greater weight to the identity of specific individuals than that of Greif, so his insistence on '*man-made, nonphysical factors*' (Greif 2006 p. 33) as the sole constitutive elements of institutions appears unduly parsimonious for my purposes.

A related question is the understanding of 'organisation' in writing on institutions. For North, while the latter are the 'rules of the game' at a society-wide level, organisations are more limited-scope phenomena such as firms, political parties or business associations (North 1991). Greif has a different and distinctive interpretation of 'organisation' which, it is also worth noting, also reinstates the focus on economic coordination which is relatively weak in his definition of 'institution' (Greif 2006 pp. 47-49). Crucial to this interpretation is a distinction between 'central' and 'auxiliary' transactions. For example, the selling of cloth by a merchant on the territory of a foreign ruler or the purchase of palm wine by a bar customer would both be regarded as 'central transactions'. On the other hand, payment of membership dues to a merchant guild or of wages to a bar-attendant are 'auxiliary' transactions: they are part of the process through which the institutional rules are created, in turn reducing the costs in the central transaction. As Aoki points out, this understanding of organisations in effect grants a greater constitutive role to individuals than might at first be apparent from Greif's definition of institutions (Aoki 2001 p. 9).

2.6.3 Institutional Change

At this point in our discussion we need to recall our interest in understanding, not only the way that transactions are coordinated in one particular setting, but how this pattern of coordination may change over time. That is, to recall this

study's concern with economic development, with an emphasis on accumulation and the efficiency gains from an increasingly sophisticated division of labour. If we think that institutions play an important role in determining the set of feasible transactions, then whatever conceptualisation of 'institutions' we adopt must allow us to address questions about change. How can institutional change occur? What might prevent it? Furthermore, when institutions do change, is this always likely to benefit economic activity or could there be requirements in terms for example of sequencing in the development of different institutions (Fleck 2000)? What particular problems could be associated with the need for institutions to support economic coordination on an increasingly large scale (Kali 2003)?

For the earlier institutionalists, institutions were identified closely with what is resistant to change in human economic behaviour, hence Veblen's reference to "habit" cited above and the idea of "inertia" as a measurement of resistance in that literature (Veblen 1909; Hodgson 1998). More recent writers such as North have gone on to emphasise the potential hindrance to economic development represented by institutions which are slow to change; for example, by treating innovation as "deviance" or preventing reductions in the transaction costs of long distance trade (North 1990). This potential for the socially excessive persistence of institutions to stall desirable change is a central avenue in this thesis for examining the nature of "rigidities" in economic organisation.

Within the rational, choice-theoretic, optimising perspective dominant in economics, the methods of game theory are the most frequently employed techniques for analysing the role of institutions. The question of institutional change poses particular difficulties for this type of approach, it is claimed. If the source of change is exogenous, it escapes analysis. On the other hand, if an existing institution has been successfully accounted for in terms of an equilibrium of choices by rational optimisers, it is hard to explain why any individual or individuals would have any motivation to alter their choices in the absence of exogenous change, without which alteration the institution would persist in its current form (Hall and Taylor 1996). In my view, while this is a valid and important observation, a need for exogenous variables is not a mortal

weakness in the economic approach, which has rarely claimed to give a totalising account of human experience. If economics has received the most criticism for the nature of, and the need for, assumptions, it is also surely the discipline amongst the social sciences which makes its assumptions by far the most clearly visible and hence easily available for such scrutiny. However, to explain more, rather than less, provided it be done convincingly, is usually desirable and much attention has indeed been given to the problem of understanding institutional change among economists.

One solution would be to suppose that some individuals occasionally appear who have different preferences or abilities. They may not be motivated to behave in accordance with the existing equilibrium and the behaviour of such “mutants” (Aoki 2007) could thus trigger change in institutions, perhaps leading to a new, stable situation. More frequent in the literature are examples where two or more institutions coexist, with the rules of one or another applying in similar situations such as land ownership or labour employment. As people make individual decisions to switch between adopting the code of one institution in such a context, to the rules of another, the aggregate effect can be for some institutions to expand while others wither. This is the case, for example, in Ensminger’s study of market development among pastoralists in Kenya (Ensminger 1996). As factors like the growing scale of activities and changing state property rights enforcement affected transaction costs, individuals moved from the use of clientelist labour arrangements to wage employment, and from informal to more clearly defined formal land-holding. Attention to individual rationality brings out a distinction which was perhaps less present in the early institutionalist writers. Clearly, it is socially undesirable for an institution to forestall activity which brings net social gain. However, a central function of institutions is precisely their ability to prevent actors, when it is socially efficient, from taking opportunistic action which maximises their individual welfare (Williamson 1985). Nelson and Sampat, in whose interpretation actors can also choose between institutional rules, are however sanguine about their ability to overcome such barriers when the rewards are sufficient

We are impressed on the one hand by the hold of the broad aspects of culture on what people do, but on the other hand by how rapidly particular cultural doctrine can change when there are strong pressures for change and clear signals regarding better things to be doing. We would propose that, where one does see very rapid adaptive institutional change, the institutions involved do not carry a heavy normative load. (Nelson and Sampat 2001 p. 52)

For Douglass North, institutions can “evolve” from a long succession of individual agreements, with conscious modifications to contractual form over time (North 1991). Examples he gives from European history are the design of loan contracts which gradually undermined the usury laws and the development of maritime insurance. North frequently evokes the idea of “evolution”¹, something his writing shares with that of Nelson, who is in fact perhaps best known as a proponent of “Evolutionary Economics”. The latter’s conception of institutions is however quite different and distinctive. Nelson describes the concept of “social technologies”, “modes of organizing work” or “ways to get things done”, as counterpart to “physical technologies”; he then suggests that we can interpret institutions as well established social technologies (Nelson and Sampat 2001). In this account, the development of institutions becomes analogous to that of physical techniques, a process of, often risky, innovation and competition between different available ways to get things done. Such a situation, where institutions are shaped locally in different ways is close to what Vincent and Elinor Ostrom describe as ‘spontaneous polycentric ordering’ (Boettke and Coyne 2005) when viewed on an economy-wide scale. In their applied work, the Ostroms have not attempted to explain all observed institutions within a single formal model; rather they identify a set of variables which can vary from context to context and which set the exogenous conditions within which formal modelling is useful. As in Nelson’s writing, this isolates to a degree the explanation of how institutions work from that of how they change.

Another explanation for change found in the literature is to suggest that the exogenous factors which lead one institution to alter are themselves determined by other institutions. This is the approach of Oliver Williamson in presenting his four level hierarchy of institutions (Williamson 2000). In this

¹ Words derived from ‘evolve’ occur over 40 times in the 17 page paper cited.

scheme, economic transactions take place within the parameters set by institutions such as firms and contractual agreements, called the 'institutions of governance'. The study of economic activity within these parameters is, for Williamson, the subject matter of standard 'neo-classical' economics.

At the next level, the institutions of governance themselves are designed to minimise transaction costs in the economic activity they coordinate. Here is located the classic Coasian account of firm boundaries for example. This design is itself subject in turn to parameters set by a further set of institutions such as taxation regimes, law courts, banks and political systems. These are termed the 'institutional environment' or 'rules of the game'. Finally, the nature of these institutions is determined subject to parameters set by the 'social embeddedness' level institutions such as norms, customs and religion. At each level, adjustment is meant to take place more slowly, with decisions over transactions happening almost instantly, given the governance institutions, while change in 'embedded' institutions can take centuries or more.

This nested model has some appeal, particularly as a point of departure in considering the case of African countries where recent institutional change has often seemed to challenge it. Tanzania, certainly, has seen radical alterations in what Williamson would call the 'institutional environment' and 'governance institutions' over the past twenty years, while 'embedded' institutions should on his account have changed little in this time. At the more microeconomic scale of the present study, the model offers an intuitive means of sketching two extreme views of early market development. If this is seen as depending on the creation of appropriate institutions in the middle two layers, could it be that the shortage of such institutions limits the market by not facilitating credible commitments among transacting individuals? Alternatively, could the lack of middle layer institutions leave the embedded layer to press down too directly on the transaction layer, leaving little space for individual decision making? In short, where market institutions are defective, are they providing too much freedom, or too little?

Despite these interesting features, the hierarchical view has limitations. As Williamson admits, precise analysis of change in the higher two levels has not

been extensive among institutional economists (Williamson 2000). Moreover, both the four-level structure and the unilinear view of causality between them seem unduly restrictive. Aoki proposes a more flexible understanding in which a hierarchical arrangement is not assumed (Aoki 2001). In his model too, a variable which is exogenous to one institution can be determined endogenously within another; whereas Williamson, however, solves the potential problem of infinite causal regress by ultimate appeal to the 'embedded' layer of institutions, Aoki does this by dropping assumptions of perfect knowledge and unlimited cognitive capacity on the part of individuals. This moves his explanation beyond the scope of rational optimisation and in to the broader territory of the following section.

Avner Greif approaches the puzzle of accounting simultaneously for institutional persistence and change in a different way, invoking neither 'mutant' behaviour nor further layers of institutions (Greif 2006). Germane to his explanation is the distinction between the exogeneity or endogeneity of an institution's parameters to the institution itself on the one hand and to individual actors on the other. Greif suggests that there may be institutional parameters which are affected over time by behaviour in accordance with the institutional rules. Eventually, the change in these 'quasi-parameters' can tip the behaviour of individuals to a new equilibrium, altering the institution's self-sustaining rules. Greif thus argues that individuals are unable to directly affect the institution, but that collective behaviour in accordance with its rules can lead to change in the rules. From a rational-choice perspective, this view seems the most complete of those outlined here. Of course, if one assumes perfect knowledge, individuals will be aware of the implications of their present actions for future change in equilibrium behaviour. This may well complicate the analysis, for example in formal terms by requiring the solution of finitely repeated games, with all their scope for paradoxical backwardly induced outcomes. However, the insight that individuals can be constrained in the present by institutions but nevertheless sometimes able to act in ways that modify the future nature of these same institutions is of considerable significance for the current study.

Related to the question of institutional change is the matter of how currently existing institutions affect future institutions. There are two main accounts of this in the literature and these are not mutually exclusive. One observation is that institutions are not formed in a vacuum; there is always a context of pre-existing contracts and expectations, within which any new institutional rules must arise (North 1991). Clearly, the nature of such mutual commitments already in existence may influence the set of feasible self-enforcing new rules.

The other way that new institutions are thought to be affected by earlier ones is expressed in the idea of 'focus'. This concept was described by Schelling in his famous coordination game example of two businessmen who have arranged to meet each other in New York (Schelling 1960). To simplify, we can suppose that they can remember arranging a certain day and time, but have each forgotten which of two locations was to be the site of the rendezvous and need to choose one of them. There are two Nash equilibria in this game, the two combinations where each person chooses the same location as the other. Unfortunately, in a one-shot game this does not suffice to tell us what each person should do in the absence of some reason for one of the two equilibria to be more prominent or focussed upon than the other. This reason must be external to the game in the sense of not being related to the payoffs of each outcome. As discussed above, an important part of the way 'institution' has been conceptualised in economics is as an equilibrium in which all individuals find it optimal to follow the rules, given that all other actors also comply. This gives a powerful explanation for the persistence of institutions. However, it is often possible that many different sets of institutional rules could be self-enforcing in the same circumstances. Economists have used the idea of focus to try and understand how one of many feasible institutional arrangements can end up being chosen when such multiple equilibria exist (Sugden 1989; Greif 2006; Aoki 2007). Given the importance of this approach in the analysis of data below, a little more detail may be useful at this point, so we consider some strategic form representations of coordination problems.

		player 2	
		A	B
player 1	A	10,10	0,0
	B	0,0	10,10

Figure 2.2 Simple Schelling Type Coordination Game with Two Players

		player 2					
		A	B	C	D	E	F
player 1	A	0	0	10,10	0	0	0
	B	0	0	0	0	10,10	0
	C	0	10,10	0	0	0	0
	D	10,10	0	0	0	0	0
	E	0	0	0	0	0	10,10
	F	0	0	0	10,10	0	0

Figure 2.3 More Complex Coordination Game with Two Players

Figure 2.2 shows the simplified Schelling coordination problem, where players 1 and 2 are the two businessmen, and A and B can be thought of as representing the two possible locations for their meeting. As in all these three diagrams, payoffs are shown as small integers rather than ‘realistic’ values in order to keep the strategic structure clear and can be taken to represent either monetary or utility values. The symmetry of the payoffs in this first model shows that the players will be indifferent between outcomes (A,A) and (B,B); which very indifference makes it impossible for either of them to choose a strategy in the absence of any further means of differentiating between the two possible meeting places.

In Figure 2.3, each player must now choose between a wider number of options. This is closer to the original Schelling statement of the problem, where the businessmen have not made any arrangement about where and at what time to meet and so must select between a large number of possibilities. In the game shown here there are six Nash equilibria, with identical payoffs. The

difficulty of coordination is all the greater because now for any choice by one player, five out of six possible choices by the other would leave them both with a zero payoff.

Recently, experimental economists have studied the actual behaviour of individuals playing games like the one represented in Figure 2.3 (Bosch-Domènech and Vriend 2008). In these experiments, people are matched randomly with anonymous partners in a computer lab, shown the strategic form diagram and told that they will actually be given the payoffs shown in cash after the experiment. Some striking results have been obtained. If the game diagram is presented without the emphasis shown in the figure given here, average earnings of players turn out to be only slightly better than would be expected if each chose entirely at random from the available strategies. However, if one of the otherwise identical Nash equilibria is given some kind of distinctive formatting as shown in Figure 2.3, without changing in any way the actual payoffs, then players will choose the strategy containing that payoff more often and earn significantly more than they would by randomising.

				player 2			
				A		B	
				player 4			
				A	B	A	B
player 1	A	player 3	A	10,10	8,8	8,0	4,4
			B	10,10	8,0	8,8	4,4
	B		8,8	4,4	4,4	0,8	
	A		0,8	4,4	4,4	8,8	
B	A	8,8	4,4	4,4	0,8		
	B	4,4	8,0	8,8	10,10		
				4,4	8,8	8,0	10,10

Figure 2.4 ‘Institutional’ Coordination Game with Four Players

It is important to distinguish this ‘focus’ effect from the ‘overlay’ effect of already existing institutional rules. In the latter, the continued influence of existing rules

affects the payoffs to different behaviour in response to any new institutional rules. The coordinating effect of focus, however, does not affect payoffs in the new institution. All that may be needed, for example, is some resonance of one strategy choice with another institutional feature such as religious affiliation or formal employment status. As Greif observes, even institutions which existed previously, but have disappeared in the sense that their rules are no longer followed, can influence the shape of future institutions if their memory suffices to focus attention on one of several possible equilibria (Greif 2006 p. 165).

Finally, to indicate how the idea of focus can influence the emergence of a rule which governs the actions of more than two individuals, we consider the four-player game shown in Figure 2.4 . To explain this game, player 1 selects between the top two (strategy A) and the lower two (B) pair of rows. Player 3 selects between the top (A) and bottom (B) row of each pair of rows. Players 2 and 4 similarly select amongst the columns. For example, if the strategies chosen by players 1 to 4 are respectively B, A, B and B, then the payoffs for each player will be respectively 8, 0, 8 and 8. Inspection of the game diagram reveals two Nash equilibria, each corresponding to a situation where all players chose the same strategy. As before, the symmetry of the strategic form means that there is no reason, in terms of payoffs alone, for the players to choose one or other of the two equilibria.

To see how a rule which overcomes this coordination problem could be helped to arise by a focus effect, it is helpful to consider a possible context which such a game might describe. For such an example, we can return to the palm wine bar and corn mill referred to in the section on property rights above. Suppose now that the bar owner *B* and the businessman *A*, rather than negotiating, seek to maximise their private profits by appealing to third party arbitration. Suppose further that this takes the form of a hearing before four village council members. Each of these four individuals must vote either in favour of allowing (A) unrestricted milling, or banning (B) it during the evening hours when the bar is busiest. We can remain open minded about the motivations of the decision makers: for example, whether they include the intrinsic satisfaction of community service, a formal allowance for fulfilling this role, or the expectation

of future benefit from relationships with the two parties in dispute. Let us assume, however, that these motivations are well captured by the payoffs shown in Figure 2.4 .

This context allows a little more justification of the payoff structure shown. The best outcome for all four arbitrators, our players 1 to 4, is unanimity. The worst outcome for any of them is to be the one person voting differently from the other three. If this does occur, the three in agreement carry the day but the strength of this decision and hence the rewards they derive from taking it, are somewhat weakened. If the vote is split, then no decision is provided and all suffer, though not nearly so badly as in the case of being the single exception. In terms of expected benefits then, there is no distinction between the two preferred outcomes where all arbitrators vote for A and that where all vote for B.

Now consider the following addition to the scenario: bar owner *B* recently stepped down after many years as chair of the village council, whereas businessman *A* is a former farmer who recently arrived in the village from its rural hinterland. Could this suffice to focus initial thoughts upon option B, the ban? Given the riskiness of individual deviation from any such focus, could this give rise to, or reinforce, an rule in the institution of local arbitration which acts to favour those claimants with the greatest local social standing?

Of course, this simple model abstracts from a number of considerations which would be likely to have significant influence in reality. For example, commitments implicit in the relationship of current village council members and prominent former leaders like *B* make it unlikely that payoffs would actually have the symmetry assumed here. However, the point is to show the great power that established focus, or precedent, can have irrespective of actual payoffs. Indeed, even if we adjust the reward for unanimously voting A to 12 instead of 10, yet suppose that initial focus remains on B, a transition to the pareto-superior outcome may remain difficult (Bosch-Domènech and Vriend 2008). What is more, the ‘overlap’ effect of existing institutional rules is in any case often likely to act in the same direction as the ‘focus’ effect.

This discussion of how to account for institutional change began by noting the difficulty of this task for rational-choice theories, which are based in an explanation of why rational individuals act in ways that result in the persistence of institutions. We have mentioned five possible resolutions of this apparent paradox. One is to allow for exceptional individuals who can break the institutional equilibrium. Alternatively, the accreted effects of behaviour in accordance with institutional rules could change parameters which determine the equilibrium rules. Another approach is to posit the existence of multiple, competing institutions, with some form of evolutionary process determining which become dominant and which fade away. The fourth view is that behaviour which results in change to one institution takes place within the rules of another institution, as in the hierarchical scheme of North for example. Finally, we have the possibility that in some situations, multiple institutional equilibria may be possible, and that some exogenous factor can act to make one of them more salient than the others.

2.6.4 Institutions, Strategy and Identity

Each of these ways of conceptualising change has implications for the degree to which individual behaviour can be interpreted as 'strategic' rather than merely rational.

If we take 'strategic' action to mean that which is rational given a context where the effect of an individual's choices is contingent upon the decisions of other actors, then the role which institutions as defined above can play in understanding strategy can easily be seen. Clearly, the existence of rules which can guide the behaviour of other actors, as well as themselves, can be important for the individual who wishes to anticipate the action by others which may affect the results of their own behaviour. Thinking about how institutions change, however, can take the analysis further in different ways.

For example, in rural Africa Platteau and Hayami acknowledge the importance of rules associated with kinship role in constraining individual economic choices (Platteau and Hayami 1998). However, they also stress the options of breaking or renegotiating kinship obligations for some accumulating individuals. These

individuals, like Ensminger's pastoralists (Ensminger 1996), can strategically choose to switch between two alternative institutional arrangements.

Strategy in nested institutions is demonstrated by Parkin's young palm-wine entrepreneurs (Parkin 1972). These young men are able to modify traditional property-enforcement rules by well-chosen actions which conform to the rules of the 'higher' institutions of Islam and elder-respect.

Marleen de Witte analyses the process of escalating expense in Ghanaian funeral ceremonies (de Witte 2003). Within the rules of this social institution, she describes how families can build up and repay social obligations. However, the reciprocal nature of the rules involved could be interpreted as a 'ratchet' mechanism; that is, contributions at each funeral should not be less than those at earlier ceremonies involving related actors. Thus conformity to the rules gradually changes their exact content over time and this accretion effect is itself known about and built into the strategies of individuals.

In rural China, Yunxiang Yan (2005) gives an account of changes in the institution of bridewealth. Whilst this used to be negotiated and exchanged between the parents of the groom and those of the bride, it is now common for the bride to receive the payment herself and to take the lead role in bargaining with her prospective in-laws. Yan ascribes some responsibility for this development to the years of attempts by the state to eliminate the institution of bridewealth payment. Perhaps counter-intuitively, the ideological attack on family loyalties involved in these attempts may in fact have strengthened the hand of individual women in demanding higher bridewealth and contributed to the large increase in payments observed. Apart from this role of a second institution, the state, in changing bridewealth rules, Yan cites cultural influences of western and urban origin that act to make individualistic behaviour more socially acceptable.

Given the emphasis here on rational-choice and strategic behaviour, invocations of 'ideology', 'cultural influence' and 'social acceptability' perhaps need some justification. One way to think about these factors is in terms of focal point coordination. Government propaganda or western pop music may be able to highlight alternative rules for behaviour by young people and for

sanctioning action by families. These may already have been viable, self-sustaining institutional equilibria but they would have remained only potential institutions unless thus highlighted and made 'focal'. In an example similar to that of Yan, Ensminger and Knight (1997) analyse changes in the bridewealth practices among the Orma of Kenya. They conclude that the most important factor in these changes is the process of bargaining between individuals. However, another significant part is played by the minority practice of Islamic 'indirect dowry' payments. Ensminger and Knight propose that the existence of this example serves to make the practice focal as a feasible alternative to the existing set of bridewealth rules.

Two commonalities are worth noting in the examples above. Firstly, the interpretation of actual behaviour can rarely be confined to a single theoretical understanding of institutional change. There may be simultaneously an element of interaction between related or nested institutions, a contribution of gradual parameter shifts over time, negotiation over competing institutions and various exogenous sources of focus on these alternatives. Secondly, it is often the case that individuals are not homogenous in their ability to influence the institutional equilibrium of rules. In all the cases cited here, certain individuals play critical roles which would not have been possible for just any other actor whose choices were guided by the institution in question. For Parkin, the roles of young entrepreneurs and elder men within the traditional property enforcement system are sharply defined. Yan goes so far as to trace the origin of a major change in the bridewealth institution in one village to the behaviour of a single young woman with a particular set of social characteristics.

In regard to the second point here, it is perhaps significant that the empirical literature on economic development relates many instances in which the terms of participation in markets are found to be dependent upon features of the identities of the actors concerned.

For example, Maia Green finds that competitive price setting among palm wine sellers in Southern Tanzania is particularly restricted for females by their need to maintain inter-household risk sharing cooperation (Green 1999). Alexander and Alexander find that the terms for sub-contracting and employment in the

Javanese furniture industry vary greatly depending upon whether the two parties are related or not (Alexander and Alexander 2000). Other writers find that ethnic identity is found to play an important role in overcoming problems of credible commitment in transactions in the Kenyan cattle trade (Quarles van Uffor and Zaal 2004) and among urban East African businesses (Ramachandran and Shah 1999).

Despite the abundance of similar evidence from case studies however, it seems reasonable to suggest that theoretical work has under-emphasised the relationship between institutions and individual identity. The concluding chapter of this thesis proposes that a conceptualisation of identity rooted in this relationship can be helpful in understanding the role of institutions in economic coordination. It is argued that, in a sense, institutions create path dependence for individuals and that this latter property can be usefully described as an important part of 'identity'.

The discussion of institutions in this section thus brings the 'concentric' examination of market organisation to the broadest level possible under the assumptions of rationally optimising and identifiable individuals. Subsequent chapters aim to show that ideas such as transaction costs, contract enforcement and institutional rules provide a rich conceptual basis for understanding observed economic activity in the study area.

It is clearly not the case, however, that either of these two assumptions are universally accepted by economists and others concerned with such activity. Before concluding this account of the theory of market organisation then, the final section considers some common approaches that relax one or both assumptions.

2.7 Norms, Trust and 'Social Capital'

2.7.1 Social Norms: Theory and Evidence

Comparing African and Asian development records, Yujiro Hayami and Jean-Philippe Platteau emphasise what they describe as differences in 'norms' between the two continents (Platteau and Hayami 1998). They contrast the

effect of egalitarian norms in restricting African accumulation with the benign influence of Asian reciprocity norms which reduce transaction costs of economic coordination.

Of course, this idea of 'norms' recalls the 'rules' discussed above which can be viewed as constitutive of institutions. However, there are distinctive features in the way that norms are conceived of which set them apart from these institutional rules.

The most important of these is that individual action in the presence of norms is often interpreted as deviating from strict rational optimisation to some degree at least. One example of this is the study of sharecropping efficiency in the Philippines by Sadoulet and de Janvry (1997) which takes the unusual step of explicitly including the existence of kinship relationships between landlord and tenant in the analysis. As discussed above, the existence of sharecropping arrangements is thought to be related to two main factors: the need of tenants to share risk on the one hand and the difficulty of enforcing labour contracts on the other. Although sharing input costs and outputs lessens these difficulties, it does so at the cost of providing socially sub-optimal incentives to the tenant. The authors of this study found that efficiency is higher however, when tenant and landlord were kin than when they were unrelated. With kinship, provision of labour and other inputs by tenants came closer to the cooperative social optimum. In explaining this, Sadoulet and de Janvry conjecture that kinship relations may 'induce some "moral" behaviour encompassing altruism and preventing cheating' (1997 p. 405) although they also suggest that the greater chance of repeated interaction between related individuals may also help to enforce contracts.

Others are less tentative in assessing the effect of norms on rationality. Holvoet (2005b, 2005a) writes on group-based microcredit lending to women in South India. Like sharecropping, this is a much visited area; and like de Janvry and Sadoulet, Holvoet adopts an innovative approach to it. She acknowledges the role of group norms in motivating repayment by women, a mechanism suggestive at least of less than fully rational choice which is common in the literature. In a widely cited paper, for example, Ghatak and Guinnane mention

norms, peer pressure, culture and religion as factors which may affect the ability of groups to collectively enforce compliance with repayment terms (Ghatak and Guinnane 1999). Holvoet goes further than this by considering the influence of participation in group borrowing schemes on the way that women make decisions. She categorises decisions within families as being taken either by husband, by wife, jointly or as prescribed by norms, finding that group membership by women increases the range of decisions in the second category at the expense of the others. For Ghatak and Guinnane extra-rational factors such as norms play a relatively minor role in an otherwise exclusively rational account of group interaction: for example, the problem of moral hazard can be reduced by group lending because each individual has an incentive to monitor the project choice and effort of her partners. For Holvoet, the existence of norms represents a clear exclusion of rationality from some areas of choice. She describes norm following as ‘non decision-making’, ‘guarding... ..against individual male and female agency’ (Holvoet 2005b p. 78).

Although these two examples differ greatly in the extent of non-rational behaviour which they associate with norms, they concur in their treatment of norm-following itself as exogenous to the analysis of choice. In other words, there is no attempt to examine how action which conforms to a norm can result from individual choice, whether rational or not. For Holvoet, choice and norm-following are explicitly viewed as antithetic. In the work of Ghatak and Guinnane, more typically for mainstream economic studies, norms, along with culture, religion and the like are residual influences, marking the limits of rational explanation.

Other writers do not stop at this point, attempting instead to understand why individuals might choose to follow norms. One such is Christina Bicchieri, whose definition of a ‘social norm’ is worth considering here.

According to Bicchieri (2006 p. 11), a something¹ N is a social norm in a population iff

¹ ‘a something’ is not Bicchieri’s terminology. I insert this somewhat crude wording here to draw attention to the fact that what kind of ‘something’ can be a candidate for a norm is a) not yet clarified but b) will be discussed below.

1. N is known about by a sufficiently large proportion B of the population
2. Individuals in B also prefer to follow N if they believe that sufficiently large proportions of the population
 - a) follow N
 - b)
 - i) expect them to follow N , or
 - ii) prefer them to follow N and will possibly sanction non-compliance

The layout of this definition, although I have relaxed the original's formalism somewhat in this re-statement, along with the repeated phrase 'sufficiently large', hints at an analysis of Norm-based behaviour as strategic, rational choice. Bicchieri does indeed make much use of game theory in understanding the role of norms in observed behaviour. In this, her treatment of norms approaches the role ascribed to rules by many writers on social institutions. She departs from the literature discussed in the previous section however, in her interpretation of 'rational' decision making. This is not quite the standard matter of making correct utility maximising choices given beliefs about the strategic structure of a situation and the preferences of other actors. Bicchieri pays more attention to some questions which are generally passed over in game theoretic analyses: how do actors gain their knowledge of the incentives faced by others; how do they understand the 'rationality' of others; how do actors know what rules exist and which apply in a given situation; and, where did these rules come from?

For her, it is useful to consider two forms of 'rational' choice, characterised respectively as 'deliberative' and 'heuristic' rationality (Bicchieri 2006 p. 6). The former comes closest to the strict optimisation of standard microeconomics. The latter is often resorted to because the former is costly and not always and everywhere possible. The ability of actors to associate generalised patterns of behaviour, 'schemata' or 'scripts', with features of particular situations allows them to decide which norms apply in those situations (Bicchieri 2006 p. 94). This can be illustrated in terms of the simple example already discussed of a customer buying palm wine from a bar. All present will be familiar with the

pattern of behaviour common in this situation: customer enters, greetings, order given for palm-wine, full bottle and cup provided, payment tendered, customer sits down to drink and talk with others present. This shared abstract description of the situation is what enables a norm to emerge and become accepted: the customer should give the customary payment. Given the set of norms which are understood to be relevant, a concept such as Nash equilibrium may be helpful in explaining why a behavioural pattern conforming to these rules is resistant to individual optimisation of the deliberative kind. However, to explain the nature and origin of this set of norms itself we may need to look beyond deliberative reasoning, considering instead the factors that shape the script-learning basis of heuristic decision-making. The strategic calculations of an entrepreneur thinking through possible courses of action and the likely reliability of partners may have many important features in common with game playing. But there may also be important differences. The entrepreneur's understanding of what the rules of the game are could be dependent upon their own individual history and acculturation, incomplete and not congruent with the understandings of other actors.

In this thesis, where discussion of social institutions refers to 'rules' rather than 'norms', this is because the greater weight of attention is being placed upon conventionally rational, deliberative, action. It does not indicate that the question of how rules arise and become relevant has been resolved in terms of rational choice, nor that it is insignificant. Where analysis more directly concerns this question and the limitations of rational choice theory in answering it, the term 'norm' is more frequently used.

Given the multitude of case studies such as those mentioned here, in which the concept of social norms is invoked in order to explain apparent departures of individual choice, in varying degrees, from narrowly rational self-interest, it is unsurprising that attempts have been made to measure the 'strength of norms' and draw comparisons between different contexts. One of the most ambitious and directly relevant to discussion of the role of norms in developing economies was the study published in 2005 by Joseph Henrich and a large team of distinguished co-researchers (Henrich, Boyd et al. 2005). This drew on data

collected from twelve developing countries, of which Tanzania was among four from the African continent. The methodology in each location involved the payment of subjects to play games, in which they could win further rewards according to the outcome. Three games were used, known as the 'Dictator Game', the 'Ultimatum Game' and the 'Public Goods Game'. Since the second of these was most widely employed, and as most of the study's principal findings were based upon analysis of this game, I will briefly outline it here.

The Ultimatum Game is played by two randomly matched individuals, anonymous to each other but normally not to the experimenter. The first individual is allocated a sum of money¹. They then make an offer of part of this sum to the second individual. The latter then has the option of accepting or rejecting this offer. If they accept, then they are given the offered amount and the first individual is given the remainder of their allocation. If the second player rejects the offer however, neither player receives anything. Suppose that both participants believe that no information about their decisions within the game can reach anyone whose future actions may be of consequence to them. In this case, the best choice for a rationally optimising second individual is to accept any offer greater than zero. Knowing this, the best choice for a rationally optimising first individual is to offer a very small amount only.

However, the study in question reports very different results. *In every experiment yet conducted, including all of ours, the vast majority of proposers violated this prediction of the selfishness axiom.*(Henrich, Boyd et al. 2005 p. 798) . Furthermore, the authors found variations in this deviation from self-interested rationality between locations.

Both these results have significant implications for the current thesis. The first suggests that rational behaviour shaped by institutional rules may be limited as a way of understanding coordination among groups of individuals in the study area. It may be necessary instead to employ the richer concept of social norms. The second raises the question of whether differences in the general strength of norms between residents of the study area and others may be a factor in

¹ In one case, cigarettes were used to 'avoid the appearance of gambling' Henrich, J., R. Boyd, et al. (2005). "'Economic man" in cross-cultural perspective: Behavioral experiments in 15 small-scale societies." *Behavioral and Brain Sciences* 28(6): 795-815.

explaining any differences in the effectiveness of coordination between this and other areas.

The correct interpretation of this and other experimental studies remains a contested and varied area of enquiry. This is attested by the number and range of contributions made by prominent writers in Economics, Anthropology, Psychology, Evolutionary Theory and related disciplines to the 'Open Peer Commentary' discussion section published along with the article in the *Behavioural and Brain Sciences* journal (Henrich, Boyd et al. 2005 pp. 815-38). I can mention only a few of the more immediately pertinent objections here, the first three of which concern theoretical interpretation of the findings.

Firstly, as Ken Binmore states in his response to the article, the methods of analysing behaviour in terms of rational-optimisation which are commonly used in Economics do not necessarily equate to an assumption of selfishness (Binmore 2005). Other things than own-income can enter the utility function, as is argued elsewhere by Akerlof and Kranton and, in different terms, by Ainslie in the preceding response (Akerlof and Kranton 2000; Ainslie 2005).

Secondly, if norms may have the character of heuristics, selected as Bicchieri suggests in response to contextual cues and then used in ongoing 'contract-like' interactions, Christophe Heintz argues that the one-shot experiment is unlikely to capture anything but the opening move in such a process (Heintz 2005). Binmore also criticises the study's use of only one-shot games, pointing out that repeated play often shows the re-emergence of income-maximising behaviour (Binmore 2005).

A third collection of critical ideas concerns the ability of individuals to adopt certain patterns of behaviour and by doing so to become constrained by these patterns in order to overcome problems of credible commitment. Ainslie postulates such strategies as a way in which individuals can make credible commitments to themselves (Ainslie 2005). For him, this 'self-signalling' can address the problem caused by hyperbolic future discounting. The latter can be explained in the following simpler terms. Suppose an individual is able to obtain good A at time one but by declining this offer they are able to obtain good B at time two. Suppose further that at time zero they both prefer the second option

and fear that at time one they will prefer the former. It seems that they are doomed to make choices that are sub-optimal at time zero. However, if they can adopt a certain type of behaviour which includes the refusal of good A at time one, they can clearly secure the desired future consumption of B at time two. Their choice at time one can itself become rational if they believe that continuation of this pattern can avoid future myopic choices in the same way. Being the 'type' of person who avoids short-term temptation guarantees a future flow of benefits that can itself outweigh the benefits offered by succumbing to immediate temptation.

Many other questions focus on experimental methodology. Perhaps the most vital for the analysis here is the fate of reputation effects in the games. To apply Fafchamp's model introduced in Section 2.5 above to decisions about whether to follow norms, the costs of non-compliant behaviour can be conceptualised as (eq. 2.7) $G + P(C) + RV + RW$ (Fafchamps 2004a). As noted already, the weakness of formal legal systems in a setting like rural Tanzania may imply a smaller role for direct punishment of breach $P(C)$. This discussion of literature has shown that much attention has been focused in consequence on the roles of informal punishment and reputation effects RV or RW in motivating behaviour. The interrogation of such possibilities is central to the analysis of data below. However, the claimed informational sealing-off of individual choice behaviour in the experimental study rules out anything but G as a deterrent to default on norm obligations.

It is difficult not to share, however, with Gigerenzer and Gigerenzer, or Sullivan and Lyle, doubts over how both the conditions of complete anonymity and the belief in this anonymity on the part of participants could have been absolutely established (Gigerenzer and Gigerenzer 2005; Sullivan and Lyle 2005). Even if such conditions can be maintained within the game, there may be other means by which the actions of players can be discerned outside of this environment. As the study's authors themselves state, in some of the societies studied it can be very hard to conceal holdings of property or money (Henrich, Boyd et al. 2005 p. 808). Such concerns were also commonly reported during the collection of data for this thesis. Clearly, the knowledge that one will be open to

such scrutiny may deter a course of action that would leave one with what amounts to a substantial windfall to hide.

The amounts of money at stake in these games were deliberately made quite substantial in local terms, to avoid the criticism that decision making can work very differently when insignificant sums are involved. However, it seems reasonable to conjecture that as stakes increase, the potential cost from punishment and reputation effects to an individual who breaks social rules also rises. Although this potential cost is only suffered if the breach is discovered, as long as an individual assigns some positive value to the probability of this happening it is rational for them to treat the expected cost of breach as relatively higher when higher amounts are involved in the game.

Thus there is a difficulty with the logic of this study as a test of the importance of internal and external motivations for norm-following. Observations of norm-compliant behaviour are consistent with a very small role for $P(C) + RV + RW$ compared to G but also with a very large one, unless 100 percent belief in anonymity is established.

These criticisms, along with other problems that have been pointed out in interpreting such experimental evidence tend to support the arguments put forward above for prioritising explanations predicated on rational decision making. Despite this, it does seem that findings such as those of Henrich and his collaborators have posed serious questions for such analyses which remain to be fully answered. Departures from the rational optimisation of material income are given due consideration below. If G still emerges as something of a residual in this way, it is certainly not treated as a negligible one.

2.7.2 Trust, Social Capital and Networks

Thus far in this section, relaxing the assumption of rational choice to some degree has been discussed in terms of ideas about social norms. If these can helpfully be viewed as 'enhanced' rules of the kind that shape institutions, it is not surprising that the identities of particular individuals have featured throughout in considering effects such as reputation and scripted roles for different contexts.

Two concepts dealt with here, 'trust' and 'social capital', both tend to be less precise in terms of the social categories to which they are used to refer. That is, they are often treated as properties of whole populations or social groupings in an undifferentiated way. While study of rules or norms is qualitative, based on who should and does do what, trust and 'social capital' tend to be measured quantitatively. Analysis concentrates on how these levels of trust/'social capital' interact with other economic variables: how do levels affect aggregate outcomes; how do levels facilitate individual transactions; how does individual and collective action contribute in turn to the levels? In short, we can think of the way that these two ideas are used as rather similar to that of public goods. Before turning to the most frequently given accounts of how each of the concepts can best be understood however, I look first at some of the claims which have been made for their effects on economic coordination.

Interest in the role of trust and 'social capital' in economic development grew rapidly from the early 1990s. The work of Becattini and others on clusters of firms in Northern Italy emphasised the higher level of trust that could be sustained in such tightly knit networks (Becattini 1978; Pyke, Becattini et al. 1990). This work built on Marshall's (1920) idea of the externality-capturing 'industrial district', describing how enhanced trust could reduce enforcement costs and so facilitate credible commitments. Writers soon began to investigate how thinking about trust could add to understandings of economic development (Nadur and Schmitz 1994; Humphrey and Schmitz 1996). Some, notably Francis Fukuyama, cast trust as an explanatory variable with great potential for making existing accounts more complete:

We can think of neoclassical economics as being, say, eighty percent correct: it has uncovered important truths about the nature of money and markets because its fundamental model of rational, self-interested human behavior is correct about eighty percent of the time. But there is a missing twenty percent of human behavior about which neoclassical economics can give only a poor account. (Fukuyama 1995 p. 13)

The 'missing twenty percent' being substantially explained by variation in trust, he claims. Others have built measurement of trust into microeconomic studies. Dorothy McCormick applied the industrial clusters idea to concentrations of

modern-sector firms in African countries, finding some evidence of collective efficiency gains, including effects of higher trust (McCormick 1999). Murphy has studied the way that entrepreneurs in Tanzania can increase levels of trust by regular collaboration in networks (Murphy 2002). He found a strong association between this enhanced trust, information flows and innovation by businesses.

The emergence of 'social capital' as a significant theme is often located in the literature on economic growth as a logical next step after the addition of 'human capital' to the classical triad of labour, land and physical capital by Mincer, Becker and later Lucas in his large scale cross country regressions (Mincer 1958; Becker 1964; Lucas 1988). As with trust, the seminal applied study was set in Italy. In this work, Robert Putnam attributes the large divergence between the economic development paths of Northern and Southern Italy to differences in 'social capital' (Putnam 1993). Echoing Fukuyama's 'missing twenty percent', the concept was taken up by the World Bank in *Chapter 6, Social Capital: the missing link?*, of a major 1997 report on environmental indicators in development (Grootaert 1997). Another large scale application of the concept was the econometric work by Collier and Gunning for the World Bank under the title 'Explaining African Economic Performance' at the end of the decade (Collier and Gunning 1999). Reviewing the evidence of their own analysis alongside other published regression results, the authors found that 'social capital' accounted for over a third of Africa's comparative lag in economic performance compared with other regions, corresponding to a loss of up to 3 percent in annual growth over the period between 1960 and 1990.

Finding relatively high levels of 'social capital' in Tanzania, Putterman concluded hopefully that this successful by-product of Nyerere's nation-building policies might prove some compensation for the economic disaster of the *Ujamaa*¹ years (Putterman 1995). On a still smaller scale, Narayan and Pritchett attempted to transfer Putnam's methodology fairly directly to the Tanzanian context. In a widely cited study, they quantified levels of 'social capital' in 87 population clusters, finding that this accounted for at least as

¹ *Ujamaa*: family relationships, or 'African' socialism.

much variation in per-capita expenditure as variables such as asset ownership, education and gender (Narayan 1997; Narayan and Pritchett 1999).

Both trust and 'social capital' then, have been ascribed substantial causal power in a number of influential publications on economic development since the 1990s. But what exactly do writers mean when they use these terms?

Conceptualising 'Trust'

Unlike 'social capital', or even the two individual words of which this term is composed, the word 'trust' was very widely used in non-academic discourse long before large numbers of economists began to give it an important role in their analyses. During their attempts to regularise the grammar of this everyday term, a variety of distinctions have been drawn by different authors. These include: the scope of trusting behaviour, the question of whom is trusted, the basis for trust, and the origins of trust.

A useful distinction for Humphrey and Schmitz (Humphrey and Schmitz 1996) can be made between the 'minimal trust' required for simple economic exchange, and 'extended' trust which can facilitate more complex cooperation. In the former case, one might think of situations where a part payment can be made in advance for the purchase of raw materials, without the customer fearing that the supplier will cheat her. With extended trust, the sum of the multiple transaction costs of different kinds, arising at a variety of times and locations, associated with requirements such as monitoring or relationship specific investment may be lowered.

In considering whom is trusted a common distinction is made between the 'selective trust' placed in kin or other familiar associates and the more 'generalised trust' granted to members of society at large regardless of relationship. For example, researchers may describe interactions between family members or familiar business associates as relatively more trusting than those between individuals are not linked in any such way (Murphy 2003; Quarles van Uffor and Zaal 2004).

The 'whom' and the 'why' of trust are often seen as closely related. On the one hand, in the view of some authors, trust may be 'ascribed' because of the

identity of an individual; on the other, an individual could be trusted for 'process-based' reasons, supported by past experience (Humphrey and Schmitz 1996). The selective/generalised dichotomy is clearly relevant here, though it corresponds even more directly to the 'experience based' and 'moralistic' trust distinguished by Uslaner (2008). In fact, there is an interesting contrast between these conceptualisations. For Humphrey and Schmitz, trust not based upon experience is the more particular in scope, extended only to certain individuals with culturally determined relationships to the principal, primarily kin. According to Uslaner however, non experience-based trust is the wider category, applied to people in general rather than more familiar individuals, whom one can learn to trust by repeated interaction.

An alternative conceptualisation by Mick Moore (1999) helpfully combines the ideas of the identity of the trusted and the reasons for trust. In his example, we consider a prince P who wishes to deal with either the queen Q or the king K. Assuming that the two deals are otherwise very similar, the prince can be said to trust the queen more if he is prepared to risk more, or to spend less on monitoring the queen's fulfilment of its terms. Moore's important idea is to imagine that the two potential deals take place in two separate countries PQstan and PKstan respectively. In thinking about trust in the deal between P and Q, we then need to think about grounds P has for trust based on belief about (i) Q's character and (ii) the total set of incentives faced by Q to either fulfil the deal or cheat, represented by the nature of PQstan.

This seems an improvement on the 'ascribed/moralistic' – 'process/ earned' categories as a basis for trust. It is not clear on what other basis than previous experience trust can be granted. If trust is ascribed, for example, on the basis of a brother relationship as opposed to concrete experience of a particular brother's past actions, then this is surely founded upon a belief about the institution of brotherhood in this society. Yet such belief can only itself arise from experience of that society. These considerations lead in turn to further reflections on Moore's character- institution distinction. Suppose we replace P with a commoner C. Presumably much of C's judgement about Q's likely behaviour would rely on information transmitted through the institutions of

CQstan. Yet it would be difficult to exclude the influence of this information from our conceptualisation of C's judgement about Q's character. Failure to do this would leave us with the less neat schema where C's trust in Q depends on her judgement about Q's character, based partly on the functioning of CQstan, and on her perception of the functioning of CQstan itself. The clear remedy to this is to allow only direct sense-experience of past behaviour to count towards judgement about character. Unfortunately this is to seek salvation for our dichotomy by appeal to another already collapsed, as argued above. Besides, consider even one's ideas about the character of close relatives and friends. Could one recover a 'pure' experiential opinion by removing the influence of factors like rumour or indirect inference from interaction with mutual contacts? There seems little reason that the division between character and institutional context, subjectively perceived by an agent, should coincide with such a severe definition. Finally, if one takes Wittgenstein's (1953) description of the meaning of all information as socially determined, then even the direct-sense evidence of character is dependent on institutional functioning.

My point is not to deny the possible methodological advantages for empirical work of distinguishing trust based on character from that justified by incentive structures. Conceptually, however, I do feel that judgements about character could be viewed as concerning part of institutional structure. Then expectations about kin members, wider social networks, officials and the wider social context itself can be analysed as all reflecting belief about institutions at different scales. There remains though, an awkward core of recursivity here. This is because an essential element of the functioning of an institution, as discussed above, is precisely the way that it engenders beliefs about this very functioning. We could take for example, the case of a village authority attempting to negotiate higher crop prices from traders on behalf of local farmers as described by Lyon in Ghana (Lyon 2000b). Consider the trust of one farmer in the institution's function of holding prices up. The creation of this trust is itself a core part of the institutional functioning. Asking about levels and scope of trust may in the end add little that is not already implied by an enquiry into the nature and function of institutions.

Just as attention to the identity of the trusted can contribute to our thinking about the basis for trust, it is helpful to approach this question by considering how it influences behaviour. Economics has developed formal models of choice-making in situations where agents have an assessment of possibilities along with their respective probabilities. A very simple example might involve a farmer's decision about whether to deal with a buyer who could act honestly with probability p or cheat with probability $(1-p)$ (Humphrey and Schmitz 1996). If the farmer stands to gain G or to lose L depending on the honesty of the buyer, it seems reasonable to think that the farmer may choose to trade if she can expect to break even at least. That is if

$$G.p + L.(1-p) > 0 \quad 2.14$$

However, to say that the farmer 'trusts' the buyer in just the case where this kind of condition is satisfied seems rather to empty the idea of all the richer connotations of social institutions implied by the preceding discussion. Williamson's comment that 'calculative trust is a contradiction in terms' expresses this sense of inappropriate limitation (Williamson 1993). A more satisfactory usage is suggested by noting that the way agents form these assessments of possibilities and probabilities is not explained within the models. Perhaps trust can be seen as supporting this process, transforming uncertainty into risk? As Humphrey and Schmitz suggest, in terms of the simple model above, trust helps form the estimate of p . This is closer to Luhmann's definition of trust as indifference to certain types of uncertainty based on past experience (Luhmann 1979). It also preserves the option of a strictly rational account of behaviour in the face of equation 2.1 type situations, even as the role of rationality in the institutional or cultural framing of such decisions is opened up for exploration. This seems to me a more promising response to the apparent paradoxes inherent in a rational account of trust than the alternative approach suggested by Hollis (1998) of redefining 'reason' itself to include social and psychological processes beyond the purely rational.

Successful negotiation of complex and uncertain contexts surely depends on our entire apparatus of social cognition, that is, our understanding of social structure and function. 'Trust' could, then, be used to indicate the emergence of

risk estimation from this process. Seeking the determinants of trust conceived in this way leads to the question: 'what is the individual's understanding of the social context for this transaction?'. Other terms associated with 'trust' are 'confidence', 'culture', 'habit': these all share with trust some sense of guiding expectations about future behaviour. However, in this sequence they have progressively less to do with exposure to the opportunistic behaviour of others and more to do with economising on calculation. Both elements feature in the exercise of trust: fear of opportunism is reduced by familiarity with the way the broader context works, assuring the agent that her partner will perceive the gains from cooperation as attractive, even if the gains in some finitely defined economic sense are greater from cheating. This de-atomizing effect is only possible where both parties believe in certain continuities in social context, meaning that the benefits of cooperation are not fully captured in 'the price of this transaction'.

A recent contribution on the function of trust can serve here to integrate some of the above points, as well as introducing some approaches to thinking about the origins of trust. For Arai, a person A trusts a person B if A expects that B will do i) as B said they would do or ii) what is prescribed by social norms if B did not say what they would do (Arai 2007). This definition captures the importance of the particular context in which trusting behaviour occurs, of the way that expectations are formed, of social institutions whose rules may affect B's behaviour towards A, of how the particular identities of A and B may or may not be relevant to this influence, and of the degree to which these rules need to be thought of as norms in the sense described above of exceeding purely rational interpretation.

Regarding the origins of trust, the pointers provided by Arai's definition are clear. The second part leads us to expect that the development of trusting behaviour within a society is intimately related to that of the society's institutional structure and functioning (Beugelsdijk 2006). Having started with the existing usage of 'trust' in language, we find that the first part of Arai's definition brings our search for greater precision back to the question of language. How does B communicate in a way that generates commitment? For

Hanfling, the solution lies in the nature of language itself. He argues that human society could not exist without a language which allows individuals to express what they intend to do (Hanfling 2008). Furthermore, the way in which children learn language, as well as the fact that anyone who continually spoke falsehoods with no apparent justification would be considered 'unintelligible' (op. cit. p. 165), make it reasonable to expect that most speakers speak the truth unless they have good reason not to. When we apply this to any statements with implications for future behaviour this means that it is reasonable, most of the time, to trust people.

It seems to me that this argument of Hanfling has strength. It fills out, for one thing, the account of how children may learn to trust in the generalised, 'moralistic' way described by Uslaner (2008). However, while Hanfling sees his perspective as standing in opposition to an 'institutional' account of trust (Hanfling 2008 p. 174), I think that the most valuable insights may lie where the two parts of Arai's definition interact. It is perhaps surprising, in fact, for someone who cites Wittgenstein himself (Hanfling 2008 p. 165), that Hanfling argues so strongly against the idea of rules and game-playing as ways of understanding the basis of trust in language. In thinking about how actors can trust each other based both upon what they say and upon relevant institutional rules or norms we attend, surely, to the most important questions in the coordination of economic activity considered in this chapter. We have the making of commitments, or 'contracts', alongside the means by which compliance is motivated by institutions. In the institutional influences upon language we can see how these institutions affect the contractual forms available to actors wishing to make commitments. Finally, by looking at when trust is provided by norm-based behaviour rather than by specific commitments, we see how social institutions can resolve the difficulties that arise when contracts are incomplete (Arai 2007 p. 228).

'Social Capital' and Networks

While 'trust' arrived in academic discourse with a long history of less formal use, the term 'social capital' represents the further extension of a central economic concept, 'capital', to which the idea of 'human capital' had already

been added. The metaphorical nature of this extension is clear in one of the earliest occurrences of the new term, in the work of Pierre Bourdieu, where it features alongside 'symbolic capital' and 'cultural capital' (Bourdieu 1977). By the time this term arrived in a much cited 1999 article on economic development, five 'capitals' could be discerned: 'produced, human, natural, social and cultural' (Bebbington 1999 p. 2022). 'Cultural capital' could itself be differentiated into a variety of types, associated with religion, generation, education, politics and location, as exemplified in the work of Pekka Seppälä on South-East Tanzania (Seppälä 1996).

'Social capital' became frequently used coinage in development related discourse following Putnam's influential work on Italy (Putnam 1993). Unfortunately, 'frequent' coinage does not quite imply 'common' currency. As the 'social capital' literature on development grew, the term was used in a number of different ways, consistent with a variety of explicit or implicit conceptualisations. Within a single issue of the *Annals of the American Academy of Political and Social Scientists*, for example, the standard Putnam idea of social capital in terms of associations in 'civil society' can be found along with 'a set of moral resources' (Smidt 1999) and reference to social capital as something additional to intermediate associations (Robey 1999). Although Woolcock's fairly comprehensive typology of uses was cited and followed by many subsequent writers (Woolcock 1998), especially in distinguishing 'bonding' from 'bridging' forms of 'social capital', a consistent usage of the term was far from emerging ten years later (Mladovsky and Mossialos 2008).

The most consistent element in this otherwise diverse history of conceptualisations is yet another metaphor, that of the social 'network'. Three years before Putnam set off the wave of interest in 'social capital', Coleman defined the concept with reference to explicitly mapped networks of connected individuals (Coleman 1990). Putnam himself described how 'social capital' comprising voluntaristic associations had its beneficial effects by creating denser horizontal links, in contrast to the vertical links predominant where social order is cast around relationships of patronage between ordinary citizens

and those with more influence (Putnam 1993). Invocation of networks has continued to feature centrally in work on 'social capital' ever since (Mladovsky and Mossialos 2008; Son and Lin 2008).

One reason for this popularity of networks in the literature is possibly the purchase it affords to those wishing to quantify an otherwise elusive concept. Coleman and subsequent writers have theorised 'social capital' in terms of resources existing in, or accessible through, networks, rather than identifying it with those networks themselves. However, much work in the measurement of 'social capital' has focused on quantifiable aspects of the structure of those networks. There are a number of different measures that can be used for this purpose. Among these are the size of an individual's network; the density of a network, indicated by the percentage of individuals with direct links; the centrality of an individual, captured either by their number of direct links or their average distance from other network members; as well as more complex indices that try to rate the connectivity or cohesiveness of networks (Wasserman and Faust 1994). Ronald Burt measured the 'social capital' of an individual in terms of 'structural holes', the degree to which that individual was linked to other actors who themselves were not otherwise linked (Burt 1992). Unfortunately, all of these measures require complete knowledge of the network concerned for exact implementation. As it is of course extremely difficult indeed, if at all possible, to obtain this information in most research situations, this means that considerable simplification or the use of proxy indicators is needed. Sometimes data on networks are gathered with careful attention to these methodological questions (Fafchamps and Gubert 2007). However, proxy indicators of 'social capital' are often taken to stand for some aspect of underlying social structure with little detailed theoretical justification (Fine 1999). There are cases where the abstraction from detail, although great, appears to have some degree of plausibility, as when ethnic and linguistic diversity is used as an indicator of social cohesiveness (Collier and Gunning 1999). Other leaps seem more fanciful, such as a paper by Wahba and Zenou which constructs a detailed theoretical model of job search behaviour in terms of social network size, then proxies this latter by using figures for population density (Wahba and Zenou 2005).

Apart from the severe challenge of gathering rich data on actual social networks, another problem with quantifying 'social capital' is the lack of consistency in using the term to refer to a property of individuals, of whole social groups or both (Harriss and De Renzio 1997; Mladovsky and Mossialos 2008). The same difficulty confronts the measurement of trust: some authors talk of individuals being of 'trustworthy' type (Ahn and Esarey 2008), others of trust existing within specific relationships or networks (Murphy 2002; Bohnet and Huck 2004) and others of trust as a feature of whole societies (Chan 2007).

A related difficulty is the question of whether 'social capital' and trust are always desirable. Could there be 'bad' forms of these phenomena, or instances that are good or bad for different individuals or groups? A well known example is the work by Gambetta on the Sicilian Mafia where he writes that *'one can trust others and be trusted by them, only to the extent that trust is subtracted from somewhere else; more trust on one side means less on the other'* (Gambetta 1988 pp. 165-6). Similarly, 'social capital' may have a 'dark side' (Putzel 1997) if the properties of society which the term is supposed to represent have negative effects on some individuals or groups (Gargiulo and Benassi 1997; Schulman and Anderson 1999; Arneil 2006; Grischow 2008). For these reasons, 'social capital' discourse has been criticised for a tendency to treat societies as homogenous communities and concomitant failure to engage with areas of contestation or political activity (Cleaver 2005; Das 2005; Meagher 2006).

Given the number of serious shortcomings which have been pointed out in both the theoretical basis and empirical application of 'social capital' as a concept, it is perhaps surprising that it has retained such currency in some sections of the literature, very little of which devotes serious attention to these shortcomings (Falk and Kirkpatrick 2000). The World Bank produces a 'toolkit' for measuring 'social capital' (Grootaert and van Bastelaer 2002) and there is a busy internet gateway devoted to the topic (Sabatini 2008a). However, it is interesting to note that in the section on measurement methodology of this website, the third 'essential reading' is actually a fairly damning critique of several core works in

the claimed empirical basis for 'social capital' as an explanatory concept (Durlauf 2002; Sabatini 2008b)¹.

Some might argue that the abstraction from contentious or political questions may seem an attractive way of incorporating social factors into the analysis of economic development problems for those who are accustomed to viewing these as technical questions (Ferguson 1994; Fine 1999). Another factor may be the appeal of strong visual imagery such as Putnam's vertical 'Maypole' links or social network diagrams (Podolny 2003). Certainly it seems to me the idea of networks has advantages. One is that the specificity of the location of individuals within a network can express the importance both of the identities of transacting partners and of the role of social institutions in supporting these identities. Another relates to a concern with which this thesis begins, the tension between rigidity and change. A social network is antithetical to the idea of social change: its basic building block, the idea of a link between two individuals, depends upon the idea of reciprocity, that patterns of interaction between pairs of people have some tendency to persist over time (Dohmen, Falk et al. 2008). If existing social networks are interpreted as resisting change, one account of how market coordination grows in economic development might foresee the breaking up of networks, the efficiency gains of markets requiring individuals to have freedom of action. However, as discussed throughout this chapter, such a view is over-simplistic. For markets to work well, constraints as well as freedoms are necessary. A developed market economy is actually a balance between rigidity and liquidity; clearly defined sets of changes are permitted, for example in the ownership of certain items or in long-term insurance obligations, without calling the stability of other existing relationships into question. In these terms the idea of networks may be of at least intuitive use in thinking about where rigidity and liquidity lie in an economy, and about the problem of accumulating individuals who wish to introduce a little more liquidity without losing the solid support needed for their market transactions or longer term security needs.

¹ The article by Durlauf on the site is actually a draft for the version cited which appeared in the *Economic Journal*.

This said, it seems to me that there are also theoretical and methodological problems with use of the networks metaphor. May it not focus excessive attention on structure at the expense of leaving the nature and diversity of links themselves unexamined? One would not attempt to analyse an electrical network whilst ignoring differences in resistance between the various wires. Detailed and interesting work is being done on the theory of social networks (Moody and White 2003) but this seems largely outside of 'social capital' enquiry.

Both trust and 'social capital' are characterised by diverse theoretical understandings in the literature. However, while the differences between accounts of trust often serve to bring out important ideas, the theoretical vagueness of 'social capital' seems to me too great for the term to be helpful in applied work. I make no further use of it in the remaining chapters of this thesis.

It is of course not my position that 'social capital', whatever it may be, is of no importance to economic development. The problem is that the converse of this: "the degree to which any and all features of society not conventionally thought of as having a role in 'the economy' militate for more or less successful economic outcomes is well worth paying attention to if we wish to better understand how 'the economy' works", is so bland and self-evident as to offer little prospect of insight. Greater analytical purchase, it seems to me, is offered by detailed examination of factors such as institutions, norms and identity.

2.8 Chapter Conclusion

2.8.1 Analytical Concepts from the Literature

This chapter has reviewed the literature on market development, emphasising the choice theoretic perspectives characteristic of economics. The second section showed the importance of markets in writing on developing economies and considered some of the questions that have been asked about how markets are actually created and sustained¹. This following sections have

¹ Appendix 1 sets the case for my concentration on private sector accumulation, to a large extent outside of agriculture, by entrepreneurs and their micro-enterprises in the study area, in the context of the literature on economic development.

presented the most important themes in the literature on market foundations. A number of the concepts discussed in this 'concentric' examination of market development theory are applied in the analysis of research findings below.

3 Research Approach and Methodology

3.1 Introduction

3.1.1 Research Approach and Data Collection Methods

This chapter deals with the methods used in the study to address the thesis research questions. The aim is to present and explain the reasons for choosing the overall approach adopted and the particular data generation methodology employed. The first section of Chapter 2 sought to locate this study within the context of wider debates about the private sector in developing economies¹. Subsequent sections of that chapter laid out the main theoretical resources used in the attempt to analyse this sector in the study area and answer the research questions.

The research approach of this thesis can best be described as analytic narrative. This approach, which is described more fully below, is complimented by quantitative analysis and ethnographic interpretation. Both survey and interview methods of data generation, along with participant observation and secondary data sources are used.

3.1.2 Chapter Overview

The remainder of the chapter is organised as follows. In the next section the research approach is presented in detail. First the relationship between the research questions, the analytical approaches used and the data requirements of the study are discussed, including the important question of the extent to which evidence can be obtained of change over time. Next, the implications of these data requirements for the choice of data generation methods is examined. Having considered these points, the research approach itself is then described and the reasons for its selection given. After this, some important methodological questions relating to the use of data generation instruments and the interpretation of data obtained are discussed. In the final part of this section the use of choice theoretic reasoning and game theory is explained and justified.

¹ Justification for a focus on rural non-farm microenterprises in particular is discussed in Appendix 1.

The third section of the chapter describes in detail the methods actually used to obtain data. The four parts of this section deal respectively with household surveys, semi-structured interviews, participant observation and secondary data sources.

3.2 Research Approach

3.2.1 Questions, Theories and Data

The selection of theoretical ideas has implications for the operationalisation of research questions and the evidence that had to be obtained by the study in order to address them. To help organise the discussion of these implications Table 3.1 shows how particular empirical questions arise from different aspects of the research questions for each of the main analytical concepts. These combinations will be discussed first, followed by consideration of some cross-cutting questions. The order followed here is to consider the first five empirical questions for each analytical concept in turn, then the final question of strategy separately. In other words the table is discussed column by column except for the final row, which is dealt with last.

	Transactions	Property Rights	Contract	Institutions
Rural NFAs	activities undertaken	assets involved, cash handling	distance, delay in transactions	rural-urban links
Market and Embedded Coordination	activity details, who involved	how property rights protected	agreements and social rules, incomplete contracts	agreement enforcement, social rule enforcement, residual rights
Employment	when and why used	employee theft	implicit contracts	obligation to employee
Asset Buffers	help given and received, 'transfers'	accumulated asset protection	insurance and assurance	life history and plans, start up capital
Formal Institutions	interactions with officials	dispute system and cases	formal contract enforcement	regulation, taxation structure, rules
Individual Strategy	repeated transactions, information exchange	how enforced	contracts made and how enforced	roles and compliance, geneology, education, assets

Table 3.1 Joint Implications of Research Questions and Analytical Concepts for Data Needed

The study focus on rural non-farm activities means that to understand the range of transactions that are involved it was first necessary to find out the types of non-farm activity which are carried out by accumulating individuals.

Central to the thesis is the idea that economic activity of all but the most rudimentary kind involves coordinated action by more than one person and that increasingly sophisticated coordination is important for economic development. The research questions are concerned with two methods to achieve this coordination, respectively described as market coordination and embedded coordination. To begin the analysis of coordination at the level of transactions evidence was needed on the details of each activity. This enabled the

enumeration of transactions involved so that data on participants and goods or services exchanged in each case could be obtained. Another research question concerns employment which involves a particular set of transactions on which data were also collected.

Asset buffers were conceptualised in the opening chapter as the means by which an individual can obtain resources in the event of misfortune, such as crop failure or illness, or when income earning becomes harder in old age. Such buffers were divided between 'individual asset buffers' in the form of money and other stores of value under their direct control, and 'social asset buffers' in the form of an individual's prospects of assistance from other people. The question of whether and when the provision of goods or services by one individual to another without an explicit agreement for reciprocal provision can be seen as associated with the ex-ante accumulation or ex-post drawing upon of a social asset buffer was moot. Data on instances of such provision were needed to help decide whether they can indeed be better understood as 'transactions' rather than 'transfers'.

Transactions with formal institutions included actions such as payment of taxes, obtaining licences or payment of rent for premises. Data on such interaction with representatives of the formal institution were thus collected.

In order to examine the relevance of property rights for particular non-farm activity, information on the fixed and consumable assets involved in each activity was needed. In particular, the requirements for exchanging, transporting and storing money had to be considered. Then, however the involvement of other people with the activity was coordinated, evidence was sought on the way in which these assets were protected against appropriation. In particular, data on any risk to assets arising from employee misconduct were gathered. Next, if property rights analysis is applied to asset buffer accumulation there is a need to know how the resources built up to form an individual asset buffer are protected. Clearly, to understand how formal institutions contribute to property rights information both on how the formal system was supposed to act and data on judgements actually made were needed.

Turning to the analysis of contracts, each different economic activity necessitates more or less complex transactions. This complexity can be in the form of delay or distance between the actions on one side of a transaction and the other. An activity may also require transactions where multiple actions on both sides succeed each other over time. Information on the incidence of such less simple transactions indicates the 'work' which needs to be done by the contract between parties if all required actions are to be completed.

An individual wishing to coordinate economic activity needs to reach agreements with others on what is to be done, so evidence was required on such agreements in order to analyse coordination methods using the idea of contracts. Data were sought in particular on two areas of special interest relating to the distinction between market and embedded coordination. Firstly, how are the deliberate agreements that individuals seek to make affected by any pre-existing social rules that apply to their relationship. Secondly, the extent to which such deliberately made agreements are sometimes incomplete in the sense of Hart (1995 see Subsection 2.5.2). Further, and especially in the case of employment, evidence was sought on whether deliberate agreements could be understood as creating an implicit contract of obligations beyond the terms of the agreement.

To analyse social asset buffers in terms of contracts necessitates an assessment of the evidence on whether individuals view their prospects of help to be received from other people in the eventuality of misfortune or old age as a transfer or part of a transaction. In the former case such contracts can be described as insurance or assurance contracts. Lastly, data were needed on the formal contract enforcement system and how it was viewed.

As discussed in the review of literature, the highest level of generality within the 'concentric' typology of concepts presented in that chapter which is extensively used in the analysis of study data below is the institution. As also noted in the same chapter, the view of institution in this thesis places more emphasis on role differentiation than is normal in the literature. In applying institutional analysis to rural non-farm activities the importance of two such differences clearly had to be considered: the distinction between those engaged and not

engaged primarily in farming, and the distinction between those resident in the village and those living in urban areas.

Evidence was needed on a number of institutional effects on coordination. Firstly the role of institutions in enforcing agreements. This overlaps with the formal enforcement institutions mentioned already but is broader as it includes enforcement by other social institutions such as religion or kinship. A distinction that is very important in the analysis of Chapters 5 and 6 is between the role of social institutions in enforcing their own rules and their role in enforcing the terms of deliberately made agreements. Evidence obtained here is clearly relevant to the questions of whether contracts are sometimes incomplete and the allocation of residual rights in such cases. Where employment was concerned, data were sought to help understand what obligations the existence of institutional rules might impose on those entering employment contracts.

If institutional analysis is to help explain the way that individuals attempt to construct a social asset buffer, this involves understanding how institutional rules can relate actions by the individual over a long period of time to expectations of behaviour on the part of others at some uncertain times in the future. Data were needed then on events that happened over such a long period of time in the past and about currently held expectations for the future. As one possible source of initial capital for accumulating individuals was social institutions, data on such past provision were also sought.

Finally details on the rules and structure of formal institutions were needed, as well as their involvement with accumulating activity through tax collection, regulation and other effects.

Now we consider the data that needed to be obtained in order to analyse the strategy of individuals. While many of the areas already considered may also be subject to choices by accumulating individuals, here we deal with points that are more clearly strategic. Chapter 2 discussed the possibility of two forms of pressure that individuals can put on their partners in transactions to ensure that they carry out the required actions. One is to use the threat of not engaging in any future transactions with the same partner. The other is to spread news about any defaulter to other potential future partners who may also then decline

to deal with them. Evidence was obtained on the use of such potential sanctions as enforcement threats in the study area.

Data were sought on how individuals choose to enforce their property rights and the contracts that they enter into with others during their coordination of economic activity. Evidence on strategy also included the choice of contracts: what kind of agreements to make with whom.

The last cell of the table concerns the institutional aspects of individual strategy. There are many of these, as is laid out more fully in the analysis in Chapters 4 to 6 below. Here I note that data were needed on: the roles of the individual and of others with whom they transact in relevant social institutions; the record of compliance of the individual and others with the rules of such institutions; and certain characteristics of the individual and others that affect their engagement in economic activity such as wealth and education. In particular, given the anticipated importance of kinship, data were needed on the role of individuals and other kin members within this informal institution; that is to say, knowledge of the local family genealogy of accumulating individuals was needed.

Before discussing the methodological implications of these data requirements, other considerations that emerge from cross-cutting questions must be added. Of these, four are associated with the research questions. The first is a general problem facing attempts to obtain data on rural non-farm activities. Because these microenterprises, though usually registered and subject to some regulation, have many characteristics of the informal sector, there may be a disinclination to disclose details of their operations to outsiders. This is the problem of 'researching the hidden' (King and McGrath 1999 see Appendix 1). The next is a question on which evidence was required: to what extent could market and embedded coordination be combined? This relates to Williamson's argument on the difficulty of replicating market conditions within the non-market structure of a firm discussed in Subsection 2.3.1 above. The third is that any effort to understand asset buffer accumulation must take into account evidence on long term strategy.

The fourth cross-cutting question is possibly the most challenging. This is the fact that the first three research questions are explicitly concerned with dynamic change and the fifth at least implicitly so. The limitations of the current study, carried out during a single year, in producing data on change over time must be acknowledged. Clearly it is not possible to obtain evidence that any phenomenon of interest has changed in the much more rigorous way that repeated observations more widely separated in time would allow. What evidence can be attested to show that change has happened must rely on three weaker comparisons: firstly, with what is revealed by literature and other secondary data sources about earlier conditions; secondly, with informants' own accounts of earlier conditions, for example in narrative interviews about business or life histories; and thirdly, with my own first hand observation of the study area while resident there from 1993 to 1995. This problem of showing change over time is returned to in the discussion of findings on the research questions in Chapter 7.

Finally there are data requirements implicit in the use of some analytical concepts, mainly that of institutions. Plainly, all social institutions that influence the activities of accumulating individuals need to be identified. Evidence on their rules and how these are enforced is required. Chapter 2 considered at length different possible ways that the rules of institutions can be enforced and how they can change over time. Some of these involved expectations and beliefs influenced by past events, previous institutional rules, other institutions or more general influences such as history or culture. For example, culture could influence a focal point equilibrium. Because of these considerations, in order to understand the interaction of local institutional rules and accumulation strategies it was necessary to obtain relevant data on historical events, politics, culture, ideology and social norms.

3.2.2 Instruments and Samples

Although the range of empirical and theoretical questions raised both in the above account of data needs and the preceding chapters suggests a rather general interdisciplinary research approach, it has also been stated that the primary perspective of this study is economic. The role of data gathering in an

economic analysis of the research questions however would typically be within an approach organised along the lines of

1. identification and statement of problem
2. theoretical analysis of problem
3. formulation of hypotheses or a model
4. operationalisation of concepts and gathering of quantitative data
5. statistical testing and interpretation of results.

The requirements outlined above have a number of characteristics that prevent most of the data gathering for this study from fitting into such a role. This is one reason why this kind of standard applied economic analysis was not adopted. The selection of research approach is discussed in the next part of this section. First the implications of the study's data requirements for the way data were gathered are considered.

By taking the major empirical elements of the research questions and the four levels of conceptual analysis to be used in turn, the discussion above attempted to give a systematic account of data needs. For two reasons, this did not result in a list of well defined quantitative variables for which observed values could be sought during the study period.

Firstly, many of the data requirements identified in Table 3.1 and the following discussion remain more indicative than precise. For example, what exactly needs to be known about the details of rural non-farm activities is not specified as it depended upon what kind of things those details actually were, which depended in turn upon which rural non-farm activities were found to take place in the study area. The likely importance of many such 'partially unknown unknowns' meant that not all of the needed data could be generated by the use of predetermined questions, in particular ruling out sole reliance on survey methods.

Secondly, even where the data needed could be clearly identified, the nature of these 'known unknowns' is frequently such that attempting to operationalise them in terms of quantitative variables was not an appropriate data generation strategy for several reasons. The most straight-forward is that some items could not be adequately asked about using closed questions. For example, the

social rules associated with a particular institution or the events of an individual's life history. Such data cannot be reduced even to the nominal level of quantification without very significant loss of information as it is clearly impracticable to provide sufficient possible response values to cover the likely degree of variation among individuals. Going further, information is always lost whenever a coded representation replaces the actual language used by a respondent. Given that much of the analysis was expected to turn on questions of how agreements are understood and social roles interpreted, this information appeared too valuable to forgo.

As will be argued in the discussion of conduct and interpretation below, data validity was another advantage of choosing to generate much of the study data by interview rather than survey. In general this was because interviews allow open ended rather than closed questions. In particular, the different affective character and greater flexibility of an interview setting was more suited to the sensitivity of some data.

For these two reasons then, most of the data requirements were better addressed by open ended interview questions rather than closed and quantifiable survey questions. As well as the choice of instrument however, the data requirements of the study had implications for sample selection. The primary focus being on those individuals who were successfully accumulating through their microenterprises, it was critical that such people were well represented amongst respondents selected. Given the size of the study area population it was feasible to attempt the inclusion of all more successful entrepreneurs. In the absence of both any *a priori* criteria for stratification of entrepreneurs and a suitably detailed sampling frame, any attempt at random selection either from the general population or from among those involved in business would have risked excluding valuable types.

A related reason for not selecting a random sample was the importance of the relationship between interviewee and researcher, the way in which the former was approached, the establishment of a meaningful context for the interaction and the maintenance of trust. These points relating to interview conduct are expanded upon later in this section. Here I mention another reason for using

purposive selection. This is that some important business activities were less visible than others¹; some individuals who were involved in these activities were in fact only identified as such and approached for interview because of information obtained from other informants.

Most of the discussion so far in this section has related to the bulk of detailed information sought on the central questions relating to the accumulation strategies of entrepreneurs. Given the institutional emphasis of the proposed analysis and the central interest in coordination of activity with others however, it was also necessary to gather data from individuals other than entrepreneurs. As well as helping to situate the business people within the local population, a wider data gathering exercise could also assist future comparison of the study area with other locations. With 242 households, a total census of the study area was feasible to generate data on asset holdings, education, religion and household demographics. Given the anticipated importance of kinship relations, this exercise also sought quite extensive genealogical data.

Further consideration is given to the methodological considerations of obtaining and interpreting data from selected respondents later in this section. The last section of the chapter presents practical details of how each chosen instrument was designed and applied. In concluding the present consideration of how the study data requirements affected the selection of instruments and sample methods, a final point remains to be noted however. The fact that many of the required data items identified above are not readily operationalisable as quantitative variables could be described as a consequence of the research approach selected. The sequencing of this discussion of data needs before the presentation of the research approach below might therefore be objected to. The justification for this sequencing is that the selection of the research approach was partly determined by the nature of the data that needed to be gathered. That is, although the study of secondary empirical and theoretical literature enabled the framing of questions and the identification of broad analytical concepts to be used, the theoretical interpretation that was to be applied remained incomplete before data were actually generated. More

¹ Market intermediation, money lending and timber trading. See Chapter 5 for details of these activities.

precise definition of concepts and the links between them only emerged inductively from the process of data analysis. The rationale and antecedents of this approach to applied economic analysis are dealt with in the following part of this chapter.

3.2.3 Analytic Narrative

The choice of research approach for this study was constrained by two related factors that were observed in the above consideration of data needs. One is that the nature of what had to be found out meant a large role for the collection of qualitative data from interviews with purposefully selected subjects. The other is that as theoretical concepts and relationships were developed after examination of the collected data, it was not possible in advance and with precision to specify all the data that would be required.

One possible approach in such a situation is to use statistical tests and charts common in applied economic approaches to analyse the quantitative data collected and the more discursive approach typical of other social sciences to analyse the qualitative interview data. This mixed approach is not without merit and is in fact adopted in part here. However, there are also drawbacks to be considered. In general such an approach risks a failure to integrate the qualitative and quantitative analysis. In the particular case of this study there is an objection that seems even more serious. As has been explained, the main focus of the analysis was to be economic. If the approach taken to analysing the most important part of the study data had to be non-economic, how could this focus be achieved?

In 1998 a group of economists and political scientists, including two whose other works are among those that played an important part in the framing of this study, published the book *Analytic Narratives* (Bates, Greif et al. 1998). By presenting a set of five essays on topics ranging from Medieval Genoa to the International Coffee Organisation in 1962-72, the authors attempted to show how the analysis of in depth case study data could be helpfully combined with the use and development of formal theory. The book did not claim that this approach was new but rather aimed to identify a method already used by many

writers and stimulate greater standardisation of its practice. An ‘analytic narrative’ approach has since been consciously adopted by writers in a number of fields, including economics and development studies. For example, Beaulier and Subrick used the approach to explain why Botswana has escaped the natural resource ‘curse’ which has affected so many other African states such as Angola, Sierra Leone and Nigeria (2007); Carvalho gives reasons for a revival in Islam since the 1970s (2009); and Hooper shows why residents of the Kurasini suburb in Dar es Salaam took part in costly collective action to resist a government programme of demolition and eviction (2008).

As described by the authors of *Analytic Narratives*, the approach is typified by a number of characteristics. There is always attention to institutions and to individual choice within the constraints imposed by institutions, giving an emphasis on strategic behaviour. In terms of formal analysis, the ideas of New Institutional Economics are important such as information and transaction costs. In particular, there is frequent use of game theory to model strategic choice situations. The approach aims to give an explanation of the rich data obtained by making clear the causal relations which link the choices of actors and their outcomes. In addition, the use of institutional analysis can help understand, it is claimed, the interplay between causality on micro and macro scales. For example, the macro-macro path of causality illustrated by “Coleman’s boat” (McClelland 1961; Coleman 1990; Barbera 2006) can be explained: an institution may influence the incentives of multiple individuals, whose aggregated responses then affect the way another institution functions. Another advantage is associated with the use of game theory. With the clear treatment of sequencing this necessitates, the approach is well suited to analysing processes that take place over time. This may help understand path dependence and why institutional equilibria can change.

In general the stages of an analytic narrative as described by one of the co-authors of the book are as follows (Levi 2004).

1. identification and statement of puzzle
2. gathering and examination of qualitative and quantitative data
3. refinement of concepts and development of model

4. analysis of model
5. evaluation of model as explanation of puzzle

In the view of the same author

As an approach, analytic narrative is most attractive to scholars who seek to evaluate the strength of parsimonious causal mechanisms. The requirement of explicit formal theorizing (or at least theory that could be formalized even if it is not) compels scholars to make causal statements and to identify a small number of variables. (Levi 2004 p. 11)

The stages given above have been presented in this form in part to assist comparison with the stages in 'typical' applied economic analysis as described in the previous part of this section. However, despite the linear format shown here, it is important to note that in the analytic narrative process the development of theoretical models is inductive, with possible iteration of stages 2-4. Putting stress on the importance of rich and detailed data, the authors of the *Analytic Narratives* state in a subsequent defence of their approach: *We seek not only to bring theory to bear upon data but also to bring data to bear upon theory* (Bates, Greif et al. 2000 p. 698).

The analytic narrative approach has not been without its critics. The abstraction from detail necessary in formal modelling was criticised by Jon Elster (2000) for unrealism. In the same defence just cited the five proponents made what appears to me to be the standard Friedman (1953) response: they *employed models to explain, not to describe* (p.699). That is, the test of the model is the degree to which it successfully predicts outcomes, not the realism of its components. A positivist disposition is not essential to appreciate that this response has weight. However, the warning in an appraisal by James Mahoney that is otherwise generally supportive is nevertheless worthy of note. He worries that by forming abstractions that closely match a particular situation, writers of analytical narrative may not only fail to capture all the details of that case but also produce concepts that cannot be applied to others, so ending up with the worst of both worlds (Mahoney 2000 p. 89).

Just as the objection of unrealism has been made of formal methods well beyond the analytic narrative approach, another critique of the approach which reflects wider debates is its assumption of rational choice. For example, John

Schiemann caricatures what he sees as the use in analytic narrative of 'bizarre beliefs and rational choices' (Schiemann 2008). Schiemann does however continue with an attempt to show how the approach can be improved using models of subjective probability based on cognitive psychology. In fact although the original authors do use standard rational choice theory, they explicitly state in their 2000 article that more sophisticated models of choice can be used as they are developed, including forms of bounded rationality or prospect theory (Bates, Greif et al. 2000).

As well as questioning the usefulness of formalism itself, Daniel Carpenter suggests that the *Analytic Narrative* authors produce models that are too deterministic in generally having only one equilibrium, so only describing periods of stability rather than accounting for change (Carpenter 2000).

A question raised by all those who both advocate and criticise the analytic narrative approach corresponds to stage 5 in the sequence shown above; how to evaluate the models developed from the data. Levi suggests several criteria: clearly, models must be logically consistent; they must offer a better account of the puzzle being studied than other possible explanations; the models should be applicable to other situations without excessive modification, what Levi describes as 'portability'; and the models should be able to generate out of case predictions (Levi 2004). There are differences among the proponents of analytic narrative, as well as between that group and the critics, about the criteria and importance of generalisation. It seems important to note, however, that this problem of assessing the wider validity of results is a difficulty that affects all case study approaches, not only those involving analytic narrative. In many contexts, the 'gold standard' of statistical hypothesis testing may not be possible because of the nature of the questions being asked and the data needed to answer them. Any enhancement of result generalisability that is obtained by the attempt to explicitly model institutions and choices with formal techniques may represent a net gain in such situations.

The research approach of this thesis has many features in common with that of analytical narrative as described above. Rich contextual data on local history, politics and culture is used alongside qualitative and quantitative data from

interviewees and household survey. A formal model is used in order to try and show the constraints placed on accumulating individuals by social institutions and the strategies adopted in response. Consideration is given to alternative explanations in order to assess the usefulness of this analysis.

As already stated, emphasis is given to rational choice interpretations of behaviour, although the view of rationality is extended to include risk aversion and imperfect information. Unlike the games in the original set of essays criticised by Carpenter for being single-equilibrium, deterministic models, the games involved in this study normally have multiple possible equilibria. This both contributes to the analysis of different strategy choices by actors and to the understanding of how institutions may change in time.

The approach here is not a 'pure' analytic narrative however. Not all analysis of the data is formalised and there is much plain language discussion of findings. On the other hand some quantitative data analysis is applied to the survey results. This mixed methodology reflects my own view on the value and limitations of formalism in social science enquiry. If the imposition of ideal categories and the selective omission of detail can make models appear to be built on very questionable assumptions, as noted in Subsection 2.6.3 already, this exposure of assumptions to scrutiny is not in itself a drawback. It seems to me that the assumptions underlying non-formalised arguments cannot be held to be necessarily stronger simply because they are harder to identify. For a case study approach a convincing analysis of causality within the case is especially important in order to support the out of sample validity of findings, where this cannot be given by statistical means. The use of formalism aims to give such an account of causality within the case and further enhances 'portability'. On the other hand, if statistical inference cannot be used, the Friedman defence of unrealistic assumptions is surely much weaker. In such cases the loss of detail associated with formalisation may well give more cause for concern. As Anna Alexandrova puts it however, the need to decide whether 'de-idealization' of the unrealistic assumptions would affect the formal analysis is often not possible because this would reintroduce precisely the complexity of detail whose intractability the assumption was designed to overcome

(Alexandrova 2009). Her suggestion is that mathematical abstractions made from detailed narrative data are best treated as what she calls ‘open formulae’. These only provide ‘a *template* or a *schema*, or a *recipe* for a causal claim’ (Alexandrova 2009 p. 16 emphasis in original); following formal analysis, the account of causal relationships should be expressed in normal language without abstraction from realistic details and then confirmed by finding instances of such causality in the data. This to and fro between formalism and normal language describes well the approach taken here. Functional representations of relationships and game theory analysis of strategic choice are used in an attempt to make assumptions clear and identify the most important causal connections. They are not intended to compel belief in the explanations found; these must stand up when expressed in ordinary language without abstraction from real details and subject themselves to the reader’s judgment.

Having introduced the research approach, the final part of this section returns to the generation of data with discussion of some methodological issues related to the use and interpretation of particular instruments.

3.2.4 Conduct and Interpretation

Details of all the methods used to produce primary data during the study period are given in the following section. The current section concludes by examining two areas of particular importance for the thesis: the use of semi-structured interviews and the gathering of genealogical information. First the interpretation of interviews is discussed, then some further aspects of interview conduct are considered. Then attention turns to the production of genealogies for each household head. Finally, some ethical questions are addressed.

Interview Interpretation

Both conduct and interpretation of interviews were strongly influenced by considerations of reflexivity, in three senses of this term. These are that: the perceived role of the researcher may influence the responses of the interviewee; the interpretation given of study data must apply also to the interaction of researcher and interviewee; and, interviewees can be aware of

how their own roles are perceived and may choose to act in order to modify such perception.

All these three meanings of reflexivity involve the mutual role perceptions of researcher and interviewee. Since the researcher is the same individual, myself, throughout the interviews it may be useful to give here some facts that are likely to have affected how my role was seen. At the beginning of the study period I was already well known in Kipatimu, having taught Mathematics in the village secondary school between September 1993 and December 1995. During the study period itself I again taught in the school, part-time, for almost the entire academic year up to and including the graduation ceremony of 2001. Although I frequently explained my research activity, always doing this with potential and actual interviewees, my impression was that people continued to think of me first as a teacher and I was often addressed as *mwaliimu*¹.

Just as much of the analysis of data below attempts to understand behaviour as constrained by social rules, the influence of such rules on interview interactions must be considered. Furthermore, as in the later analysis the way that the perceived roles of researcher and interviewee may affect this influence needs to be assessed.

More generally the author concurs with R.F. Ellen and Jeremy Kemp that

Meaning, after all, resides ultimately in cultural context, and is only expressed transiently and situationally in language. Certain answers may owe more to courtesy than to a desire for accuracy, others to impatience, others still to political, moral and other social constraints. (Kemp and Ellen 1984 p. 234)

However carefully an interview is arranged it is to some degree likely to be a remarkable situation for the interviewee. As Tom Wengraf explains, this can mean that the interview puts the self-representation of the interviewee at risk, perhaps leading for example to responses that show them as they would like to be rather than as they actually believe themselves to be (Goffman 1959; Wengraf 2001). Wengraf claims that an advantage of narrative interviews is that they are less prone to this form of manipulation. He argues that in all societies the narration of life history is a recognised and standard 'genre'.

¹ *mwaliimu*: teacher

Individuals may give narratives that contain information for example on norms or ways of reasoning which, because of the familiarity of the narration act, do not become prominent in their consciousness and trigger the manipulation of self-presentation. What is more, the very agreement to give a narrative implies the acceptance of the known pattern for this genre (Alheit 1994; cited in Wengraf 2001). Attempts to evade these requirements in mid flow can be relatively easy to notice and in themselves provide salient data.

Whilst narrative responses were sought in almost all interviews partly for these reasons, it seems to me reasonable to apply them more widely than this. That is, just as giving life history narrative can be a familiar genre to interviewees there are other genres which may also convey the same kind of advantages. For example, genres like: 'giving an expert explanation to an interested lay-person'; 'relating your particular approach to someone who knows about an activity'; or, 'using your understanding of a subject to correct a person's misconceptions'. In such cases it could be held that culture provides a set of scripts for talking about 'x' given the respective roles of interviewee and researcher. Whatever the genre, an important part of interpretation is to assess how far the speaker was able to complete the *Gestalt* (Wengraf 2001 p. 125) of their response.

In general then, data from the interviews were interpreted as sets of statements made in a particular time and place, in response to particular questions asked by this particular researcher. Interview responses were not taken only as evidence that their direct meaning was true or believed to be true by the speaker.

Interview Conduct

Here I describe some of the more important features of how the interviews were carried out. There is no sharp break with the preceding discussion since the theoretical view of interpretation expressed there runs through many of the practices related here. Prior to academic study of these methodologies, I received instruction in a number of interview techniques while training as a secondary school teacher. This knowledge, and ten years of experience in

applying it, were very helpful in preparing and carrying out interviews for the current study.

If social rules are important for interview outcomes, then variables such as the location, timing and means of approach to the interviewee which are significant for the play of these rules may be important. As Ellen and Kemp put it '*You do not, as it were, interview the mayor as he stumbles out of a brothel*' (Kemp and Ellen 1984 p. 230). Most interviews were carried out at the home of the interviewee, mainly because this avoided the greater imposition upon their time and agency¹ which a special trip to my house might represent. The main exception to this were shopkeepers and others involved in village centre retail whose places of business and residence were both rather too busy to suit a private interview. Since my own house was near the shops it was feasible to invite such people home for interview, though the necessity of their arranging cover for the duration of their absence meant that these invitations had to be handled sensitively.

Given the advantages of allowing interviewees to remain within familiar genres of speech noted above, techniques that encourage a smooth flow of responses can be very helpful. A central idea is the use of open rather than closed questions that can cue a known genre of speech; Wengraf describes these as 'fuzzy', 'pro-subjective' questions (Wengraf 2001 p. 121). For example, I might ask 'when did you start thinking about doing business?' rather than 'what did you do in 1985 after you left school?'

Once a response was initiated, 'active listening' techniques were often used to help maintain the interviewee's flow. Although it is important not to interrupt, the expression of attention and interest by occasional interjections and non-verbal communication could be effective. 'Reflective listening', repeating or closely paraphrasing a respondent's statement, was another effective technique. Conversely, choosing not to fill silences was often vital in giving the interviewee time to reorganise their thoughts and proceed.

¹ Here I mean to evoke the unfortunate appearance of a 'summons' that travelling to my home could give.

Despite the claimed desirability of uninterrupted genre speech it seem likely that complete researcher passivity may have risks. For example an interviewee may respond in a genre such as 'telling a person what they want to hear' or even 'giving a fictional story to someone who will accept it rather than disclose uncomfortable truths'. In addition, it may not be feasible to let a response continue for too long in the 'wrong direction' if there are practical constraints such as the time the interviewee can spare. In either case, some more active intervention may be required. Reflexivity considerations mean that it is a mistake to aim at having a zero effect on the way an interviewee responds to questions. On the contrary, the important requirement is to aim to have an influence that is ideally helpful but at least understood. This can be interpreted as the need for the researcher to actively adopt a role that influences the responses of their partner in a favourable way.

As Kemp and Ellen observe, it may well be that

The knowledge sought by anthropologists is frequently a resource not to be dissipated indiscriminately or to individuals who are strangers and clearly cannot understand its value and appreciate its significance

(Kemp and Ellen 1984 p. 232).

To avoid this the researcher may then aim to be seen in the role of a familiar person, by building a relationship with potential interviewees outside of the formal research context. In addition they may try to present themselves in a role that implies understanding and appreciation of what the interviewee can tell them. Two methods that might be employed are to mirror any emotions shown by the interviewee and, more generally, to try and make sure that 'interventions are in the folk-language and emerging idiolect of the interviewee' (Wengraf 2001 p. 156). Similarly, the use of emic language seems likely to signal greater understanding of an interviewee's responses.

Where the researcher wishes to test the interviewee's responses in a more challenging way, consideration of role effects still seems advisable. For example, deliberately making a statement that is to some degree in tension with the flow of an interviewee's responses may have one effect if the

researcher is seen as judgemental but lacking understanding, and a different response if they are seen as sympathetic and competent but prone to mistakes. Sixteen interviews were recorded on tape and handwritten notes were taken for the remainder. The number of taped interviews was limited for practical reasons: good quality tapes were not available in Kipatimu and locally sold batteries were also poor. In addition I was wary of the likely difficulties in subsequent transcription or analysis of the tapes. These latter concerns proved well founded. As many of what I felt to be the most valuable interviews were among those tape recorded, I dedicated a great deal of time to transcription following the study period. Unfortunately the sound quality was rather poor on most of these recordings and the attempted transcription was a major factor in delaying study completion.

Geneology Production

It would be hard to live in Tanzania for any length of time without discovering that some understanding of extended family structure is necessary for participation in society (Caplan 1975; Wembah-Rashid 1975)¹. In Kipatimu a person wishing to talk with local people about any aspect of social coordination would rapidly discover that some knowledge of actual family structure was as at least as useful as a physical map of the terrain. The importance of kinship in the literature reviewed in Chapter 2 also led to the expectation that understanding of kinship structure would be important in the gathering and analysis of data. For these reasons the study sought to obtain fairly extensive geneological data from each household head as part of the survey of all households. The aim was to integrate the data from different households, so revealing the kinship structure of whole clans. This could then be used to aid the interpretation of interviews and also related to other survey data, in particular to show the distribution of wealth across extended families.

The English speaking researcher also finds that there is not a simple one-to-one correspondence between Swahili and English terms for family

¹ In the cited work, Wembah-Rashid gives many details on the matrilineal kinship and associated cultural practices found among the people of 'Southeast Tanzania'. The book, however, only mentions the Matumbi and the Northern Lindi district in passing. All of the research was carried out in the Masasi and Newala districts of Mtwara Region.

relationships. For example the word '*dada*' can refer to either a person whom English speakers would call a sister or to a female parallel cousin. It is essential to know the Swahili relationship vocabulary in order to make sense of people's statements in response to interview questions as well as in non-formal settings. However, the difference in naming systems can lead to mistakes when gathering accurate data on extended family structure.

To reduce this risk, data on the extended family were obtained using 'The Genealogical Method' as presented by Barnard and Good (Barnard and Good 1984). The way this method works is to minimise both the number of different relationship terms that must be used and the frequency with which they must be used. This is achieved by following a systematic order of asking about family structure and using the given names of individuals in preference to their relationship terms. For example, to begin to obtain the geneological structure of Ego, a woman, she could first be asked the names of her mother and father. Suppose that she were to give the replies Abdallah and Siri Mfano. The next step is to ask about her paternal grandparents, but instead of requesting the names of *babu mzaa baba*¹ and so on she would be asked directly to name the mother and father of Abdallah Mfano. Suppose they were called Swalehe and Tatu Mfano. Then Ego would be asked whether Swalehe and Tatu Mfano had any other children besides Abdallah Mfano. This gives the paternal uncles and aunts of Ego. By continuing in this way and using only the terms for Mother, Father, Child, Husband and Wife it is in principal possible to obtain as wide a geneological mapping as is desired.

In fact, the exercise of gathering this data was successful but only at the household level. The availability of geneological data for each household head was very useful in understanding interview responses and indeed any of the many conversations that referred to kin members. Unfortunately, the wider aim of integrating kinship data from multiple households could not be achieved. Data from no more than two or three households at a time could be combined. Partly this was because the computer packages available at the time for handling geneological data were designed to deal with the ancestral tree of a

¹ *babu mzaa baba*: paternal grandfather

single ego. The other difficulty, ironically, was that although ambiguity of relationship terms had been overcome by use of the geneological method, a considerable amount of ambiguity had been introduced in the given names recorded for individuals. This was caused by inconsistencies in the naming of the same individual, including the use of 'drinking' names, which made the task of reconciling and integrating geneologies of related households all but impossible.

3.3 Methodology Details

3.3.1 Household Surveys

Two household surveys were carried out during the course of the study. The first was a near complete census while the second used a random sample of thirty households stratified by gender and religion. This means that both surveys generated data which can be taken as representative of all households in the survey area, subject of course to any measurement error, as well as sampling error in the case of the smaller survey.

The large household survey was administered almost entirely by a research assistant (RA). RA was a local resident who was formerly one of my students at Kipatimu Secondary School. He was extremely well suited to the task of carrying out the survey because in the months immediately preceding the study period he had been employed by the National Bureau of Statistics (NBS) as an enumerator for their Household Budget Survey (United Republic of Tanzania 2002). RA had been thoroughly trained by the NBS and showed a very good grasp of the practical methodological issues involved in our first discussions during an initial visit in November of 2000. There was considerable overlap between the Household Budget Survey and my own household questionnaire which meant that the latter exercise provided a very useful means of comparing the Kipatimu results with other areas in Tanzania during the data analysis. RA worked with diligence and skill in carrying out the main household survey for this study and this thesis owes a great deal to his efforts.

The first stage in this data collection exercise was the completion of a full household listing. Over several days RA accompanied me in visiting all

households in the study area. These initial visits gave me a chance to introduce myself to residents and explain my research programme. I was also able to position all households and other notable features using a small GPS unit, plotting them by hand on graph paper each evening to give an accurate map of the study area.

The questionnaire administered to each household in the main household survey is shown in Appendix 2. There were four sections. The first asked for information about each member of the household including standard items such as age, sex, education and relationship to the household head. The second section dealt with household assets. These assets included livestock, consumer goods such as radios and watches, agricultural tools, furnishings and buildings. The third section asked for details of household involvement in a list of different economic activities. The final section was for the collection of geneological data using the method described in Subsection 3.2.4.

Although this exercise produced a great deal of data that proved useful for the thesis, some sections were not so successful. One flaw in enumeration procedure caused difficulties for comparison of demographic data with other sources. The responsibility for this mistake was my own. This is because having visited the first three or four households to administer the survey, RA reported that the exercise took a long time and asked among other things whether it was really necessary to record all household residents down to the very youngest children. Because at the time the main use that I had in mind for the demographic information was the question of household labour availability, and wishing to minimise the burden of the survey on households, I told RA that the under fives need not be recorded. The consequence of this unwise decision for comparability of results is seen in Chapter 4.

The gathering of data on asset holdings was also successful. This followed the methodology adopted by John Sender and Sheila Smith in their study of the Usamabara mountains in North East Tanzania (Sender and Smith 1990). Only one aspect of this questionnaire section did not work well. The questions on the size and construction of the house turned out to be rather poorly worded and difficult to complete consistently. This meant that the indication of wealth

calculated from the survey data had to be based on movable assets only. While the results still seemed to capture variations in wealth adequately, the failure to collect information on ownership of corrugated iron sheeting in particular was regrettable, as this high value and semi-liquid asset is a common choice of individuals wishing to store accumulated wealth.

In contrast to the valuable information produced by the other parts of the questionnaire, section three on household economic activities gave little useful data. Experience of administering the survey showed that it was too ambitious in terms of both the number of activities asked about and the attempt to cover five years on the basis of recall. Under pressure of time, few households reported an change in activities over this period. The most common pattern was simply a row of ticks in the 'farming' row, although in a number of cases interview data or other sources indicated that the household was actually involved in listed non-agricultural activities as well.

Towards the end of the study period, a second household survey was carried out, using a sample of 30 households. The aim of this exercise was to obtain data for which the need had become apparent during preliminary analysis of the evidence collected so far. Most of these data items had not been included in the main questionnaire because they concern areas which ranged from slightly sensitive to almost taboo for discussion. I had not been confident that these matters could be adequately enquired about within a long questionnaire administered by a research assistant. The small survey questionnaire is shown in Appendix 4. It is much more focused than the main survey, comprising only five short questions. Having become well known around the study area and established good relationships with residents, I felt that brief but unhurried and loosely structured interviews with household heads would enable me to collect more reliable data on these questions.

The first question concerned the quantity of food crops obtained by the household in the recent harvest. The next asked whether the household would most likely have food left over to sell, have to buy in food to cover needs before the next harvest, or neither. The third question asked how they earned cash income; specifically whether any household members did work for cash wages

or if they hired in labour to help with income earning activity in farming or elsewhere. The fourth question asked about their land holdings: were they sufficient, did they hire land in or out? The final question corrected the error made in the main questionnaire by gathering more consistent and useable data on buildings and their construction.

The smaller survey was administered to a random sample of 30 households, stratified on gender and religion of the household head.

3.3.2 Semi-Structured Interviews

A total of 65 full semi-structured interviews were carried out during the study period, along with 36 shorter interviews carried out on an opportunity basis. For the reasons explained above in subsection 3.2.2 on page 137, informants for the full interviews were not selected randomly. Purposive selection was carried out on the basis of information gained from a number of sources, including the initial visits to houses with my research assistant, the household survey, interviews with other informants¹ and general participant observation. As discussed, the aim was to interview as many entrepreneurs as possible, as their numbers made it feasible to gather data from all of the more successful among them at least. The obstacles to fulfilling this aim were firstly the problem of identifying all the individuals concerned, and secondly the need to establish a suitable relationship and opportunity for the interview to take place satisfactorily.

Among the full interviews, sixteen were recorded on tape giving almost 14 hours of audio material. The remainder were recorded by hand in note form. In order to protect anonymity, all respondents are referred to by their study code ranging from K1 to k305.

A number of different question sets were prepared for particular categories of interviewee and subject matter. The most frequently used question set, which is shown in Appendix 3, was for 'activities' and this was used for interviews with all those individuals who were seeking to accumulate through involvement in business of some kind. The next most used question set was designed to seek

¹ Sometimes described as a 'snowball' approach.

information from older residents about local and personal history. Other question sets were prepared for use with orange tree owners, government officials, political activists, institutional managers, the agricultural extension officer, formal employees and the local Member of Parliament.

Transcribed or noted interviews were coded in the qualitative analysis software package Nvivo¹ along with the observation notes described below. The interviews generated a very large amount of detailed data which provided a rich basis for the inductive theory building analysis described in the previous section. The data and analysis are presented in the following three chapters. A substantial amount of the data gathered plays little direct role in answering the research questions. While this is in part to be expected when an inductive research approach is adopted, it is certainly possible that more successful refinement of the research questions and analytical concepts prior to the study period could have improved the efficiency of the data production process.

3.3.3 Observation and Secondary Sources

Working as a teacher in the secondary school, walking around the study area to visit interviewees, attending social gatherings and simply going about everyday activities such as shopping, all presented opportunities to observe events and interactions of interest to the study. The notes that I made on 26 such occasions provided some of the best insights into the working of local institutions, both formal and informal. Events included meetings called by local government officials or party leaders in the village centre; the arrival of flamboyant street sellers from Dar es Salaam; Worker's Day² festivities and speeches hosted at the mission hall.

A number of unpublished secondary sources were consulted. These include a small book on the history of Kipatimu mission (Mwiru 1984), a book of handwritten explanation of local culture and history by a retired teacher

¹ Initially version 2 then version 8. Nvivo is produced by QSR International - website: www.qsrinternational.com.

² *nane nane*: the eighth of August. Confusingly this is called by other names such as 'Industry Day' or 'Agriculture Day' in other parts of Tanzania. To add to the confusion the day used to be *saba saba*, the seventh of July, which is also the date of the founding of TANU, until this was changed following the change to a multiparty system

(Mtumbuka 2001), records of cases at the village court, census and budget survey records at the Statistics Institute in Dar es Salaam, and local maps together with a copy of the most recent¹ set of aerial photographs from the Surveys and Mapping Division office, also in Dar es Salaam.

This concludes the discussion of research approach and methodology. The following chapter begins the presentation of study findings.

¹ Taken in the 1960s.

4 Kipatimu Village: People, Property and Institutions

4.1 Introduction

4.1.1 The Developing Market Environment

Chapters 5 and 6 examine the evidence obtained on the main area of research focus in the study: market development in Kipatimu. Data are presented and analysed on the forms of market coordination found, the strategies of accumulating individuals and the role of non-market coordination through social institutions such as state or kinship. The aim of this chapter is to set out findings on the village as a whole which are prerequisite to that analysis.

The effects of location, particularly on communications, permeate economic decision making in the study area. Similarly, a number of historical and political factors influence individual choices. Data on all study area residents from the household survey set the context not only for individual accumulators themselves but for the others with whom they deal such as customers, employees or kin members. As preceding chapters have attempted to make clear, the concept of 'institution' is central to the thesis. This chapter operationalises the definition of the concept given in Subsection 2.6.2 above and applies it to data on actual institutions in the study area.

4.1.2 Chapter Overview

The chapter is structured as follows. Section 4.2 presents data on the village in which the study was located. This includes details of physical geography, climate and infrastructure. After this a short outline of relevant historical events and political issues is given.

Section 4.3 examines data from the household survey on village demographics and the distribution of wealth. These are compared with similar data at a regional and national level, as well as with the results of previous censuses and surveys that included the study area.

Data on institutions are presented and analysed in Section 4.4, the longest. First the thesis definition of 'institution' which was deliberately stated in a general and abstract form in Chapter 2 is rendered more suitable for practical

application by specifying more exactly what the 'something' in that definition might be. Then a typology of 'formal', 'semi-formal' and 'informal' institutions is explained. Sequenced according to this typology, succeeding parts of Section 4.4 examine the data on particular institutions obtained in the study.

4.2 Kipatimu

4.2.1 Location and Infrastructure

Kipatimu village is located in an area sometimes referred to as the 'Matumbi Hills', rising from the flood plain of the Rufiji river in southern Tanzania. In straight line distances it is 118 miles from the business capital, Dar es Salaam, and 25 miles from the Indian Ocean coastline. The main geographical focus of this study is a 2 by 2.4 mile area of settlement including the village centre and surrounding valleys.

The hills are steep and tightly clustered, forming waves of interlinked valleys that extend 20 miles south to the Matandu river. Even within the study area, altitude ranges from 340m to 520m above sea level. With profound and lasting significance for cultivation, habitation, transport and politics, this topography has become integral to the identity of inhabitants. In the locally spoken language, *Kimatumbi*, the word *kitumbi* denotes 'hill'.

Geologically, the underlying structure of the region is a fold, or anticline, of ancient karst bedrock. Although the surface layers support soils with favourable water-holding and other properties, the sharp hills expose the underlying karst. This deep layer is highly porous, so there is very little surface water. In many places rainwater rapidly descends into the karst layers, to drain off towards the distant river basins to the north and south¹. Although the annual rains bring fast flowing rivers and not-infrequent flooding, this situation is very short-lived. The water retreats rapidly to aquifers only accessible with fairly deep valley-bottom bore-holes in many places. This rapid deep drainage represents a barrier to rainfall saving and irrigation additional to that posed by the high levels of

¹ There has been no detailed geological survey of the area to date. This information is based upon the assessments carried out by a team of cavers led by Martin Laumanns in 1994-5. I was in Kipatimu during this time and discussed these questions with Laumanns and his team. He has published reports on his findings (Laumanns 1994).

evaporation loss common in Tanzanian climate. The need to carry water for human use for considerable distances by hand, often up steep slopes, represents a significant drain on household labour. More positively, the general elevation of the territory greatly moderates temperature and humidity compared to the surrounding region, particularly the coastal strip. Malaria is endemic but less intensive a threat than in lower lying areas.

The twisting pattern of valleys have made Kipatimu far more isolated in practical terms than simple distance measurements suggest. The only access route by motor vehicle is a thirty mile long unsurfaced road leading east to the main coastal road. The Kipatimu road receives only sporadic attention from graders or aggregate spreading teams and parts are often in very poor condition. The coastal road during the study period was often even worse, due to the much higher traffic levels and rapid tendency towards saturation after the onset of rains. The Kibiti to Lindi route was long notorious, even in the general context of Tanzania's poor road network. Although the only connection serving around 6 percent of the country's population and 10 percent of its land area, it was not until 2001, some 40 years after independence, that it saw a substantial programme of tarmac laying. This road was also interrupted until 2003 by the Rufiji river, where a slow and unreliable ferry operated during daylight only, water levels permitting. Once across this barrier, a vehicle bound for Dar es Salaam faced a worse challenge still; the broken tarmac of the road beyond Kibiti would frequently necessitate lengthy repairs to the suspension springs of lorries and buses. Under favourable conditions, most travellers would be satisfied to complete this journey within the space of a single day.

In the data-gathering period of this study, there were four motor vehicles based in the village. These were the Land Rover owned by the hospital, the secondary school lorry and the motorcycles of the Catholic mission and the Agricultural Extension Officer. People wishing to travel, transport goods or send messages would come forward as soon as news of a journey by one of these vehicles began to spread. Owners of any visiting vehicles would also be approached. During the dry season a bus made the return journey from Dar es Salaam twice a week, operated by a local woman living in the city, although this

service was often cancelled or delayed by breakdown. Failing any of these methods, the standard mode of transport was a journey by foot and/or bicycle to the main road to pick up either a bus or passing lorry. If the destination was Dar es Salaam, the favoured approach was to hire bicycle riders to carry passengers and belongings direct to the ferry over the Rufiji; leaving before dawn, a traveller's hope is to cross the northern hills, descend at breakneck pace on rough tracks, then trek through the thick sands and mud of the flood plain to the crossing point 34 miles away before the last ferry closes in late afternoon. When rising water levels close the crossing and road for months at a time, the corresponding ascent is the only entry route for incoming goods¹.

No telephone lines ever reached Kipatimu. The only means of remote communication available was an unreliable and very poor quality radio link operated by the Catholic mission. Towards the end of the study period a better system was installed in the small local hospital. Neither of these systems was generally available for private or business use. Anybody needing to contact Dar es Salaam had to undertake the 80 mile road journey to the district capital on the coast, Kilwa Masoko. For example, employers, such as the schools, would often need to dispatch personnel to Kilwa purely to find out whether salary payments had been sent from Dar es Salaam for collection. It was not until 2007 that mobile phone coverage arrived in the area. Newspapers were unavailable, leaving people heavily reliant on radio for knowledge of external happenings. A common habit was listening to the long lists of death notices broadcast by Radio Tanzania, as news of a death among distant migrant relatives might otherwise go unknown for some time.

Life in Kipatimu, in particular economic life, is strongly influenced through a number of interdependent channels by seasonal weather variations. As a first approximation, the year divides into 'dry' and 'wet' seasons of six months each. However, two periods of rain are normally distinguished. Light rains interrupt the dry weather towards the end of the year, in November or December. These 'small rains' are important for farmers planting maize for early harvesting but do not often cause more than minor interruptions to communications links. From

¹ Indeed this route had to be used by the researcher on several occasions, including transport of printed

January the weather becomes drier, but temperatures and atmospheric humidity gradually rise as households prepare fields for sowing. Sometime between February and late March the 'heavy rains' break. This major wet period, known as *Masika* locally, typically lasts until late May or June. Following this there is the longer dry season, or *Kiangazi*, which includes the main harvest period and maturation of the orange crop.

The most obvious effect of this seasonal pattern is on agriculture. Given the lack of surface water and the high rates of deep drain-off already mentioned, it is unsurprising that cultivation is entirely rain fed and must be timed to fit in with the two periods of rain. Non-agricultural activity is also affected, in two principal ways. On the supply side, the heavy rains cause extremely serious degradation to roads, rendering them impassable to lorries and buses. Even a four wheel drive vehicle is unlikely to reach the main coastal road without a serious struggle and much hard digging during this period. This pushes up the price of goods in shops and makes the cost of taking the few local products available out to market in Kilwa or Dar es Salaam quite prohibitive. Demand for food crops locally increases as previous harvest stocks become exhausted before the new crop is ready for many households. Demand for many non-food goods decreases however because farmers rely on sales of these crops for a large part of their cash incomes.

Health is also seasonal. For local people whose main economic activity is cultivation, the period immediately before and during the heavy rains is frequently one of hunger. The hotter and more humid conditions combine with the weakened physical condition of many inhabitants to produce a sharp increase in the incidence and severity of malaria attacks. The consequent need for medical treatment adds to the existing need for cash in order to buy food. Some farmers have little option at this time of year but to take out loans with local moneylenders, to be repaid at harvest time.

It is a cruel feature of this seasonally driven cycle that hunger and ill-health can have a cumulative effect. If one harvest does not last long enough, a farmer may be at their weakest just when they need to put in the greatest effort in

planting the next crop. What is more, if they desperately need cash at this time and are unable to borrow it on acceptable terms they may have to take on work as agricultural labourers, neglecting their own plots.

4.2.2 History and Politics

Three miles west of Kipatimu, at the bottom of a deep gulley concealed by thick vegetation, lies the dramatic entrance of the Nang'oma cave¹. Inside the sweeping arch of its mouth is an enormous cavern and in a rocky crevasse on the left hand side of this is a pool of all year round surface water. Although from the ninth century rise of the Kilwa city-state on the nearby coast to the present day the Matumbi area has generally played a peripheral role in East African affairs, this cave and its pool are thought to have been at the epicentre of the most violent and widespread conflict in Tanzanian colonial history. The *Maji Maji* uprising of 1906 has cast a long shadow over the subsequent development of Kipatimu and marks village discourse even today, as will be seen. Here I mention the more salient features of the original events.

In the period leading up to revolt, the German colonial authorities were pursuing a policy of forced labour on collective cotton farms (Iliffe 1979). When the pressure on households became unbearable, the local administrative headquarters at Samanga and Kibata were attacked and destroyed. The rebellion then spread south, overwhelming Liwale where German priests, including a bishop, were killed (Hassing 1970). Eventually a vast area, comprising most of the south of Tanganyika from Songea to the coast, was caught up in the violence and Germany was compelled to despatch warships and additional troops in response to the crisis.

At the heart of the poorly armed Tanganyikans' willingness to revolt was the cult of the Nang'oma caves and in particular the water, or *maji*, found there (Crosse-Upcott 1960). Local witchdoctors claimed that this water could give protection against German bullets and the physical transportation of this water to people in neighbouring regions was the symbolic token that accompanied the uprising's spread. When direct confrontation with the enemy revealed the

¹ *Nang'oma*: the apostrophe shows a 'g' sound like the one in 'hang on' rather than in 'man gone'.

maji's ineffectiveness, rebels turned to concealment and hit and run tactics. To this the authorities responded with a burnt-earth policy. While around 15 Germans and less than a thousand colonial troops died in the revolt, the combined toll of direct conflict and subsequent repressive measures in the region has been estimated at between 100,000 and 300,000 deaths (Iliffe 1979).

Given this scale of destruction and upheaval, it is unsurprising that *Maji Maji* continues to feature in public discourse one hundred years after the events themselves. What is perhaps less expected is the difference between how the rebellion has been interpreted on national and local scales. For historians writing after the independence of Tanzania, *Maji Maji* is seen as an early struggle of indigenous people against colonial rule (Iliffe 1979; Gwassa and Möhlig 2005). A Swahili novel (Hussein 1970) in which the hero, Kinjekitile, is inspired by the spirits of the cave to rise up against the oppressor and distribute *maji* has been studied by generations of Tanzanian schoolchildren. The one hundredth anniversary of the revolt was recently marked by ceremonies in Songea and Kipatimu, as well as patriotic speeches in parliament. At a more detailed level of analysis however, *Maji Maji* can appear much less as a clear cut case of unified resistance to the outsider and more an eruption of local political conflicts, treachery and deception in which the role of colonial power is secondary or even beneficial (Sunseri 2000; Menda 2006).

Some study informants said that their fathers or grandfathers settled in Kipatimu after the *Maji Maji* war, which is consistent with the idea that unclaimed land may have been available after this great upheaval. Another elder resident reported that her husband's parents moved to the area from Rufiji district. This fits the account by Bantje of periodic migrations from the valley after flood years to the southern hills (Bantje 1979). Looking further back, it seems possible that nineteenth century arrivals arrived as refugees from, or even as part of, the Ngoni incursion from the south (Wembah-Rashid 1975; Iliffe 1979). Certainly, migration has continued to play an important role in local social and economic life. In particular, the common conception of the South East as a source of young migrants to Dar es Salaam in search of business

opportunities does apply to Kipatimu, as is clear in the discussion of study data below (Mihanjo and Luanda 1998).

In the aftermath of the revolt began another sequence of events which have a more direct and continuous connection with present day Kipatimu: the founding of Kipatimu Mission by Benedictine Catholics. In fact, the bishop killed during the revolt was Cassian Spiss who had just left the Kipatimu area after visiting it for the first time and selecting a site for the mission (Hassing 1970; Mwiru 1984). In 1910 work began on a substantial stone-built church capable of holding several hundred people. Accommodation for priests and nuns, a small school, shop, dispensary and cowsheds were also built in a European style with brick, stone and tile.

I deal below with the mission as a current institution. Here I note the major role that it has played in many aspects of Kipatimu life over the preceding decades¹. First there are material effects. These include the initial clearing and maintenance of roads into and around the area; provision of health services, with the arrival of the first doctor in 1939; direct involvement in mechanised farming and large animal husbandry; introduction of piped water and electricity schemes; and, more recently, the maintenance of radio communication links. Next there is the role in education and training. After the initial primary school, other small schools were established in surrounding villages. In nearby Mitole the mission opened a middle school in 1959 and another soon followed in Kipatimu itself. Apart from this academic provision, the mission also helped many people to train in practical areas like tailoring, carpentry and mechanical maintenance. Sinda Hussein Sinda points out two motivations of the churches in providing such training: one was the encouragement of conversions while the other was the need for masons, tailors and other personnel by the missions themselves (Sinda 1983). In many cases this involved lengthy stays at remote centres like Mahenge, Lindi or Dar es Salaam. Of course, there were others who were able to follow a career in the Church itself. By 1982, when the first Tanzanian priest took charge of Kipatimu parish, six local women had already become nuns and seven men priests (Mwiru 1984). Finally, there is the political

¹ Indeed some of the functions mentioned here have now ceased entirely or been much reduced.

role of the mission, taking politics in the sense of local power and decision-making rather than party politics. The overlap between those families who are mentioned as involved in the earliest accounts of mission foundation with those who today are influential and relatively well-off is easy to see. Although relations between Christians and Muslims in the area are generally good, this long-standing prominence of the mission in local affairs of all kinds is one of the main factors that does occasionally show its potential to cause rancour. Most frequent for example are the accusations that education was denied to any child unwilling to convert to Christianity; these are often accompanied by the claim that a prospective student was required to eat pork before being admitted.

In the year 2000, the former president of Tanzania, Ali Hassan Mwinyi, visited Kipatimu. According to teachers who attended his address, Mwinyi issued a strongly worded apology for the fact that no serving president had yet come to the area in the almost forty years since independence¹. Certainly, if *Maji Maji* ended German efforts to develop the South-East and British interest was concentrated in the parts apparently more suited to mechanised agriculture such as the notorious 'Groundnut Scheme' along the Mtwara corridor, independence hardly seems to have marked a sharp renewal of state interest in the region. Such is a commonly expressed perception among people in Kipatimu, who give various explanations for this continued neglect by government. These include: post-independence worries that the South-East was a breeding ground for opposition; suspicion on the part of Nyerere about the loyalty of a prominent southern politician, Oscar Kambona; security concerns about incursion from Mozambique and the allegiance of border people. A similar narrative to these local Kipatimu views concerning an alleged 'hidden agenda' of central government in dealing with the South-East is described by Wembah-Rashid as having currency across '*the entire southern part of Tanzania*' (Wembah-Rashid 1998 p. 46).

The fact that villagisation started early and reached a much higher level in the South East than in the rest of the country (Seppälä and Koda 1998) can of

¹ 2000 was an election year, the second in which opposition parties were permitted to take part.

course be read in both ways as far as any hypothesis of state hostility is concerned. Informants related that people were indeed brought into the village under the scheme but that they were able to drift away again fairly quickly. There was a collective village field and a primary producer cooperative with more than 100 members, however the former received little attention and the latter failed in the 1970s, bypassed by increasing parallel market sales. It seems likely that the mission was more effective in mobilising collective efforts for farming and other activities such as road clearing. Indeed, in the light of Wembah-Rashid's claim that such mission stations may even have been part of the inspiration for the Catholic Nyerere's Ujamaa Village policy (Wembah-Rashid 1998 p. 44), one might even conjecture that this helps explain why official enforcement of villagisation policy in the study area appears to have been quite mild.

Two related perceptions are often used by people in the study area to support the idea of neglect by the state. One is the poor public provision of infrastructure and services such as health or education already discussed, compared with what they think to be available in other parts of the country. The other is a belief that whereas national leaders who emerge from other areas always 'remember' their origins, people from the South-East who become prominent in this way do not often use their influence to help the area. For example one indicator taken as an important signal of migrants' level of commitment to the village is house building; several local people referred to the crumbling, mud-walled hut owned by one very senior national leader in this regard. By contrast, the clean and well maintained stone villa of a high-up civil servant was viewed with satisfaction, although it stood almost permanently empty.

One might have expected that such views, if indeed widely held, would have had the potential to cause serious problems for the ruling party when the first multiparty elections were held in 1995. In the event, despite much excitement over the unfamiliar spectacle of open opposition campaigning, the government

Chama cha Mapinduzi party (CCM¹) won Kipatimu's North Kilwa constituency by a overwhelming margin, as it has continued to do in subsequent elections. However, it would be wrong to conclude from this either that there can in fact have been little political dissatisfaction to express, or alternatively that the reformed election system somehow prevented any such expression. Similarly, I would claim that it is too simplistic to draw these inferences at a national scale, although the number of opposition party MPs began at under 20 percent in 1995 and fell to 11.2 percent by 2005. An important, if less visible, effect of the switch to multiparty elections has been to re-invigorate the process of candidate selection *within* the CCM. Though many ruling party MPs may not feel threatened by opposition parties at election time, many have faced serious challenges and in several cases deselection during pre-election 'primaries'. In the case of Kipatimu the result has been that three different MPs have been elected in the three multiparty elections since 1995. One very long-standing MP stood down in 2000, reportedly to avoid facing a selection contest. The candidacy was then won by a businessman, who beat another senior public figure from the area. This man of course was elected to Parliament but himself was ousted as CCM candidate by the current MP in the 2005 primary selection process.

During the period of data collection for this thesis, the local theory that national leaders with origins in the region did little to help the South-East was facing its ultimate test: the Presidency of a Southerner, Benjamin Mkapa from Masasi, a small town in the heartland of the Groundnut Scheme and an area where the missionaries and rebels had collided during *Maji Maji*.

4.3 People and Property

4.3.1 Demographics

During the period of data collection a total of 1172 people were recorded as living within the main study area. The number of households was 242. In Table

¹ 'Party of the Revolution' literally, though universally referred to simply as 'CCM' when English is being used.

4.1, these data are placed in the context of available local and national statistics.

	1988	2002 ¹	annual growth % 1988 – 2002
Tanzania	23,095,878	34,569,232	2.92
Mainland (eg. excluding Zanzibar)	22,455,193	33,584,607	2.92
Mainland More Urbanised Regions ²	6,602,534	11,217,750	3.86
Mainland Rural Regions ³	15,852,659	22,366,857	2.49
Lindi Region	645,856	791,306	1.46
Kilwa District	150,419	171,057	0.92
Kipatimu Ward	16,780	22,878	2.24
Kipatimu Village 1988 boundaries ⁴	4,077	5,346	1.96
Kipatimu Village 2002 boundaries		3,583	
Kipatimu Study Area		1,172	

sources: (United Republic of Tanzania 1989, 2003), study data, author's calculations

¹ Census data collection was in 2002, thesis data collected in 2001.

² Arusha, Dar es Salaam, Mwanza, Shinyanga. Kigoma also included as the large number of refugees from Rwanda inflated 2002 population figures.

³ The mainland regions not included above.

⁴ Kipatimu Village was divided administratively into Kipatimu and a new village called Darajani in 1999. The figure of 5,346 refers to the combined population of the two villages in 2002.

Table 4.1 Population Level and Growth

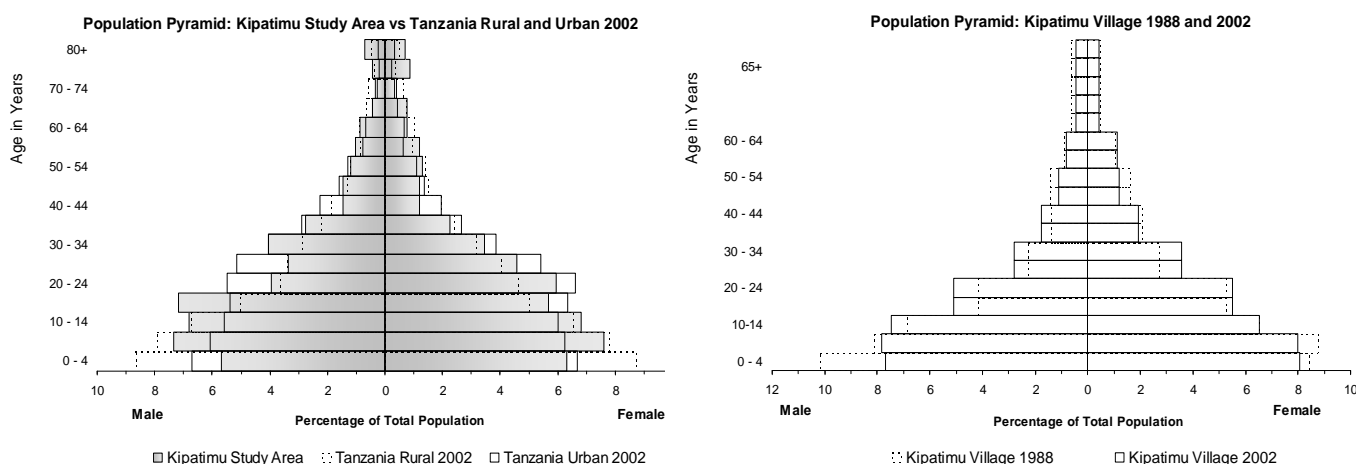
As the study area chosen does not correspond exactly to any administrative area, to obtain data on population growth we need to consult records for the village as a whole. Darajani, an area of settlement where the main access road reaches Kipatimu, plays an important role in crop trade as will be described below and in 1999 was officially recognised as a separate village. Adjusting for this, the population growth of Kipatimu/Darajani was a little under 2 percent per annum between 1988 and 2002.

Lindi region, where the main study area is situated, had the lowest annual population growth rate of all 21 mainland regions in Tanzania between 1988 and 2002. Most of the variation between the regional growth rates is explicable by migration from rural areas to the rapidly growing towns and cities as well as the exceptional case of refugee inflows to Kigoma from the Rwandan conflict in 1994. If the four most urbanised regions are excluded along with Kigoma there remains a substantial gap between the population growth rate of the remaining regions and that of Lindi. Thus the population statistics match the popular conception of Lindi as a major source of urban migrants: the generic term

'*machinga*' used to refer to petty traders in Dar es Salaam is taken from the name of a Lindi tribe.

The Kipatimu growth rate then is below the national rate of nearly 3 percent but considerably above the district and regional rates. This is consistent with an understanding of Kipatimu as a centre of relatively high economic growth and opportunity, able to attract and retain residents amidst a wider setting of high out-migration to urban areas.

Mean household size in the study area was 4.8 persons which is the same as the level for mainland Tanzania, though distinctly smaller than the 5.3 persons per household found for the ward including Kipatimu, Darajani and eight neighbouring villages.



sources: (United Republic of Tanzania 1989, 2003), study data, author's calculations¹

¹ Kipatimu Village chart shows aggregated data for present day villages of Kipatimu and Darajani. Village data in 1988 census is presented in ten-year, rather than five-year bands for most ages. In these cases 1988 data is divided between relevant five-year groups and 2002 data averaged between groups to aid comparison. Similarly, the over 65 year old group is divided over the five corresponding age groups for comparison with the later data where the highest age group was over 85.

Figure 4.1 Population Pyramids

The distribution of the population in the study area by age is shown in Figure 4.1. along with national and village data for comparison. Two particular details in the study data will be noted here. Firstly, the relatively large sizes of the categories between 15 and 25. This is due mainly to the presence of the

secondary school, which attracts students from a wide area to come and stay with relatives or in rented rooms.

Another striking detail is the small number of young children below five years of age. Part of this may reflect actual trends in demography as discussed below. A systematic under-recording of this age group is however also likely to have occurred. Some way into the process of gathering data from households, it became apparent that my research assistant was not including all the very youngest children when enumerating residents. As discussed in the chapter on research methodology, I decided not to ask him to change this practice for a number of reasons. On balance this still seems to me to have been the correct decision even though it hinders the present examination of age distribution to some degree.

The general pattern visible when taking these population pyramids together is that the distribution of ages has been shifting between the broadly based pyramid that typifies rural areas and the more even shape found in towns and cities, with the study area population displaying features of each in 2001.

The dependency ratio¹ for Kipatimu village was 100.2 in 2002 having fallen from 119.0 at the time of the 1988 census. Nationally in 2002 the rural and urban ratios were 102.6 and 66.3 respectively. Calculation of a dependency ratio from the study data is problematic, given the question over the count of under five year olds. However, even if one adjusts this count upwards quite severely, for example under the assumption that the proportion of under five year olds matches the 1988 village figure, the ratio remains below 90. Based on the data as collected it was 81.9 during the study period.

4.3.2 Movable Property

Each household was asked about their ownership of a list of common durable goods, as well as of livestock. As discussed in the chapter on methodology, the aim here is not to attempt precise measurements of 'wealth'. Rather, it is to

¹ Calculated in percentage terms as (the number of people under 16 years old plus the number of people over 65 years old) divided by the number of people aged between 16 and 64 years.

collect and organise a set of readily verifiable and non-intrusive quantitative observations in a way that will be helpful in understanding variation in certain phenomena of interest, alongside other forms of data. For example, possession of a radio may tell us something about a person's past accumulation, about their current living standard and about their future ability to finance consumption or investment.

The table below in Table 4.2 summarises data on the ownership of selected goods and livestock. It is worth considering some of these items individually before turning to the aggregate measures of wealth derived from them.

Goods ¹	unit value	number owned per household				households owning	
	TSh ²	lower quartile	median	upper quartile	mean	number	%
tables	15,000	1	2	3	2.07	193	79.8
chairs	4,000	2	4	6	4.03	207	85.5
buckets	1,800	2	3	5	3.83	239	98.8
water butt	5,500	0	0	1	0.59	101	41.7
hurricane lamp	4,250	0	1	2	0.97	135	55.8
pressure lamp	16,000	0	0	0	0.07	16	6.6
electric torch	1,000	0	1	2	1.12	163	67.4
umbrella	2,000	0	1	1	0.97	148	61.2
hoe	2,000	2	4	6	4.06	228	94.2
panga or billhook	1,200	1	2	2	1.69	218	90.1
charcoal stove	2,000	0	0	1	0.59	113	46.7
kerosene stove	3,500	0	0	1	0.34	73	30.2
watch	2,000	0	1	1	1.14	178	73.6
clock	4,000	0	0	0	0.31	59	24.4
radio	10,000	0	1	1	0.79	164	67.8
cassette player	20,000	0	0	1	0.45	97	40.1
sewing machine	80,000	0	0	0	0.16	31	12.8
bicycle	60,000	0	0	1	0.37	78	32.2
Livestock							
hens	1,300	0.25	6	12	8.26	181	74.8
cocks	1,800	0	1	2	1.24	159	65.7
goats	15,000	0	0	0	0.60	15	6.2

source: study data

¹ The selection of goods and livestock is discussed in the methodology chapter.

² Typical local price during study period.

Table 4.2 Ownership of Selected Goods and Livestock

The most widely and uniformly distributed items are chairs, buckets and hoes. Given the likely scope for error in this data, the ownership of the latter two at least can be taken as universal. In a rural area this is not surprising. More striking is that only around 40 percent of households have water storage butts. During the dry season water often needs to be carried a considerable distance over hilly terrain and a water butt enables the timing of this task to be more

efficiently matched to labour opportunity costs. Moreover, during the rainy season precipitation can be stored, therefore eliminating the need to fetch water at all for substantial periods.

Moving from water to light, we can see that almost half of the households do not have a hurricane lamp and over 30 percent have no torch; in fact 25 percent have neither of these items. The implication is that many rely on the most common alternative, small naked wick oil burning lanterns made from old tins. In an area without electricity this means for many people that activity is tightly constrained by the hours of darkness. The ownership of heat providing appliances is similarly restricted, though if figures for charcoal and kerosene stoves are combined almost 51 percent of the households have at least one of these. Of course for all these energy using devices, possession does not necessarily imply use, as fuel or batteries need to be purchased.

Both the low ownership of water butts and of more sophisticated cooking equipment are likely to have an effect on health. Groundwater is often contaminated and a vector of disease; those who can harvest rainwater are able to reduce their exposure to this risk. Use of firewood as a cooking fuel is known to have serious long term effects, especially when done indoors, including on the health of young children carried by the person cooking. If improved stoves or cleaner fuels such as kerosene are used these risks are much reduced (Desai, Mehta et al. 2004; Bailis, Cowan et al. 2009).

It is interesting to note that the ownership levels of radios and cassette players are close to those of lighting devices and water butts, although these items are several times more costly to obtain. The only livestock that is widely kept is poultry. Only 25.2 percent of households did not report keeping at least one chicken, while a fraction under 24 percent of households have no livestock at all.

Using the local prices prevailing at the time of data collection, a total value for ownership of the 21 items in Table 4.2 was calculated in TSh terms. From these were derived two per capita measures, the first simply by dividing by household size, the second an adjusted measure where children under 15 were given a 0.5 weighting. The total value can assist in comparisons between

households of past accumulation and of resources available to the head of household, to the extent that they have agency over the disposition of these belongings. The adjusted per capita value may give a better indication than the unadjusted value in two areas. Firstly in describing the living standard available to household members now on the standard assumption that younger children consume less. Secondly in measuring the resources available for use per person, to the extent that control of these belongs is contestable and assuming that the youngest household members would have comparatively little voice in such contests. For these reasons, as well as for brevity and the fact that the adjustment does not greatly alter the distribution of per capita values, we concentrate here on the first and last measurements. Some summary statistics are presented in Table 4.3 and the distributions are shown in the following Figure 4.2.

The total value of listed items owned by households, which I will refer to as 'movable assets' here, ranged from just below seven thousand shilings to almost one million shilings. The adjusted per capita values lay between 3,400 shilings and somewhat over a quarter of a million shilings. To indicate the levels of these asset holdings relative to flows of income and expenditure, it is helpful to recall the national median per capita consumption expenditure for rural areas found in the 2000/2001 Household Budget Survey of 6,860 TSh per 28 days (National Bureau of Statistics 2002). Thus adjusted per capita accumulation in movable assets varied between two weeks and over three years in terms of median consumption.

The distributions of both total and adjusted per capita holdings were highly positively skewed. Both have long tails, as can be seen in the relatively compressed inter-quartile ranges. Carrying out the adjusted per capita calculation greatly reduces the ratio between the highest and lowest levels of asset holding, as measured by both the ratio of the maximum and of the upper quartile to the minimum. However, dispersion as measured by the Gini coefficient is not greatly altered, in fact becoming slightly higher.

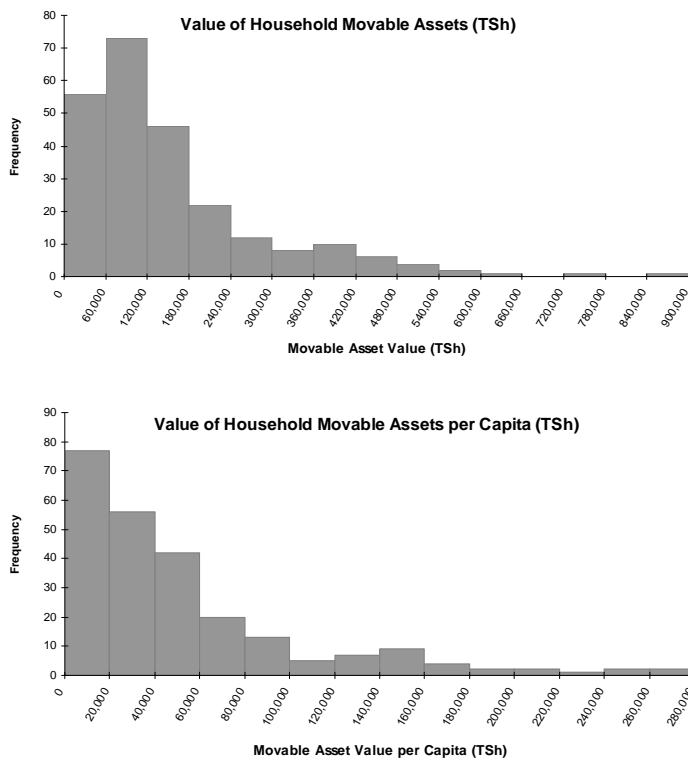
	Value of Household Movable Assets ¹ (TSh)	
	Total	Adjusted per Capita ²
Mean	154,963	51,848
Median	108,850	33,928
Minimum	6,800	3,400
Maximum	988,100	273,900
Lower Quartile	62,938	16,850
Upper Quartile	195,700	64,926
Maximum/Minimum	145.3	80.6
Upper Quartile/Minimum	28.8	19.1
Gini	0.446	0.497

source: study data

¹ Based on prices and ownership of items listed in **Table 4.2**.

² Total divided by (household size minus 0.5 times number of children aged below 15).

Table 4.3 Value of Selected Household Movable Assets



source: study data

Figure 4.2 Value of Selected Household Movable Assets

Another interesting feature of these distributions is the suggestion of bimodality. It appears possible that there are two superimposed distributions here, a larger population with a low centre and a smaller population with a higher centre in the 140,000 to 160,000 TSh range for per capita value. One factor which we

would expect to be related to the distribution of assets is the variety of economic activities engaged in by individuals.

Chapters 5 and 6 analyse in detail the study data on non-agricultural business activities. Anticipating this discussion, we consider here how households headed by individuals involved in such activities are located within the overall distribution of movable asset holdings. Table 4.4 breaks down the adjusted per capita figures by four groups of non-agricultural business activity along with cultivation and employment. While each activity will be described fully in the following chapter, here two points should be noted. Firstly, the ‘skilled self-employment’ and ‘trade and finance’ groups aggregate a number of different activities. For example, fish trading, credit provision and logging are all grouped as ‘trade and finance’ here. Secondly, a small number of activities that do not fit well into these groupings such as restaurant operation and milling are excluded entirely. Though these two points make for clearer comparison, there is also an ethical motivation for them. The author feels that the small numbers involved in some activities might enable the identification of particular individuals, were the data on each to be shown separately.

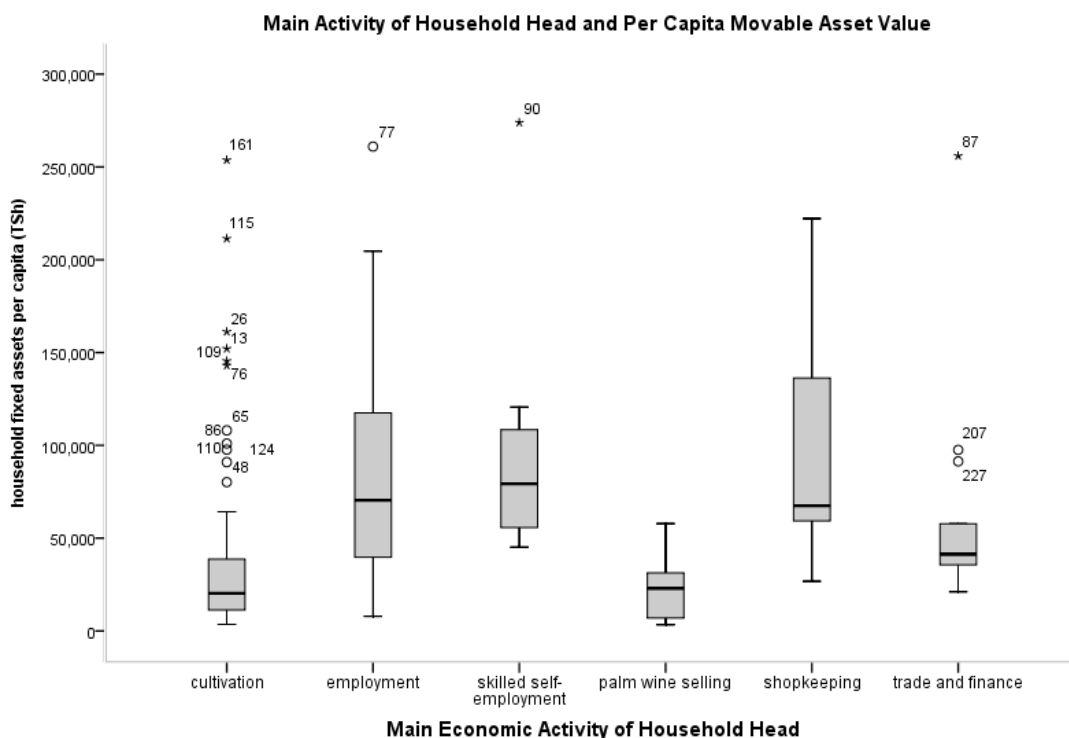
	Adjusted per Capita Value of Household Movable Assets (TSh)					
	cultivation	employment	skilled self-employment	palm wine selling	shopkeeping	trade and finance
Mean	32,474	80,833	99,673	23,098	93,083	64,437
Median	20,250	70,450	79,325	22,965	67,420	41,398
Minimum	3,580	7,860	45,150	3,400	26,736	21,150
Maximum	253,725	260,980	273,900	57,800	222,200	255,967
Lower Quartile	11,293	39,752	55,700	6,977	59,350	35,600
Upper Quartile	38,744	117,484	108,443	31,338	136,280	57,740
Max/Minimum	70.9	33.2	6.1	17	8.3	12.1
Upper Q/Minimum	10.8	14.9	2.4	9.2	5.1	2.7

source: study data

Table 4.4 Value of Selected Household Movable Assets by Main Head of Household Activity

Comparing households whose heads are involved in employment or non-agricultural business with those where the head is primarily a farmer, we see that the average per capita holdings of assets are considerably higher in almost all cases. The one exception is palm wine selling, where the median is only slightly higher, and the mean almost a third lower than for cultivators.

While most measures of dispersion within groups are lower than for cultivating households¹, there is clearly a wide range of asset holding values among households with heads involved in each activity. The boxplot in Figure 4.3 shows more fully how the distributions of asset holdings in each group compare,



source: study data

Figure 4.3 Value of Selected Household Movable Assets by Main Head of Household Activity

While this figure appears to confirm the low level of asset holding associated with palm wine selling relative to other businesses and employment, it also illustrates the need for caution in interpreting these aggregate quantitative data. There are many instances where household heads are involved in more than one business, either simultaneously or sequentially. Thus there is substantial overlap between the groups. In particular some successful entrepreneurs were also among the larger palm wine sellers but were not counted in that category here. The limitations of the asset valuation method already discussed are also

¹ unlike the previous table, small numbers within some groups meant that the Gini was not a useful comparison.

salient. As we will see in the following chapters, there was also reason to believe that individuals involved in palm wine selling and some other businesses were likely to have their actual levels of asset accumulation undercounted more significantly than others.

4.4 Institutions

4.4.1 Scope

This section begins the analysis of how economic strategy and accumulation in Kipatimu is related to institutions. It maps out the main institutions found to be relevant in answering the research questions, showing how the concept of institution has been applied in each case and presenting some of the most important relationships with economic activity.

In Chapter 2 above, the varied conceptualisations of ‘institution’ in writing on economic development were surveyed. The definition of ‘institution’ to be used in this thesis was stated as

Something that provides rules which both guide the behaviour of individuals in economic transactions and which it is in the interest of a sufficient number of individuals, on sufficient occasions, to follow (Subsection 2.6.2)

where ‘sufficient’ is taken to mean ‘sufficient for the institution to persist over time’.

As discussed in Chapter 2, this definition has the advantage of applying to a number of phenomena of interest, as the ‘something’ does not have to be a formally constituted or even a deliberately designed entity. However, a potential drawback of this wide definition is that it may be made to include anything and everything, so offering very little advantage in interpreting observations.

The remainder of this section presents the most important of the phenomena which have been interpreted as institutions in this study. The institutions are dealt with in the following order. Firstly ‘formal institutions’, which have formal, written, constitutions. Secondly ‘semi-formal institutions’ which are less formally constituted but nevertheless deliberately created and maintained by human

agency. Thirdly 'informal institutions' which are neither formally constituted nor deliberately designed.

4.4.2 Formal Institutions

On the wall behind the desk in the office of the Kipatimu Hospital administrator is a large diagram entitled 'Organisational Structure'. It shows a small box at the top labelled 'administrator' connected by a line to a larger box underneath labelled 'doctors, nurses and other staff'. While this diagram reveals more about the administrator's wry sense of humour than about the official arrangement of responsibilities and authority in the hospital, it does illustrate two ideas that are important here.

Firstly, although the literature surveyed above generally conceptualises an institution as a structure of rules applied to a population of homogenous individuals, applied analysis of a particular institution often begins by explaining a structure of individual roles, to which a set of rules apply. As noted in Chapter 2, the idea of 'institutions' used in this study places much greater emphasis on the differential effect of individual position within institutions than is common in the literature surveyed. Thus, the introduction of Kipatimu institutions here starts in each case with an account of 'organisational structure'.

Secondly, the administrator's ironic wall chart reminds us that formal structure may well not give a complete or accurate picture of effective structure. Hence as well as considering the regulations that officially govern a formal institution, we need to consider the informal rules that may develop within the institution and how the rules of other institutions may interact with the first institution's own rules.

The formal institutions considered in this section are: the state, the mission/hospital, organised religion and political parties.

The State

A full analysis and evaluation of government functioning within the study area is beyond the scope of this thesis. The aim here is to introduce the most salient features of state involvement in the area and to show how an institutional

interpretation of the state can help understand its relationship to local economic activity.

There are two state governance and accountability systems, the national and local. Nationally, all adults are able to vote for a local Member of Parliament as well as for the directly elected President. Central executive agency is vested in regional and district commissioners (RC and DC), both directly appointed by the president.

The local government system has several layers which are interlinked and reach down to a scale of only a few dozen households at the smallest *kitongoji*¹ level. Voters in these *vitongoji* (plural) choose a *kitongoji* chairperson. At the village level, voters elect a village chairperson and other members to form a village council on which the chairpersons of the village's *vitongoji* also sit. Kipatimu Village, which contains the survey area, along with nine other villages makes up Kipatimu Ward. At this level all voters elect a single *diwani*² who chairs a ward development committee that includes the village chairpersons as members. The *diwani* also acts as the ward representative on the district council in Kilwa Masoko.

A hierarchy of executive officers is interleaved with this elected structure, all appointed and paid by the district council. Village executive officers (VEOs) act as secretaries to the village councils and sit on ward development committees. Ward executive officers (WEOs) chair these committees, answering to a district executive officer (DED). In addition the WEO is supposed to help coordinate the work of specialist technical staff such as the agricultural extension officer and the health officer, who are managed by the DED.

The RC, DC, DED and MP are based outside Kipatimu village, in Lindi, Kilwa Masoko and Dar es Salaam. All the other elected and non-elected personnel mentioned above reside within the study area and were included in the survey of households.

¹ *kitongoji*: sub-village or hamlet

² *diwani*: councillor

In addition to these national and local government structures, there is also a primary court in Kipatimu. During the study period there had been no police presence in the area for several years.

Now we can turn to the question of the rules that characterise these state structures as institutions in the sense of the definition restated above. The interaction of state institutions with economic activities in Kipatimu takes many forms. These include for example the provision of services such as road grading, education and the protection of property rights. On the side of obligations, there are taxes to be paid, licences to be bought, inspections to be passed and regulations to be satisfied.

The account of state structures just given is only an outline of the major features rather than an exhaustive directory of state organisation in the study area. Similarly it is neither possible nor necessary to catalogue all institutional rules here; instead we consider some of the more important of those relating to local economic behaviour. Further discussion of these rules, along with others, follows in later sections and chapters. In particular education is left for separate consideration below as an institution in its own right.

rule	who has to follow	enforcement?
do not steal	all people	ward executive
give labour on nation-building days	heads of all households	hamlet chairperson
pay PAYE income tax	formally employed workers	employer
buy business licence	small business owners	ward executive
collect small business taxes	tax collecting official	village council
apply business regulation correctly	licensing and inspection officials	ward executive
witness and enforce contracts	hamlet chairperson	village executive

Table 4.5 Some Institutional Rules of the State

Table 4.5 lists some state rules which relate to economic activity and which feature often in the responses of concerned interviewees during the study. The first column gives a brief description of the rule. In the second column we see the interaction between rule and structure that distinguishes the approach here. Only the first rule listed applies equally to all people in the study area. The following three rules only apply to certain groups: only heads of households are liable for their household's contribution to 'nation building' activities such as road clearing days; people who do not run a business do not need to buy a licence. The final three rules only apply to specific individuals: only if you

occupy a certain position within the state structure are you supposed to issue licences for example.

The first column then offers rules which can be said to 'guide the behaviour of individuals' and the second specifies which individuals are so guided. In our definition of institution the questions remain as to whether, why and when it is in the interest of these individuals to actually follow this guidance. To answer such questions we need to understand how rules are enforced. A common feature of formal institutions is that particular agents are identified as having responsibility for enforcing each institutional rule. Although this is complicated by the fact that responsible individuals are normally answerable to others in turn, column three in the figure abstracts from this hierarchy by listing the agency with immediate responsibility for enforcement. As is clear from the earlier discussion of literature, this is only a starting point however. The identification of an initial enforcer immediately raises the question of why they carry out this enforcement correctly. One answer is a succession of enforcers and here this would correspond to the hierarchy above the enforcement agent listed in column three. In Tanzanian local government this is complicated by the fact that executive officers have dual responsibility, answering both to the executive hierarchy below the DED and to the council of elected officers at their own level. A second possible answer discussed in Section 2.6.2 was that there may be a role for mutually reinforcing beliefs of each agent about the action of others such that conformity becomes the best strategy for all agents, as in Nash equilibrium.

The study data can help decide whether such reasons for conformity could be at work in the case of the state as an institution in Kipatimu. Firstly, we cannot simply assume that individuals who are meant to follow formal institutional rules such as those shown in Table 4.5 in fact know of their existence. The following table addresses this point.

K15 ¹ farmer and palm tapper	To avoid dishonesty it is possible to go the court and get them to witness contracts. There is no charge for this ² .
K131 mdafu seller	If necessary you can go to the Kitongoji chairperson with witnesses to get customers to pay for their drinks.
K150 kitongoji chairperson	All are expected to turn out when nation building activities such as brick making or road clearing are announced. All citizens must attend village meetings. Finance reports are read to citizens to that use of taxes and other contributions is made clear and open to scrutiny.
K245 shopkeeper	Business licence is issued by the government office in Kilwa Masoko on payment of 30,000 TSh fee.
K117 mdafu seller	There is an annual inspection to check toilets and general hygiene of premises.

¹ Informants are referred to by number from K1 to K276 for residents of the Kipatimu study area.

² Statements are given in reported speech except where quotation marks are shown.

Table 4.6 Statements on State Rules: Content

Actors were generally well informed about state rules that had relevance for their economic activities. Interviews and other exchanges contained many references to such rules of the kind shown in Table 4.6 above. As well as awareness of rule existence, we also need to consider individuals' views on the degree to which such rules were conformed to and enforced; these were more varied. Some instances are presented in the following Table 4.7. Although there were many such statements recorded during the study, indicating widespread belief that state rules are not always followed or enforced, it would however be simplistic to conclude that local people saw the state as uniquely unhelpful or even obstructive to their economic aims.

K7,3,12,47 farmers	You have to pay bribes to get a case to court. Even then they may abscond, then turn up and insult you.
Division Secretary	(At village meeting). These meetings are not held often enough and the attendance is too low. People should be fined.
participants at village meeting	What has happened to our contributions to the primary school repair fund? Will you have X and Y, known thieves, arrested? When will the police station be built now that contributions have been collected?
K113 mdafu seller	When you go to Kilwa Masoko to get a business licence they ' <i>zungusha</i> ' (deliberately delay and inconvenience) you.
K301 café owner	Bribes can be requested for the annual health certificate.

Table 4.7 Statements on State Rules: Conformity and Enforcement

This observation raises the question of a third way of understanding rule enforcement within institutions that featured in the earlier theoretical discussion. Rules may be enforced by the actions of particular enforcers, or by a Nash equilibrium of belief and actions. The third mechanism proposed was that conformity with the rules of one institution can be in part assured by the influence of other institutions. These other institutions could be conceived of as lying 'above' the first institution as in the hierarchy of North, or alternatively as being interlocked as in the less linear model of Aoki.

Instances of interaction with other local institutions arise as further institutions are introduced in the remainder of this section. At this point however there is one overarching institution, in North's sense, that warrants mention; that is, ideology. For many African countries the period since the 1980s has seen a shift from socialist to more pro-market policies. In the Tanzanian case both the starting point of Nyerere's African socialism and the extent of recent liberalisation have been towards the respective limits of this spectrum. At the level of national discourse and action the movement from Arusha Declaration to a position where an IMF report holds that 'Twenty years of successes have made Tanzania one of the leading reformers in Africa.' (Nord, Sobolev et al. 2009 p. 7) is clear. For the current study though there is a need to understand

how changing national ideology affects local economic activity, both directly and through the behaviour of state institutions. Does *Ujamaa* have any remaining influence in a twenty first century village?

Statements such as those shown in Table 4.8 suggest that this ideology still has a presence at least in the language used to discuss economic activity. Again though, one would not be justified in inferring from this that state agents actually behave in ways that can be described as uniformly or predominantly anti-business. For example, the same kitongoji chairperson that talked of 'ulanguzi'¹ also described with some pride how well his service of witnessing and enforcing money-lending contracts worked in ensuring compliance by borrowers. These services were widely seen to be helpful by business people of various kinds. Similarly, of 16 business people asked about the need to obtain an annual licence, only two mentioned significant difficulties with the process such as deliberate delay or demands for side-payments.

The remains of *Ujamaa* were most often found in the discourse of poorer farmers on the one hand and of government leaders from balozi to MP on the other. Given that the former group represent the bedrock of the ruling party's political support it appears possible that the public pronouncements made locally by government leaders are aimed at this constituency. The actual behaviour of these agents in shaping and enforcing local state institutional rules was often more in line with the new national ideology of encouraging the private sector than with their more populist remarks. The MP after all was himself a successful businessman at the head of a company registered in his own name.

¹ See Table 4.8 footnote 1.

K232 shopkeeper	There was a system of business owners having meetings with local government but as this turned out to be a case of receiving orders rather than discussion we lost interest.
K150 kitongoji chairperson	Local business people are engaged in 'ulanguzi ¹ tu', they sell above the proper 'government price' or 'normal price'. On social differentiation: 'lazima tupitane (some must get ahead)' but it will cause problems.
K71 farmer militia guard	Group businesses are better than individual ones. Government loans are not for individuals. If an individual hires workers instead of forming a cooperative group 'the project has already died'. The economy is 'going backwards... ..each person is looking after their own interests'.
K132 fundi ²	[when asked why he does not charge others who share his workshop] I don't want to 'nyonya ³ ' their strength.
MP speech May Day Celebration	Local business people refusing to contribute to building the village office are trying to confuse us and sow disorder. They will be expelled or refused licences. We will prohibit the private trade in oranges and arrange a fixed price for them. The practice of lending money against the sale of crops will be banned and those who have already borrowed will be able to pay back the money without interest.
K4 farmer	People who lend you money before the harvest season against your orange crop sales exploit you ('nyanyasa ⁴ ').
K222 mdafu and beer seller trader	[when asked somewhat leadingly whether the restriction of state loans to groups rather than individuals is a remnant of <i>Ujamaa</i> ideology] 'ehhhh! Yes!'

¹ The term 'ulanguzi' or 'exploitative trading' was prominent in Nyerere's critiques of private trade ('tu' means 'just').

² 'fundi' is an extremely useful term that encompasses many kinds of skilled work such as building, electrical repair, carpentry, vehicle maintenance or metal-working.

³ 'nyonya' or 'suckle' is another term frequently used to condemn capitalist exploitation under Nyerere. It was also used several times in the study period by people referring to the activities of market intermediaries and money-lenders.

⁴ 'nyanyasa' or 'exploit' is yet another word familiar from *Ujamaa* era writings.

Table 4.8 Statements on Economics and Ideology

The state as institution features often in the remainder of this thesis. To conclude this initial examination we consider briefly two categories of action that are often used to discuss its role in supporting economic activity: the protection of property rights and the provision of public goods.

The enforcement of simple, written contractual obligations has already been mentioned. In this area local business people appeared to have confidence in the services provided by government agents and the primary court. However, for more involved transactions such as employment relationships or long distance trade, where contracts are likely to be implicit and incomplete, far less faith in state enforcement mechanisms was reported. As will be seen, the rules provided by other institutions were more often used to solve problems of credible commitment in such cases.

Finally, a single public good was reported as being both of great importance and as being extremely unsatisfactory by virtually every person who contributed to this study; that is, the road leading from the village to the main coastal road some thirty miles away. Such poor roads, impassable for much of the year, are a feature of many places in Tanzania and analysis of the financing and management of road maintenance is beyond the scope of this thesis. The limitations on economic activity imposed by the lack of good road access are clear in the evidence presented below. Here I will only observe that the road and assertions over the responsibility for its condition are prominent in local discourse on state performance.

The Mission and Hospital

The origins of the mission¹ just before the outbreak of the *Maji Maji* war, its subsequent provision of health services, education, employment, infrastructure and communication, along with its role in shaping the long term distribution of property and influence were described in the outline of local history above (4.2.2). Here we discuss the mission as an institution during the study period.

¹ Unless otherwise indicated I use 'mission' to include the hospital to avoid repeating the cumbersome phrase 'mission and hospital' unnecessarily. Strictly speaking the hospital is controlled by the Lindi diaspora rather than the local mission.

If the list of mission activities and effects above seems wide, this does not belie its prominence in local discourse. The collected evidence suggests that only the state, among the deliberately constructed institutions considered here, exceeds the mission in its significance for economic activity. Having made this observation, it is true that much of this significance is due to actions in the past, such as training. It is also the case that the size of the mission and the scope of its activities was much reduced by the time of the study. Informants consistently associated this contraction with the departure of Swiss Capuchin priests and the transfer of the mission from the Dar es Salaam to the Lindi Diasis, both in the mid 1980s.

The physical presence of the mission with its cluster of large stone buildings at the highest point of the village remains imposing. There is a substantial church, priests quarters, a large compound with rooms for nuns where 'domestic' education is offered to local girls, garages, workshops, a laundry and a barn. Near to these buildings is the 42 bed hospital, founded in 1952 by Swiss doctors. Approximately one mile to the north is the Asisi centre for the care of lepers, also run by the mission. During the 1960s and 1970s there were reportedly a number of tractors and Land Rovers operated and maintained by the mission. Running water was provided by a pump in the nearby valley and all buildings were electrified. Local people claim that electricity was distributed to other areas of the village but that the wires were stolen during the 1980s. This is supported by the still visible remains of poles and fittings. At Mkarango, some miles to the south, a large area of flatter land was cultivated with tractors and hired labour.

By the time of my first period of residence in Kipatimu, as a teacher in the secondary school from 1993 to 1995, there had clearly been change. Electricity and running water were restricted to the core mission buildings and only then for short periods. There were four working motor vehicles, a tractor, a Land Rover, the hospital Land Cruiser and the priest's motorbike. When data collection for this study began six years later, only the hospital vehicle and the motorbike were usable. Most of the buildings are clearly in need of extensive maintenance work and some, like the former cattle sheds and milking parlour,

have begun to collapse entirely. There is little remaining cultivation: none beyond the village and only a small amount on the mission's own land in the valley, much of which is rented out. Two cows and a small herd of goats were kept during the study period. The workshops and laundry were abandoned but the domestic school was still operating. The hospital is still managed by the church but financially dependent on the state; the Health Ministry provides a running costs grant, pays the wages of trained staff and seconds additional personnel such as the Rural Medical Assistant.

Such then were the activities and resources of the mission during the study period. We can now turn to the question of how the mission may be understood as an institution by considering its rules. Some examples are set out in Table 4.9.

rule	who has to follow	enforcement?
carry out duties honestly	hospital staff	administrator, diasis
pay for consultation or admission	patients	senior duty nurse
raise funds for own salary	priests	self-enforcing
do not build permanent structures	tenants in village centre	parish priest
belong to the Catholic church	all people	service gatekeeper

Table 4.9 Some Institutional Rules of the Mission

The first two rules here have related economic implications. It was a commonplace that treatment at most government hospitals, particularly in Dar es Salaam, was likely to be extremely expensive because of the necessity of side-payments to staff. However, no informant ever reported such demands for payment beyond the official rates being made at the Kipatimu hospital. Moreover, these official rates were low, at 400 and 1,000 TSh for a consultation or admission respectively, and much lower still for children. This implies that, for most people the need for medical care only became a very serious financial problem when it necessitated referral to another hospital in the capital or elsewhere.

During the study period, the Catholic church in Tanzania introduced a policy whereby the salaries of many parish priests were no longer funded centrally but had to be raised by congregations. This meant that the Kipatimu priests had to try to raise church attendance and induce greater donations, as well as

increasing their own income earning efforts in agriculture or other activities. Of course, this rule does not need external enforcement.

As well as the area around its main buildings and the valley below on the north east, the mission also owns most of the land along the ridge that forms the centre of the village. It was thus the landlord for almost all the shops and other businesses situated there, along with a number of houses.

The last rule shown in Table 4.9 stands out in some important ways. It is by far the most general. It is also widely broken, as many local people are not Catholics. In fact it is hard to claim that this rule plays any part in the mission institution *in the present*. On the other hand, there is continuing controversy, with effects in the present, over the question of whether this rule was in existence and enforced in the past.

Apart from the last, there is little question as to the awareness of these rules among the people they concern. In the case of the last rule, any mention of it was always in the context of an assertion that it was or was not enforced. For these reasons I combine the examples of statements made by informants on content, conformity and enforcement into a single table in Table 4.10.

The statement by shopkeeper K244 typifies many remarks made when discussing local history to the effect that the mission declined because after Tanzanian priests replaced European missionaries from the 1980s on they 'ate' all the funds and property. It is not within the scope of this study to assess the actual causes of mission contraction but it seems proper to note again here that this has been associated with a large decrease in central resourcing as well as a change in the nationality of its management.

The well paid mission employee has used this income to do very well in business, as will be seen. This case of favouritism was not the only mention of departure from proper procedure on the part of the manager concerned, who was subsequently transferred.

K244 shopkeeper	A Tanzanian priest [in the 1990s] ran a business selling excess mission milk with me helping him but he had to leave because of jealousy.
K303 Hospital Administrator	Because of favouritism by a departed manager, X [a staff member] has higher pay than any similar employee in the Diasis... ... There have not been allegations of religious discrimination. The staff are a mix of Muslims and Christians, with more of the latter for historical reasons.
K46 elder farmer	My daughter was born a Muslim but had to convert to Christianity in order to attend the middle school [then run by the mission].
K60 farmer, ex mission employee	In the late 1930s got work at the mission but told by Brother that he would have to 'eat pork'. His Islamic father would not let him be sent by the mission to Mahenge to study for the same reason. Subsequently converted to Catholicism.
K114 ex mission carpenter	Dutch priests who arrived in the 1960s wanted mission to employ both Christians and Muslims. The church council voted to expel them.
K161 elder, retired urban factory employee	Is a member of the mission 'committee of rights and peace'. This advises people, for example, who do not attend church or who live together without marrying. Also a member of the local church group for his street which holds regular prayer meetings, raises church funds and has helped to unify the local Christians.

Table 4.10 Statements on Mission Rules: Content, Conformity and Enforcement

From non-Catholics and Catholics alike, a number of statements such as the penultimate three in Table 4.10 were made to the effect that non-Catholics were excluded in the past from services or employment provided by the mission. There was no evidence gathered in the study to contradict the view of the Hospital Administrator that claims of discrimination were not being made at the time of the study. However, given the importance of these past mission services for current levels of education and property it seems likely that the existence of this theme in local discourse concerning historic injustices may be significant for present norms. For example, a norm of church attendance among the many people who have materially benefited from mission activity

may exist if this discourse affects the beliefs of such people about expectations of their behaviour held by others.

This example provides an important illustration of the distinction between 'norm' and 'rule' as these terms are being used in this thesis. It is important because it emphasises the aim of this analysis to avoid an 'over socialised' interpretation of behaviour in the sense of Granovetter¹ (Granovetter 1985). According to this study's definitions, both 'norms' and 'rules' may exist where some proportion of people do not follow them, provided a sufficient number of people do conform. The difference is in the reasons for conformity among those who do so in each case. For an action to be prescribed by a norm requires that an agent has certain beliefs about the expectations and perhaps intentions of others. Whether, or in what sense, these beliefs can be said to be justified, is not specified. If an action is to be prescribed by a rule though, then conformity should actually be in the interest of the agent. That is, an agent may follow a norm on the basis of beliefs about the relative consequences of conforming versus non conforming which are not justified. When an agent decides to follow a rule on the other hand they are better off than if they do not follow the rule.

Suppose that church attendance is a norm but not a rule. This implies that there are a sufficient number of people who believe church attendance is in their interest to support the norm's existence. As attendance is not a rule however there must also be an increasing number of people for whom it is not actually in their best interest. To claim that this norm can continue over time, we would need to explain how the norm sustaining beliefs can survive in this situation. Are these beliefs obtained by some process describable as upbringing, socialisation, education, cultural self-identification or the like, and hence so obdurate as to resist contradiction by evidence? Or is it possible that even as circumstances change so that it is no longer in the actual best interests of people to attend, they remain unaware of this?

The interpretation presented in this thesis does not seek to deny that such 'socialised' beliefs can ever lead to the persistence of behavioural patterns beyond the point at which they are beneficial for the individual agents holding

¹ See the literature review in Chapter 2.

these beliefs. Without advocating the more extreme doctrines of perfect information and unbounded rationality however, the analysis here does remain economic in emphasising the importance of people's attempts to make choices with preferable outcomes. This approach may allow that people could continue attending church for a period when it no longer made material sense to do so because access to mission services no longer depended upon it. The approach would be inclined to expect though that this period would be limited by a tendency of people to find out that non-attendance was no longer costly and to act accordingly. Where patterns of behaviour are observed to continue over time then, this study asks first whether there exists a useful interpretation of this behaviour as consistent with outcome optimisation by agents. In my view it is this emphasis, rather than a greater use of formalism per se, that most critically distinguishes the 'new institutionalist' approach from the 'old institutionalist' appeal to habit of Veblen¹.

In the case of the mission the persistent regularity of behaviour to be explained is associated with the last rule listed in Table 4.9. The evidence seems to suggest that this may have been an institutional rule of the mission in the past but not by the time of the study period. There remains however a cluster of behaviours such as regular church attendance, self-identification as Christian and donations among a substantial proportion of local people. Given the decline of the mission's ability to offer material patronage documented already, enforcement by gatekeepers such as priests, doctors and teachers can no longer function. Has this last rule declined to a residual norm, in which case, as discussed above we might expect the behaviour described to fade over time?

Returning to the evidence, the statement by K161 in Table 4.10 suggests that there is at least some basis for describing this behaviour as guided by a current institutional rule. The first part of the statement tells us something about rule content and that efforts are made to inform at least some people about this. The second part is where we find a clue as to how the rule may be enforced, which is related to the third rule in Table 4.9 about the self-funding of the mission priests. As the introduction of this rule was announced by the Church in

¹ See the literature review in Chapter 2.

2000, the Kipatimu priests responded by encouraging the setting up of many small church groups around the parish. One function of these groups was to collect funds from members. Collection and attendance figures for every group were then announced during Sunday services. For each individual, pressure to conform from others such as co-religionists or kin was thus shifted from the relative anonymity of a whole congregation context to a highly visible and personalised small scale group of neighbours. During the study period, both contributions and attendance seemed buoyant. To this extent it appears that as a response to falling resources there has been a shift from central enforcement to a system of mutually enforcing rules governing both priests and people with at least partial success. Of course, the appeal to 'pressure to conform from others' shifts back the burden of explanation rather than achieving any kind of closure. Whether this burden must be assigned to norms governing personal relations however, or given an interpretation in terms of enforced rules depends upon the understanding of further social institutions such as kinship to be discussed below.

Education

There are two state run schools in Kipatimu, one primary and one secondary. The primary school was founded by the mission in shortly after the *Maji Maji* war and taken over by the government in 1963. The secondary school was started by the government in 1990 using the site of the former mission middle school which operated until the mid 1980s. At the time of the study there were 772 pupils enrolled in the primary school. Following the abolition of primary school fees that year's Standard 1 was much larger than normal, with almost 300 pupils. In theory the secondary school has 320 pupils with two classes of 40 in each year. However, attrition rates are high; in 1999 for example only 69 and 40 pupils were present for the national examinations at the end of Forms II and IV respectively. There was particular concern about the new Form I class at the beginning of the study period, as only 42 out of 80 had reported.

Although institutions are being conceptualised primarily as systems of rules in this study, the discussion of the state and mission has attempted to show that understanding rules cannot be abstracted from other characteristics associated

with institutions as observed phenomena. The importance of identifying those who are to follow any given rule and those who may act as enforcers means that we have to describe institutional structure. The role that they may play in rule enforcement makes it important too to consider the resources whose control is influenced by institutional rules: witness the changing nature of the mission institution as its property and income has declined.

	Kipatimu study area		Mainland Tanzania	Rural Tanzania	Urban Tanzania (ex Dar) ¹	Dar es Salaam
Level of Education	adults ²	%	%	%	%	%
No Primary ³	128	17.2	27.3	31.3	14.2	8.5
Some Primary ⁴	97	13.0	11.9	12.8	9.8	6.4
Primary Completion ⁵	376	50.5	53.8	52.5	57.6	60.6
Some Post Primary ⁶	56	7.5	0.6	0.4	1.4	1.6
Secondary (Form IV) ⁷	68	9.1	4.6	2.2	12.7	14.9
Post Secondary ⁸	20	2.7	1.8	0.7	4.4	8.1
Total	745	100.0	100.0	99.9 ⁹	100.1	100.1

sources: study data and (United Republic of Tanzania 2002) with author's calculations

Table 4.11 Adult Educational Attainment in Kipatimu and Tanzania: Highest Level Reached

¹ Refers to all urban areas in Tanzania excluding Dar es Salaam.

² All figures refer to adults defined as individuals aged 15 years and over.

³ Has not completed Standard 4.

⁴ Has completed standard 4 but not 7.

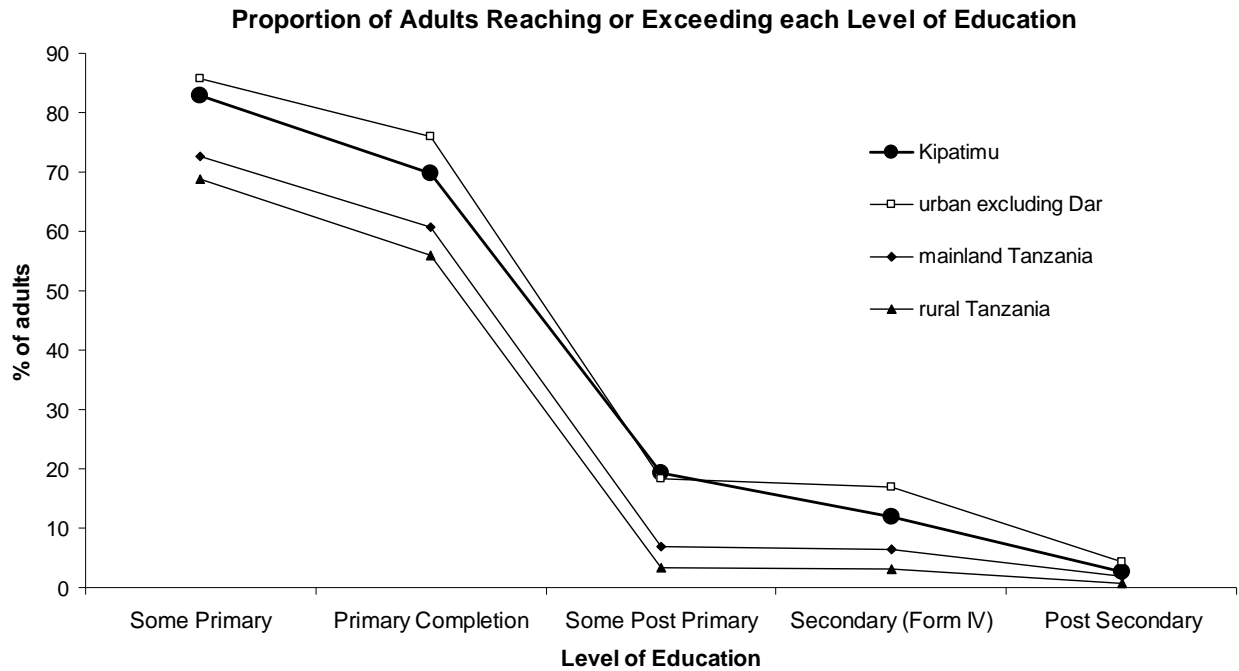
⁵ Has completed standard 7 but no higher level.

⁶ Has completed some post-primary level below Form IV.

⁷ Has completed Form IV but no higher level.

⁸ Has completed level above Form IV such as Form VI, diploma or degree.

⁹ Percentage totals are not exactly 100 as each entry is rounded to 1 d.p..



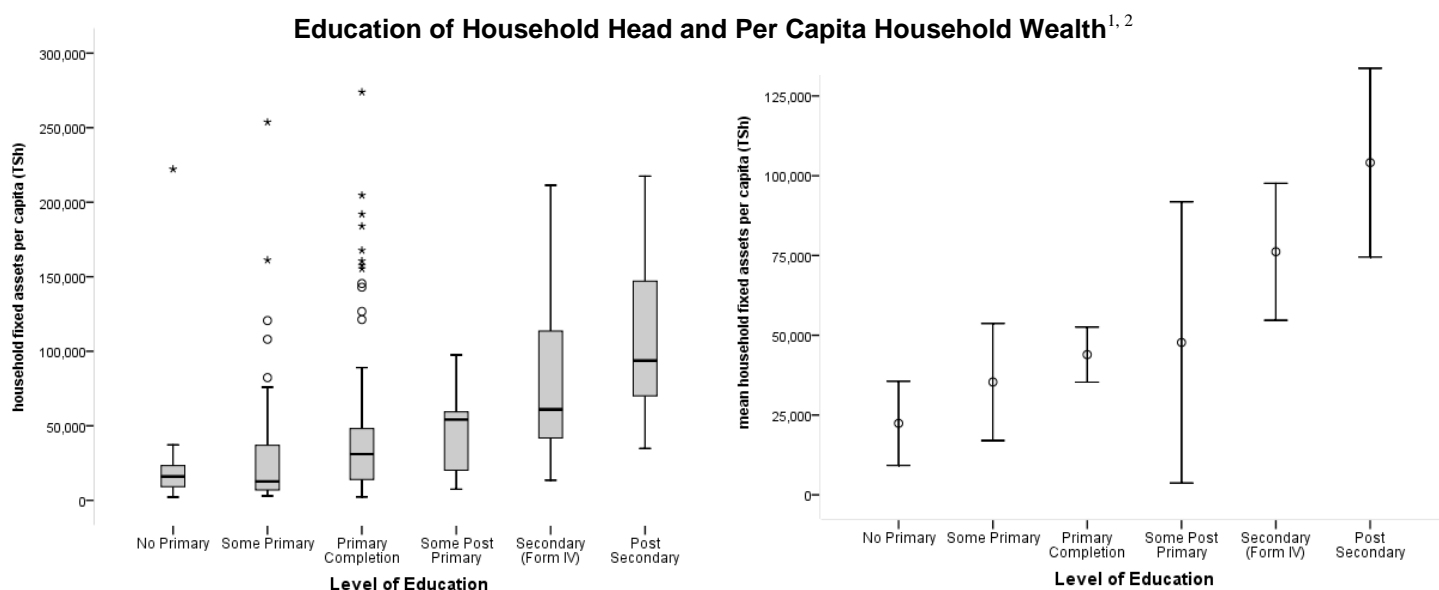
sources: calculated from Table 4.11

Figure 4.4 Comparison of Educational Attainment in Kipatimu with National Statistics

In the case of education, such resources include the buildings and the secondary school lorry which are sometimes used by non-school individuals and groups. The main resource however is the education received by students, whether this is valued for the effects on the individuals themselves such as increased knowledge and personal development, the acquisition of qualifications, relationships established or any other reason. Table 4.11 shows the distribution of education among the adult population as measured by the highest level reached, comparing the study area with national statistics for the same period. It can be seen that the proportion of adults who have completed secondary school is considerably higher than for most rural areas and almost twice the national average.

The relatively high level of education attained by adults in the study area is shown more clearly in Figure 4.4. A greater proportion of resident adults have obtained each level of education up to and including post-secondary than in both rural and mainland Tanzania. Educationally, the population 'looks like' urban areas outside of the commercial capital more than the rural centre which

features such as its size, population density, level of services and poor communications links otherwise suggest.



sources: study data.

¹ Eleven households where all residents are current secondary school students excluded.

² Right hand chart shows 95% confidence intervals for the mean.

Figure 4.5 Household Head Educational Attainment and Per Capita Household Wealth

If decisions to conform or not to conform with institutional rules are influenced by their implications for access to these educational resources, then it seems reasonable to consider whether part of this influence may be due to an association between access to educational resources and the acquisition of material resources. The measure of per-capita household wealth described in Subsection 4.3.2 above provides a means of doing this. Figure 4.5 shows two charts that plot educational attainment by household head against this measure of per capita household ownership of fixed assets. The box plot of individual household holdings on the left and the 95 percent confidence intervals for mean holdings shown by the error bars on the right suggest a positive relationship¹. What is more, the differences are large: compared to a household head who did not reach Standard 4, the mean per capita wealth of a household head who has completed primary education is almost two times as high; for those who complete Form IV it is over three times as high and for post

¹ The Spearman's correlation coefficient is significant at 0.1%.

secondary education it is over four times as high¹. Given these large differences, it is unsurprising that expressions of the intent to educate children were made across all categories of interviewee, whether grouped by occupation, gender, wealth, religion or own education.

In Subsection 4.3.2, examination of asset holdings according to the different economic activity of household heads provided clear evidence of some relationships. Table 4.12 likewise shows that the distribution of education varies considerably between the same six economic activity groups. Unsurprisingly, education levels among the 'employment' group are the highest. This group includes a doctor, nurses and teachers for example. It is interesting to note, however, that while palm wine selling is below the education levels of the other non-agricultural activities as was the case for asset holding, it is distinctly above the level for cultivating households.

Level of Education ²	cultivation %	employment %	skilled self- employment %	palm wine selling %	shopkeeping %	trade and finance %
No Primary	23.5	0.0	0.0	8.3	8.0	14.3
Some Primary	21.2	6.4	22.2	8.3	4.0	14.7
Primary Completion	40.9	40.4	77.8	83.3	68.0	49.2
Some Post Primary	9.1	2.1	0.0	0.0	4.0	6.7
Secondary (Form IV)	4.5	23.4	0.0	0.0	16.0	9.2
Post Secondary	0.8	27.7	0.0	0.0	0.0	5.9
Total %	100.0	100.0	100.0	99.9 ³	100.1	100.1
Total Households	132	47	9	12	25	13

source: study data

Table 4.12 Adult Educational Attainment and Main Activity of Household Head

¹ The figures are 22,400 TSh, 43,900 TSh, 76,200 TSh and 104,100 TSh respectively to the nearest hundred shilings.

² levels defined as for previous Table 4.11.

³ Percentage totals are not exactly 100 as each entry is rounded to 1 d.p..

Among the formal educational institutions, the rule with the most obvious economic implications is the requirement for secondary students to pay fees following the abolition of primary school fees in 2000. Table 4.13 summarises this along with some other economically significant rules. Payment was

theoretically due in two instalments at the beginning of each term. In practice students were granted a great deal more leeway, although they would periodically be sent home to 'follow' their fees when the Ministry of Education or visiting inspectors put pressure on the school to improve collection rates. A harder constraint came with the need to be up to date with fees before officially graduating. During the study, all primary parents were being asked to contribute towards building maintenance, though a local government official stated that poorer families were being excused.

rule	who has to follow	enforcement?
attend regularly	students	teachers
attend regularly and carry out duties	teachers	head teacher
provide labour and other resources ¹	students	teachers
contribute to maintenance fund	parents of primary students	school board
pay 40,000/- per year fees	parents of secondary students	head teacher

¹ students of primary and secondary schools are often told to bring to school a pile of firewood, a number of palm leaves or similar items

Table 4.13 Some Institutional Rules of Formal Education

Attendance rules have economic consequences for both students and teachers. The salaries of teachers provide a fairly reliable source of income that can be used as capital in various businesses. However, teachers are constrained in their ability to run such businesses by the need to carry out their school duties. For pupils, the opportunity cost is in terms of lost returns to labour rather than capital, and is highest during the planting and harvesting seasons. This latter cost is emphasised by the third rule in Table 4.13 as considerable use is made of student labour by the school. Much of this work has the effect of adding to the resources of the school: for example, building tasks like brick making and concrete mixing, or agricultural work on the school shamba. In such cases the rule is acting in part to effect a transfer from the present to future generations of students. Other tasks give a current benefit to individuals, most notably the regular carrying of water to teachers' houses. This type of work could cause dispute over rule enforcement, for example in one case where students claimed that they were being asked to carry planks of wood as part of one teacher's timber business.

K218 assistant nurse	Paying for education of my children is a problem. It may only be 6,000/- per year for three of them but you also have to provide food [was unaware that primary fees had been abolished from that year].
K16 elder, widow, farmer	[Is caring for children of a son who died after a palm tapping accident] I may buy goats or try to loan them from an aid scheme in order to raise funds if the children get into secondary school.
K245 shopkeeper	Many people here don't know how to plan a business, but I have studied book keeping [at a Dar es Salaam Catholic secondary school]
K81 former shop keeper	I didn't study at school but did some basic adult education in literacy and numeracy in Dar es Salaam which helped. However, I didn't know how to set prices or work out whether I was making a profit or a loss. [discussing shop business which had failed]
K157 primary head teacher	Buildings are falling apart but it is taking a long time to get contributions. Parents use the excuse that they lack confidence in whether the money will go to its proper use. Truancy is a problem, especially in the orange season [students can earn money as pickers]. Parents have unrealistically high expectations about selection for secondary school which cause personal animosity when not met.
K230 primary teacher	Has started to do business in July and August- travelling to the coast to buy small dried fish which is then brought back and bartered for maize with local farmers [example of teacher business that presents strong likelihood of conflict with school duties]

Table 4.14 Statements on Education Rules: Content and Conformity

Enrolment in Standard 1 was very high, at over 300 out of the total 772 on roll at the primary school. Although the head teacher ascribed this to the abolition of primary fees in that year, knowledge of this change did not appear to be universal. The first statement in Table 4.14 is particularly surprising in this regard as it was made by a relatively well educated person who is employed at the hospital and lives within 100 metres of the school itself. Other statements in the table reflect expressions among interviewees both of the difficulty of paying fees on the one hand and the value of obtaining education on the other.

Enforcement is formally in the hands of agents such as the head teacher or school board. For students, conformity is often ensured by direct physical punishment¹ and teachers can be suspended or subjected to disciplinary measures by head teachers. Teachers, and certainly head teachers, do indeed have considerable influence through their ability to enforce rules with considerable consequences for resource access. However there do appear to be less formal pressures on these central agents from more widely held expectations as the primary head teacher states in Table 4.14. The existence of a widespread perception of association between past access to education and present well-being is likely to strengthen the desire for these expectations to be fulfilled. Thus, as in the case of the mission, the present operation of formal education as a set of rules guiding behaviour depends in part on the past operation of this institution. This reflects the observation by Grief(2006) discussed above² that the cumulative effects of an institution's rules can act over time to strengthen or to weaken these rules.

Political Parties

The last item in this sub-section shows that the boundary with the next is not sharp. While all political parties have written constitutions, many of the ways in which they influence behaviour in the sense that institutional rules are being understood in this analysis are unwritten. The fact that this item is last also reflects its relatively low profile in the data gathered, particularly from the formal interviews. Although all interviewees were invited to speak about any involvement in party activities, very few reported anything in response to this. Of course, a lack of enthusiasm in talking about political matters cannot be taken to indicate that these are not thought to be significant; indeed it is consistent with the exact opposite case, where political issues are too sensitive to be mentioned.

¹ Students were routinely beaten during the study period. Corporal punishment is no longer supposed to be used.

² See Chapter 2, part 2.6.3 on 'institutions'.

rule	who has to follow		enforcement?	
	pre-1992 ¹	post-1992	pre-1992	post-1992
support the party	all citizens	party members	state/party	party
do not support other parties	all citizens	party members	state/party	party
do not criticise the party	all citizens	(not a rule?)	state/party	(not a rule?)
help supporters of the party	gatekeepers ²	(not a rule?)	self-enforcing	(not a rule?)
punish critics of the party	gatekeepers	(not a rule?)	self-enforcing	(not a rule?)
support <i>Ujamaa</i>	all citizens	CCM members	state/party	party

¹ Parties other than the governing CCM permitted to operate from 1992 for the first time since 1965.

² 'gatekeepers' refers to individuals whose position in institutional structures gives them influence over access to resources: for example, the award of contracts, employment or licences.

Table 4.15 Some Institutional Rules of Political Parties

As with other institutions, we need to consider the effect of past rules on the way that current ones are understood and enforced. In the case of political parties this is complicated by the change from a single to a multi-party system which in constitutional terms took place in 1992. From 1965 up to that year the ruling party and the state, although formally distinct, were highly interlinked. In rural areas their structures were parallel down to the system of ten-cell leaders. If we interpret the effects of each institution on behaviour by describing institutional rules, the similarities are so close, and the promulgation and enforcement of rules so interdependent, that it might be more helpful to think of these rules as constituting a single state/party institution. In Table 4.15, which describes some of these institutional rules pre- and post-1992, the word 'party' in the left hand column could be changed to 'state' to be taken as a list of state rules in the earlier period.

After 1992 however, three changes occur. Firstly, there is a separation of the state/party into two institutions whose formal institutional rules are legally supposed to be entirely distinct. Secondly, a number of other institutions are created in the opposition parties. Thirdly, the rules of the ruling party are legally supposed to adjust in order to reflect the legitimacy of the multi-party system. This adjustment affects the content of rules, who has to follow them and how they are enforced. Some statements about the current content and enforcement of these rules are shown in Table 4.16.

two state employees at Nane Nane ¹	[all are expected to break off a branch and wave on procession to hall] 'to show your happiness' said one, 'to celebrate low salaries?' asked another.
K157 primary head teacher	You are allowed to be involved in politics but if you are seen do so you get problems. The previous head teacher was removed because of claims he was spending work time on opposition politics. He allowed the TLP ² to hold a meeting in school buildings. This is legal but he got problems after accusation of liking opposition parties.
MP at Nane Nane	The teachers in Kilwa Masoko all campaigned for CUF ³ so the results have been poor.
K243 business person	I initially joined the opposition NCCR-Mageuzi ⁴ party like other young men at the time but friends advised me that belonging to CCM would help my business. I threw away my NCCR-Mageuzi card and joined CCM. Sure enough I soon began to get lots of lucrative party business. A district party meeting to discuss successes in last six months for sending on to president Mkapa told lies, for example a clinic had been built to roof level when actually the foundations had not yet been laid.
K244 shopkeeper	Fewer people attend meetings now because after 40 years of independence they are just talking 'babble' (<i>ubabaishaji</i>).
National CCM Youth Leader	CCM can solve your problems better than Islamic demonstrations ⁵ . Remember that demons came originally from Heaven, like Sheif Sharif of CUF was once a CCM leader. Troublemakers just want violence. "Despite your problems, you have not heard the sound of gunfire".

¹ An annual holiday in Tanzania held on 'nane/nane' or 8/8, the eighth of August. In Kipatimu it was described as "worker's day" but elsewhere may also be referred to as "Farmers' day" or even "Industry Day".

² The Tanzanian Labour Party. During the study period this was the most prominent opposition party locally.

³ The Civic United Front. This had a small presence but by 2005 displaced the TLP as largest local opposition party.

⁴ The National Convention for Construction and Reform – Mageuzi (*mageuzi* – 'transformations'). This was the strongest opposition party locally in the period leading up to the first set of multi-party elections, initially benefiting greatly from the dramatic defection of the then Minister of Home Affairs, Augustine Mrema, from CCM.

⁵ Recent demonstrations in the Dar es Salaam had been reported in *Dar Leo* with the headline 'Is this about religion, politics, the 2005 presidential election or something else?'. The youth leader visited Kipatimu on 8th September 2001.

Table 4.16 Statements on Political Party Rules: Content and Enforcement

One of the most noticeable changes between my period of residence in Kipatimu in 1993-5 and during the study period was in public meetings. In the earlier period both state and CCM events held in the central area would attract large crowds while commercial activity at market and shops would cease. Audiences listened quietly to long speeches by the DC or ward party secretary, responded vociferously with 'hoyeee!' to calls like 'Kipatimu!' or 'CCM!' or 'Afya!' but asked very few questions. Teaching colleagues at the secondary school joked in private about the compulsory clapping, remarking with less humour that visible non-enthusiasm in previous years risked a tap on the shoulder from police or militia. During the study period, even when state employers went along with expectations of the ruling party there was far less concealment of dissent: the group of workers of whom two made the comments on Nane Nane day in Table 4.16 were visibly resentful, almost angry, in their demeanour as well as language.

Attendance at public meetings was far lower than in the mid-1990s. When the national CCM youth leader spoke in the village, radios continued to play in the surrounding shops and two opposition party flags were prominently displayed. Despite the efforts of a local man who went about trying to order people to attend, the audience remained small and there was very little 'hoyee' from anyone but the organised cheerleaders.

While people clearly felt more at liberty not to support the party, however, to openly support an opposition party or criticise CCM as K157 did was rare. It was not unusual to hear comments from political leaders such as the MP that 'teachers' or 'business people' were all allied with the opposition. Such an accusation formed part of the pressure put on shopkeepers in the central area to contribute towards the new village office, after they objected that earlier contributions for a police station should first be accounted for¹. As implied by successive rejection of sitting candidates for nomination as the CCM parliamentary candidate and the private remarks of supporters like K243, it does seem that the rule prohibiting criticism of CCM had indeed lost force, even

¹ See **Table 4.7** above. It was alleged in private that the earlier contribution had been appropriated by the supervisor of the building work, the relation of an extremely senior national party leader.

for party supporters themselves. However, this change was limited as open public criticism was still rare.

The comments of the youth leader associating political opposition with a threat to the peace recall a comment that was reported to be widespread among elder citizens at the time of the 1995 election when the NCCR-Mageuzi seemed to be attracting support from young voters: '*bapala masimasi!*' – 'they want *maji maji!*'¹. This association with social disruption, along with the residual costs of official disapproval, make it unsurprising that so few business people in particular expressed any interest in political parties. On the other hand, anti-business remarks continue to feature in local political discourse as already noted, despite the fact that at the national level *Ujamaa* has been recast for the new millennium as a long term aspiration while current policy has shifted enormously in favour of private sector growth. As long as the effects of earlier political rules continue to exert these forces, it seems unlikely that many business people will be prominent supporters of either governing or opposition parties.

4.4.3 Semi-Formal Institutions

Here we consider those institutions with economic significance that have been deliberately created but whose rules are predominantly unwritten. As remarked in the discussion of political parties, this categorisation admits overlap. We have seen that the persistent effect of rules that have formally ceased to exist and some reliance on non-formal enforcement feature in each of the 'formal' institutions, particularly in the case of political parties. Similarly in this subsection, some formal rules exist in each of the institutions. The distinction is a matter of degree but nevertheless useful for organising discussion. The main semi-formal institution dealt with here is religion but brief attention is also given to business associations, rotating savings clubs and performance groups.

Religion

Almost all 1172 residents of the study area were identified by the household survey as either Christian or Muslim. The proportions were 47.0 percent

¹ Reported to me in 1995 by the first headmaster of Kipatimu Secondary School, Mwl. A. Mng'umba.

Christian and 52.5 percent Muslim¹. At the level of households these values were almost precisely reversed, with the proportion headed by a Christian and a Muslim respectively 52.1 percent and 47.5 percent. The difference in average household sizes that this implies lay mainly at the larger end of the scale, with nine Islamic as against three Christian households with ten or more members. The median sizes were both 5 but the means were respectively 4.51 and 5.23 for Christian and Muslim headed households.

Christians were mostly Catholics and central in the local structure of that religion were the priests and nuns of the mission. In addition there were the leaders of 'street' church groups mentioned above, several individuals referred to as 'catechists' and the ordinary believers. Members of the Islamic faith were led by one resident mufti and sheiks who lived in neighbouring villages. There is a small mosque at the other end of the village from the Mission. As well as Catholics and Muslims there was also a small group of Pentecostal Christians called the 'Assemblies of God'. This had been formed since my first period in Kipatimu and attracted a fairly young congregation including several state employees like teachers and health workers from outside of the area. Unfortunately I did not become aware of this group's existence until the household survey was well under way, so did not obtain accurate data on the numbers involved.

As discussed already, to understand how effectively institutional rules can act to influence behaviour, it is helpful to consider the resources whose control is associated with them. Study data provide evidence on the distribution of three such resources: education, employment and wealth in the form of movable assets. These data along with basic demographic information are summarised in Table 4.17 by religion.

¹ For three individuals a response for 'religion' was not given; for three others, including two children, it was 'none'.

		Religion	
		Christianity	Islam
individuals	% (no.)	47.0% (551)	52.5% (615)
household heads	% (no.)	52.1% (126)	47.5% (115)
household size	median	5.00	5.00
household size	mean	4.51	5.23
education (all adults)	median	Standard 7	Standard 7
education (aged > 45)	median	Standard 4	None
share of formal employment	%	72.5% (37)	25.5% (13)
household total wealth	median	104,800	118,000
(TSh)	mean	163,000	147,500
household per capita wealth	median	30,400	26,500
(TSh)	mean	50,200	40,300

Table 4.17 Religion: Data on Demographics and Resource Distribution

Nationally, claims about past inequalities of educational opportunity have long been made by Muslims in Tanzania but the data for all adults in the study area reveal little difference in the level of education obtained. The median levels are identical and the distributions similar; only in the top two deciles do Christians appear to have obtained distinctly more education than Muslims. However, if we recall that in Kipatimu statements about unequal access relate to the period when access to education was governed by the rules of the mission, we do find clear evidence of past differences. Since the mission ran the primary school until 1963, anybody who entered Standard 1 up to that time would have been over 45 years old during the study period. Table 4.17 shows that for this group of adults there is indeed a large difference between levels of education attained; in fact, 75 percent of Muslims in this age range had obtained less education than the median for Christians. Although a difference in education is much easier to discern from these simple descriptive statistics for the older group, this difference is actually highly significant in the statistical sense for all adults as well as for the over 45 year olds¹. It is not clear how one can know whether descriptive or inferential statistics tell us more about the important question here: the extent to which there is a perceived difference in adult educational attainment between the religions.

Formal employment was clearly dominated by Christians. Only a handful of Muslims were employed at the mission hospital, though the administrator claimed that this was for historical reasons rather than current discrimination. In both the primary and the secondary school, Christian teachers outnumbered

Muslims by two to one. The primary head teacher stated that this is not typical in the area's primary schools but that teachers asking to be transferred to Kipatimu were more often Christians. A similar explanation seemed to apply to the secondary school, where the last five teachers to seek posting there voluntarily were all Christian.

The measure of household wealth shows some advantage for Christian headed households, with the difference again being more marked towards the top end of the distribution; 75 percent of the twenty most wealthy households are headed by Christians. The gap widens considerably for per capita wealth because of the difference in average household size already noted. Although none of these differences have clear statistical significance², we again must bear in mind that the perception of a causal relationship between religion and access to wealth is the requirement for the latter to play a role in enforcing religious rules. Lack of statistical significance does not alter the finding that, within the limits of measurement error, average wealth as captured by the movable assets measure was actually higher for Christians during the study period. The important questions are whether local people are aware of this difference and if they are, any inference about causality that they draw; clearly it cannot be assumed that this latter process would necessarily have the same outcome as a formal statistical analysis of any kind.

Now we turn from institutional structure and resources to consider rules. Each religion clearly provides a large number of rules for its individual adherents, concerning very many aspects of life. In Table 4.18 the first entry summarises all of these rules as the 'teachings of religion'. Following rows list some of the rules that have particular economic relevance.

¹ The respective Mann-Whitney statistics have two tailed significance values of 0.002 and below 0.0005.

² Independent samples t-tests have two tailed significance values for mean differences as follows. All households wealth 0.373; per capita wealth 0.122. Household with heads > 45 years old wealth 0.556; per capita wealth 0.107.

rule	who has to follow	enforcement?
obey teachings of religion	Catholics and Muslims	self-enforcing
avoid drunkenness	Catholics and Muslims	self-enforcing
avoid alcohol entirely	Muslims	self-enforcing
do not lend/borrow for interest	Muslims	self-enforcing
support state religious impartiality	Catholics and Muslims	self-enforcing
do not convert to other religion	Catholics and Muslims	self-enforcing
reward conformity to religious rules	Catholics and Muslims	self-enforcing
sanction breaking of religious rules	Catholics and Muslims	self-enforcing
do not state a material motivation for conformity	Catholics and Muslims	self-enforcing

Table 4.18 Some Institutional Rules of Religion

There is little evidence that either Catholic or Muslim religious leaders have the means to directly enforce religious rules. This suggests that the proximate enforcement mechanism in each case is self-enforcement: that is, either some kind of internalised discipline, for example religious commitment or indoctrination, or consideration of the likely responses of individuals other than those like mufti or priest with special institutional roles. However, to the extent that these central figures can influence either internalised rules or coordinate action against particular non-conformers, perhaps by sermons or setting the focus of discussion in the mosque jumuiya or local catholic prayer groups, they may have a role in such self-enforcement that is more equal than others. The importance for all rules of self-enforcement, nevertheless, implies in turn that individual understandings of rules and decisions about how to respond to conformity or non-conformity, by multiple actors likely to face different constraints presented by their endowments and relationships to other institutions, are central to the content and enforcement of religious rules. This is why, despite the high degree to which they are consciously constructed, religious institutions are categorised here as semi-formal.

For the present analysis that seeks to be 'economic' in the sense already discussed, the interpretation of religious rules is challenging. Recalling Fafchamps' division of the motivation for conformity with contracts, in the case of a religious rule we would expect to see a stronger role for 'G', internalised enforcement, relative to the forms of enforcement dependent upon the actions of others¹, especially in any statements made by adherents about their reasons

¹ The others in Fafchamps' model were enforcement by: P, direct constraint by violence or law enforcement; EV, future losses from breakdown of relationship with other party to contract; and EW,

for conforming. Of course the history of religions in the world has seen examples where enforcement of rules has not been left entirely to the conscience of the individual. However, it seems an accurate and helpful step in the interpretation of all major religions to describe an institutional rule stipulating that members should attribute their conformity with other religious requirements to their own belief. Indeed we see that nearly all major religions, and certainly those practiced in Kipatimu, do require followers to make regular public statements about these beliefs. The obverse of this is the last rule in Table 4.18 which holds that members of a religion should not make statements ascribing their conformity to factors such as fear of censure by a priest or damage to business relations with a co-religionist. The possible operation of this rule is what poses a problem for empirical analysis. If it is either non-existent or ineffective then the relatively few mentions of other religious rules by informants is consistent with a lack of importance for those rules in economic activity. However, if the rule is present and effective then this is consistent with both the same situation and the opposite, in which other religious rules are extremely important for economic activity.

future losses through reputation damage in wider community. See part 2.5.2 for detailed discussion of this model.

observations: general	Large numbers of people collect in the village after Friday prayers and Sunday mass. Universal self-identification with a religion.
observations: alcohol	Widespread drinking of palm wine by members of both religions. Catholic priests also drink heavily at times. Both Christians and Muslims operate bars and tap palm trees.
observations: money lending	Many Muslims, as well as Catholics, involved in lending money during the pre-harvest season against harvest earnings at high rates of interest. Shopkeepers belonging to both religions also borrow money from individuals for use as working capital and return with interest.
observations: impartiality	At national level there is an unwritten rule of alternation between Catholic and Muslim presidents. For the study area the MP has been successively an atheist, a Muslim and now a Catholic. There is a similar sharing of local state positions such as kitgongoji or village chairperson.
K46, K60 elders, farmers	Both Christians, each describes how their relationship with a child, one of each sex, deteriorated after that child married a Muslim and converted to Islam. Complaints over a lack of help and how all the child's income goes straight to 'a Muslim'.
all subjects	stated no material motivation for conformity with any religious rule

Table 4.19 Rules Of Religion: Observations and Statements on Conformity

This is why the evidence presented in Table 4.19 is rather different from the cases of other institutions discussed. Only for the rule discouraging conversion away from one's own religion was there clear evidence in statements made by informants. As well as the resentment about the pressure to convert in order to gain access to mission services already described, there were instances where family members married into other religions, related with clear disapproval. Aside from this rule, statements made about religious matters were restricted to the simple self-identification with one or other of the main religions and numerous statements of general faith¹. The final entry in Table 4.19 is clearly

¹ Some examples are found in the discussion of witchcraft below.

only 'evidence' in the sense of Hempel's paradox, that the observation of a non-black non-raven is evidence that all ravens are black¹ (Hempel 1937, 1943, 1945).

In religion then we have an institution to which virtually all residents of the study area profess adherence. There is evidence of widespread conformity with many of its rules except for cases where these are in direct conflict with economic activities, in which cases the rules are largely ignored. Beyond this last observation there is little evidence on the reasons for conformity or breaking of rules. Thus the interpretation of religion as a set of institutional rules, with associated enforcement mechanisms that help understand how it persists over time, is more limited than is the case of other institutions in Kipatimu.

Other Semi-Formal Institutions

All people involved in business were asked about their involvement in associations of any sort. Only two such were identified, an association of village centre businesses such as the larger shops and restaurants, and the separate association of market traders. Each of these appeared very limited in its operations. Only one attempt at coordinated action had been made by the former, the construction of a building for use as a police station after the two officers posted to Kipatimu were withdrawn in the late 1990s because of the lack of such accommodation. There is some disagreement about why this project was not completed. Some informants claim that sufficient contributions were not forthcoming. The business association members hold that the problem was caused not by a lack of funds but by the person imposed by the village government to supervise construction. Since this failed undertaking the business association is restricted to infrequent meetings, generally in reaction to some action by the government or mission.

It can happen that we have a meeting but perhaps because there is some matter which concerns the government, we have been given some orders, and often we can meet and have discussions. But to have a meeting to come and teach each other business 'if we do this, if we do this we might benefit' or 'if we do this we might lose out' often this kind of meeting we don't have. K237 (shopkeeper)

¹ For example, in this sense the observation of a white swan is 'evidence' that all ravens are black.

The association of market traders appeared to have more regular meetings, though going through periods of inactivity. It had an elected leader who claimed that there was some ability to enforce rules, citing the example of a person who had been excluded for 'poor cooperation'. According to this informant¹ meetings included discussion of both selling and buying prices, including attempts to present a united front when buying fish on the coast. It was claimed that in the past the association had succeeded in coordinating a change in port by buyers when one port had refused to reduce prices. There was no pooling of resources however. Another market trader² said that an attempt to raise a fund to provide loans or help in case of illness collapsed when not every member would pay the 1,000 TSh contribution.

The existence of the next institution only became known to me through my position as a teacher as well as a researcher during the study period. The secondary school teachers operated a rotating savings scheme whereby they would contribute part of their salary every month, with each person in turn receiving the pooled total. There was no allowance for interest payment so in nominal terms the arrangement made no difference to the total amounts received by teachers. It was just a matter of receiving a large lump sum once or twice each year at the cost of a slightly lower regular income. The simple rules of this institution and self-enforcement by each individual's interest in seeing the scheme continue are clear. However the second master was against setting up the scheme, arguing that disputes would inevitably arise that the school would have to resolve. Beyond this overlap with the school institution however, it is the motivation for teachers to set up such a scheme that points towards institutional effects far more significant for the central concern of this study, as will be seen in Chapter 6. I found little evidence of similar cooperative groups elsewhere but a number of instances, as will be seen, of other mechanisms for achieving similar ends.

¹ K143, stallholder and trader

² K301, market trader, daily market and small trade tax collector, also opened restaurant during study period

Finally I mention performance groups. There were two *ngoma*¹ groups in the study area who could be hired for events such as weddings or graduation day celebrations. Payment was a combination of food, alcohol and cash. Money was collected by the group leader and distributed to dancers and musicians according to their roles. The entertainment offered was a public good for those who watched and joined in with performances. There was no live entertainment in Kipatimu as sophisticated as that reported from nearby Chumo, where during one dry season an enclosed area was said to have been set up for the staging of football matches, raising substantial sums in admission charges.

4.4.4 Informal Institutions

In this last category we discuss institutions that are neither deliberately constructed nor formally constituted. As before, the division between categories is a matter of degree. Features of these institutions may be consciously shaped, as marriage and fertility choices shape an individual's kinship. Elements of rules may be formalised, as indeed has been done in Tanzania by legislation on female inheritance rights. However, it seems reasonable to take family and sex as biological facts, along with kinship and gender as social facts, as prior to deliberate human design in a sense that national constitutions, schools and religious organisations are not.

Two informal institutions with significance for economic activity in the study area are discussed here: kinship and gender.

Kinship

Of all the institutions in Kipatimu, no other approaches kinship in its importance for coordinating economic activity. Reference to kin and to the expectations that apply to relationships with kin permeate the data gathered, with significance for every type of investment and all efforts at successful accumulation.

For an individual, an understanding of both their own extended family structure of that of others with whom they deal is as essential as orientation within the physical environment. Informants routinely described coordination of activity with all consanguine and affine kin sharing common grandparents; not

¹ *ngoma*: drumming or more generally traditional music and dance.

infrequently further removed kin were also mentioned. Although coordination with more distant family members under a rich and strong set of expectations is the main kinship related feature that distinguishes economic activity in Kipatimu from that in a developed country context, it is not the only one. Unlike most developed societies, kinship in Kipatimu is asymmetrical in the sense that, for example, the relationship of a person with the sister of their mother is different from that with the sister of a father. Other differences in structure are caused by the practice of polygamy among some Muslim men and the inheritance of wives by surviving brothers.

It is the extended family that links together households in patterns of obligation and rights, providing a serious challenge for economic analyses which model the household as a decision-making unit constrained only by its endowment of physical, human and financial resources. Despite the difficulties with analysis described in Chapter 3, the data obtained from every household on its extended family structure capture something of the scale and scope of these inter-household links. On average, each household head reported family relations living in five other households within the study area and ten households in the district. Most surprisingly, given the poor communication links and the basic, typically rural level of living enjoyed by most local people, fully 23 percent of all living relatives recorded were currently resident in Dar es Salaam.

Families could be grouped together in larger clan groups, each with its own history of arrival in the area and claim to land rights. In-migration by formal sector workers, business people of various kinds and former students had fragmented this broader structure somewhat but 18 clan groupings still accounted for over half of the households in the study area, an average of over 7 each with 23 households belonging to the largest group. Seventeen clan groups accounted for more than half of total wealth as measured by moveable assets. All but four of these 'groups' were among the 18 largest and two were actually families that had migrated into the area as formal sector employees. Despite this domination of total wealth by the larger clans, the households with the highest per-capita holdings of movable assets were predominantly those of

formal employees and business people from smaller clans. The few larger clans that did have levels of per capita wealth levels in the top 30 percent, above approximately 50,000 TSh per person, were however among those with the strongest historical and contemporary relationships with mission and state institutions.

Application of the idea of various kinship rules as influences on economic coordination features in the analysis of the following chapters. At this point I introduce some of the most important rules and present some evidence on the degree to which they are known and conformed to. These rules are described in Table 4.20 below.

rule	who has to follow	enforcement?
contribute to kin weddings and funerals	all non-distant kin	elders/clan ¹
help kin in times of hardship or ill health if able	all non-distant kin	elders/clan
help elder kin if able	all younger non-distant kin	elders/clan
give help to limit of your resources	all non-distant kin	elders/clan
employ kin in preference to non kin	all non-distant kin	elders/clan
respect authority of elder kin	all younger non-distant kin	clan
do not take kin to court	all non-distant kin	elders/clan
follow kinship rules over other institution rules	all non-distant kin	elders/clan

¹ 'clan' here denotes self-enforcement mechanisms among a group of relatives that may go beyond 'non-distant' kin.

Table 4.20 Some Institutional Rules of Kinship

The first entry in the table exemplifies a type of rule that relates to specific, recurring joint activities undertaken by kinship groups where resources have to be pooled. The following pair of rules relate to the two main threats to well-being identified in the introductory chapter. At low levels of income, in a risky environment, most individuals must face the possibility that misfortune at some stage in their lives may leave them in need of assistance from others. Whether or not this actually happens, almost all individuals will one day have to depend upon others in their later years. The second and third rules in Table 4.20, if they are sufficiently conformed to, are the guarantee that support will indeed be forthcoming in these eventualities.

The fourth kinship rule listed poses a direct obstacle to investment and accumulation. If this rule is interpreted and enforced strictly, it can become very difficult to hold back any liquid assets in one's control at all when a family member is in need of help under one of the preceding two rules. The potential

effects on the successful running of a business are clear. The fifth rule described in the figure does not stipulate a transfer of resources in the same way as preceding rules. Instead it represents a class of rules that directly require individuals to coordinate their activities with other kinship group members in preference to non-kin.

The penultimate pair of rules deal with dispute resolution, a topic of great relevance in understanding economic coordination. The first of these rules illustrates the advantage of conformity with the previous two rules about dealing preferentially with kin. Indeed if this rule functions effectively it might be understood as part of the enforcement mechanism for those other rules. The second, however, works in exactly the opposite way, providing a distinct disincentive to dealing with one's own kinship members.

Finally, the evidence suggests the presence of an expectation that conforming with kinship rules should be given priority in case of conflict with the rules of other institutions. To the extent that such a rule holds, there are likely to be strong implications for both the analysis of existing economic activity and for the design of any policy of institutional reform.

The descriptions of 'who has to follow' in Table 4.20 are necessarily simplified. The range of kin members expected to conform to any rule is more varied, both between rules and between occasions where the same rule operates, than can be described in a few words. The scope implied by 'non-distant kin' is also contested and, in the eyes of some, changing over time. The two entries in the table's second column that do add a further qualification to this shorthand acknowledge this lack of homogeneity and highlight another arena of contestation and possible change in the institution of kinship; that is, relations between generations.

In the categorisation adopted here, informal institutions share with semi-formal ones the lack of formal written rules. This means that the first and second columns of the table above are an attempt to indicate salient beliefs and expectations held by individuals who are supposed to conform to, or help enforce, each rule. Thus any agent with a pre-eminent enforcement role, who in the absence of autonomously controlled means to incentivise conformity must

depend upon others to implement their judgements, must be able to understand and if necessary manage these beliefs and expectations. If they cannot do this then individuals will act or not act to enforce rules regardless of judgements by the 'enforcer', so self-enforcement would actually operate as in the case of semi-formal institutions. An alternative though is the existence of a self-enforced rule like 'respect authority of elder kin' which could support a leading role for elders in enforcing other rules. This is why most entries in the last column of the table describe a leading role in enforcement either for elders or for self-enforcement, expressed as 'clan' for brevity.

Table 4.21 provides some initial evidence on knowledge of and conformity with the rules discussed here. There is support in this evidence for the presence and operation of all the rules described. However, this is not unambiguous for all rules. I obtained no reports of failure to contribute by people who were able to do so for these events. A likely explanation is that admittance to the central parts of these events, including access to food and drink provided, is normally strictly limited to those who have contributed, thus making free riding difficult.

There are also no statements regarding non-conformity to the fourth and last rules: 'give help to the limit of your resources' and 'follow kinship rules over other institution rules' respectively. These rules, of which the second could be seen as a special case of the first, will be discussed further in Chapter 6. The presence and effectiveness of a rule prescribing the employment of relatives only, which is almost entirely supported by all the study data, is further analysed in both the following chapters.

K7,3,12,47 farmers	Burials are expensive but people do contribute.
K81 former shop keeper	Kin did used to come to my shop when visiting Kipatimu to attend hospital. They must be helped even if it damages your capital base. You can't refuse them as you may need their help one day.
K114 ex mission carpenter	Relatives will help you in times of sickness or death. They won't help for school fees; nor other projects – they fear you will go ahead and leave them behind.
K60 elder farmer	Dar es Salaam children bring me clothes and help with treatment if I go to hospital. Children living in Kipatimu help me with food.
K179 elder, ex Mission Worker	My late brother's children work in Dar as clerks and teachers but don't visit me. They have forgotten that I raised them and if I go there I only get given the fare home. Relatives here in Kipatimu have good relations with each other and condemn this behaviour. Other relatives do give help.
K218 nurse (assistant)	I have got cousins in formal employment [one retired] in Dar and other towns. They never visit or help – <i>wakishashiba bas</i> ¹ .
K44 elder, palm tapper	If you manage to get or save any money even distant kin will come to beg. You can't refuse them or they will say <i>unajivuna</i> ² . There is jealousy, they spread bad gossip and hate you.
K232 shop keeper	If I expand business I will leave my shop in the hands of someone else – who must be a relative. It is true that you cannot prosecute a relative but you can know a lot more about them.
K5 mdafuli seller	Normal drunkenness problems are part of business. <i>Wazee</i> have in the past settled an argument with kin members.
K71 farmer militia guard	There is a problem of young people not farming since the village started to grow. They rely on the work of their elders and beat them if they do not get fed. If my own children did it I would take them to court. It is becoming like urban places known as <i>kijiweni</i> notorious for criminal youth. Kipatimu youth have visited Dar es Salaam and copied this example.
K16 elder, widow, farmer	People come to burials – kin – bringing food and money according to their ability. For weddings kin contribute to bridewealth. There is a better level of giving nowadays, people do help each other... .. Many people like to borrow, for example from shops, but then avoid the area. Even if you see someone who owes you money if it is a member of your kin you cannot send them to court – the clan would hate you for this.
K131 mdafuli seller	I have a brother in the local government office which helps with getting my licence... ..In business there are no <i>ndugus</i> , you must be prepared to prosecute a kin member if necessary.
K157 state employee	The district government decide who to promote. It helps to be close to someone. The current ward education officer is a nephew of a former senior district official.

¹ Literally “once they are full that's it”.

² You are making yourself out to be superior.

Table 4.21 Rules of Kinship: Statements on Content and Conformity

For all the other rules in Table 4.20, there are statements from informants citing instances of non-conformity as well as those describing cases of conformity. These are the two rules relating to particular circumstances where resources

are to be transferred and the two rules relating to dispute resolution. Both of these are important areas for those seeking to accumulate through economic activity. The first raises the question of whether and how such people's choices are influenced by knowledge of such divergent situations as those described by K60 and K179. Do business people for example try to act in certain ways that will make it more likely for their own experience to be closer to that of K60? An important consideration related to the second area is that of institutional change. If enforcement is contestable, what scope is there for choices of action that seek to obtain favourable judgements, or even to reshape the institution itself? These are among the questions that the analysis of economic coordination in the remainder of the thesis seeks to answer.

Gender

The study found much evidence that among the rules which influence economic coordination in Kipatimu, there are many that apply asymmetrically to individuals of each sex, either in terms of who has to follow a rule or who is affected by whether a rule is followed or not. In this institutional analysis, the set of these rules, along with any others that are required to sustain enforcement over time, is taken to constitute 'gender' as an institution. We note immediately that this institution is very likely to overlap with others, as such gender asymmetric rules are found in institutions such as the state, religion and kinship.

By definition, an important part of the structure of this institution is the sexual composition of the study area population. Of the 1172 individuals resident in the study area during data collection, 50.9 percent were female and 49.1 percent male. This gives a sex ratio of 96.6 while the national rural and urban ratios according to the 2002 census were 95.3 and 96.3 respectively (United Republic of Tanzania 2003). Among heads of households, 22.7 percent were female, close to the figure of 23.1 percent reported for rural Tanzania by the 2001 Household Budget Survey (United Republic of Tanzania 2002). Table 4.22 presents demographic data along with evidence on the distribution of resources by sex.

		Sex	
		Female	Male
individuals	% (no.)	50.9% (596)	49.1% (576)
household heads	% (no.)	22.7% (55)	77.3% (187)
household size	median	4.00	5.00
household size	mean	4.65	4.89
education (all adults)	median	Standard 7	Standard 7
	lower quartile	Standard 4	Standard 6
	upper quartile	Standard 7	Standard 7
	no schooling % (no.)	21.6% (70)	6.9% (21)
share of formal employment	%	41.2% (21)	58.8% (30)
household total wealth	median	84,000	116,000
(TSh)	mean	115,500	166,800
household per capita wealth	median	37,200	31,400
(TSh)	mean	21,300	48,000

Table 4.22 Sex: Data on Demographics and Resource Distribution

While median education levels among adult females and males are the same, there are considerable differences at the lower end of the scale, as shown by the lower quartile values and the finding that over 20 percent of adult females had no formal education compared to 6.9 percent of adult males. This difference between sexes in the level of education is highly significant in the statistical sense¹. For comparison, the proportion of rural adults with no formal education in rural Tanzania was found to be around twice these levels, for both men and women, in the 2001 Household Budget Survey (United Republic of Tanzania 2002). If adults under 35 years of age only are considered, there is some evidence of improvement for both sexes and of catching up by females. The proportions with no formal education become 10.9 percent and 4.9 percent for females and males respectively and the bottom quartile level for females increases to Standard 6.

Males have a larger share of formal employment, although this difference is considerably smaller than the difference between religions noted in Table 4.17 above. If we consider wealth, male headed households have higher mean and median ownership of movable assets, both in total and per capita. The difference in total wealth is significant, at the one percent level², but the smaller gap between per capita wealth levels is not.

¹ The Mann-Whitney statistic has a two tailed significance value below 0.0005.

² The independent samples t-statistic has a two tailed significance of 0.003 (equal variances not assumed).

rule	who has to follow	enforcement?
pay bridewealth to spouse's family	men wishing to marry	spouse's family
care for your own young children	women >> men ¹	self-enforcement
give up children or bridewealth on divorce	women	elders, kitongoji chair
give all income to your spouse	women	self-enforcement
repay borrowed money	women >> men	self-enforcement
abstain from sex while at school	female >> male (students)	head teacher
enforce property rights	all, elders, court	for men >> women ²

¹ This indicates that there is stronger enforcement pressure to conform on women than on men.

² This indicates that enforcement of this rule is more effective when the property rights concerned belong to a man than when they belong to a woman.

Table 4.23 Some Institutional Rules of Gender

The first rule in Table 4.23 is well known. It is included here for its economic significance in terms of the size of bridewealth payments, because of its relationship with the following two rules and as the first example of interlinking with other institutions: it could be equally well be described as a kinship rule. The second rule imposes an opportunity cost on women which the third says gives rise to no claim on property or children. The latter rule also weakens a woman's 'threat point' in the context of intra-household negotiation. If the following rule exists and is enforced, this would imply that there is in fact very little space for independent economic decision making on the part of women.

By contrast, if the rule concerning repayment of debts is enforced, it should act to the advantage of women wishing to engage in coordinated economic activity. Recall that much of the motivation for analysing institutions is to try and understand how transacting partners can solve problems of credible commitment. Although this rule seems to get directly to this point however, merely listing it does little to help us in this attempt. We can look on the rule, in fact, as a composite of rules from other institutions that jointly act to enforce debt repayment: these could include state mechanisms, religious duty and kinship pressure. These rules are combined in Table 4.23 because of the claimed difference in their aggregate influence on men and women, not because this aggregation will throw light on how the various individual rules are enforced.

The next rule in the table above presents a serious barrier to the acquisition of education by females. Students are frequently expelled from school on the grounds of pregnancy, and never readmitted after the birth of their child.

Although it is theoretically an offence subject to the same penalty, it is almost unknown for any male student to be dealt with in this way for his contribution to pregnancy. This disparity of treatment exacerbates the much greater drop out rate for females that sees their numbers drop from around half of each year's secondary school Form I to a handful in a typical Form IV class.

The last rule in Table 4.23 differs from the preceding rules because it applies to all those who may be involved in enforcing property rights in a given context, regardless of sex. The asymmetry between sexes is in the how this rule itself is enforced. If, as shown in the table it is enforced more strongly when the property rights concerned are those of a man, this may be another hindrance to women's successful involvement with economic activity.

K150 kitongoji chairperson	In the event of divorce, the woman has to return her bridewealth. However she may be forgiven by the man. If there are already a few children he may feel he has used her enough. Women are responsible for care of children up to seven years old. Even after divorce children below seven stay with their mother. Once they are seven and able to get themselves to school and wash their own clothes they may go to live with their father.
K16 elder, widow, farmer	Most cash income goes straight to the husband. There may be some discussion but this is rare.
K15 farmer & brewer	I keep my income from brewing and my spouse keeps his earnings from palm tapping, though we do help each other out.
K143 trader, stallholder	When deciding whether to extend credit I consider women to be more honest than men. They also tend to have an income from sewing, weaving, hairdressing or pottery. Men have less income earning potential and the temptations of drink and tobacco also contribute to untrustworthiness.
K157 primary head teacher	Pregnancy does occur because of three reasons: 1) greed for promised things like shoes or clothes, 2) real need – but not prevalent here, 3) low moral standards learned from Dar es Salaam.
K45 single mother, labourer	My elder two children were taken from me at about five years old by their father after a custody case in court... ..I tried selling chicken soup in palm wine clubs. People just took it and refused to pay. Even respectable elders. So it was no good going to the elders about this because they were doing it themselves! Women who succeed at running palm wine bars have a backer- a man to make people pay otherwise they just refuse.
K131 mdafu seller	One problem is that drunks come and steal the mdafu. It is worse because we are all women here.

Table 4.24 Rules of Gender: Statements on Content and Conformity

The informant who contributed the first statement in Table 4.24 himself has a role as kitongoji chairperson in the enforcement of the rules concerned and reported having overseen divorces in just this way. The experience of K45 with

a more formal rung of the justice ladder is further evidence that women in Kipatimu can expect these rules to be enforced.

K16 and her neighbour across the valley, the spouse of K15, seem to have had different experiences in married life. Part of this may reflect a weakening of this rule over time as K16 is a widowed elder whereas the K15s are a married couple with young children. This is consistent with other study evidence suggesting that younger women in particular are not always without a voice in the use of their earnings by the household.

The statement by K143 brings together a number of points that are used elsewhere in people's accounts of why trust is extended to certain individuals but not others. Similarly the primary head teacher expresses some commonly heard explanations for the problem of schoolgirl pregnancy.

If one of the primary reasons for an interest in institutions is the way that they can support commitments between individuals, another is the role they can play in protecting property rights. K131 is a successful mdaflu seller who claims to have been the first in Kipatimu to open a bar. Despite this success she is concerned that she does not enjoy the same level of security as a man would in her position. K45 seems much more weakly positioned still with respect to the institutions such as state or family that could help secure her basic property rights. As well as being robbed in her business venture, she reports theft of crops by local youths and break-ins at her house if she leaves it unoccupied. Bereft of material resources and the support of social institutions, she was in a very difficult and sad position. However, other women in the study area did run successful businesses of different types. The discussion of these activities in the next chapter attempts to account for these very different outcomes.

4.4.5 People, Property and Institutions

This section has introduced some of the institutions that are most significant for the coordination of economic activity in Kipatimu. Previous sections gave demographic data and an analysis of the distribution of wealth in the form of fixed assets. Some historical events with continuing influence on current institutional functioning were also presented.

With this context set out, the analysis now moves more directly on to the activities of those individuals seeking to accumulate through investment in economic activity. It also becomes more sharply focussed. In Chapter 5 we ask how people involved in business can maintain successful coordination with other agents when there is a considerable delay, a long distance, or both between the fulfilment of one side of a transaction and of the other.

Having established the importance of social institutions, particularly kinship, for successful accumulators in Chapter 5, the next chapter explores the potential downsides that involvement with these institutions can have for businesses. Some strategies used by those who are able to avoid these pitfalls are identified.

5 Business 1: Dealing with Distance and Delay

5.1 Introduction

5.1.1 Activities, Transactions and Coordination

In this chapter we turn to individual accumulation strategies and their relation to the institutional environment in Kipatimu. How do individuals use market coordinated activities to build their individual asset buffers? How do these activities in turn depend upon the institutional environment?

In order to answer these questions, the conceptual scheme outlined in the second part of Chapter 2 is used. Accordingly, the smallest unit of analysis of market coordination is taken to be the transaction. This means that it will be necessary to consider the details of several of the main activities undertaken by accumulating individuals, in order to examine the transactions of these individuals with others whose actions need to be coordinated. The next stage is to consider the pressures that may threaten such transactions and how the transactions may be sustained in the face of these pressures. Many of the most vulnerable transactions are those where the actions carried out by each party are separated by distance, delay or both. As discussed in Chapter 2, increasing use of market coordination in an economy is likely to be associated with a greater frequency of such transactions. As in that earlier chapter, we can try to understand how transactions can be sustained by considering the nature of the contracts between pairs of individuals and how they can be enforced. This often takes us to the next 'layer' in our concentric theoretical scheme, the role that institutions can play in linking together the transactions of many individuals, enforcing agreements and so allowing more sophisticated coordination of activities.

5.1.2 Chapter Overview

The next section presents in some detail seven of the principal economic activities through which individuals in Kipatimu attempt to build up individual asset buffers. These are skilled labour, palm wine selling, fish trading, shop keeping, coconut trading, market intermediation and logging. Also considered

more briefly are restaurants, milling, barter trading and cassava chip selling. For each activity the main actors whose activities need to be coordinated and the transactions between them are described. An attempt is then made to identify those transactions that are most at risk of failure.

Section 5.3 discusses a general theoretical model of transaction viability in the presence of multiple institutions. The final section analyses evidence from the study on how these vulnerable transactions, in particular those spanning distance and/or time are supported by the institutional environment and the actions of accumulating individuals in Kipatimu.

5.2 Principal Accumulation Activities in Kipatimu

5.2.1 Skilled Labour Businesses

Of the many types of skilled labour found in the study area, most operated under arrangements best understood as employment contracts of some kind, either casual or more long term. For example: builders, vehicle mechanics, drivers and cooks. Although in these cases the skilled labourer may own some of the tools used, typically provision of all consumed inputs and much of the capital equipment, along with responsibility for ensuring work quality, is undertaken by another person who it is reasonable to describe as the employer. Here we are concerned with own account labour. Such workers can be seen as the owner-operators of microenterprises rather than employees. The activities that are discussed here are tailoring, the most widespread, carpentry and shoemaking. In addition to these there were individuals involved in other activities such as the repair of electrical goods or bicycles. There was little evidence of substantial accumulation from these activities and less detailed information was obtained on them. The work of those who tap palm trees for their sap can be considered as skilled labour but this is discussed along with the business of selling palm wine *mdafu* below.

Tailoring

Three individuals in the study area committed the majority of their working hours to this occupation, another combined it with shoe making and several others did it occasionally. The work includes making new clothes such as

shirts, dresses and skirts along with repairing garments and sewing seams on *khangas*¹. The tailors normally take orders in advance from individuals, or sometimes shops, and in these cases the customer provides the material to be used. Occasionally tailors produced finished goods for sale without prior order and they generally aspired to do more of this.

As well as a sewing machine, capital requirements include premises suitable for doing the work, where the machine and other goods can be stored securely. It is preferable for this location to be visible and near concentrations of people for marketing reasons, so rented accommodation in the village centre is popular and used by all three full time tailors. Material and notions are available from local shops and normally purchased from there though a wider variety and cheaper prices are to be found in Dar es Salaam. The quality of work that can be done depends upon the skill of the tailor and the capability of their machine, so both of these factors affect the level of prices that the tailor can command. The self-employed tailors may work together on large orders, and some take on apprentices who assist with sewing tasks while learning the trade. Marketing has become more difficult with the increased availability in the village of *mitumba*, second hand clothes from developed countries. These have undercut the market for new clothes, leaving the tailors more dependent on orders for special occasions such as weddings or public holidays when there is still high demand for bespoke garments.

Carpentry

A group of six carpenters use a workshop near the village centre owned and built by one of their number. These craftsmen make finished goods such as furniture, coffins and doors for customers both from the local area and in Dar es Salaam. As with tailoring, the customer may bring their own wood or order this through the carpenter. Wood is all sourced locally². Because most wood working tools are easily portable and of high resale value, a secure, guarded workshop is essential though it does not need the same degree of visibility for marketing purposes as premises for tailoring. Each carpenter has his³ own

¹ Colourful cotton wraps, always featuring a swahili proverb or slogan.

² See the section on logging below for some implications of this.

³ They are all men.

tools, though there is also much sharing and a commonly owned set donated by a British NGO that they collected from the southern port of Mtwara in 1996. Consumables and tools are purchased from shops locally, in Kilwa Masoko on the coast, Ikwiriri on the road to Dar and in the commercial capital itself. Availability of some items such as glass is a constraint on activity when roads are impassable to vehicles during the rainy season. The owner of the workshop estimated that a quarter of goods produced are for customers in Dar es Salaam, explaining that the tax on wood is five times lower in Kipatimu while there is no tax at all on completed goods.

Shoe Making

Though other local people offered shoe repair services and several produced the highly durable flip-flops made from old tyres known as *malapa*, only one was capable of manufacturing conventional shoes. He was also unusual in that as well as doing work for individual customers he had a regular institutional client in the Asisi leprosy hospital, for whom he supplied specialised footwear. In other respects his business resembles that of the tailors and indeed he also practiced this trade from the same premises. Unlike tailoring however, he always purchased shoe making materials such as leather and soles himself from Dar es Salaam. The time and expense necessary for these journeys limited his shoe-making activity. Like some of the tailors, the shoe maker is assisted in his work by young apprentices.

5.2.2 Palm Wine Selling

Of all the activities carried out by accumulating individuals, the palm wine trade arguably has the most widespread connections among the local population. The drink is very popular, although shopkeeping may have still wider involvement on the demand side as virtually all residents buy from shops to some degree. On the supply side though palm wine is unrivalled, with over a quarter of households reporting some involvement, mostly in allowing their palm trees to be tapped for a payment, but also through tapping trees themselves or selling the finished product directly to drinkers. Again on the supply side there is also a much higher degree of participation among women

than for other activities. It is hard to enumerate 'bars' exactly, as there is a continuum from people who occasionally sell to neighbours at their own homes to large, permanent and specialised premises. However, of the nine most substantial bars, five were operated by women.

Though individuals do gain income from working as tappers or selling their own trees' produce to those who run bars, it is the latter occupation that gives most opportunity for scaling up of earnings. For example by selling palm wine from several sources or offering complimentary goods to drinkers. Here then we concentrate on running a bar as the central activity.

The core business is the sale of palm wine by the bottle, along with provision of cups, seating and normally some shelter for drinkers. Bar owners¹ obtain palm wine supplies in a number of ways. The simplest is to tap, or pay others to tap, their own palm trees. Another common approach is to go and buy from palm tree owners, which may involve quite long journeys and require the assistance of other people to carry the product back. A third way is for others, frequently women, to bring the palm wine to the bar; here it is either sold in bulk to the bar owner or direct to customers, with a commission paid to the owner. This third method is commonly used by the biggest bars.

Palm trees are normally tapped in the evening and again the following morning, when the two lots of sap are combined. By early afternoon this mixture has developed into the alcoholic palm wine ready for sale. This drink is called *mdafu*, though also referred to using the generic term for an alcoholic drink, *pombe*. It does not keep beyond the first day², which partly explains why with regular suppliers there is often an expectation that purchases will be made unless advance notice is given. There were reports of credit being extended both ways in these transactions, which also reflects the need of each party to avoid hold ups. Most bar owners taste the *pombe* at each purchase though one said that they accepted their tapper's assurance on quality. There was

¹ For brevity the phrase 'bar owner' is used to designate the person who controls the premises for the purpose of the palm wine selling business regardless of whether this person owns or rents these premises.

² One bar owner did say that it is sometimes acceptable to mix one day's leftover *mdafu* with the next day's supply.

agreement that supply is much higher in the rainy season than in the dry, with corresponding variation in the price paid by bar owners.

Apart from *mdafu* supplies, bar owners need sufficient quantities of equipment such as buckets, bottles and cups. They also of course require premises secure enough to store this equipment and suitable to attract customers. Sharing of premises is common among women. The best locations reconcile the somewhat conflicting demands of easy accessibility and seclusion: though drinking *mdafu* is widespread, drinkers often have reasons for not wishing to display their consumption. As well as being better placed and more attractive accommodation, the bigger bars more often offer music. Their owners also arrange for the sale of complimentary goods such as meat and cigarettes, or even higher margin substitutes like beer and spirits.

Though *mdafu* drinking is common in all seasons, demand is considerably higher in the dry season. This is because farmers have more ready cash after the harvest and also because local demand is swelled by the influx of traders and other visitors while the roads are passable and crops available for purchase. Seasonal variation in demand then is a mirror image of variation in supply, leading to large price changes from one part of the year to another. At any one time though, there is little difference in the retail price of a bottle from bar to bar. Bar owners report that they consider non-price factors to be more significant in attracting customers. These include the respectability of premises and provision of music or food, but primarily the quality of the *mdafu* which must be strong but not have lost all its sweetness. News of which bar has the best product travels quickly. Customers either pay for each bottle as they receive it or for the total ordered when they leave the bar. Certain people may be given credit over a longer period. Disputes over non-payment and general problems of drunken behaviour are not uncommon. Some women expressed concerns about security, relating either to theft from their bar premises or the risks of returning home at night with the evening's takings.

A small amount of paid employment is provided by *mdafu* bars. Some bar owners have regular staff who supervise and sell drinks. There is also the work

of carrying palm sap and tapping palms, where bar owners travel themselves to obtain supplies.

The two groups of activities discussed so far, palm wine trading and self-employed skilled labour, are distinguished from the remaining groups by the fact that the educational level of entrepreneurs involved in them had a distribution distinctly lower than that both for the village as a whole and for cultivators¹. No individual involved in either of these activities had received any post-primary education. Despite having this low educational base in common however, the distributions of accumulation achieved by entrepreneurs in each activity were in sharp contrast. As measured by the adjusted per-capita movable assets measure, mean and median accumulation for the *fundi*s were higher than for any other activity group, including the formally employed¹, while all individual *fundi* households had an asset value above the village median. The mean value for palm-wine sellers on the other hand was below that for all other groups and the village as a whole, while the median was greater only than that for cultivators.

5.2.3 Fish Trading

Although *chakula* is glossed in most Swahili-English dictionaries as simply 'food', Tanzanians distinguish between *chakula* meaning the main bulk of a meal, and *supu* or *mboga*, referring to the accompaniment. For residents of Kipatimu, it would be a reasonable generalisation to say that the normal form of *chakula* is the maize porridge *ugali*, changing to rice in good times and to cassava in less good times. For most people the accompanying *mboga* of beans or leafy vegetables would only be varied by the occasional slaughter of a chicken or purchase of wild boar meat from hunters, if it were not for the ready availability of dried fish. This fish is also the most common form of accompaniment served with rice or *ugali* in the village restaurants.

There were no individuals who specialised entirely in trading fish. However, fish was the most valuable good for a number of traders who were also involved in bringing in other produce for sale in the market and taking local crops to the

¹ See Table 4.11 and Table 4.12

coastal area, sometimes using barter rather than monetary exchange. Because of this tendency for individuals to be involved in trading multiple commodities, the great variety in the scale and other characteristics within and between each of these commodity trades and the relatively small numbers of people who clearly specialised in any one of them, it is hard to draw even tentative conclusions about the success of accumulation associated with the trade of individual commodities. Some comments are made on the accumulation data for those involved in trade and market intermediation as a group in part 5.2.7 below.

Fish are purchased in coastal villages around 35 miles to the east or from dealers in villages on the main Dar es Salaam to Lindi road. This distance normally means that traders have to pay for overnight accommodation before returning with their goods to Kipatimu. Transport of fish is relatively easy in the dry season, when lorries and other motorised transport comes up from the main road on most days. During the rainy season this journey is slower and more expensive, requiring the employment of youths with bicycles. The quantity that can be brought on each trip is also smaller in this period. Fish are already dried when purchased but sometimes this has not been done thoroughly which can lead to rotting, unsaleable goods. Small amounts of credit are sometimes extended both ways between trader and fish supplier. Demand for fish in Kipatimu varies from day to day; one individual said that more was sold on days when the village was busy such as Mondays for the hospital's mother and child clinic, Fridays for the mosque prayers and Sundays for the church service. There are known types of fish with names, grades and price ranges in each season; to achieve good sales price and quality needs to match these expectations well. As long as fish is well dried wastage is very low but losses can be caused by bringing unfamiliar or disliked types of fish. As well as retail sales at the market some traders supply hotels on a regular basis. Fish are also purchased by other traders for selling on in surrounding villages. Because of the travel involved, fish traders sometimes leave their Kipatimu market stalls in

¹ See Table 4.4

the hands of others while they are away. Casual labour is used to carry goods around in the locality, for example from a trader's house to the market.

5.2.4 Shop Keeping

The nearly two dozen shops in the village centre are the most visible sign of the changes in the local economy that have accompanied the era of liberalisation policies. These shops integrate the rural and urban economies in the classical sense (Kalecki 1976; FitzGerald 1990), greatly increasing the real value of agricultural earnings and so the incentives for farmers to increase output (Berthelmy and Morrison 1987). As well as providing consumption goods for farmers, they make a posting to Kipatimu more attractive for employees such as midwives and teachers. The expansion of consumer good availability may help explain why the secondary school was more able to attract and retain staff from other areas than was the case in the early 1990s. Shops also have an important role as providers of goods for other businesses; for example: buckets, bottles and cups for *mdafu* bars; notions for tailors; and concrete and bars for builders.

If shops are the most visible aspect of economic change, at a personal level they are also the most visible form of accumulation activity. Trading or running a palm wine bar can be done with little obvious sign of difference between entrepreneur and customer; for example, a pair of women traders said that their business was “bubu” or “silent”. The shopkeeper, by contrast, necessarily stands in the public gaze amidst a display of accumulated wealth: the larger establishments held hundreds of lines of stock, with total values equivalent to decades of earnings for the average local resident. Although the movable asset measures of accumulation did not include this stock, shopkeeper households had values on this scale that place them with self-employed skilled labourers and the formally employed at the top of the village distribution¹. Shopkeepers were more than three times more likely than cultivators to have completed secondary education to Form IV and the distribution of their educational

¹ See Table 4.4

attainment level was distinctly lower only than that of the formally employed¹. There were no female shop owners in Kipatimu during the study period.

When the then president Mwinyi relaxed the restrictions on private trade in the eighties, there was only a single state run RTC² store in Kipatimu. Despite the new legal freedoms, in order to address the severe shortages of this period the private sector still had to face the high supply costs imposed by distance and poor roads. An informant who took over his father's moribund shop in the early 1990's described its state at that time as 'like a lamp with no oil'. Obtaining stock remained a major challenge during the study period.

Most shop goods are purchased in Dar es Salaam, substantially from 'wholesale' shops operated by individuals whom study informants often categorised as either 'Wahindi' or 'Waswahili'. Shopkeepers have to spend enough time in the city to find goods and compare prices, thus exposing themselves to the risk of carrying large sums of money in cash. Only a few individuals said that they were able to obtain credit with suppliers, and even then only for small amounts. The reported interval between trips was between one and two months during the dry season; or expressed in terms of a threshold of total takings since the last journey, put at varying levels from 150,000 to 1,000,000 TSh. In addition to the risks from theft or accident, goods need to be checked thoroughly as no returns are allowed. One shop keeper stated that he not infrequently had to get brand new radio cassette players put into working order by a local fundi before offering them for sale. Costs of travel and stock purchase are further increased by accommodation needs and employment of any guards needed to protect property awaiting transit.

During the dry season goods can be returned to Kipatimu by lorry or bus. Depending upon the size of the shop and the resources of the owner, various modes of lorry hire are possible; these range from paying for space in lorries that are going to the area to collect cash crops such as oranges, through sharing the hire of a lorry with other local traders, to hiring a lorry outright. In the rainy season costs and difficulties escalate with the erosion of the roads

¹ See Table 4.12

² Rural Trading Company

and, during the study period, the flooding of the Rufiji river plain. When the main road is impassable to motor traffic, youths are employed to bring goods by bicycle on an alternative route over thirty miles long that climbs directly south into the hills from the river crossing.

Certain shopkeepers are able to circumvent some of these supply difficulties on occasion by placing orders with others who are travelling to the city or who are resident there. In addition, some goods are purchased locally from farmers, such as rice, beans and eggs. All shops but one during the study period were general stores. Space precludes even a cursory account of the range of goods on offer in the larger of these. One specialised in cassette tapes of music, Christian and Muslim sermons, and comedy.

All residents used the shops, the main differentiation in the interviews with shopkeepers being made between 'farmers' and 'workers'. The former were described as much less likely to be granted credit, while formal sector employees were normally allowed to settle bills from month to month. Cash customers were seen as more likely to switch between shops. The numerical dominance of farmers means that demand is highly seasonal. Unlike the palm wine market however, demand for shop goods other than basic foodstuffs varies in the same direction as supply through the year. Prices for standard items varied little between shops. Explanations of pricing decisions included both a mark-up on calculated costs and the need to match prices of others. Several individuals said that larger shop keepers set the price that others had to follow; two stated that if they cut their own price to attract more custom then larger shops would do the same, and would be better able to bear the 'pain'. The previous owner of a bankrupt shop was the only person involved in shopkeeping who said that any explicit price setting arrangements existed. All shops, even the specialist tape seller, sold certain standard goods like sugar and maize flour, although these were not very profitable. These were said to be essential for customers to regard your establishment as a proper shop, to attract people who then buy more expensive items and to provide a secure fallback level of income: *It's inevitable that you will sell sugar every day, even if*

*you only open for one hour*¹. Apart from price, shopkeepers said that customers are influenced by the quantity and presentation of goods in a shop. Some thought that this influence could work in either direction. On the one hand, customers might expect that a larger shop could offer more reliable quality, and possibly discounts or credit. On the other, some poorer individuals might be wary of temptation or feel that smaller shops were more open to negotiation. One shopkeeper described how, to appeal to such customers, he had opened a subsidiary outlet with fewer goods, presented more in the style of a market stall with the operator greeting clients in the open rather than sheltering inside a shop. More generally customers were thought to favour shops where, as one proprietor put it, you will 'listen to their problems'.

Location near the village centre was seen as important in order to benefit from more frequent passing trade, custom from the hospital, mission and schools and the gatherings on Fridays, Sundays and other special occasions. However, even though there was a recognition that the opening of new shops brought a significant positive externality in attracting more people to the village centre, there were also many statements to the effect that competition was reducing profit margins considerably. These claims seem at odds with the apparent buoyancy of more well established shops and the continued readiness of young men to open new small ones during the study period. It remains to be seen whether capital market imperfection and scale economies will enable larger shops to maintain their dominance, while smaller outlets come and go.

A special problem facing shopkeepers is the perceived need for their shop to be open every day from early morning until well after dark. This makes it very hard for owners to meet up with their peers, conduct other businesses or obtain new stock from Dar es Salaam, unless they are able to leave the shop in the hands of another person.

Finally, as well as consumption and investment goods, a small number of financial services were also provided by the shops in Kipatimu. Some individuals gave their savings to a shop owner for safe keeping, either as cash or purchased goods such as corrugated iron sheets for building a house. In

¹ Shop keeper K232 interview on 2/11/1.

other cases shops would accept deposits of money from individuals and pay an agreed monthly return. One of the most successful local traders claimed that many business people and formal employees regularly invested money in shops in this way. Shops could also be used to facilitate payments between traders, as discussed below.

5.2.5 Coconut Trading

During the study period, the price of a coconut in Kipatimu was around 15 Tsh in April. By August the price was around 50TSh in Kipatimu and of the order of 100TSh in Dar es Salaam. Once picked, a coconut will keep for many months as long as it remains unhusked. These simple facts are the basis of a trade in which many Kipatimu residents engage in various ways and scales.

Many households in Kipatimu and the surrounding area own palm trees, which produce coconuts throughout the year. During the rainy season, palm owning households that are running short of food need to find money to buy it and so have a lower reservation price for coconut sales. At the same time, there is no prospect of substantial exports from the village because of the poor road conditions, so demand for coconuts is low. This means that individuals who do have some available funds at this time of year are able to buy coconuts cheaply. For some better off farmers and formal sector employees, trading is simply a matter of buying a few hundred coconuts during the long rains, storing them inside the house, then selling them again locally in the harvest season. Those with more resources may stockpile several thousand coconuts, paying others to store and guard these for the four or five months necessary. A bigger step up in complexity is to arrange for transport to Dar es Salaam or other urban centres, where prices are still higher. Finally, some local individuals are given money by others based in the commercial capital to buy ten thousand or more coconuts, which the principal will later send a lorry to collect.

Even at the lowest level, coconut trading necessarily involves other people besides the buyer and seller of coconuts. Young men are needed to climb up and cut nuts, while others stand ready to catch these below. Paid assistance is also needed to transport even a modest load of unhusked nuts from shamba to

storage area. If coconuts cannot be kept securely at the trader's home then others will need to be compensated for the use of their property and for guarding the stock for several months. The process of buying from farmers may be assisted if the trader is able to order through other people living in the outlying areas. Arranging transport involves dealing with the vehicle's owner, the driver and assistants. It also requires labour to load and unload at each end of the journey. Transport also adds greatly to the risk of the business, because coconuts must be husked before loading to reduce bulk. This is another task needing paid assistance and must also be carefully coordinated. There must be no doubt about the readiness of transport at husking time, because coconuts remain saleable for days, rather than months, after this has been done and are also less protected from the elements. Even once safely loaded, a breakdown during the journey or delay in finding a buyer in the city can lead to losses, cutting, or even wiping out, the trader's profit.

5.2.6 Logging

In July 2004, Tanzanian newspapers carried the first reports of what became known as 'the Logging Scandal'. Public attention was drawn to the high volumes of hard wood logs being extracted from the area south of the Rufiji, for use by furniture makers and timber exporters in Dar es Salaam, violating conservation regulations and leaving large areas of forest denuded of all but the youngest trees (Mfugale 2004; Nguvu 2004; Sunseri 2009). The details of the profitability and legal irregularity of the trade that emerged in these reports was consistent with the evidence gathered for this thesis three years earlier.

Few informants reported any involvement with the timber business, for which of course there are two possible reasons. At the time, logging was not prohibited, but required a substantial licence fee payment for each unit extracted. A number of informants stated that they had taken part in timber trading in the past but that they had given it up as too risky or because of the high licence price. Only two individuals did describe timber as an ongoing part of their business activities and gave details on the process involved.

Both of the active timber businessmen transported wood to Dar es Salaam as twelve foot planks, rather than round logs. One of the two organised the entire process from tree to city market while the other ordered planks from local wood cutters. The first step taken by the former businessman was to have a resident of the forested area list some likely trees; game hunters often had the necessary knowledge of these sparsely populated areas towards the Selous reserve. Then the businessman would accompany this person on a 'survey' lasting a number of days, to positively identify the trees to be cut. Next, a team of wood cutters with the necessary pit-sawing skills had to be recruited. They would spend around three months living in a temporary camp while felling and sawing. When the planks were ready, nearby residents carried them out of the forest and guarded them while a team of youths cleared the way for the passage of motor transport, if necessary creating a new section of road. The businessman went to Dar and returned with a lorry to collect the planks. The choice of route to the city was important, as the main road from Lindi had many checkpoints where bribes were demanded. In addition to avoiding this problem, use of the alternative road via Utete enabled the entrepreneur to pay tax at that district's lower rate of 1,000 TSh per plank as opposed to the 4,000 TSh asked in Kilwa district. In Dar es Salaam, a buyer had to be found. Because of the high total value of the wood it was quite normal to leave the delivery with a buyer and return on the following day to receive payment.

The timber business then, requires the coordinated efforts of many people over considerable distances and a period of several months. There are also uncertainties associated with both legal and corrupt payment demands. Although returns seem very high, at perhaps between 30 and 50 per cent, the required outlay runs in to millions of shilings. The need for long distance travel on foot, high risk and capital requirements make it unsurprising that this activity was restricted to those who were both young and single, and among the most successful village business people.

5.2.7 Market Intermediation

A number of individuals in Kipatimu undertook two related activities. One was the provision of pre-harvest season credit to farmers against the future value of

their crops. The other was to help travelling crop buyers from Dar es Salaam and elsewhere to find local sellers. There was wider involvement in the first of these, which was seen as a useful income earning opportunity by some formal employees and business people who had funds available at the right time. However, the combined role of credit provider and crop market agent was well recognised and prominent in local discourse, an individual who performed it being known as a '*dalali*.'

The first part of a *dalali*'s business is the provision of consumption loans during the months of January to April. Neither lenders nor borrowers were anything less than open in stating that demand for such loans is driven by hunger and other problems in a period when some farmers have no source of income and no savings. Loans are only given if the farmer concerned has a crop with good prospects of earning sufficient money for repayment at harvest time. These loans may be made against any crop but by far the most common in Kipatimu was oranges. There are a variety of arrangements for the sale of the crop and the division of proceeds between farmer and *dalali* at harvest time, which are discussed in more detail below. At one extreme, the orange *shamba* can be 'hired' entirely by the *dalali*; in return for a fixed sum, sometimes each year for a number of years, such an agreement gives the *dalali* the right to sell the orange crop as if it were their own and to keep all the proceeds.

To meet buyers of oranges and other crops, a *dalali* can await the arrival of lorries at Darajani¹, a cluster of shops and restaurants where the main road approaches the village. The *dalali* finds out the crop sought and the quantity required, as well as other details such as the trader's preparedness to risk his lorry on more difficult roads. Then the trader is guided to a potential source of crop purchases. Once a *dalali* becomes well known, the need to wait at Darajani and compete for contacts is lessened, as arriving traders will send for them on arrival. Individuals with good connections in the city would arrange visits from traders well in advance, regularly being advanced the money to buy crops.

¹ Darajani was officially designated a separate village in 1999. It seems likely that this role as a staging post for traders helped to build up the concentration of population and commercial services that drove the change in status.

The *dalali*'s role is not completed once trader and potential seller are brought together. It is usually the intermediary who arranges picking, done by both boys and girls for a flat piece rate payment of 1 TSh. The *dalali* also supervises the counting and then loading of the orange crop. Depending upon the agreement with the farmer, it may also be the *dalali* who agrees a purchase price with the trader and handles the distribution of money, paying pickers and passing on the farmer's share of the proceeds.

All *dalali*'s had acquired knowledge of Dar es Salaam and other markets through travelling themselves with goods for sale. Some continued to organise the transport of oranges directly, one going as far as Nairobi. On these journeys they met their urban equivalents and made contacts that provided opportunities and sometimes finance for further trade. The majority of traders came from Dar es Salaam and were seeking oranges for final sale to consumers as fruit for direct consumption. Oranges from the area were highly regarded by customers¹ but standards of traders were correspondingly high, with many fruit rejected as too small or hard. This could lead to serious disputes that the *dalali* had to resolve if quality concerns were expressed after the fruit had been picked. In 2000 traders arrived from Kenya who were said to have paid high prices and taken fruit of all grades. It seems likely that these oranges were destined for processing in Nairobi rather than direct sale to consumers. A need for such capacity in Tanzania was a common theme in discussions of the economy among both Kipatimu residents and urban business people.

The reasons why it is hard to draw conclusions about accumulation levels within individual commodity trades, discussed in subsection 5.2.3, apply also to the *dalali* group who were all involved in a variety of commodity trades themselves. If we consider the data on accumulation obtained for the group of traders and market-intermediaries as a whole we find a distribution that can be described as above that of the cultivators and palm-wine sellers and below that

¹ Street vendors would often claim that their oranges were 'ya Kilwa' or 'ya Kipatimu'.

of the skilled self-employed, shopkeepers and formally employed. Educationally, only the last named group had superior attainment¹.

5.2.8 Other Activities

There were three restaurants in the village centre at the beginning of the study period, with another opening a few months later. These had a regular, if sparse, clientele of formal sector workers such as teachers and business people. During the harvest season they became very busy with arrival of traders. The restaurants provide interesting evidence for the discussion of employment relationships later in this chapter and the next. Apart from restaurants, prepared food was sold by street vendors around the market area. The most common snack offered by these mostly female traders was fried cassava chips, though chapatis, *maandazi*¹ and fried fish were also sold.

One individual owned a diesel powered maize milling machine that was in almost constant operation during daylight hours. There was also another machine owned by a women's cooperative group. Unfortunately, this was not operational during the whole of the study period; partly because of mechanical problems but also reflecting the inactivity of the group itself at the time. Diesel is bought from local shops and two youths employed to supervise milling for a share of the receipts. Women travelled from several miles in all directions to use this machine, to which the only alternative is the exhausting and time consuming labour of pounding by hand. Credit, as for other businesses discussed here, was generally only available to formal employees.

This account of activities is far from exhaustive but covers most of the businesses that could be identified as offering the potential for successful accumulation. The last one that will be mentioned has an ambivalent place in the study's discussion of the local economy, insofar as it takes as a major axis of its interpretation a posited dimension of variation between socially embedded and market forms of coordination. This activity is the barter trade of salt for local crops. Salt is purchased from the coastal area and exchanged directly with farmers for maize, rice and other products. For some individuals, this

¹ See Table 4.4 and Table 4.12

activity simply represents a way of obtaining their household food needs at lower cost than is possible with direct purchase for cash. Traders sell the purchased food stocks locally, or transport them to the coastal area and return with more salt in a continuing cycle. Barter trade seems in tension with an narrative of 'emerging market organisation', seeming more readily associated with socially embedded patterns such as gift exchange. However, this barter trade was carried out by a number of successful accumulators, alongside other activities that do more clearly fit a description of 'increasing commercial activity'.

5.2.9 Coordination and Vulnerable Transactions

To be carried out successfully, and to contribute to individual accumulation, all of the activities described above require coordinated behaviour on the part of multiple actors. The transactions between entrepreneur and each of these actors may be simple, as in the case of a shopkeeper who gives a box of matches to a customer and receives 50 TSh cash in return a few seconds later. Alternatively they may be complex, involving multiple actions separated by significant periods of time and distances. Understandably, reports of failed transactions most often related to the latter form, where an agent who had benefited from one side of an arrangement failed to carry out some costly action required by this arrangement at a later date or at a remote and unobservable location. However, while such agreements do account for most 'vulnerable transactions', there was evidence too of problems with even simple exchanges in some circumstances.

The study obtained data on 42 different types of vulnerable transaction from those involved in the activities discussed above. To illustrate the way these are categorised in the following analysis, a selection are summarised in Table 5.1 below. All the self-employed fundis do most of their work in advance of being paid. This means that they are open to the hold-up situation discussed in Chapter 2 above¹. Although a tailor for example can decline to hand over a finished shirt in order to enforce payment, should the customer attempt to

¹ *maandazi*: doughnuts

reopen negotiations on price at this point they are likely to be in a stronger position than when the order was first made. This is because the tailor's fall back position would depend upon the uncertain prospects of finding an alternative buyer. Shopkeepers and the owner of the milling machine, among others, could maintain revenue and good relationships with customers by offering credit but clearly this presents a problem of ensuring timely repayment. The *dalali* faces a similar difficulty except that in this case the transaction involves advance payment for goods, where funds loaned early in the year are not then available to the lender for a long period; the much longer delay increases both the difficulty of enforcement and the risk that the gains from this transaction for the lender may not exceed its opportunity cost.

entrepreneur	other party	transaction	vulnerability
self-employed skilled labourer	customers	sale by advance order	delay: payment received after own work done
shopkeeper machine miller	customers customers	sale on credit milling on credit	delay: repayment uncertain
<i>dalali</i>	credit customers	giving loan against crop	delay: up to eight months and uncertain repayment
<i>mdafu</i> bar owner	suppliers	purchase by advance order	delay: payment made after supplier work done
shopkeeper	suppliers	order of stock	distance: market prices unobservable and need for personal presence
<i>mdafu</i> bar owner fish trader logging organiser	employees employees employees	transport of <i>mdafu</i> transport of fish cutting wood in forest	distance: supervision costly
all entrepreneurs	all other parties	all transactions	protect property rights

Table 5.1 Some Vulnerable Transactions

Two transactions with suppliers are shown in Table 5.1. In the first of these the difficulty caused by sequencing and delay in the case of funds is reversed, as *mdafu* bar owners normally pay for their palm wine after the process of preparation has been carried out by their suppliers. The second concerns the purchase of stock by shopkeepers, who travel regularly to Dar es Salaam for this purpose as described above. The alternative, of ordering via third parties is hard to arrange reliably because detailed information on supply conditions in

¹ See Section 2.5 on contracts.

the city is not available in Kipatimu. Perhaps more importantly still, several costs of the transactions with Dar es Salaam suppliers are reduced by regular interaction, which increases the cost of substituting face to face contact with orders sent from afar.

In my view¹, the question of employment by microentrepreneurs is of the first importance in understanding the potential economic role of growth in this sector. This is for two reasons: the provision of employment opportunities and the related question of how individual firms can increase their production. Three of the vulnerable transactions listed in the table above concern employment. In all three cases the difficulty is caused because the nature of activity to be coordinated precludes direct supervision by the respective entrepreneur. If such transactions cannot be sustained, then the scope of any one accumulating individual's business activity must remain constrained within what they are able to personally oversee, with clear and discouraging implications for both features of rural private sector growth just mentioned.

We can see the effects of such vulnerable transactions in several of the detailed studies carried out by Peter Gibbon in Tanzania during the 1990s. For example, boat owners in the Nile perch and *dagaa*² fisheries of Lake Victoria cannot directly supervise their crews so both the contractual terms of employment and the broader social context of the 'camp' from which crew are drawn are important for the owner's strategies (Gibbon 1997a, 1997b). Both delay and distance are at work in the relationships between private cotton trading companies in Dar es Salaam and their purchasing representatives in villages. Gibbon describes a variety of carefully thought-out arrangements used by these companies to address the difficulty of supervision in numerous remote distances and the delay between provision of buying credit and delivery of purchased cotton (Gibbon 1998 pp. 43-7).

The last row of Table 5.1 is the only entry where vulnerability is not attributed to either distance or delay. This entry states a universal requirement that applies even to the simplest transactions. When the shopkeeper exchanges matches

¹ As discussed in the review of literature on the rural private sector in Appendix 1.

² *dagaa*: small sardine-like fish cooked and eaten whole in the manner of whitebait in the UK

for cash, he needs to be confident that the customer will not exploit necessary features of this transaction to his disadvantage; for example, as the shopkeeper turns and reaches up to a shelf for the goods requested, the customer may be well placed to take some other item unobserved. Unfortunately, while for most entrepreneurs and those who deal with them avoiding such dishonesty in face to face exchange is at worst a matter of vigilance, there is some evidence that opportunities for gainful exchange are limited for other individuals by a lack of means to enforce basic property rights even in such simple transactions.

In Section 5.4. attention returns to the question of the transactions such as those shown in the table above. Before this, the next section presents the theoretical model that is used to assist in the analysis of these vulnerable transactions and of the strategies adopted by individuals needing to engage in them as part of their business activities.

5.3 Transaction Viability in the Presence of Social Institutions: A Model

5.3.1 Presentation Of The Model

As discussed already, an examination of the ex-ante agreement between two transacting parties can help understand the likely viability or otherwise of the transaction. This agreement can be thought of as a contract, whether or not it is formally stated, that prescribes the behaviour expected of both parties for certain states of the world. However, the theoretical concepts reviewed in Chapter 2 and the empirical analysis of study area institutions in Chapter 4 make it clear that the behaviour of any two such individuals is already very likely to be subject to multiple rules enforced by various social institutions.

The point of departure for the following model is that any contract made between two individuals can often only be helpfully understood as an addition, modification, or both to the pre-existing set of institutional rules to which the parties are subject.

The model assumes two individuals, a principal and an agent. The former proposes an agreement A which the agent can either accept or decline. The set of all rules of social institutions which apply to the two individuals is denoted by

R. Should the agent choose to agree to *A*, payoffs to each individual are jointly determined by their behaviour in some subsequent period. Each can either conform to both all terms of the agreement and all institutional rules not in conflict with these (**B**); all the institutional rules but not all the terms of the agreement (**R**); all terms of the agreement but not all institutional rules not in conflict with these (**A**); or neither all terms of the agreement nor all institutional rules (**N**). These categories collapse a continuum of possibilities, the first of several necessary simplifications. However, the limitation to four types of conformity by each actor does allow important contrasts between outcomes to be shown. As will be seen, more detailed analysis is in fact enabled by considering the variables that affect payoffs and their interactions.

An example of *A* could be an agreement between a mdaflu bar owner and a young man who carries palm wine to her bar. The terms of *A* might specify that a bucket of palm wine should be collected from a certain place in the morning and brought straight to the bar without delay. Among the relevant rules *R* of social institutions applying to the carrier at the time might be that of helping his parents clear their field and an injunction not to steal. Thus the youth could choose to collect all the pombe on time and deliver all of it on time instead of helping his parents (**B**); to help his parents and not collect the pombe at all (**R**); to collect and deliver the pombe on time but give a little to friends on the way (**A**); or to ignore both parents and pombe carrying in favour of a job picking coconuts (**N**).

In the model we assume that each party to the transaction receives a benefit F when their partner carries out their obligations under both the agreement and those institutional rules that it does not contradict, in other words choice **B**. A person whose partner makes choice **A**, full compliance with agreement terms but not with all compatible institutional rules, receives a benefit f . Similarly we assume that the costs to an individual of their own action in conformity with choices **B** and **A** are respectively C and c . These benefits and costs are taken to depend upon other factors as follows where r is a proper subset of R representing those rules which are followed under strategy **A** and vector θ is a random variable over possible states of the world.

$$F = F(i_1, i_2, A, R, \theta) \quad 5.1$$

$$f = f(i_1, i_2, A, r, \theta) \quad 5.2$$

$$C = C(i_1, i_2, A, R, \theta) \quad 5.3$$

$$c = c(i_1, i_2, A, r, \theta) \quad 5.4$$

The argument i_1 is a vector that specifies important characteristics of the individual receiving the benefit (F/f) or bearing the cost (C/c) while i_2 gives the corresponding information for their counterpart. These characteristics may include details of endowments, abilities, past actions and position with respect to institutions. This last means that i_1 , i_2 and R suffice to determine the institutional rules that apply to each actor in any given state of the world.

The variables F , f , C , c , along with other elements that make up individual payoffs introduced below, are taken to represent contributions to a separable utility function for each individual.

Between any two individuals, existing social institutions may prescribe obligations in one or both directions. An agreement A may specify further such obligations. However, in some situations there may be institutional rules which mean that the act of agreement itself creates obligations between the actors beyond those actually specified in A . For example there may be legal rules on customer rights, social expectations about the treatment of employees or religious constraints on money lending terms. In the model such an obligation towards one's transaction partner is denoted by

$$h = h(i_1, i_2, A, R, \theta) \quad 5.5$$

where arguments are defined as before.

A number of social institutions have rules prohibiting theft. While there are numerous possible consequences for an individual of transacting with a partner who breaks institutional rules beyond those that are overridden by A , the case of theft stands out as particularly important. It is assumed that if an individual does break rules in this way then they steal

$$T = T(i_1, i_2, A, r, \theta) \quad 5.6$$

with r the subset of R that is not broken. Note that although if $T(i_1, i_2, A, r, \theta)$ is positive this does imply that $T(i_2, i_1, A, r, \theta)$ is negative, the magnitudes of these two quantities may differ as they are expressed in utility terms. The same is true for the obligations h .

Thus far the model contains the explicit benefits and costs F , f , C , and c , the implicit obligations h and the danger of theft T . Now we turn to the question of enforcement. How can each party have sufficient confidence that their partner's actions will bring them the hoped for benefits and not cause them loss through theft, to themselves accept the cost of conforming? One method concerns sequencing and contract design. In a two stage transaction the individual who is to act second can make this action conditional on compliance by the actor who is to act first. Control, and thus exposure to risk of opportunistic behaviour by one's counterpart, can be shared by such mechanisms as part payment in advance that even out this sequential advantage somewhat.

Another set of incentives for compliance with the terms of a single transaction may be provided by beliefs that non-compliance will reduce expected gains from future transactions. Here I follow Fafchamps in differentiating a non-compliant individual's expected losses from future transactions with the same partner and with other partners. I adapt his notation slightly to write AV and RV for lost gains from transaction with the same individual and AW and RW for lost gains from transaction with others. The terms AV and AW indicate loss of reputation caused by non-compliance with agreements. RV and RW refer to a loss of reputation because of breaking the rules of social institutions. In plain terms, the former mean a reputation for not keeping one's word while the latter could suggest more general misconduct such as uncivil language, drunkenness or theft. These four variables are taken to be defined by

$$AV = AV(i_1, i_2, k, A, R, \theta) \quad 5.7$$

$$AW = AW(i_1, i_2, k, R, \theta) \quad 5.8$$

and similar expressions for RV and RW . The variable k represents the distribution of new information among individuals in the population following the transaction. Agreement A is omitted from the arguments in equation 5.8 to

emphasise the fact that the existence and terms of A are likely to be known to third parties only by whatever process underlies the distribution k .

Again the consideration of enforcement is following a concentric pattern, from the distribution of control implied by the transaction sequence, through the possible adjustment of this by the contract between individuals, then beyond the single transaction to repeated interaction by those two individuals and on to the effects of possible future transactions with others. The final stage is to take account of any action that may be promoted by social institutions to punish the breaking by individuals party to a transaction of either rules R or agreement terms A . In the model we write any losses of utility imposed upon one of the two parties for these reasons respectively as

$$D = D(i_1, i_2, k, R, \theta) \quad 5.9$$

and
$$d = d(i_1, i_2, k, R, \theta) \quad 5.10$$

As for the effects of reputation on future transactions captured by AW and RW , the effect on these variables of the agreement between the two original individuals is likely to depend upon the way that knowledge of the transaction spreads through the population. This is why k appears in the definitions of D and d but A does not.

As discussed in the review of literature in Chapter 2, much has been written on the role of institutions and social norms in successful market coordination. The model described here aims to facilitate a more precise analysis of how this may occur. In the BRAN model a number of different effects can be distinguished which could be described as contributing to the influence of a social norm or norms. Four of these are the repeated transaction effects AV , RV , AW and RW . Two others are the institutional sanctions D and d and there is also the institutional obligation h . All of these effects can vary according to the information in the variables i_1 and i_2 , which includes individual wealth and position with respect to to any salient understanding of structure within the institution. As an example of this, we may consider the question of whether social norms would have a weaker or a stronger influence over the behaviour of relatively poor and socially disadvantaged people. To answer this question we

would need to consider the balance of each effect, both directly upon the individual concerned and indirectly through the effects applying to their partner. In some cases the expectation is reasonably clear; in most circumstances it seems likely that a wealthier partner would be expected to provide more supra-contractual assistance h to their partner, perhaps an employee. Other effects are less clear: for example would social sanctions d against a poorer individual for breaking a contractual agreement be stronger than those against a wealthy person? On the one hand we may expect that the wealthy individual may be better placed within social institutions, as its members may fear to take action against them. On the other hand, the credible commitment argument advanced by Avner Grief and others holds that the advantage of certain institutions for their members is precisely that they are able to inflict significant punishments upon them. This goes to the heart of the hypothesised relationship between social institutions and market coordination. There is no simple correlation between freedom of action and the benefit that an individual can gain from the market. It is important to consider the details of activity involved, the context of social institutions and the identity of the participants within those institutions.

5.3.2 Discussion of the Model

The model is designed to help understand how individuals are able to coordinate their economic activity by making agreements in a context of already existing institutional rules. Although the elements of the model have been defined, in order to analyse their role in any transaction it is necessary to identify one of its fundamental features; that is, the order of the actions to be performed by each party according to their agreement A . There are many possibilities, including complex combinations of sequential and simultaneous actions. Two cases though are sufficient to aid the interpretation of data on transactions in this chapter: first the purely sequential agreement where all the action required by one party is to take place before the second party acts; then the purely simultaneous case where both parties act at once. The former fits the type of transactions identified as being vulnerable because of 'delay' in Subsection 5.2.9; the latter is suitable where 'distance' causes vulnerability by compelling both parties to act without information on the other's degree of

conformity. The following figure shows the pure sequential model for a single transaction in strategic form.

		second mover							
		B		R		A		N	
first mover	B	$F - C$ $+h$ $-D$	$F - C$ $+h$ $-D$	$-C$ $+h$ $-D$	F $+h$ $-d$ $-AV - AW$	$f - C$ $+h + T$ $-D$	$F - c$ $+h + T$ $-D$ $-RV - RW$	$-C$ $+h + T$ $-D$	$F + h + T$ $-d - D$ $-AV - AW$ $-RV - RW$
	R	h $-d$ $-AV - AW$	h $-D$	h $-d$ $-AV - AW$	h	$h + T$ $-d$ $-AV - AW$	$h + T$ $-D$ $-RV - RW$	$h + T$ $-d$ $-AV - AW$	$h + T$ $-D$ $-RV - RW$
	A	$f - c$ $+h + T$ $-D$ $-RV - RW$	$f - c$ $+h + T$ $-D$	$-c$ $h + T$ $-D$ $-RV - RW$	$f +$ $h + T$ $-d$ $-AV - AW$	$f - c$ $+T$ $-D$ $-RV - RW$	$f - c$ $+T$ $-D$ $-RV - RW$	$-c$ $+T$ $-D$ $-RV - RW$	T $-d - D$ $-AV - AW$ $-RV - RW$
	N	$+h + T$ $-d - D$ $-AV - AW$ $-RV - RW$	$h + T$ $-D$	$h + T$ $-d - D$ $-AV - AW$ $-RV - RW$	$h + T$	T $-d - D$ $-AV - AW$ $-RV - RW$	T $-D$ $-RV - RW$	T $-d - D$ $-AV - AW$ $-RV - RW$	T $-D$ $-RV - RW$

Figure 5.1 Pure Sequential BRAN Model of Transactions in the Presence of Institutions

To aid readability the arguments of each variable have been omitted in Figure 5.1. In addition, to help make the structure of the game clearer variables that are assumed to take a zero value for some strategy combinations are also left out. Selected parts of the figure are now explained in further detail to illustrate these points and indicate how the model is to be applied, including the first three strategy combinations in the top row.

We start with the case where both individuals choose strategy **B**, meaning that they both act in full accordance with their agreement *A* and with all those institutional rules *R* that are not contradicted by that agreement. This action means that each bears cost *C* and confers benefit *F* on the other. The outcome is shown in the rectangle corresponding to BB, that is row B and column B in the figure. As for all other strategy combinations the two smaller rectangles

into which this is divided show the payoffs for each individual; that for the first individual to act on the left hand side and for the second on the right.

It is important to understand that the two symbols ' F ' do not necessarily, or even probably, represent the same value. There are two reasons for this. One is because they are a shorthand respectively for the two expressions $F = F(i_1, i_2, A, R, \theta)$ and $F = F(i_2, i_1, A, R, \theta)$, where the first argument includes information on the individual receiving the benefit, including their role in the transaction. There is no theoretical reason why these benefits should be the same, though a Nash bargaining solution would give equal *net* benefits $F-C$ if other elements of the payoffs were zero. The other reason that the two F values are unlikely to be the same is that these benefits can be expressed in terms of a utility function for each actor rather than comparable monetary values. Similarly, the two C values are likely to differ. In fact, for every strategy combination the elements of each individual's payoff indicated by the same letter should not be taken as numerically equal. These considerations do not affect the analysis of outcomes, because in thinking about strategy choices we assume that each player is comparing different possible values of their own payoffs, rather than comparing their own payoff with that of the other person. In this, the analysis remains within the rational individual optimisation approach on which this study is putting primary emphasis as has been discussed already. More behaviourist considerations, such as preferences based on relative outcomes, can however enter into the model at the institutional level if rules have developed to express these.

If both individuals choose **B** then, each will gain net benefit $F-C$ as envisaged by the agreement made and compatible social rules. The terms h indicate that the existence of the agreement may confer extra obligations according to the rules of social institutions. For example if a person is paid to guard a house, their employer may be expected to contribute towards medical expenses in the case of sickness or to provide other assistance even if none of this is mentioned in the agreement itself. The final term D reflects the fact that keeping the agreement **A** may necessarily mean breaking some social rules. Although the two transacting individuals have agreed to this, sanctions may be enforced by

one or more social institutions. The most obvious example of this is when a transaction involves some illegal activity.

Moving to the combination BR, we have the case where the first person to act still conforms to both the agreement and compatible institutional rules but their counterpart only fulfils normal social rules and entirely fails to carry out the actions called for by the agreement. The first individual to act will bear the whole cost C of compliance but not get the benefit. Their action confers full benefit F on their counterpart who, however does not themselves have any cost of action. Because both are still complying with social rules, there may still be the exchange of implicit obligations h and the first actor may be punished for their breaking of rules incompatible with A as before. The second individual faces two possible sources of sanction for failing to conform with A . One is punishment d by social institutions, for example a fine imposed by a hamlet chairperson or restitution enforced by family elders. The other is the loss of future transaction opportunities with the same partner AV , or with others who get to hear that they have broken the present agreement AW .

The next combination BA again has the first actor facing the full costs of compliance C and institutional sanctions D . The h in their payoff this time is more likely to be negative, as the other person is not obeying all institutional rules compatible with A . They receive a benefit from the other person's action but this is written as f rather than F . This is to show that the payoff may be reduced by the second individual's breaking of some institutional rules. For example, some unexpected state of the world not foreseen in the original terms of agreement may threaten the productivity of the activity in question. If some action in compliance with social rules could have mitigated this threat, it may be that only carrying out the specific actions required by A will give a lower benefit. The term T represents another potentially serious threat, this time due to an act of commission rather than of omission; that is, the possibility that among the rules broken by the second individual will be those proscribing theft. Turning to the payoffs for this latter person, we have only two that have not been explained already. The cost of action is written c to indicate that it may well be lower than C due to the non-compliance with more social rules. As well

as the institutional punishment D of this social rule breaking, there are the potential losses of future transactions with the current partner and with others who discover that the second actor has broken institutional rules in this way. These are written as RV and RW , rather than AV and AW , to express a possible reluctance to deal with a person who has followed the letter of an agreement but violated other social rules.

Just as the second individual in this last strategy combination receives both the institutional punishment D and the loss of future transactions RV and RW , it will be noticed that these sanctions tend to occur together throughout Figure 5.1. The exceptions are all where the actor concerned has followed choice **B**. Recall that every post transaction sanction could be shown in every cell, under the assumption that each would take a zero value as appropriate. In order to show the strategic structure of choices to be made it is much more helpful to make some judgement about which sanctions are likely to be non-zero in each case. Here, the omission of RV is justified because the individual concerned has only broken institutional rules as directly required by the agreement with their partner. It seems unlikely that this person would wish to sanction this behaviour. The absence of RW is perhaps more questionable. It is based here on an assumption that other potential transaction partners would not regard a willingness to prioritise compliance with agreements over other obligations in a negative light.

Further consideration of the relationship between punishment by institutional sanctions d or D and repeated transaction sanctions such as RV or RW brings out an attractive feature of the model presented here. In many models that invoke reputation, the reluctance of future potential partners to trade with an individual who has defaulted on a contract is ascribed to the revelation by this default of the individual's 'type'. There may be 'honest' and 'dishonest' agent types (as in the model of Ghosh and Ray 1996) who become distinguishable only after their conformity or default is observed. The current model offers a less essentialist interpretation of reputation effects as follows. Suppose that a certain individual's position with respect to social institutions means that the rules applying to them impose a high threat of punishment d . Such a person is,

ceteris paribus, less likely to break agreements A once made. This makes that person a more attractive partner for future transactions, thus increasing both AW and AV . As this in turn makes the individual more likely to conform to A in the present transaction, a form of multiplier effect may in fact operate. The point though is that the various reputation effects may ultimately be based on the incentives that the person faces given their relation to social institutions, along with individual characteristics such as wealth and education.

Another link between the two forms of post-transaction sanction available in the model is the distribution k of information among the population. As observed in the discussion of literature in Subsection 2.7.2 above, appeal is often made to 'flows' of information through social 'networks'. It was claimed that a weakness of the networks metaphor is its privileging of the structure of relationships over their nature. There is no explanation for why information should flow between some 'links' more or less easily than others for example. The advantage of an institutional approach, it seems to me, is that it can take account of both structure and the highly differentiated obligations and beliefs that apply to social interactions. In terms of information distribution then, the question of who gets to know about an attempted transaction, the agreement made between its two parties and their subsequent actions, is likely to be influenced by institutional rules. For example, some pieces of information may pass more easily within, rather than between, families, sexes, or religious groups. A possible relationship of the form $k = k(i_1, i_2, A, R, \theta)$ may then help explain how knowledge of transaction outcomes is distributed. Note that this further strengthens the view that reputational effects such as AV and AW are highly dependent upon social institutions.

		actor 2							
		B		R		A		N	
actor 1	B	$F - C$ $+h - D$		$f - C$ $+h - D$	f $+h$ $-d$ $-AV - AW$	$f - C$ $+h + T$ $-D$	$f - c$ $+h + T$ $-D$ $-RV - RW$	$f - c$ $+h + T$ $-D$ $-RV - RW$	$f + h + T$ $-d - D$ $-AV - AW$ $-RV - RW$
	R	f $+h$ $-d$ $-AV - AW$	$f - C$ $+h - D$	h $-d$ $-AV - AW$		f $+h + T$ $-d$ $-AV - AW$	$f - c$ $+h + T$ $-D$ $-RV - RW$	$+h + T$ $-d$ $-AV - AW$	$h + T$ $-d - D$ $-AV - AW$ $-RV - RW$
	A	$f - c$ $+h + T$ $-D$ $-RV - RW$	$f - C$ $+h + T$ $-D$	$f - c$ $+h + T$ $-D$ $-RV - RW$	f $+h + T$ $-d$ $-AV - AW$	$f - c$ $+T$ $-D$ $-RV - RW$		$f - c$ $+h + T$ $-D$ $-RV - RW$	$f + T$ $-d - D$ $-AV - AW$ $-RV - RW$
	N	$f + h + T$ $-d - D$ $-AV - AW$ $-RV - RW$	$f - c$ $+h + T$ $-D$ $-RV - RW$	$h + T$ $-d - D$ $-AV - AW$ $-RV - RW$	$+h + T$ $-d$ $-AV - AW$	$f + T$ $-d - D$ $-AV - AW$ $-RV - RW$	$f - c$ $+h + T$ $-D$ $-RV - RW$	T $-d - D$ $-AV - AW$ $-RV - RW$	

Figure 5.2 Simultaneous BRAN Model of Transactions in the Presence of Institutions

The strategic form representation of the model for transactions in which action by each player takes place simultaneously is shown in Figure 5.2. This can also be used in the formally equivalent situation where action is sequential, but the second actor has to choose their strategy without knowledge of what the first has done. This may for example be caused because distance prevents observation. Although the strategic form representation is perfectly symmetrical as shown, it must be remembered that the actual values of the various elements are likely to differ between individuals, so numerical realisations of the payoff variables would not conserve this apparent symmetry. As will be seen, for the sequential or ‘delay’ model discussed above, a useful way to think about the most likely outcome is by backwards induction. For the simultaneous or ‘distance’ model an alternative solution concept is needed, such as Nash equilibrium.

This model uses several elements of Fafchamps' (2004a) model of contract enforcement discussed in the literature review. There are however several important differences. The model presented here allows for simultaneous as well as sequential transactions. Rather than appealing to 'type' it is more specific about the characteristics of individuals that can affect transaction viability and this theme is further developed in the following chapters. Relatedly, my model posits a much wider role for institutional effects which suggest that the terms on which any two people are able to contract may be greatly differentiated by these individual characteristics. The enforcement effects G and P are not explicitly used in the current model, partly for reasons of limiting the complexity of the presentation in diagrams such as Figure 5.1. Given the approach in this analysis of looking first to explanations based on rational optimisation, the 'internalised' mechanism G has somewhat of a residual role. As it in any case could be entered into every cell in the strategic diagrams its inclusion here would seem doubly superfluous. It should perhaps though always be borne in mind that if a particular outcome is hard to reconcile with this rational model, the possible role of non-rational influences such as socialisation, religious belief or altruism should be considered. The role of direct coercion P is taken to be subsumed in the institutional effects d and D . Where this coercion is exerted through the formal legal system this is clearly the correct place for such effects in the new model. Even where P takes the form of personal threats or violence however, it seems reasonable to suppose that such action would be subject to the rules of social institutions. Whether or not such vigilantism can take place, is suppressed or even supported, can be viewed as important questions about the functioning of such institutions.

5.4 How Vulnerable Transactions are Sustained in Kipatimu

5.4.1 Agreement Types and Enforcement Methods

Of the 42 kinds of transactions that appeared to be vulnerable among those reported by interview respondents most fit reasonably well in to one of the three basic categories of activity sequencing described above. For eight of them, the business person acted first, then their partner. In nine cases, the partner acted

before the entrepreneur. Both parties had to act without full knowledge of their partner's conformity or otherwise with the agreement between them in another 18 kinds of transaction.

In describing these vulnerable transactions, business people reported 168 instances of particular enforcement methods. An overview of the types of method most frequently used and how this varies between different sequencing of transaction activity is provided by Table 5.2. These data show that recourse to social institutions of different kinds was the most common enforcement method used, followed by the threat of withdrawal from future transactions with the partner concerned. A sub category of institutions, the exploitation of kinship group rules, would form the third largest category if separately counted. A further 30 percent of instances were evenly distributed between contract design, such as advance payment; reputation among third parties; and 'other rational incentives', which mainly refers to various monitoring techniques. The smallest category was the use of non-rational methods such as reliance on honesty or knowledge of someone's character.

	All %	Agent First %	Principal First %	Both Together ¹ %
contract design	10	18	9	9
social institutions	42	44	40	45
<i>of which</i>				
<i>kin</i>	16	21	3	27
<i>legal system</i>	10	12	10	9
<i>employer²</i>	8	0	22	0
repeated transactions	21	15	24	24
reputation among others	10	9	17	4
other rational incentives	10	6	3	14
non-rational enforcement	7	9	7	6
total count (=100%)	168 ³	34	58	67

¹ This in practice denotes hidden action cases where action is sequential but as the most important actions of one's partner are not known until after transaction completion, the situation is strategically equivalent to simultaneous action.

² This refers to formal sector institutions employing personnel such as nurses or teachers.

³ This exceeds the total of the bottom row (159) as nine observations do not fit into the three transaction types shown. If these nine cases are excluded, none of the percentage values in the first 'All' column changes by more than one except 'other rational incentives' which falls from 10 to 8.

Table 5.2 Agreement Enforcement Methods for Different Transaction Sequences

This residual 'G' method of enforcement accounted for a similar share of enforcement in each type of transaction sequencing. It is interesting that this

share in fact falls from the case where the other party acts first, through the case where the principal acts first, to the case where there is significant hidden action: exactly the opposite pattern to that which one might expect. There was considerable variation between types in the distribution of other methods, most notably in the use of contract design, kinship, contact with employers and the value of future transactions with the same partner or with others.

The remainder of this section looks in more detail at the evidence on enforcement methods used in the three types of transaction sequencing.

5.4.2 Enforcement when the Agent Acts First

Most of the evidence from the study on this type of transaction falls into three categories. These are: the purchase of palm wine from suppliers by bar owners; the transport of goods by paid workers; and the use by shopkeepers of other people's capital.

Palm Wine Purchases by Bar Owners

Successful coordination between palm wine supplier and bar owner requires that the former carry out most of their activity first in tapping and blending the *mdafu*. During the dry season, all *mdafu* produced is normally sold out each day and prices are high. From the bar owner's point of view, vulnerability of the transaction with suppliers is highest at this period so we concentrate on this. As this transaction is relatively simple, and the prices and quantities involved do not vary greatly in magnitude between businesses, some indicative values can be used with the model of Section 5.3 to show how different strategies and outcomes are related. For ease of understanding payoffs are written here in monetary terms. We assume then a bar that has agreed to purchase 40 bottles of *mdafu* at 50 TSh each from a supplier. To express the fact that an alternative purchaser is likely to be available for buyers, suppose that the opportunity cost of selling to the purchaser with whom the agreement has been made is given by the value of 40 bottles at 40 TSh, which fits the range of variation in buying prices in this season. If the deal is completed, we assume that the bar owner's benefit will be the sale value at 70TSh per bottle and their cost will be the amount paid to the supplier. If there were no other costs or benefits accruing to

either individual, this transaction would be unsustainable. This is because the seller would know that if they produce and supply the *mdafu* according to the agreement, in terms of the model choosing either strategy *B* or *A*, the best response for the bar owner would be not to pay for it at all, that is either strategy *R* or *N*. Fortunately, the observation that such transactions are actually commonplace can be accounted for by noting that activity is not purely sequential. Although the seller has done most of their required activity before the owner chooses how to act, they can decline to actually hand over the *mdafu* until payment is received. Formally this can be shown in the model by assuming a value of *d* that exactly cancels out the benefit *F* to the buyer. This shows how direct physical action, the ability to hold on to goods unless paid, is conceived here as part of general institutional support for agreement compliance.

Agreements between bar owners and their suppliers normally specify a quantity, price, approximate time and place of collection or delivery. Other details like precise timings or quality cannot be specified exactly. In addition the quantity produced is normally subject to some variation. Producer and bar owner can each decide to keep only to the terms specified in their agreement, or to be guided also by general social rules that might for example prohibit excessive lateness or define an acceptable quality range for palm wine. To show how this affects the structure of decisions we assume here that both costs borne and benefits conferred by each individual are reduced by a small amount if they opt for keeping only to the agreement *A* as opposed to also observing compatible rules of social institutions *B*. Under these assumptions the strategic form of the sequential BRAN model shown in Figure 5.1 simplifies to the following Figure 5.3.

		bar owner							
		B		R		A		N	
supplier	B	400 ¹	800	-1600	0	300	900	-1600	0
	R	0	0	0	0	0	0	0	0
	A	400	800	-1500	-100	400	800	-1500	-2800
	N	0	0	0	0	0	0	0	0

¹ Payoffs calculated with following values. Supplier: $F = 2000, C = 1600, f = 1900, c = 1500$. Bar owner: $F = 2800, C = 2000, f = 2700, c = 1900, d = 2800$. All other variables assumed to be zero. Units represent expected utility measured in TSh.

Figure 5.3 Bar Owners Purchasing Palm Wine from Suppliers

The supplier, acting first, knows that if they choose full compliance **B**, the bar owner is likely to choose literal compliance only **A**. On the other hand if the supplier themselves chooses **A**, the bar owner will be indifferent between **B** and **A**. As either of the latter outcomes gives the supplier a payoff of 400 TSh rather than 300 for the first case and zero should the supplier break the agreement itself by choosing **R** or **N**, the strategy combination we expect to see is either AB or AA. That is, the supplier will provide palm wine according to the agreement but do little else expected by general social rules. The buyer will purchase the palm wine as agreed and may or may not conform to other social rules, for example on punctuality or reasonable flexibility over quantities.

The situation described here best fits K79, the owner of a medium sized bar buying from non-kin suppliers. She had to taste the *mdafu* each day and possibly not sell on a given day if the quality was too poor. During the dry season she sometimes received no pombe at all but remained with the same two main suppliers although she was never given credit by them.

Other bar owners were in a stronger position in different ways. Of the nine *mdafu* bar owners interviewed, only one purchased the bulk of supplies from kin. We might expect that in dealing with family members institutional sanctions d for breaking agreements and D for non-compliance with general social rules would both be significant. The exception to this would be punishment for breaking those social rules explicitly contradicted by the agreement, which we

would not expect to be larger. Consideration of the sequential BRAN model suggests that in these circumstances the BB outcome should be easier to sustain, that is both parties keeping to the agreement and related social rules. Indeed the bar owner, K5, reported no difficulty in obtaining *mdafu* in the dry season and was able to obtain credit for 2-3 weeks. Thus the presence of kin relationships enabled the delay inherent in this transaction to be extended still further. Related suppliers could rely on family based sanctions d and to the extent that the relationship excluded other suppliers on repeated trade effects AV to deter non-payment.

Three other bar owners traded with non-kin but had established relationships with their suppliers that assisted with agreement enforcement through the value of repeated transactions. In the cases of K113 and K131 this appeared to be because *mdafu* was collected from suppliers in relatively distant locations where the chances of finding an alternative seller were small. For K117, who ran one of the bigger bars, suppliers themselves carried large quantities from fairly distant sources; it would be difficult to find any other buyer for such amounts. If we consider the transaction model, these effects would increase the repeated transaction sanctions AV and RV against suppliers. In contrast to the 'taste and complain' response of K5 in buying from kin, K117 said that he would 'taste and warn' the people who supplied his palm wine if its quality fell short. Both K113 and K131 also reported that they could obtain supplies on credit; K117 did not do this but given the size of his enterprise and relative wealth as someone involved in a number of other businesses it is unlikely that he would need credit.

Goods Transport During the Rains

Each year there is a four or five month period between February and June during which the road to Kipatimu becomes impassable to heavy vehicles. For shopkeepers and other traders the only way to bring goods into the village is to hire youths to carry them by bicycle. The businesses that make most regular use of this method are shopkeeping, where supplies are carried from Ikwiriri beyond the Rufiji to the north, and fish trading, where dried fish are brought up from the coast to the east.

Clearly there is considerable opportunity for theft with such transport arrangements because of the large distances involved. Gross theft, such as the extreme case of a youth who disappears with all the goods he is carrying, will obviously be detected before they are due to be paid so the transaction type is sequential in that the business person can act in full knowledge of such a major breach of both agreement and institutional rules. More discrete pilfering however may be harder to detect at payment time, although one fish trader K152 used a system of secret marks on the packing to try and do this. Such subtle dishonesty must to a large degree be deterred by post-transaction enforcement mechanisms of some kind. Several are in fact used according to the study data on these activities.

Besides deliberate theft, losses can occur through causes that are not the fault of the hired individual. For example, youths can be robbed on the isolated parts of the journey or rain can damage the goods. In such circumstances both sides of the transaction are better off if their partner is prepared to be guided by social rules of behaviour beyond the agreement in responding flexibly to events. In terms of the model being used this is strategy **BB**. If those hired to transport goods fear that they will be held to the letter of their agreement and expected to bear full responsibility for losses beyond their control, they may be reluctant to agree to the work.

Almost all of the business people who hire youths for this transport work differentiated between 'trustworthy'¹ ones and 'non-trustworthy' ones, describing various means of making this distinction. It was common to say that youths were trusted when they were 'known' or the business person was 'used to them'. Clearly once a relationship has been established the value of future repeated transactions is itself enhanced as a reason for trust and this was also stated by several informants. This begs the question of how trust is first established however. Fish trader K143 and shopkeeper K245 both reported that they signed written contracts in front of witnesses with youths employed to transport goods, the latter businessman only doing this on the first occasion

¹ Normally expressed as 'mwaminifu', literally 'believable'.

and thereafter relying on trust. Property at the youth's home provided another guarantee against dishonesty.

There were two reputation effects in the data. K143 said that he knew which youths were honest by observing which ones other business people trusted. A different and interesting mechanism was described by the shopkeeper K237. He said that once you have found one person that you trust, *one honest person finds another honest person until you get to the number that you want*¹. If one holds that the leading determinant of 'trustworthiness' is some kind of intrinsic disposition on the part of individuals, both the means by which an 'honest' youth is better placed to know which other youths are 'honest' and their motivation for sharing this knowledge with the business man would still need explanation. Rather than appeal to such essentialism, an account based on obligations between the youths themselves is both simpler and consistent with rational behaviour. It could be that a non-employed youth owes a duty of honest behaviour to any employed youth who successfully recommends him, while an employed youth is both obliged to make such recommendations and well advised to make them about those who he believes will honour their reciprocal duty. This implies the existence of what could be described as a simple institution among those who offer these transport services². If such an institution exists, this could in turn increase the possible post-transaction sanctions on business people who default on agreements or wider social rules in their dealings with the youths. Returning to the question of losses beyond the control of youths, this suggests a possible way of maintaining the desired **BB** outcome. Should rain spoil goods en route, the payoff F of the entrepreneur is reduced. This may be sufficient for them to avoid the cost of paying the youth by adopting strategy **R** or even **N**. If however, the institution of bicycle transport workers is able to inflict punishments d , D and reputational damage AW and RW , this may be averted.

¹ K237 interview 9/10/1 *mwaminifu mmoja anamtafuta mwaminifu mwengine, mpaka wanatimia idadi ambayo..unaitaka wewe.*

² This has relevance for the widely recognised phenomenon of 'chain recruitment' in developing economies.

Shopkeepers Using Other People's Capital

There was a slight tension between the accounts of some shopkeepers and others on this question. Some individuals involved in other businesses stated that shopkeepers did accept deposits of money from people which they then used as working capital until it was required again by the owner. Similarly, two shopkeepers reported doing this routinely. Others said however that they had never done it and that they in fact feared the practice. Shopkeeper K232 said *this business of money for money is very risky*¹.

At a shop between Kipatimu and Darajani, the proprietor showed me an exercise book full of entries recording deposits, saying that a customer depositing 100,000 TSh would be paid 10,000 TSh per month in return. This is consistent with the account of shopkeeper K235 who said that he paid back 130,000 TSh on the same deposit after two months, also keeping a written and witnessed record. Although these returns seem extremely high, they are reasonable if understood to apply only to the four or five months of the year when the roads are open, farmers are selling their cash crops and shop business is brisk. During this dry season period shopkeepers estimated monthly returns to working capital of around 30 percent, which would also be in keeping with the described rates paid to these depositors.

This transaction clearly belongs in the sequential category with the lender as agent acting first. A number of enforcement mechanisms seem likely to be in effect, though evidence unsurprisingly is not plentiful given the sensitivity of this practice. This sensitivity however is perhaps itself a clue. Former shopkeeper K81 said that he feared using the capital of other people because of the likelihood of conflict. It seems possible that if such financial arrangements are novel then the support for them in terms of social institutions may be weak. While the basic rights of people to have money returned on request may be well recognised, the duty of a shopkeeper to pay interest or the obligation of the lender to give notice may not be. The former seems particularly feasible given the relevance of Islamic injunctions against usury to half of the local population and the recently dominant ideology of *Ujamaa*. In terms of the BRAN model, we

¹ K232 interview 2/11/1 *hiyo biashara ya hela kwa hela ina risku kubwa sana.*

can say that D is likely to be stronger than d in general, so supporting simple safe keeping arrangements more than investment for a return. Further, D may even be high for an individual who adopts strategy **B** because the breach of rules against interest payment and supporting return of property on demand is not permitted by social institutions even if individuals have agreed in advance to such limitations on their normal rights.

There must be some role for the value of repeated transactions. This could support interest payments even if there is a lack of support for these in local institutions. Such a view would be consistent with the evidence that only larger lenders are paid interest while those who deposit smaller amounts do so for safe keeping only. The value of repeated trade between the former and a shopkeeper could represent the incentive AV necessary to ensure that voluntary rules on interest and notice periods are kept as well as simple return of the principal lent.

Reputation effects, as well as being difficult to find evidence on, are hard to conceptualise for this very reason. If information does not travel freely about the behaviour of lenders and shopkeepers, then how can such effects function? A solution is to contrast the general reluctance to discuss financial services provided by shops and others with the frequent use of such services which entrepreneurs like K118 and K108 report. It seems reasonable that relationships among those who do regular business involving the need for financial services are characterised by obligations to share information about possible providers and users of these services. As argued in the theoretical outline of the BRAN model in Section 5.3, rather than 'flowing' through social networks it may be more helpful to think of information as being exchanged between people in a way influenced differentially by their position relative to social institutions and their rules. Just as the reputation effect among youth hired to transport goods may depend upon the systems of social rules that govern them, the same effect among users of semi-formal financial services is likely to be structured and governed institutionally.

5.4.3 Enforcement when the Principal Acts First

Perhaps counterintuitively, evidence from the study on this type of transaction is more abundant and more straight-forward to interpret than is the case for the preceding type. Two related considerations on the other hand should lead us to expect this. One is that when a principal is going to engage in any transaction of this second kind they know that all enforcement incentives acting upon their partner must come from possible post-transaction sanctions, so these will be a primary consideration in the way they plan to use such transactions and frame their proposed agreements. The other is that in transactions of the first kind the main weight of enforcement simply rests upon the principal's ability, in acting after the agent, to punish non-compliance by his own choice of strategy. The role of post-transaction enforcement in the first type of sequencing is either to deal with covert default by the agent that escapes initial punishment, or to allow the principal to credibly bind himself against acting opportunistically in order not to deter participation by the agent. The former is harder to achieve, because of the hidden action involved, and the latter is easier to miss, as the accounts of business people can tend to focus on why they believe that others will not cheat them, rather than why others should believe the same thing about them.

Most study data on these transactions related to three kinds of activity: work by skilled labourers such as tailors on orders in advance of payment; credit advanced to customers of *mdafu* bars, shops and other businesses for the purchase of goods; and the consumption loans made by *dalalis* during the pre-harvest hungry period. As the data in the first two cases are relatively easy to interpret and exhibit some similarities they will be discussed together. As in the case of loans of money to shopkeepers, the opposite kind of 'business of money for money' is more difficult to analyse and is discussed separately.

Advance Orders And Customer Credit

As described in Subsection 5.2.1, all self-employed skilled labourers routinely work on advance orders for which they only received payment upon completion. This puts the *fundi*¹ in a weak position to enforce payment according to the original agreement. All business people who offered goods or

services for sale reported that they offered some credit to customers. For these entrepreneurs, as well as for the *fundis*, some method of deterring non-compliance by the agent is needed. All the methods identified in the discussion so far were used by business people engaged in this type of transaction. The table below in Table 5.3 shows some of the evidence obtained on each method.

The first two entries refer to a method commonly used by all *fundis* to deal with the risk of unfavourable ex-post negotiation or 'hold-up' described above once they have invested time in making a garment. This is for the customer to provide materials in advance. In effect this design of the agreement *A* adjusts the sequence of actions in the transaction from principal-agent to agent-principal-agent. This allows the *fundi* to directly enforce part of their client's conformity and also lessens the imbalance in threat-points for any ex-post renegotiation of agreement terms.

The right hand column of the table shows which part of the BRAN model corresponds to each effect listed. The final entry would not be captured in the model except as 'residual' non-rational behaviour yet to be explained. In Fafchamp's model it would be part of 'G'. More significant is the fact that all the remaining entries but one relate specifically to the way that social institutions can sanction the breaking of agreements, rather than the breaking of more general social rules. This is to be expected because in transactions of this kind the action required of the agent is almost always simply the payment of money. There is little opportunity for theft, few ancillary obligations *h* to shirk, or much need for social rules to complement incomplete contracts in these arrangements. The single exception is the case of the bicycle repair *fundi* K160. Because the time that will be needed to do a repair is often hard to predict, this person normally negotiates the price after completing the work. The conduct and outcome of this negotiation cannot practicably be laid down precisely in any ex-ante agreement and so can only be guided by general social rules. The breaking of these institutional rules by someone who will not agree to a reasonable price is what K160 would punish by refraining from future

¹ *fundi*: person with a skill. A very useful word which is difficult to render precisely in English.

trade, so this enforcement effect would be denoted RV rather than AV in the model.

Informant	Statement	method	BRAN
K139 tailor	The customer brings their own material then pays when the garment is completed.	contract design	A
K132 carpenter	Normally the customer provides wood themselves and then pays once the ordered item has been made.		
K305 <i>mdafu</i> seller (largest bar)	If a customer is given credit but then persistently refuses to pay up, the first resort is through friends and family before taking a case to court which I have never yet done.	kinship	
K191 tailor	With a non-payer it may eventually be necessary to mention sending to court which usually gets them to pay.	legal system	d
K131 <i>mdafu</i> seller	[if a customer does not repay credit] <i>biashara haina ndugu- utafika wapi?</i> – ‘business has no kinship- where will you get like that?’ You must prosecute.		
K143 fish trader	Formally employed workers like teachers can get credit. You write down the amounts and they pay at the end of the month.	formal employer	
K113 <i>mdafu</i> seller	Customers pay on receiving each bottle or leaving the club. Formal employees such as teachers can be given credit.		
K233 shopkeeper	Teachers, workers and nurses can be given credit. With others you have no certainty.		
K117 <i>mdafu</i> seller	One problem is when a drunk claims that he has already paid. If he does not he must pay in advance in future.	repeated transaction	AV RV
K160 bicycle mechanic	If a customer pays too little for repairs I don’t argue but avoid doing work for them again.		
K79 <i>mdafu</i> seller	Some customers pay at purchase, others after drinking, others settle up occasionally – depends on who it is, on reputation	reputation	AW
K245 shopkeeper	People’s honesty is known. How? Due to problems that they have. It is a small village so behaviour is known.		
K172 machine	You must guess who to trust unless you know them.	non rational	n/a (G)

Table 5.3 Statements on Methods of Enforcement when Principal Acts First

Alongside statements by shopkeepers that reputation was important in deciding to whom credit could be extended, there were others that called into question the degree to which information about customer behaviour was actually shared.

Grant: You could tell your peers that, 'tsk', he is unreliable, don't trust him? A warning?

K237: To be truthful it is not easy, for our shops here. Because, that system, a significant amount of sitting down together and discussing things or telling each other 'Bwana whoever, he/she has the habit of borrowing but does not repay', *yaani*, that kind of thing we don't tell each other. On the contrary you yourself know that a certain person does not repay so what you do is on another day you just don't give him anything

Grant: But you can't tell others?

K237: Ahh, you can't

Grant: to protect them?

K237: It isn't easy, to be honest (interview with K237 9/10/1)

Such evidence of a lack of cooperation among some shopkeepers recalls the failure of the attempt to cooperate over the building of a new police station related already in Chapter 4. In the light of this evidence it would not seem helpful to think of 'shopkeepers' as a unified social institution. To the extent that they were governed by mutual obligations these seemed to apply to distinct sets of individuals.

consumption loans made by dalalis

These loans are substantial, typically measured in tens of thousands of shilings, and the delay between the principal's action and the agent's repayment is several months. The opportunity for large one off gains from dishonest behaviour are such that, as one would expect, there is heavy reliance on institutional post-transaction enforcement by *dalalis*. The use of repeated transactions and reputation was reported by only one lender, market trader K304, who had in fact not been repaid on his only attempt at the activity.

The particular interest of the way that dalali transactions are enforced is that it shows clearly how different social institutions can act in opposing directions. This has already been hinted at by two observations: the different way that information upon shop provided financial services is passed among business

people, compared to the general population; and the inability of shopkeepers to coordinate their activity as a cohesive institution. In the case of *dalali* lending however, the conflict between institutions is unmistakable.

The formal legal system was increasingly being used during the study period. All successful *dalalis* reported that they would use a written and witnessed agreement with their clients, which could be used to bring a claim before the hamlet chair person as the first stage in any resort to formal enforcement. The accounts of *dalalis* concur with that of the hamlet chairperson himself in stating that this system indeed worked to punish the breach of loan agreements and thus support the transaction's completion. On the other hand, the effect of social institutions seemed on balance to have the opposite effect. As has been mentioned above, disapproving comments about *dalalis'* activities were made by individuals from local farmers to the area's MP. These views were associated partly with the older generation and pre-liberalisation ideology; during my visit to his home the neighbour of businessman K15, an older supporter of the ruling CCM party, criticised his money lending business for causing social disruption. Sanctions imposed by social institutions could go well beyond verbal censure however. When I visited another *dalali*, he took me to see one of his fields of unripe maize; most of the crop had been slashed down during the night by a person or persons unknown.

This contradiction in institutional effects has led to an evolution in the agreement used to govern *dalali* lending with at least three distinct stages. The original and simplest arrangement was for the pre-harvest loan to be given in exchange for full rights to sell all the oranges produced in the specified *shamba*. The *dalali* would negotiate a price with traders or undertake transport to the city themselves, keeping all the proceeds. For the farmer, accepting the loan meant that their *shamba* was 'mortgaged' and not to be cropped by them until the following season. This gave rise to the name for the *dalali's* business as *kufunga mashamba*, 'closing shambas' which has persisted through subsequent changes in the agreement.

This contract was effectively enforceable by formal institutions according to *dalali* K118. However, it caused much tension because of a perception that the

dalali got an unfairly high return while the farmer received no benefit at harvest time regardless of how many oranges were sold to traders. For this reason a modified form of agreement developed. This specified that when the original loan was given, the farmer and the *dalali* should agree a price per orange to be received by the former after the sale of the crop. At harvest time the *dalali* again had the right to negotiate the sale price with traders. The farmer was then given his prearranged price per orange, less repayment of the principal loaned.

This did not prevent ill feeling however. As K118 explained himself, when farmers are desperate for cash they will agree to a very low price. Possibly for instance if their child has been admitted to hospital. When the orange harvest comes and their peers are selling at 6 TSh per orange it would be very hard to enforce a prearranged price of 2 TSh.

Thus a third style of agreement has been adopted. According to this, when the loan is made a fixed price per orange is specified to be paid to the *dalali* at sale time, with the farmer keeping the remainder, less repayment of the principal. The right to arrange sale of the oranges is still reserved by the *dalali* but the agreement states that the farmer will receive the 'going price' less the fixed deductions specified for the lender. The latter can benefit from any commission they can earn through their contact with traders, as long as the criteria of 'going price' is met.

It is simple but helpful to analyse this evolution of agreements in terms of institutional effects in the BRAN model. Under the original form of contract, institutional enforcement d of the agreement was effective in deterring default by borrowers to strategies **R** or **N**. However, rules of social institutions in general worked to impose significant sanctions D on lenders who did comply with these agreements, so deterring **B** or **A** as well.

The second form of contract attempted to resolve this problem. However, because borrowers were unable to refuse low fixed prices the contrast between these and the much higher receipts of lenders at harvest time may even have exacerbated the perceived unfairness of the transaction. This may have made institutional support d of the agreement terms harder rather than easier, while social rule disapproval D did not wane.

The final form of contract seeks to reduce the disapproval expressed through *D* by ensuring that the full benefit of any higher than expected prices goes to the farmer, with the *dalali*'s share strictly limited to a fixed amount. More than this though, the new agreement actually exploits the existence of general social rules to deal with uncertainty. This is done in the specification of 'normal selling price' which would be extremely hard to define precisely in an agreement but which can be determined to the satisfaction of both parties with the guidance of social rules. The aim can be interpreted as the removal of conflicts between agreement *A* and social institutions, so that strategies **A** and especially **B** with its 'completion' by social rules that define a 'going price' can become more likely outcomes.

5.4.4 Enforcement with Hidden Action

Transactions such as buying fish or ordering stock for shops from Dar es Salaam via a third party can be described as belonging to this type. Unlike *mdafu*, the quality of dried fish is difficult to check quickly so, as trader K304 reports, if it is not sufficiently dry this may not be discovered until it has started to rot after transportation from the coast to Kipatimu. In such a situation the buyer has to decide on a strategy without full knowledge of what the seller is doing, a situation that can be modelled by the simultaneous game shown in Figure 5.2 above.

The discussion here however will concentrate on employment relationships. This is both because these are the most frequent examples of this type of transaction in the data and because of the intrinsic importance of employment for the prospects of private sector growth.

One form of employment has already been analysed in Subsection 5.4.2, that is the payment of youths to transport goods by bicycle. Although this analysis made it clear that even such so called 'casual' labour arrangements were often characterised by ongoing relationships and institutionally guided behaviour, they were nevertheless organised around a series of sequential transactions where payment was based on the completion of discrete tasks. The type of employment considered here involves activity that is typically longer lasting,

more diverse, less predictable and calling for greater use of judgement on behalf of the employee. It also often gives more scope for undetected dishonesty.

As well as this risk of theft, this kind of employment relationship has another distinctive feature. Statements by a variety of informants support the idea that certain social rules imply obligations on the part of the employer towards the employee which go beyond the terms of their agreement. In terms of the BRAN model, as well as risk of high T values, the variable h may well play a significant role.

Examples of this kind of employment on which data were collected fall into three kinds. These include the employment of individuals to carry out skilled tasks for extended periods; to serve customers and take payments; and to undertake combinations of these. In terms of particular activities the first of these categories includes sawpit operators hired by businessmen involved in logging. The second type includes individuals who take over the running of a retail business like a shop or market stall, often while the owner travels to fetch supplies. In the third category are assistants used by tailors to help with work and deal with customers during their absence, as well as the youths who operate the maize milling machine.

Turning to the data on employment, the most immediately striking feature is that employment of kin relations accounts for a clear majority of cases. All shopkeepers, all skilled workers and all but one *mdafu* bar owner employ only relatives. On the other hand all sawpit loggers and milling machine operators were unrelated to their employers.

As might be expected, the relative positions of employer and employed within one social institution, that of kinship, has implications for the role of social institutions as a whole in regulating their interaction. The crucial distinction is between the effectiveness of this institutional enforcement on their compliance with general social rules, and on compliance with the terms of the agreement between them. Regarding the former, shopkeeper K237 and businessman K181 both describe how it is easier to detect theft by a relative than by a non relative; other people in the family can inform you if they know of dishonesty.

You also know the person's home well so can notice any suspicious gain in possessions. If on the other hand, as K181 continues, you are from a different family, then they have less incentive to help you as your business is ultimately for the benefit of your kin and not theirs. Thinking specifically of holding kin members to the details of an agreement however, businessman K158 was among several to use the phrase 'you can't prosecute a kin member'. In terms of the model terminology, this all means that while effect D may be stronger for related employees, effect d may actually be smaller than for non-relations.

Now we can analyse the likely outcome of the transaction using the simultaneous BRAN model in Figure 5.2 above. The concept of Nash equilibrium appears to be a suitable way to identify a stable combination of strategies. Looking at this diagram we recall that the preferred outcome for the employer is for the employee to choose **B**, as this means conforming to both the details of the agreement and using compatible social rules to guide behaviour in the frequent situations where A is silent and discretion needs to be exercised. In contrast, the principal is very keen that the employee should not choose strategy **A** or **N** on any account because of the risk that theft T will be large. Suppose that the employee is a kin relation of the employer. This means that both sides are more likely to be deterred from the strategies **A** and **N**. Unfortunately the preferred outcome BB is not likely to be a Nash equilibrium in this situation. Given that the employer was to select strategy **B**, the worker could probably increase their payoff by selecting **R**. This is because they avoid the cost of compliance C while still receiving f , suffering only the punishment d , likely to be small for kin, plus AV and AW . Of these, AV represents dismissal for failure to carry out agreements, not a credible threat against a kin member given the lack of importance that kinship as an institution places on such compliance with agreements. AW could be significant if other employment opportunities were available, especially with other kin relations but in a village context such as this it is also not a high cost to face. In turn, given the selection of **R** by the employee, the entrepreneur is likely to improve their own payoff by following suit. The resulting combination **RR** is a probable Nash equilibrium.

Despite the many assumptions and simplifications involved in this analysis, the stable outcome that the model gives does fit rather closely with observations of kin employment. Employers often report that they do not pay them but do give them 'help' with medical expenses, travel needs or other problems. Workers do not seem to have much motivation to carry out their tasks with thoroughness, consistent with the idea that a unilateral switch to strategy **B** would make them worse off as the principal's offer of f under strategy **R** is likely to be small. This case compares closely with those reported by Gibbon at the family relation end of the "employment continuum" (Gibbon 1997b p. 51)¹ among Lake Victoria *dagaa* traders.

If we now suppose that the employee is not related to the employer we can consider how the outcome might be different. Looking first at the mill owner's agreement with his two youths, they are paid 50 percent of the takings from customers. This introduction of a link between enterprise performance and rewards implies that F will be significantly larger than f . For non kin employees the potential punishments d , AV and AW can all be more serious than for kin relations. As long as the sanctions against dishonesty or other serious breach of social rules are not too much weaker for these non-kin the preferred outcome **BB** or at least the second best **AA** without theft T can become a Nash equilibrium.

Finally we have the case of the sawpit workers employed by some business people to cut down trees and saw logs deep in the forest. One informant involved in this activity said that he did not use local people at all in this work, instead finding people from Iringa and transporting them at his own expense. He gave exactly the same explanation of the problem that necessitated this practice as another entrepreneur who had tried to succeed in logging in the past. To saw planks requires two workers at all times. However, if both are local, the chances are that some problem will come up from time to time at home that will require the worker's presence; the example given by one businessman was a sick child. While one worker attends to this need the work does not progress and a loss is made. In the BRAN model the problem is that

¹ Single quotation marks in original.

the sanctions D for breach of social obligations are too large in such eventualities. They override even specific commitments to stay at the site, meaning that outcome **BB** is hard to sustain over time. By hiring workers from far off locations, the employer can ensure that they are isolated from any social obligations that might outweigh their incentives to do the task well.

5.4.5 Chapter Conclusion

This chapter has examined in detail how a number of activities used by accumulating individuals are coordinated. This coordination has been analysed by asking how transactions beyond basic and instantaneous exchange can be supported by the strategic use of contracts and social institutions. A simple model has been presented in order to examine the various influences that affect transaction viability. Connections between a person's relationship to social institutions and the possible role of these institutions in transactions involving that person have been explored. A distinction has been made between the role of social institutions in enforcing compliance with their own rules and in enforcing compliance with agreements made between individuals.

In summary this chapter has examined how an individual accumulator can exploit the presence of social institutions to help coordinate his economic activities. The next will investigate the demands that may be made on such an accumulator by means of these same institutions. It will seek to understand whether such demands can threaten the individual's accumulation of an economic asset buffer against old age and misfortune. Where this is possible, attention will be given to the question of whether and how some individuals can manage these demands without undermining too seriously their ability to use them to support their economic activities as dealt with in this chapter.

6 Business 2: Dealing with Demands

6.1 Introduction

6.1.1 Institutions and Accumulation: the Downside

The previous chapter attempted to show how individual accumulators in the study area use social institutions to support the coordination of their economic activities. In contrast, this chapter examines the difficulties that such institutions can present for accumulation and the strategies that individual accumulators adopt in response.

Economic coordination and the strategy of accumulators are central to the thesis research questions. Social institutions have played a central role in answering these questions and continue to do so. Accumulators were conceptualised in the opening chapter as those people for whom construction of an individual asset buffer is becoming more important than that of a social asset buffer. This chapter presents evidence that the choices faced by accumulators are structured by the role of institutional rules both in the economic coordination necessary for the former and in the social coordination required for the latter. Four routes through which these rules have their effects can be distinguished: by increasing the difficulty of saving from income for investment purposes; by increasing the costs of economic activity; by threatening assets already accumulated; and by diminishing the social asset buffer.

As discussed in Chapter 2, a core concern of development economics has long been the question of whether market failure is more likely in poor countries where formal institutional support for property rights and contract enforcement is weaker. Economists have asked how social norms and structures are relevant for the effectiveness and development of such institutions. More recently attention has also turned to the possibility that private ordering mechanisms such as relational trade and reputation, or non-state institutions such as merchant associations, can supplement inadequate formal provision. Chapter 5 aimed to contribute to this area of enquiry by examining the role of

informal institutions such as kinship and gender, alongside formal and semi-formal institutions, and private ordering.

Similarly, while in developed economies social buffers against misfortune and old age are provided in large extent by formal institutions, the situation in poorer countries is different. The necessary social coordination in this case must be provided by mainly non-state means. Thus in a developing economy context the role of informal institutions in the construction of individual asset buffers and of social asset buffers is of particular interest.

Because of these considerations, the main focus in this chapter is on informal institutions. Of course, formal institutional rules such as taxation and regulation can pose problems for an entrepreneur. However, the only instance where these were reported among the major barriers to successful activity was that of the timber trade. In this, as in other businesses, the choice for accumulators is compliance or some degree of evasion, in which latter case the survival of coordination becomes in a sense by definition dependent upon less formal rules. More is said about this below.

Attention here then is mainly on the difficulties that informal institutions caused for accumulators in the study area and the responses of these individuals.

6.1.2 Chapter Overview

The discussion of these questions in the remainder of this chapter is organised as follows. Section 6.2 begins to express the concept of institutional difficulties in more concrete terms by presenting evidence of the specific demands made upon individuals in the study area. The following section then examines the effect of these demands on the attempts of individuals to accumulate through involvement in economic activity. As always, it is insufficient to consider only the influence of institutional rules without analysis of why these rules are actually followed. Thus Section 6.4 discusses evidence on the enforcement of those informal institutional rules which are problematic for accumulators. This completes the account of the 'downside' of informal institutions for these individuals. However, as we have seen in Chapter 5, there can also be a strong 'upside'. The final section then tries to understand the strategies by which

accumulating individuals attempt to avoid the former without sacrificing the benefits of the latter.

6.2 Nature of Demands

6.2.1 Kinship Claims

Of all the interviewees involved in business activity or with formal employment, just three stated that they did not face demands from members of their extended family. Even among the remainder of the interviewees only six households of those asked¹ did not report such demands and these were all elders who are more likely to be recipients than providers of assistance.

The most commonly made requests are for food or cash and the peak time for these is during the pre-harvest hungry season. The failure of rains associated with the last El Niño phenomenon in 1997 was also mentioned by several people. Even when a demand is ostensibly made for the loan of money, the prospects of return may be so low that the sum given is essentially a gift; according to one shopkeeper there is a well known saying “He has borrowed from a relative until next year²”. Within households there was evidence of demands by men on the earnings of wives and children.

After hunger, the serious misfortune most likely to befall an individual is accident or ill health. Requests for help with the payment of treatment costs were widely reported. Several individuals observed that the presence of the Kipatimu hospital led to a steady stream of kin relations stopping off to ask for assistance on the way to seek medical attention: a tailor³ estimated this at about two sick people per week for example. As well as the direct costs of treatment, local family members might be expected to provide food and accommodation for the patient and accompanying relatives. If the condition required treatment outside of Kipatimu, which normally meant in a Dar es Salaam hospital, the amounts of money involved could become very large relative to local income levels.

¹ This excludes interviews where this area of questioning was not included because the interview was interrupted or carried out on an opportunity basis and so partial in scope.

² “*amekopa kwa ndugu hata mwakani*” interview with shopkeeper K235 on 18/10/1

³ Interview with tailor K191 on 31/8/1.

Several kinds of demands relate specifically to children. As well as women who routinely care for and support their own children while a spouse migrates for work or business reasons, both sexes can be expected to take in the children of other relatives who were unwell or passed away. Demands could also be made for help with school fees. For older children contributions from a number of related households are requested to send them away for courses such as A-levels, university or priesthood preparation. Other milestones in life that give rise to demands for cash or property contributions are weddings and funerals. People often remarked on how the expense of weddings in particular had risen sharply in recent years.

A group of expectations which are clearly central to the research questions concern help to be given to parents and other relatives in old age. For example, provision of food, housing, clothing and medical care among other things.

While all demands are likely to increase in size and frequency with the perceived wealth of the individual concerned, some types of expectation relate specifically to those engaged in business activity or formal employment. For example, a two way expectation holds both that people living in the city should offer accommodation to relatives visiting on business and that such visitors should stay with urban-based kin rather than using a guesthouse. Another extremely important demand is that employment opportunities be extended exclusively to family members wherever possible.

6.2.2 Jealousy

In Chapter 4, discussion of evidence on the state as institution suggested that rules from the *Ujamaa* period proscribing individual accumulation may continue to have influence although formally removed under liberalisation¹. Whether or not the period of African Socialism has any role in its existence however, it is clear that a norm against wealth differentiation had not lost all force by the study period.

The term 'norm' is used here because this injunction appeared to apply across the population rather than depending upon roles and enforcement methods

associated with any particular social institution. Thus 'jealousy' is distinguished from the kinship demands discussed above because it is not confined within kinship boundaries.

Of 35 interviewees who mentioned jealousy, all but three described it as a significant problem. The fact that two of these three individuals also made strong statements about the difficulties caused by extended family demands serves to underline the distinction between these types of demand. Typical descriptions of jealousy by those who did consider it a serious problem are that it holds up progress or tears you down² or that there is '*one hundred percent jealousy here*' if people '*see you get ahead*'³. A shopkeeper said '*someone will celebrate your failure more than their own success*'⁴.

Though applying generally, the strength of jealousy in particular cases could be related to institutions such as gender and kinship. Some female palm wine sellers reported jealousy because their success is unusual for women. For example one bar owner said that jealousy of her is very strong, especially as a woman doing well because '*men want to be fed*'⁵. Among others, a tailor said that the jealousy of relatives was especially strong⁶.

6.3 Effect of Demands

6.3.1 Help Given

The evidence on kin demands and jealousy presented in the previous section was mostly obtained when interviewees were asked to describe the main problems they found in doing business in Kipatimu. Subjects were not directly asked what help they had actually given but a number volunteered information on this during interviews.

Help in kind such as gifts of food or clothing was mentioned by a number of individuals. Just two said that they gave money, in both cases small amounts,

¹ See Subsection 4.4.2 above.

² Interview with elderly female widow K16 on 10/9/1.

³ Interview with young male farmer and businessman K34 on 5/9/1.

⁴ '*mtu husherekea kushindwa kwako zaidi kuliko kushinda kwake*' interview with shopkeeper K232 on 2/11/1.

⁵ Palm-wine seller K131 on 13/9/1.

⁶ Interview with tailor K139 on 29/8/1.

while two others reported loans made to relatives. Some business people describing their response to kin demands said that they helped 'a little' without specifying whether this was in money or some other form.

Although taken in everyday conversation to be common practice, or perhaps for this very reason, only four individuals reported during interviews that they were looking after children of relations beyond their household. Some evidence on the frequency of such arrangements is provided by the household survey. This found that child relatives other than the offspring of the household head were resident in 30, or just over 12 percent of households with household heads aged under sixty years old. This kind of help seemed to be associated with gender because while under 18 percent of household heads in this age range were female, the proportion of female headed households among the 30 where non-own-child relatives were accommodated was 41.4 percent.

Three individuals said that they 'looked after' parents while seven reported contributions made to medical treatment for relatives. One fish trader reported that he was providing most of the 80,000/- needed for his mother's operation¹. Of the 39 residents over 70 years old, 23 lived with grown up children² and seven more looked after grandchildren who were studying at the primary or secondary schools while their own parents migrated. The material circumstances of the remaining nine over 70 year olds were clearly related to those of their nearest surviving kin members: while six were in the lowest per capita wealth quintile, another elderly couple belonging to one of the preeminent village families were in the highest quintile³. Unlike assistance to children, there was no apparent association in the data between gender and care for elderly relatives.

Two individuals said that they helped their less well off kin by providing employment to some of them. However, as will be discussed below the links between employment and family expectations prove more extensive than this.

¹ Interview with fish trader and market stallholder K152 on 30/8/1.

² Here 'grown up' is taken to mean a person aged over 24 years.

³ Using the adjusted per-capita wealth measure described in Chapter 4.

6.3.2 Saving

All of the businesses in which accumulating individuals were involved in the study area required a certain level of capital to begin with and further investment to achieve growth. As can be seen from the data on start-up capital in Table 6.1 the single most frequently used source was agriculture. Whereas capital obtained from the mission, kin and other sources was usually in the form of a lump sum or equipment like sewing machines, start-up capital from agriculture or employment has to be set aside from the normal uses of such income. In other words these sources, representing well over half of those used by those entering business, require some form of saving.

	main source of start up capital reported				
	agriculture	mission	employment	kin	other ¹
skilled self employment	0	5	2	3	1
fish trading	2	0	0	0	1
palm wine selling	7	0	1	0	0
shopkeeping	5	1	0	2	0
logging	2	1	0	0	0
market intermediation	2	1	0	0	1
other business	2	1	1	0	1
totals	20 (47.6%)	9 (21.4%)	4 (9.5%)	5 (11.9%)	4 (9.5%)

¹ Loans from non-relatives or assistance from an NGO.

Table 6.1 Main Source of Start-Up Capital for Businesses

Kipatimu residents agreed that saving is hard but gave a variety of reasons for this that can be grouped into four types. The most straight-forward is the universal difficulty with saving which is that immediate pleasure through consumption must be forgone. In the case of Kipatimu the temptations of drinking palm wine were emphasised. Whereas this type is seen as a matter of choice, the next difficulty is the possibility that misfortune will impose calls on saved resources that cannot be refused; for example, hunger or a child needing treatment for malaria. Such circumstances are referred to as '*dhiki*', the same term that is used by money-lending *dalalis* to explain why farmers come to them for loans in the pre-harvest season. This implies another difficulty of saving which can follow on from *dhiki*, that is the need to repay debts to *dalalis*, shopkeepers or others. As a bicycle repair mechanic explained, saving can be

impossible because there is always the need to repay debts, pay the rent and buy clothes for one's wife¹.

Of the three obstacles to saving described so far, one involves only the ability of a freely choosing individual to control their immediate desires, while the other two remove choice entirely. The final type of difficulty sees individual choice constrained to varying degrees by social expectations. This is the problem of saving investment capital while faced with demands from kin as described in the last section.

Such demands were the most commonly cited reason that saving was hard or even impossible. One individual for example reported that she had only been able to save enough to leave home once she managed to stop her father taking all her income². Another, who became the owner of a large and successful business, said that he had only been able to resist his own father's demands for all his earnings after building a house nearby and moving out³. If such intra-household appropriation is the extreme case, demands between households remained a serious barrier to savings. As soon as you save '*they will come and beg*'⁴ is a typical expression used.

Although the opinion that kin demands can prevent saving up sufficient funds to invest was very widespread, it should be balanced by the observation that the extended family could also be a source of investment capital as reflected in Table 6.1. Indeed, if one includes those entrepreneurs who benefited from mission help or employment opportunities because of family connections, the businesses helped by direct or indirect contributions of start-up capital from kin sources were among the largest in the village.

¹ Interview with bicycle repair mechanic K160 on 3/10/1.

² Interview with K218 on 22/8/1.

³ Interview with K243 on 15/10/1.

⁴ Interview with palm wine selling elder K44 on 5/9/1.

6.3.3 Doing Business

Barriers to saving then can prevent the acquisition of start-up capital, or, once activity begins, the retention of business income for further investment and enterprise growth. Demands from social institutions can pose other difficulties for established business in addition to this and evidence on some of these is considered here.

The first is that the effects of demands may go beyond the prevention of saving and threaten existing capital, possibly putting the accumulation process into reverse. This threat to what Tanzanian business people frequently refer to as their 'base'¹ was mentioned by individuals involved in all types of activity. There were some who did not share this view, such as a palm wine seller who said that kinship demands and jealousy had not harmed his business². Most entrepreneurs agreed, however, that these demands could be a serious problem and some gave examples from their own experience. A fish trader described how his father had built up a successful business after being employed as a cook by Europeans and then being sent on overseas visits as chairperson of an award winning *Ujamaa* village. Although at one stage he owned two shops and operated two milling machines this business collapsed because of kin demands according to the trader. Reflecting on the pressures his own business activities faced he claimed that '*the state of relying on one another kills development*'³. The owner of a large village centre business reported that the same kind of pressure had caused the closure of a shop which he previously owned⁴.

An example often cited in interviews and other discussions was another case of a shop closing two years prior to the study period. There was general agreement that this closure had been caused by kin demands. The former shopkeeper himself gave ambiguous replies when interviewed; he agreed that

¹ '*msingi*' : base or foundation.

² Interview with *mdafu* bar owner K113 on 20/8/1.

³ '*hali ya kutegemeana inaua maendeleo*' interview with fish trader K143 on 2/10/1.

⁴ Interview with K243 on 15/10/1.

demands from his extended family had cut his capital base but went on to deny that this had been the cause of his shop's failure¹.

Demands were also said to affect the way that business is carried out, for example kin may expect more favourable prices or sale on credit. A tailor complained that when relatives ordered clothes from him the price paid would leave him with a loss², behaviour that he ascribed to jealousy. Another effect is that entrepreneurs are reluctant to hold much of their capital in cash, preferring to purchase less liquid assets such as shop stock or roofing metal which are relatively less subject to demands. It is common for business people to farm using hired labour but one shopkeeper³ reported a reluctance to offer cash wages because the public display of money required was likely to provoke an increase in requests for help from kin.

As mentioned in Section 6.2, kin demands included the expectation that employment opportunities be offered to family members. Evidence in the study data that complying with this rule of kinship has implications for business is discussed in Section 6.5. Here we note two cases. Firstly the fear of one individual⁴ that family members employed to do farm work may make little effort or even deliberately sabotage crops out of jealousy. Secondly the experience of a now successful businessman⁵ whose venture into shopkeeping some years previously had been led to fail by a young relative taken on to supervise trade during his regular trips away from the village.

6.4 Enforcement of Demands

6.4.1 Sanctions

The last two sections have considered evidence on the nature of demands and the consequences of satisfying these demands for individuals seeking to accumulate. Given the serious and to a large part negative nature of these consequences, the question of why business people conform to demands at

¹ Interview with former shopkeeper K81 on 25/10/1.

² Interview with tailor K139 on 29/8/1.

³ Interview with shopkeeper K237 on 9/10/1.

⁴ With young male farmer and businessman K34 on 5/9/1.

⁵ Interview with businessman K181 on 20/10/1.

least some of the time must clearly be addressed. As this chapter is focussing mainly on the demands as expressed by the rules of informal social institutions, it may be helpful to think of this question in terms of the enforcement mechanisms associated with these institutions.

This section outlines first the sanctions that may be imposed upon individuals who breach institutional rules. The next enforcement method considered is the offer of reward for compliance. In the final part of this section a special category of sanction is discussed: the use of witchcraft.

The slashing of maize belonging to a *dalali* related in Chapter 5 can be seen as an example of direct sanction, the theft of chickens from a relatively well-off elderly widow¹ is another. We could perhaps interpret the former case as punishment for the transgression of a social rule prohibiting the exploitation of distress, where the *dalali's* practice of offering consumption loans during the pre-harvest period of hunger is perceived in these terms. In the latter case the individual concerned themselves saw the action as motivated by jealousy at a successful woman, invoking the idea of punishment for non-conformity with gender rules.

Many individuals describe a less direct punishment, the dissemination of negative judgements about a person's behaviour. One trader said that relatives would say things about you at home if you did not help them. The tailor forced to work at a loss by his family said that he did so for fear of being '*criticised*'². Several individuals accepted that this kind of unfavourable talk cannot be avoided; for example the palm-wine seller who said that you must 'agree to be called a miser' to get success or the trader who said '*if you want progress it is inevitable that people will say bad things about you*'³. The former shopkeeper⁴ discussed in the last section said that non-compliance with family expectations meant that you may be beaten, isolated and left to guard your fields from birds

¹ Interview with K16 on 10/9/1.

² Interview with shopkeeper K139 on 29/8/1.

³ Interviews with palm wine seller K222 on 13/9/1 and with market trader K301 on 16/10/1.

⁴ Interview with former shopkeeper K81 on 25/10/1.

alone. According to the primary school headteacher, jealousy could lead people to say that you had not helped them, even if you actually had¹.

Although political parties other than the ruling CCM did not have a strong presence during the study period, there was one example of these institutions interacting with kinship enforcement. A businessman who stood for an opposition party reported that his brother '*talked to him as a family member*' before betraying these confidences to the CCM and opposing his election, all because of jealousy at his business success².

The institutional nature of this last example is clear; rules of both kinship and political parties are involved and consideration of which were broken or complied with can help to understand the brother's action. A little more justification is perhaps needed for an institutional interpretation of the direct action and negative reporting sanctions mentioned before this. In the first case we recall that during the study period there was no police presence in the area. While serious crime such as armed robbery would certainly result in the arrival of police to investigate, relatively minor misdemeanours like those mentioned above would normally be dealt with by the hamlet chairperson if reported. If the victim suspected that a relative was the perpetrator, then such a report is likely to conflict with kinship rules. Where a complaint does reach the chairperson, an elected representative and local resident, their action is subject to various formal and informal institutional rules. In short, though violation of basic property rights can be seen as an individual act, the constraints that must be overcome in order to commit this act are to a large extent provided by social institutions.

The role of institutions in interpreting the sanction of negative reporting is twofold. Firstly, as observed in Chapter 5, such dissemination of news is dependent upon the interaction of individuals and this in turn is influenced by the rules and structure of institutions: for example family visits, religious gatherings or workplace conversation. Secondly, even if communicated, this unfavourable news only represents a sanction against an individual if either

¹ Interview with primary head teacher K157 on 29/10/1.

² Interview with shopkeeper K244 on 11/10/1.

they value it negatively in itself¹ or if it has consequences which are so valued. In the latter case the regular association of beliefs about behaviour and action which can provide such consequences is of course just what this thesis is conceptualising as an enforced institutional rule. In more specific terms, reported behaviour in breach of kinship rules may have implications for an individual's future chances of receiving help in event of illness or old age for example.

The types of sanction most self-evidently imposed by means of an informal institution are those that are decided by family meetings. In his written account of Matumbi history and culture (Mtumbuka 2001), a local retired teacher says that misdeeds are first dealt with within a family. If necessary, in pre-colonial times he relates that appeal could be made first to the clan, then to an elder leader of several clan groups². He continues '*These days it is from the family, elders, balozi, hamlet leaders and village leaders*'. This agrees with the reported approaches to dispute resolution of three individuals involved in different businesses: when a relation is involved they bring the matter up with the family before appealing to the hamlet chairperson³. In extreme cases, to be referred on to the state justice system by a family meeting could have very serious consequences for an individual, according to one young businessman who said that he had been tortured by the police after a family meeting decided that he was guilty of theft. This recognised role of family meetings as a pre-formal stage of dispute resolution means that the sanctions that could be imposed by such meetings include both increasing an individual's risk of suffering formal state punishments like fines or imprisonment by referring on a case and, on the other hand, increasing another individual's risk of being harmed with impunity by not referring on a case. Besides the question of possible referral, there is evidence that family meetings can impose direct sanctions such as transfers of money between members or restrictions upon the freedom of individuals.

¹ That is, in terms of economic theory, if it enters directly into the individual's utility function.

² '*mkurungwa*' – a term with no clear modern equivalent.

³ One difference in the accounts of business people is that they do not mention the '*balozi*'. Though this CCM party post has had no official state role since 1992 it was still referred to as though part of the local state structure by some residents, including the hamlet chairperson.

K191 tailor	Regarding help that should be given to a kin member, the elders may call a meeting and set contributions. Having a big family is a problem for business, if you help everyone you will kill your capital- so you get criticisms.
K247 shopkeeper	[re. money set by relative in Dar to build a house under his supervision for mother but 'eaten' by young relative asked to bring it] She is trying to get the money paid back by appealing to his parents and other family members before taking the matter to the village leaders.
K71 farmer militia guard	Young people no longer farm. They just rely on the work of elders and beat them if they do not get fed.
K23 elder, farmer	People these days advise each other to just eat and ignore the needs of elders.
K181 businessman	'It is true that you can't prosecute a relative if they do wrong. However you are able to tell them of their errors. You can even meet together with the family and tell them. Our family discussions take a lot of time as father has to speak, then mother has to speak, then uncle has to speak... ..when all those people ask them 'is this true'? if it is someone who is able to listen they will listen... .. These meetings really help to rectify wrongs.' (direct quotation, author's translation)
K232 shopkeeper	I had planned to move to Dar to expand my business but my family elders would not let me. I was told that one person did not agree with this move so I decided not to go.

Table 6.2 Statements on the Authority of Elders and Family Meetings

Despite these possibilities, the result of non-compliance with family decisions may more often be criticism¹ rather than more tangible and direct sanctions. The indirect strength of such criticism depends upon its effect on reputation and on the expected importance of future family decisions, both of which are likely to vary between individuals and families. In turn this variation may help explain why some local people report that the authority of elders is no longer respected by younger generations, while young business people on the other hand

¹ 'laumu' according to tailor K191 interviewed on 31/8/1.

attribute considerable weight to their decisions. Table 6.2 shows some of the statements made about these questions of family authority. They reflect this counter-intuitive situation in which the successful and relatively wealthy business people who might be expected to be more independent of family elders seem actually to acknowledge their authority to a greater extent than farmers and unemployed youths.

6.4.2 Help Received

A particularly important type of institutional enforcement pressure for the research questions of this thesis are those associated with the concept of a social asset buffer. That is, the prospects for an individual of receiving help in the event of misfortune or in old age. Any enhancement of such prospects that an informal institution is able to offer can serve as a rule enforcement incentive, while conversely the ability to reduce them represents a sanction.

One way to try and assess the strength of these incentives and sanctions is to consider the evidence on help actually received by those who have suffered misfortune or who are currently in their retirement years. Table 6.3 presents some statements by individuals on each of these.

K46 elder farmer	I have had a health problem since the 1970s. I have been to both Kilwa Kivinje and Kipatimu hospitals with my children's help.
K16 widow, elder farmer	Most years I get enough food from farming. If not then I can sell chickens or get help from children and others in family.
K243 businessman	Lost all his capital when falsely accused of theft and imprisoned. When he was released his uncle helped him with cash to restart business.
K42 tailor, palm tapper	My family give me no help when I have problems.
K61 textile worker (ret)	I received no family help during the 1987-9 or 1997 droughts as they were all in the same position as me.
K95 widow, elder farmer	My children help me with soap, and my maternal cousin helps too sometimes. The family do come and help me with cash- those who do not are poor drunks who can't help anyway.
K85 elder farmer	My first born child built my house. I get less help from the young ones now, they don't farm nor contribute, they just eat.
wife of K60 elder farmer	During the pre-harvest hungry period her male paternal cousin (' <i>mdogo</i> ') who is in formal employment sends money each month.
K222 mdafu and beer seller trader	My children who live in Dar bring me food and I eat. When she retired to the village from her nursing position in Mbeya her brother gave her funds and nine crates of beer to start business. Shopkeeping relatives continue to assist her with obtaining stock.
K179 elder, ex Mission Worker	My children in Dar es Salaam have forgotten that I raised them. They are all devils there (see also Table 4.21).

Table 6.3 Statements on Help from Informal Institutions After Misfortune and in Old Age

The first five entries in the table refer to assistance in the event of misfortune and the following five to help in old age. Both groups of statements suggest a large variation in the experience of help given, ranging from nothing at all up to

substantial and sustained transfers that confer significant benefit to the recipient.

Some of this variation is doubtless due simply to differences between individuals in the ability of their relatives to provide assistance. For example most living descendants of parents of tailor K42 and his wife are farmers in and around the study area and only one child, a daughter, lives in Dar es Salaam. By contrast, the equivalent set of relatives for elder farmer K60 includes 21 residents of Dar es Salaam and a number of children in formal employment or business.

Differences in the number and circumstances of relatives do not seem to account for all the variation in help received however. Although the statement of retired worker K61 seems to exhibit the problem of covariant risk that typically hinders mutual insurance among farmers, it does not explain why no help is received from the numerous relatives living in the commercial capital. One of these includes the same individual, with a very similar relative family position, who sends considerable sums to the household of farmer K60 according to his wife's statement. In addition, the children to whom elder K179 refers in disapproval are all employed as teachers and clerks in Dar es Salaam and other urban areas.

It seems very likely then that choice on the part of relatives accounts for some degree of the differences in help received by individuals. Given the size of these differences it therefore seems likely that the question of whether and how ex-ante behaviour by individuals can influence the ex-post assistance received from relatives is of considerable importance for those individuals. The next section will examine the consequences in particular for people who may have to take this question into consideration while also seeking to accumulate an individual asset barrier through economic activity. Before this, the final part of the present section will discuss a form of sanction that fits easily neither into the typology thus far employed here, nor into the customary categories of economic analysis.

6.4.3 Witchcraft

Thirty six interviewees stated that supernatural actions of one kind or another were regularly used in the study area, predominantly with the aim of causing harm. In the next section we discuss the implications of these claims for individual strategies. Here we consider the possible role of such actions as sanctions; first examples of what is said to be done, by who, to whom and for what reason are presented; then evidence on how these actions can affect behaviour is discussed.

The term 'supernatural actions' is used here to include the activities of 'witches', 'cursing', use of magical 'potions' and similar phenomena¹. For brevity the catch-all term 'witchcraft' will generally be preferred.

The following three statements by interviewees contain the main themes².

Many elders use the large sums they get from orange sales on witchcraft against those who have got a little ahead. I believe that this magic can do harm. Many people fear this *fitina*³. They fear to use any money they do get or they go away and find a more secure place to live. If they get enough money they can get a *kingo* – witchcraft which protects against being cursed. For example, the business people up in Kipatimu have used this, so bandits have not been able to ruin their businesses. (young farmer K4 interviewed 4/5/1).

If you refuse relatives they will spread bad gossip and hate you. They may use potion or cursing, this does happen. This is what we Matumbi people do. Females especially are witches. Some have died though so it is reducing. Here we fear each other *ndugu kwa ndugu*⁴ because of *fitina*. This does not worry the businessmen up in 'town' because they have got *kingo* (elder farmer K44 interviewed 5/9/1)

Because of jealousy people may try to ruin your market. They may put potion in your premises. One day I saw some pieces of paper with Koranic writings wrapped up in cloth. A traditional doctor advised me to burn them with cannabis leaves as spirits and cannabis don't mix. He has done this many times. Another time an employee found a charm while she was sweeping. It was 'breathing'.

¹ *mchawi*: witch, *loga*:curse, *dawa*:potion are the most common translations. The overall phrase for these phenomena most often used was *ushirikina*. This is sometimes glossed inadequately as 'superstition'.

² As always, statements are given in reported rather than direct speech unless otherwise indicated. Because they are slightly longer, the statements here are not given in tabular form in order to aid readability.

³ *fitina*: trouble making, division, mischief making, agitation – often associated with jealousy

⁴ *ndugu kwa ndugu*: 'relation to relation' or 'among the family'

I asked all the customers but all denied it was anything to do with them. My wife wanted to close the business and call the traditional doctor but instead I used some sticks and moved it to the latrine room. The next day I cut it open with a razor: inside was a tiny frog. We suffered no ill effects! Since then I have dismissed these kind of things. A doctor would charge us a lot of money. Recently we found a packet of roots by the door but I just put it to one side. (businessman K243 interviewed on 15/10/1)

The main activities described as witchcraft were the placing of potions and charms in houses or business premises and the infliction of curses. These actions were reported by some to cause harm such as illness or loss of custom. A more direct form of attack was by spirits or the witches themselves who could suck blood or steal crops.

Where characteristics of those said to practice witchcraft in this way were given, they were likely to be described as elders or women. Victims were people who had successfully accumulated to some degree, relatives who refused demands for help and those who 'offended witches' by proud or arrogant behaviour. The motivations attributed to perpetrators of witchcraft were jealousy, family resentment or the breach of other social norms.

The three statements above clearly differ in the degree to which the interviewees present their own belief in the efficacy of witchcraft activity. If all 36 statements on witchcraft are considered, in almost 40 percent of cases it is not possible to categorise them with any confidence as indicating either belief or disbelief in effectiveness. The remaining statements do express a clear position and are almost equally split between the two. The table in Table 6.4 shows this categorisation of statements. There was evidence of a different distribution of responses on belief between those who were involved in business and other interviewees, and this breakdown is also shown in the table¹. There was no evidence of a relationship between degree of belief and gender, religion or age.

¹ A Mann-Whitney U test rejects a null of no difference at the 95% confidence level (p-value 0.014).

	view of witchcraft efficacy expressed			all
	disbelief	ambiguous	belief	
business people	9 (34.6%)	12 (46.2%)	5 (19.2%)	26 (100.0%)
other people	1 (10.0%)	2 (20.0%)	7 (70.0%)	10 (100.0%)
all	10 (27.8%)	14 (38.9%)	12 (33.3%)	36 (100.0%)

Table 6.4 Beliefs about Witchcraft

Clearly, the degree to which individuals believe in the efficacy of witchcraft is an important factor in its potential weight as a sanction. However, such an analysis may understate this weight. This is because in strategic interaction, beliefs about the beliefs of others are often central: for example in determining the equilibrium of a set of institutional rules or the sustainability of a social norm (Bicchieri 2006; Aoki 2007).

The study found evidence both of people's own beliefs and of their indirect beliefs about beliefs of others. One shopkeeper claimed while explaining the problems of jealousy and kin demands that *Witchcraft is very widespread, very widespread indeed. I fear this a lot and may loan to somebody to avoid being cursed*¹, a palm wine bar owner said that *I don't believe in it but others do and they are affected*². A senior manager in a formal sector institution reported that the beliefs of others about witchcraft affected their actions:

People put great store in traditional cures. They go there first and then to hospital when it is already serious or too late. Many die and there are many cases like this. Also local doctors are not free but paid in kind, for example chickens, so it seems cheaper. If people here suffer they first want to know whether it is natural or caused by someone cursing them. Many parts of Tanzania believe witchcraft a lot like here. Even top leaders in government go to traditional doctors and get potions to prevent them losing their positions. (K302 interviewed 19/10/1)

Just as the use of traditional medicine is associated with witchcraft by this interviewee, it was sometimes said that 'witches' used such knowledge against their victims. A common allegation made against successful widows was that

¹ *'uchawi upo sana – juu sana'*: 'witchcraft is very much here – very high' interview with K233 on 1/10/1.

² Interview with K79 on 23/4/1.

they had killed their husbands with poison once they had got a nice house and started in business. Two highly educated local people who had lost formal sector employment and now lived in reduced circumstances following mental breakdown of some kind were also cited as examples of such poisoning.

6.5 Dealing with Demands

6.5.1 Modelling Strategies

The analysis of study evidence in the preceding sections of this chapter has sought to show that informal institutions make demands on accumulating individuals which can impose significant costs on them and also that a range of sanctions can be imposed to punish non-compliance with these demands. It would appear then that the decision of a rational accumulator should be based on a comparison between the costs of compliance and sanctions. However, Chapter 5 presented evidence that accumulating individuals themselves use social institutions to support their economic activities in a number of ways. This complicates the strategic problem for such individuals who must weigh any possible loss of this support along with the likely sanctions when making the comparison with compliance costs.

We can attempt to understand the principal features of this strategic problem by simplifying and extending the model of Chapter 5. The simplification is to write the profit from economic interactions as given in the BRAN model as $\pi(i, i_p, A, R, \theta)$ where i refers to characteristics of the entrepreneur, i_p to those of their partner¹ and other variables are as before. The extension is to add terms H to represent the help received from social institutions in the event of misfortune or in old age, S for any sanction suffered after non compliance with the rules of such institutions², and P for the costs of compliance. We assume

¹ i and i_p are used instead of i_1 and i_2 here for brevity as the second only occurs in one term here. In addition, if π were taken to refer to multiple or complex interactions i_p could give characteristics of more than one individual.

² More accurately S represents all such punishments except those effected through reductions in help H .

that each of these last three terms has arguments i , k , and R . The net financial benefit¹ to the accumulating individual from social institutions is thus

$$\pi(i, i_p, k, A, R, \theta) - P(i, k, R, \theta) - S(i, k, R, \theta) + H(i, k, R, \theta) \quad 6.1$$

The first three terms of 6.1 can be understood as representing the total accumulation of an individual asset buffer, the final term is the social asset buffer. We finally assume that this entrepreneur has a strictly increasing expected utility function²

$$U = U(\pi - P - S + H) \quad 6.2$$

Suppose now that an entrepreneur is comparing two possible courses of action. Let us further suppose that one of these can be described as being more in agreement with the relevant institutional rules R . Even in this highly abstracted form, the model allows us to identify 20 different ways in which a change from the less to the more conformist choice can influence the total net benefit of the individual. These are shown in Table 6.5.

¹ We assume that the units of each term are monetary values. The next expression introduces individual preferences.

² Expected present value over all discounted future states θ .

Transaction Effects arising from Economic Activity Coordination		
Effect through Entrepreneur Payoffs		
$F-C$	+/-	Ambiguous. Positive to the extent that social rules R complement or fill in gaps in agreement A . Negative to the extent that A conflicts with R .
h	-	Extra help that an entrepreneur should give to their partner according to social rules. So increased conformity with R should only increase this cost to the entrepreneur. Efficiency wage effects may act in the opposite direction.
T	+	Greater conformity with R decreases likelihood of stealing so negative size and incidence effects but positive signal effect ¹ probably larger.
$-d$	+	Punishment for breaking A so no incidence effect. Linked signal effect positive but possibly reduced by an indulgence effect ¹ .
$-D$	+	Punishment for breaking social rules R so positive incidence effect which with positive signal effect probably outweighs any negative indulgence effect.
$-AV$	+	Entrepreneur's lost transactions with partner and with others for breaking A . Positive signal effects if increased compliance with R indicates high value placed on future transactions.
$-AW$	+	
$-RV$	+	Loss of transactions with partner and others for breaking R . Incidence and signal effects both positive.
$-RW$	+	
Effect through Partner Payoffs		
$F-C$	+/-	Ambiguous. Positive to the extent that social rules R complement or fill in gaps in agreement A . Negative to the extent that A conflicts with R .
h	-	Extra help that a partner receives from the entrepreneur according to social rules. Most likely to be negative as h in the entrepreneur payoffs above.
T		Theft from the entrepreneur by their partner. No clear relevance.
$-d$	+	Punishment inflicted on partner for breaches of agreement A and social rules R respectively. Greater conformity by the entrepreneur is likely to have size effects increasing each of these institutional sanctions.
$-D$	+	
$-AV$	+	Partner's lost transactions with entrepreneur and with others for breaking A . Positive signal effects.
$-AW$	+	
$-RV$	+	Partner's lost transactions with entrepreneur and with others for breaking R . Positive signal effects.
$-RW$	+	
Effects not Associated with Economic Activity Coordination		
$-P$	-	Conformity with social rules is most likely to raise costs. For example helping more distant relatives with medical expenses.
$-S$	+	Conformity with social rules avoids sanction by social institutions.
H	+	A record of conformity with social rules may increase the help given by social institutions in the event of misfortune or in old age.

¹ The terms 'size effect', 'incidence effect', 'signal effect' and 'indulgence effect' are explained below.

Table 6.5 Gains to an Accumulating Individual from Greater Conformity with Social Rules

The first column of the table shows the effect as defined in the BRAN model and expression 6.1 above¹. Because the transaction model involves strategic interaction between the accumulating individual and their partner, it is necessary to consider the increase to their own benefit of conforming more closely with social rules both directly through their payoff elements and indirectly through the effect on the behaviour of their partner. Thus the first nine rows refer to payoff elements of the entrepreneur while the following nine refer to those of their partner. The final three rows show the costs and consequences of conformity with social rules outside of economic organisation.

The second column of the table shows whether an increase in conformity with social rules by the entrepreneur should increase or decrease their net benefit from social institutions. The third column provides justification. As discussed in Chapter 5, the outcome given by the BRAN model is highly dependent upon the sequencing of actions, the nature of agreement A and the extent of risk, among other contingent factors. Hence the directions and brief explanations of each effect given in the table here are based on the most likely scenarios and may well be different in less usual cases. The intention of the model is to assist discussion of the many effects and tradeoffs that can play a role in particular cases rather than to claim that these vary only in degree between activities and the individuals involved. Some terms are used in Table 6.5 to denote different ways that the entrepreneur's change of behaviour can affect outcomes. These are as follows. In each case we suppose that in the illustrating example the entrepreneur has recently increased their conformity with social rules by more frequent religious observance, generous contribution to an uncle's medical expenses and provision of free lunchtime meals to employees.

size effect: when the element concerned is part of the entrepreneur's payoff, a change in its value is a direct contribution to their net benefit. For example, if a person supplies low quality crops to a trader they may face punishment D from social institutions such as family or village government. If the entrepreneur's

¹ Note that the lower case f and c are not shown. This is because non-compliance with R by either actor effectively transforms F and C into f and c respectively. Recall that F and C represent full compliance with A and compatible R .

recent increase in conformity with R has the effect of decreasing the sanction D then this is termed a 'size effect'.

incidence effect: if an element more frequently enters an entrepreneur's payoff then this is termed an 'incidence effect'. An entrepreneur who is conforming more with R will be punished for non-conformity less often: a positive incidence effect.

signal effect: this refers to any effect on net benefits of the change in a partner's behaviour caused by their interpretation of the entrepreneur's change in social rule conformity. This interpretation can take two forms. One is for the partner to understand the entrepreneur's behaviour as revealing information about the payoffs they face and their preferences over these. For example, greater conformity with R may be taken to show that the subjective cost of non-conformity D has increased. Alternatively the entrepreneur's behaviour can be interpreted as a signal in a coordination game that increases the salience of a subset of possible equilibria. For example, in a situation where low-conformity and high-conformity outcomes are both stable, the entrepreneur's behaviour could make the latter into a focal point.

indulgence effect: if increased conformity to R means that a subsequent breach of R may be treated more leniently this is termed an 'indulgence effect'. For example, the entrepreneur in the case described may for a period be able to turn down other requests for assistance from family members without fear of sanction.

6.5.2 Evidence on Strategies

There was widespread acknowledgement of the need for trade offs of the type discussed above in dealing with social institutions among business people in Kipatimu. Excessive institutional demands could prevent accumulation but the activity on which accumulation depended could not be coordinated without the support of these institutions. One elder whose business had failed said *you cannot deny kinship demands as [one day] you may need their help*, while a

young and successful trader stated that *you may fear needing help in future but you mustn't fear too much*¹.

Although there was general agreement about this problem among entrepreneurs, a number of different methods of resolving it were reported. Of course most individuals said that they used more than one of these. The strategies adopted are considered here in three broad groups. Firstly there are attempts to limit demands made while conforming, or at least appearing to conform, to institutional rules. Secondly there is resistance to those demands that are made by selective violation of rules. Lastly there are strategies with which entrepreneurs seek to reshape demands by changing the rules that apply to them.

As discussed in part 1.3.3 of the first chapter, the anthropological literature indicates that while the population of northern Lindi is likely to have included many groups who followed matrilineal norms of inheritance in the past, these patterns have long since been replaced by patrilineal systems. The observed virilocality and emphasis on the male lineage when describing family history support this view for the study area. The evidence in this study that women entrepreneurs are particularly subject to jealousy, find it relatively hard to protect their property rights and take relatively more care to conceal any accumulation is also consistent with more patrilineal norms. Unfortunately the relatively small number of businesswomen found in Kipatimu, along with their concentration in a single activity, mean that firmer conclusions cannot be drawn about the causal implications of a shift towards patrilineality for the strategies with which this chapter is concerned. The study data obtained on these strategies does suggest though, as Lockwood puts it that

For our purposes, however, neither ethnicity nor the identification of a system as matri- or patri- lineal is that important... 'It is likely that many people living in Rufiji used ethnic and cultural identity quite instrumentally to meet specific social or political ends. (Lockwood 1998 p. 60)

¹ Respectively elder ex-shopkeeper K81 interviewed on 25/10/1 and young trader K158 interviewed on 14/9/1.

Limiting Demands

Since the most common demands, those made by kin members and general jealousy, are generally attracted by the possession of sufficient accessible resources that are subject to no prior claim according to institutional rules, the simplest way to avoid such demands is not to possess such resources. Shopkeepers are in a particularly difficult situation because their business requires them to display large quantities of stock. Describing one way of reducing family expectations of help, shopkeeper K235 said that he would point out to relations that most of the goods on display in fact represented the capital of other people, which he had borrowed in order to run his business¹. Another method is to keep accumulated assets in illiquid form. In Subsection 4.4.3 the arrangement whereby teachers tied up a portion of their salaries in a rotating savings scheme was described. When a teacher's turn to take the pot arrived, they said that they would invest the lump sum in building materials or trading goods at once before other claims could be pressed. Similarly business people reported purchases of land, property or building materials. For example *mdafu* bar owner K131 said that she had bought 50 sheets of corrugated iron². Even if assets are kept in the form of money, they could be rendered less accessible by depositing them in the nearest bank at Kilwa or in Dar es Salaam. A trader K304 regretted that there was no longer a branch in the village, as cash could be put there and was then not available at least while the bank was closed³.

In terms of the formal representation 6.1 above, these strategies seek to limit costs of compliance with social obligations P . Accessible liquid asset holdings would be a component of the individual characteristics vector argument i . If this component is lowered then the entrepreneur can conform by bearing a smaller cost P and, by conforming, avoid or reduce a corresponding loss in H , help to be received in misfortune or old age, the imposition of sanctions S or conversely the weakening of sanctions d and D that support their business activity.

¹ See Subsection 5.4.2 above. Shopkeeper K235 interviewed on 18/10/1.

² Interview with K131 on 13/9/1.

³ Interview with K304 on 10/10/1.

If the possession of accessible resources cannot always be avoided however, normally being of course a deliberate aim of accumulation itself, the visible possession of such resources is another matter. Five individuals stated that the concealment or dissimulation of wealth could be used to reduce demands. For example skilled self-employed labourer K133 described how as he lived in similar conditions to his family he faced few requests for help from them. Trader K4 said that he would simply claim that he had no money and save it for investment in his business. Former shopkeeper K81 said that *you must try to hide your wealth and go parallel to your peers* while current shopkeeper K235 said that if you wear expensive clothes and eat fancy food then relatives will come and ask for more help¹. Such interview statements support numerous direct observations of individuals who both by repute and their own accounts rank among the more successful business people in the village, yet by appearances such as clothing, dietary habits and housing seem closer to the poorest local residents.

In this strategy, the accumulating individual seeks to affect the distribution of information k regarding their possession of assets. The aim now is to convince the relevant actors that they have fewer than is actually the case, so lowering costs of conforming P . As before the entrepreneur can then pay these lower costs while minimising any reduction in H , imposition of S or weakening of D and d .

Another method of limiting demands while remaining within institutional rules is to appeal to the help that you do give when faced with new demands. For example shopkeeper K235 would remind a kin member asking for assistance of all the family members who already depended upon him, or the children whose education he was paying for. Formally this is to try and ensure that the information distribution k accurately reflects the record of help given, which forms part of the characteristic vector i , in order as before to reduce P with minimal adverse implications for H , S , d or D .

¹ K81 interviewed on 25/10/1, K235 interviewed on 18/10/1.

Trader K301 and shopkeeper K232 reported a particular form of this approach, which is to be seen to conform to kinship rules requiring assistance by employing family members. Because employment is both an important area in itself, and as it is closely associated in the study evidence with the question of employing kin, this strategy is discussed separately in a later part of this section.

Resisting Demands

Once demands are made, their impact can be managed by restricting either the number of demands that are acceded to, the amounts given in each case, or both. Eleven interviewees stated that it was necessary to limit the number of relatives who were given help. *In Africa we have the extended family* said one shopkeeper while a fish trader said that *some people still have this big family – ‘in the North there is none of this’*¹. The latter statement invokes the people of Northern Tanzania who feature in discourse within the study area as wealthier and economically more dynamic.

Strategy here was described as helping only ‘close family’ which obviously begs the question of exactly which family are ‘near kin’. The range of family members included varied between statements made as the following examples indicate.

‘Like perhaps your mother, or your [half-] sister with the same father you can help them’ (K237 interviewed 9/10/1)

If you help someone else’s family you will stay in a poor condition. Help your parents, your children, your wife and her parents only. (K143 interviewed 2/10/1)

I help my father and mother. My younger brother is told to work on the stall. My uncles and aunts have their own children so why should I help them? (K301 interviewed 16/10/1)

You look after your very important family: father, mother, siblings, maternal uncle, perhaps your paternal aunts and uncles a little...
...You may have close relationships with father, mother, siblings and your children but your aunt’s cousin is ‘very distant’. (K158 interviewed on 14/9/1).

¹ ‘*Kaskazini hakuna*’: in the North there is none of this’. Interviews with respectively shopkeeper K232 interviewed on 2/11/1 and trader K143 interviewed on 2/10/1 respectively.

However the boundary among family members is drawn, this strategy can be interpreted as before in terms of the trade off between reducing costs P and the adverse changes this may induce in H , S , d and D . Formally the aim is to identify and default on help due to those individuals where this trade off is favourable.

The same effect is aimed at by the other option for limiting demand impact, which is to give smaller amounts to those who are helped. Ten interviewees said that they did this, including five that were also among those who reported the use of the previous strategy. *Help a little but not too much* was how one business person put this¹. A variation is to give food instead of money: give them food or 200/-. *Maybe if it is the first time or they are very close relatives a little bit more*².

Formally, the two strategies for resisting demands mentioned thus far can be understood using expression 6.1 for net financial benefit. The next strategy however requires consideration of individual preferences and has implications for the utility function defined in expression 6.2. An example of this strategy is described by shopkeeper K232: *you need to invest in 'fixed assets' like land or building. Otherwise if your business fails and you need to start from zero it will be very hard*³. This approach sees the building up of an individual asset buffer make an individual less vulnerable to possible reduction in the social asset buffer. In general to resist demands involves the preservation of current assets in a tradeoff that gives a lower net present expected value of future sanctions and benefits of help in case of misfortune and age. If an individual is more able to resist demands once they have accumulated assets as described by K232, this means that they are more willing to suffer a given fall in the net expected value of these future sanctions and benefits in exchange for not satisfying a given present demand. This implies that they are less risk averse at higher levels of expected net present benefit; in other words when they have successfully accumulated⁴. Such a fall in risk aversion with increasing assets is

¹ Interview with miller K172 on 27/9/1.

² Interview with shopkeeper K235 on 18/10/1.

³ Interview with shopkeeper K232 on 2/11/1.

⁴ Note that technically only decreasing risk aversion rather than risk aversion itself is necessary for this argument.

commonly assumed in economics of course. It takes on particular importance when, as in the present study, levels of assets are so near the thresholds of adequacy for the provision of essential needs.

Reshaping Demands

While the strategy of giving a little in response to demands appeared to be common, other business people said that they favoured a stronger approach; to completely refuse requests for help. Although this is the most complete form of resisting a demand, the statements of entrepreneurs suggest that it can go beyond this by aiming to change future demands. Strong words were used such as to '*nyima*' or 'deny' a relative¹. Three others described the way requests should be turned down using the even stronger term '*ukatili*', meaning 'brutality' or 'cruelty'². It is this emphasis on the form of refusal rather than the fact of it which sets this strategy apart. Indeed the approach of shopkeeper K237 is an example of this type although it does not involve total refusal. He said that *what you do is instead of denying him completely you can give him a one kilogram tin. Well when he goes away he knows that 'that person has just thrown me out'*³, describing the hoped for effect as '*asije kabisa tena*' or 'he won't come again at all'.

Those who reported that they used this method were among the more successful business people. However, while this may be a partial explanation for their behaviour, it appears incomplete as it does not justify the use of a harsh manner to refuse requests. A more satisfactory understanding of this strategy, it seems to me, is that the strong form of the refusal is intended to change the expectations of individuals about the entrepreneur's future behaviour. Such expectations though are important determinants of what we are conceptualising as institutional rules and their enforcement. The deliberately severe refusals of entrepreneurs then may effectively seek to alter the institutional rules that apply to them. In terms of the model, the strategy

¹ Shopkeeper K233 interviewed on 1/10/1.

² Trader K158, shopkeeper K234 and businessman K243 interviewed on 14/9/1, 11/10/1 and 15/10/1 respectively.

³ '*unachofanya badala ya kumnyima kabisa unaweza kumpa kometi ya kilo moja ah ha, basi akienda pale anajua kwamba huyu ame.. amenifukuza tu*': authors translation given in text omitting interjections. K237 interviewed 9/10/1.

aims to modify perceived characteristics of the business person captured by the variable *i*, in order to affect the demands and sanctions that may be imposed by institutional rules in a favourable way.

Harsh language in refusal then may be a way of setting oneself apart from the petitioner. Businessman K181 described how he deliberately showed '*dharau*' or 'contempt' for one relative who came to ask for help: *the way I am is not 'what is mine is ours'*¹. More directly still, a formal sector migrant worker in Dar es Salaam explained that although he often hosted visitors from Kipatimu

Other Dar es Salaam relations have become hard and unwelcoming – for example you do not get tea – so people don't come and stay... ... If you go to a big person where can you start? People are used to us... ...Among people who have married non-Matumbi, household customs are quite different so you do not feel welcome and able to ask for help (K302 interviewed 20/9/1)

Another practice that may have the same effect of modifying the rules that apply to an entrepreneur was reported by a palm wine seller. She was the only person to say that she would loan to relatives on the basis of a written and witnessed agreement, guaranteed by their domestic possessions. Again, this could be understood to have the effect of altering her perceived role in the kinship institution to reduce future demands and possible sanctions².

As discussed in Chapter 2, there are a number of different ways in which institutional rules are enforced. Those that involve focal points or Nash equilibria may be influenced by strategies that seek to change expectations as described above. Those that rely on agents with particular roles as enforcers may be influenced more directly. In the context of this study, such enforcers include influential family elders. There was some evidence that, besides the role of elders in enforcing kinship rules, family meetings could also act to restrict and shape such demands. For example businessman K181 said that demands from distant kin could be directed to a family meeting rather than being addressed directly to him, with the implication that this would provide some insulation against such demands.

¹ 'kumbe siyo najifanya cha kwangu cha kwetu' businessman K181 interviewed 20/10/1.

² This recalls the observation by Caplan (1975) that relationships with the same individuals may be described in different ways in order to invoke favourable norms that are associated with the description given.

The next part of this chapter discusses a group of strategies that can also be conceptualised in part as attempts by accumulating individuals to alter the rules applying to themselves. These involve movement of residence or business activity away from the village.

6.5.3 Migration and Demands

All four graduation ceremonies that I attended at Kipatimu secondary school between 1993 and 2001 featured short plays warning young people against the dangers of going to Dar es Salaam in search of a better life. As observed in the opening chapter, migration to urban areas continued to feature highly in the aspirations of young people in spite of such attempts at discouragement. The evidence from interviews and the household survey suggests that although this attraction may be growing, it is far from new.

Some residents reported that they initially left the village in order to study or train, as in the case of those sent by the mission for instruction in skills such as cobbling or carpentry. Others went to 'find clothes to wear' as an elder put it who first found apprenticeship with a tailor, then formal employment in a garment manufacturing factory¹. The duration of migration could last anywhere from a few months up to several decades or even become permanent. A number of those involved in business obtained capital, contacts or both from these stays in urban areas. Insofar as these resources lessened their reliance on those provided by social institutions in the study area, and by their direct contribution to accumulation reduced their dependence on the same institutions for a social asset buffer, this can be considered part of a strategy for managing demands. However, the main concern here is how migration can modify existing demands, give rise to new ones and subject the migrant to different enforcement pressures.

A palm wine seller described the advantage of living further from relatives as giving space to '*jitanua*' or spread oneself out¹. Clearly, once distance has interposed its barriers of time and expense, the continued making of and response to demands is more costly. Either the migrant must be visited or

¹ Elder K61 interviewed on 28/8/1.

themselves induced to visit, or some kind of remote communication and transmission of resources must be arranged. Although the view that distance reduces visits by family members seeking assistance was widely shared, a number of statements made it clear that such visits could persist even over large distances. For example, trader K143 reported that his father's business had succumbed to demands from family members who followed him as far as Dodoma to press their claims². When combined with other strategies such as the emphasis of cultural and material distinctions described in the previous part of this section however, it was clear that some urban migrants became regarded as almost unapproachable in their urban residences.

While it was rare to hear criticism of such unwelcoming family members, there was evidence that visits in the other direction were a strong expectation. Interviewees often reported the frequency of visits by their urban kin, passing negative judgements on those who rarely or never came. An elder said for example of his first born son, a mechanic in Dar es Salaam, *'he has got lost – I have forgotten him'* as he only came to visit every two or three years³. Visits to the village by urban based family members were common however, particularly during the dry season. Many of the most successful migrants, including university lecturers, doctors and priests, came more than once a season to stay with their local families. As noted already, the very strongest criticism and ridicule was reserved for the few high profile luminaries who almost never returned, even if such sentiments were not usually expressed by family members of the persons concerned themselves.

In the absence of personal visits, money and other resources had to be transported by third parties. This could cause difficulties. A former factory worker reported suspicions that a family member given money to bring to her by her migrant husband had instead absconded to Dar with it. Similarly another family member charged with delivering remittances was claimed to have appropriated money sent to build a house for an elderly village relative⁴. These

¹ Interview with palm wine bar owner K117 on 16/4/1.

² Trader 143 interviewed on 2/10/1.

³ 'amepoteza – nimemsahau' elder k85 interviewed on 17/8/1.

⁴ Respectively K164 interviewed on 27/9/1 and notes on a meeting with K247 at the building site on 10/9/1.

examples help understand a discussion observed between a shopkeeper and his family members about how to find a suitable youth to deliver contributions from a city based relative for the medical expenses of his wife and child. In this instance the shopkeeper agreed to find a trustworthy youth who would be paid to undertake the errand¹.

To summarise then, the evidence suggests that demands for resources became less frequent after migration, probably because a threshold imposed by higher transaction costs meant that many smaller requests were no longer made or granted. The migrant also gained increased control over which demands were responded to and the timing of any contribution made. On the other hand, migration itself raised expectations among the remaining family members of help to be received.

Aside from these adjustments to demands that exist already between residents of the village, migration also introduced new demands. These concern the provision of accommodation to family members visiting the city, normally along with provision of food and other requirements during their stay. Many interviewees reported that they had benefited from such assistance in the past. Some had stayed with relatives in urban areas while receiving training, such as a tailor who had done an apprenticeship in Lindi then obtained further experience in Dar es Salaam, staying in both places with relatives, before achieving success with his business back in Kipatimu². Nine others, including seven current entrepreneurs, said that they had spent time working in urban areas while staying with migrant relations.

Much shorter but more frequent visits to the commercial capital are made by some entrepreneurs, especially those who need to buy goods regularly such as shopkeepers. Almost all of the business people who travelled to Dar es Salaam reported that they stayed with relatives on these visits. There are some suggestions in the study data that the social rules on provision of accommodation may be under pressure in the context of such business visits.

¹ Observation notes of discussion at village shop on 7/9/1.

² Tailor K191 interviewed on 31/8/1.

From the perspective of the urban resident, one formal sector employee complained that

‘Many family members especially on my wife’s side arrive with business from Kipatimu or Kilwa. Coconuts, oranges or wood for example. They don’t contribute anything beyond a few coconuts. You can’t ask for cash as they will go and spread a bad name in the family’ (urban resident K302 interviewed on 20/9/1)

A shopkeeper on the other hand describing how he stayed with a relative during his trips to buy stock said

‘There, usually I have my own rented room... *you have rented?*... Yes, there is a room for which I pay each year... *Ah, I see ...* But the house belongs to my relative, that is my uncle. But what I do there is.. I rent that house, I pay rent per month. *I see. Even though he is your uncle, even so you contribute?* Yes. *Ah, why do you do this?* He is in the city isn’t he and he needs to earn his living because he has built that house as a business. So, for his income, there he depends upon the house. Yes. So if I want it for free I will have to give him money anyway so that he can live. *laughter*’ (shopkeeper K237 interviewed on 9/10/1)

Another shopkeeper used both his urban relations and commercial guest houses while on his stock buying trips. He said that he preferred to stay in a guest house but that it was not a secure place to leave any property. For this reason he stored the goods and other belongings at his relative’s house, giving them some money for looking after them but still slept mostly at the guest house¹. Similarly a trader stated that he preferred staying in guesthouses when visiting Dar es Salaam: these days you must contribute².

Former migrants gave various reasons for their eventual return to residence in the study area. Some said that they came back in response to the demands of relatives, for example to care for sick parents. Others returned because of illness, redundancy or retirement. In all cases though, the returning migrant clearly has to find somewhere to live and a means of satisfying their requirements for food and other resources. Access to land for building or cultivation was by no means straight forward. For example, an argument over this subject developed during one interview with three brothers³. They initially

¹ Shopkeeper K234 interviewed on 11/10/1.

² Trader K304 interviewed on 10/10/1.

³ Interview with K41, K42 and K43 on 6/9/1.

disagreed over whether three other migrant brothers had a right to shares of their late father's land, of which the three residents currently each farmed a portion. Then the youngest brother accused his elders of forcing him to sell most of his own share when he returned to the village following an 18 month absence. In the interview the middle brother asked the youngest why he did not open a court case against them. This is exactly what elder K60 says that he did when he returned from seven years away on work for the mission to find that his relatives had planted coconuts and oranges on his land and would not relinquish it¹. He related that the court awarded him possession of the land after he paid compensation for the improvements that his relatives had made. Of course, as most interviewees were residents of the study area, the data provide little evidence on the experiences of those migrants who may have been unsuccessful in such disputes over land. The formal sector worker K302 however did express the expectation that *my children will be children of the town now – there is no place in the village for them*¹. This urban household had invested instead in a plot of land on the outskirts of the city, which they aimed to cultivate with hired labour and move to in case of redundancy.

In using migration as part of a strategy of accumulation then, individuals have to take account not only of its direct contribution as a source of capital, training and other resources, but also of its influence on their relationship with social institutions. This influence affects the demands that institutions make upon them, modifying existing ones and introducing others. Finally, the ability of social institutions to either support or resist a migrant wishing to return adds another means of rule enforcement to these institutions.

6.5.4 Employment

All of the businesses active in Kipatimu during the study period were microenterprises, that is they were made up of fewer than five people. Most typically the businesses were entirely run by a single entrepreneur, occasionally assisted by members of his or her household. If such microenterprises are to make a larger contribution to wealth creation and

¹ Elder K60 interviewed on 24/8/1.

employment provision, they will need at some point to increase in size². This part of the section seeks to understand how the demands of social institutions may affect the ability of enterprises to expand by employing more people. In particular, the decision to employ kin members or non-kin members is examined and inferences drawn for the prospects of enterprise and employment growth.

The analysis begins by considering three differences between the employment of kin and of non-kin that emerge from entrepreneur statements. Then the relationship between type of economic activity and the employment of kin or non-kin is discussed. After this some further implications of social institutions for employment strategies are identified.

The first distinction made by employers was that information about employee behaviour can be obtained through kinship links. The explanation of businessman K181 is a good example of this

‘In the shop business you really have to share information because I can’t... ..go and do calculations to know what has been sold, it’s difficult. Now, with a relative it is easy... .. if you put in some person, so you are paying them, they will only be thinking about their wages. And maybe they will get the chance to pilfer bit by bit. They can’t care about it and after a while they will treat it as their shop. But for a relative it will be very hard because of information that, for example your property is being taken away, they won’t be able to do this because they will know that your eyes are watching them and their relatives will inform upon them. Therefore they will be fearful.’
(businessman K181 interviewed on 20/10/1)

The second distinction is that a lack of kinship relations with an employee make it less easy to deter breaches of social rules, such as those prohibiting theft. Tailor K125 for example said that he only used relatives as his paid assistants because non-relatives would not care for his tools properly³. Carpenter K132 similarly said that in his experience with non-relatives ‘*they eat money and leave you with work*’¹. The quote from K181 above also refers to this distinction, as does his description elsewhere in the same interview of how common family elders can enforce honest behaviour by employees.

¹ Dar es Salaam formal sector employee interviewed on 20/9/1.

² See Appendix 2 for more detailed justification of this view.

³ Tailor K125 interviewed on 21/8/1.

The third distinction is that enforcement of agreement terms can be less easy with kin employees than with non-kin. As reported in Chapter 5, it was commonly said that family members could not be prosecuted. Although there were exceptions to this consensus², it does remove an important means of enforcing agreements for most entrepreneurs. By definition, enforcement by a social institution like kinship applies to the institution's own rules. Thus kinship relationships can deter theft or negligent damage to property as in the second distinction above. An example of this is the report by businessman K34 that he did not like employing relatives to do piecework because they would be lazy and demand special treatment³. Another is provided again by K181 who claims that the behaviour of a young relative he employed to run a shop led to the collapse of the business. This behaviour did not involve theft but failure to open the shop during the agreed hours while K181, also a formal sector employee, was out of the village on duty. As a result, the shop lost custom and eventually had to be closed.

Now we consider the actual pattern of kin and non-kin employment as reported for different types of business. Table 6.6 shows this information, along with a summary of the evidence on enforcement methods.

¹ Carpenter K132 interviewed on 28/8/1.

² For example palm wine seller k131 as noted above in **Table 4.21**.

³ Interview with young male farmer and businessman K34 on 5/9/1.

		Usual Employee Type	
		Kin	Non-Kin
	Role	shop assistant waiter in restaurant server in palm wine bar assistant to skilled labourer	orange picker coconut store guard goods transport by bicycle milling machine operator ¹ paying apprentices ¹ casual agricultural labour
Role Characteristics	Agreement Duration Transaction Order <i>h</i> <i>T</i>	ongoing simultaneous (hidden action) higher expectation high potential losses	casual sequential lower expectation high potential losses
Employee Type Characteristics	<i>k</i> <i>D</i> <i>d</i>	more favourable distribution of information more effective less effective	less favourable distribution of information less effective more effective
Joint Characteristics	<i>AV</i> <i>AW</i> <i>RV</i> <i>RW</i>	lower threat moderate threat high threat moderate threat	higher threat higher threat high threat high threat

¹ Exceptions to some role characteristics as detailed in following text.

Table 6.6 Characteristics of Kin and Non-Kin Employment

The top row of the table shows the correspondence between the role that an employee is asked to undertake and their relationship to the employer, either as kin or non-kin. There were very few exceptions to this correspondence: kin would sometimes be numbered among the children paid to pick oranges or the adults given a strip of land to farm for cash; there was only one reported case

of a non-relation being employed in a shop. The large majority of employment arrangements reported were however in agreement with the pattern shown here.

A group of four rows shows characteristics of these roles. It is immediately apparent that the two types of employee correspond closely with two distinct types of role. Family members are employed in ongoing roles whereas non-family members are restricted to casual work. Non-kin workers are employed when the satisfactory completion of their duties can be checked before payment is made, corresponding to the sequential type of transaction in the BRAN model. Where there is significant scope for hidden action though, so that the simultaneous transaction model is more applicable, kin members are almost invariably employed.

With ongoing employment relationships, there are greater expectations that benefits beyond the agreed wages will be provided; that is h in terms of the formal model. It is important to note that the higher expected h is a characteristic of the role and not of the contingent fact that family relationships are normally involved. For example, shopkeeper K235 stated that even if a non family member is employed *he will be like a kin member as he must be very local. That is he must eat with you otherwise you discriminate against him*¹.

The last of the role characteristics shows that both types can provide opportunities for significant levels of theft. Recall though that this is likely to pose a more serious problem where there is more opportunity for hidden action.

Two of the non-kin roles do not fit exactly in to the categorisation as shown. One exception is the case of two youths employed by the milling machine owner to run his machine and collect payments. The other is the role of paying apprentice to one of the village tailors. Both of these are ongoing rather than casual arrangements. In both cases there is substantial opportunity for hidden action so the simultaneous form of transaction model is the more appropriate. The miller reported that he gave regular extra benefits h to the two non-kin

¹ Interview with shopkeeper K235 on 18/10/1.

youth employees. The tailor said that while he had not been asked for such assistance he would be prepared to grant it¹. The first three rows of the employee type characteristics summarise the three distinctions between kin and non-kin employment described in the statements of entrepreneurs as discussed already.

The final four rows assess the weights of repeat transactions and reputational effects. There was evidence that all of these were relatively strong for non-kin employment in casual work. There was often competition for these jobs and as described in Chapter 5 a reputation for trustworthiness was important in securing repeat work with either the same or different employers. Very little direct evidence was obtained on these effects in the context of ongoing kin employment. These are a little harder to conceptually separate from the d and D effects but if this is done some indirect inferences can be justified. The conceptual difficulty is caused by the fact that as kin relations, both current and prospective employers in these cases may well be directed by institutional rules to refrain from future dealings with an employee who breaks either agreement or social rules. Thus some loss of future transactions suffered by such an employee may actually be part of institutional sanctions d or D . To separately identify the sanctions AV , AW , RV and RW it is necessary to understand the degree to which current and prospective employers would refrain from future dealings with the same employee were they not subject to such institutional expectations. In this case, it seems reasonable to suppose that AV , AW and RW are smaller for longer term kin employees than for casual non-kin employees. The justification for the first supposition is that there may be some socially imposed cost to the termination of such an employment relationship on the basis of failure to follow the agreed terms, when such agreements have relatively little support from kinship rules. The argument in relation to AW and RW is simply that the prospects for such long term employment with alternative family employers are in any case likely to be low.

Given the characteristics shown in Table 6.6, we can analyse the likely performance of these employment arrangements using the BRAN model. The

¹ Miller K172 and tailor K191 interviewed respectively on 27/9/1 and 31/8/1.

casual, non-kin case is the more straight forward. Consideration of the sequential form of the model shown in **Figure 5.1** suggests that the entrepreneur, acting second and designing the agreement to specify F and C appropriately, should be able to achieve an outcome of BB, AB or AA. That is, both parties keeping to the agreement and possibly at least one also conforming to compatible social rules.

In contrast, the prediction of the simultaneous BRAN model for the long term employment of kin is less optimistic. Assuming the characteristics described in **Table 6.6** above, the optimum outcome BB does not appear stable. One or other party is likely to be able improve their own payoff by choosing strategy R; that is to save the costs of compliance at the expense of incurring the relatively weak sanctions d , AV and AW . Outcome RR on the other hand does appear to be a Nash equilibrium.

Of course, the model as shown is highly stylised. In practice there are likely to be many nuances of compliance both with agreement terms and social rules. However, we can attempt to interpret the above analysis of long term kin employment in the slightly broader way that this implies. This would lead us to expect such employees to refrain from serious dishonesty and to take reasonable steps to protect their employer's property. On the other hand the rewards they receive would mostly take the form of gifts such as money, clothes or free accommodation, rather than pre-agreed or predictable wages. There would be little sense that their performance would affect the level of compensation received.

There is some evidence beyond casual observation that the concept of such a low productivity equilibrium is of some relevance to outcomes in the study area. The only outcome of the simultaneous model, other than total breakdown, in which the worker receives only the 'assistance' level of payments h is the predicted RR strategy combination. Among the statements by employers of family members are a number that describe this extra help given to employees, including some that suggest this help is actually the main or only payment given. For example, businessman K301 reported that he paid a regular wage of 5,000/- per month to his two workers, both family members. He said that this

was not enough to live on but that he also helped them with food and accommodation. Similarly both shopkeeper K235 and businessman K243 said that while their employees' wages could go down to 3,000/-per month, they would also be offered such extra benefits as food, soft drinks and hospitality for their parents. Other entrepreneurs were even less precise than this about what kin were paid, perhaps saying that there was no special amount but that a worker could be 'helped'.

This contrasted with the rather more exact accounts of the terms of non-kin, casual employment. Orange picking, coconut carrying and palm tapping all had recognised rates of pay. Farm labour was rewarded according to the size of the strip of land allocated. A youth sent to seek coconuts was told in advance the price they would receive for each coconut purchased¹. Some of the entrepreneurs involved gave clear explanations of how these arrangements gave incentives for increased effort by the worker. However, in the case of kin-employment questions about similar performance rewarding pay arrangements were greeted with something approaching embarrassment or defensiveness, and replies like '*we don't do that*'².

The discussion so far in this section has only dealt with the factors affecting the choices of entrepreneurs within the context of economic transactions. If we consider the extended version of the model as given by expression 6.2 we can give a simple interpretation for the strategy reported by shopkeeper K232 of limiting kinship demands by employing poor relatives³. This is that if a certain level of resource contribution P can be substituted for by employment of a relative rather than a non relative, while S and H remain constant, then as there is no cost P associated with the change from non-kin employment the entrepreneur must be better off. However, this gain may of course be reduced if the above analysis of kin employment is correct in predicting a negative effect on business profitability.

¹ Interview with businessman K181 on 20/10/1.

² Interview with businessmand K243 on 15/10/1.

³ See 'limiting demands' in part 6.5.2 above.

If the interpretation of study evidence presented here is accepted, its implications for the prospects of enterprise and employment growth are not uniformly encouraging. Because of the need for strong social rule enforcement to deter opportunistic dishonesty, and to satisfy kinship demands, business people have little choice but to employ family members. Unfortunately, rules of social institutions also appear to work against the use of employment agreements that give incentives for greater effort. These rules in other words seem more compatible with the perpetuation of patron-client relationships than with innovation in principal-agent contracts.

A more positive view is also possible. All of the business people interviewed said that they hoped to expand their businesses; and that if they did grow then some employment would be necessary in order to take activity beyond the limits of what a single person can manage. Given the dynamism of many Kipatimu entrepreneurs it would appear most likely that growth in profit and employment will take place, even if most new workers remain family members. As accumulation progresses and the demands of social institutions become relatively less powerful, non kin employment, organised on a more conventional commercial footing may start to emerge.

6.5.5 Anti-Witchcraft

Evidence of the witchcraft activities described in the previous section was obtained only through the accounts of interviewees. The discussion concentrated upon their possible role as a form of enforcement mechanism for social rules, principally those associated with jealousy. If witchcraft can have any such effects¹, it seems clear that these must act upon the beliefs of individuals and in that way only indirectly upon action.

Anti-witchcraft activity in contrast was clearly and dramatically observable, as well as having direct economic consequences in terms of substantial cash payments. Here some of this evidence is presented and an interpreted in an attempt to understand different individual strategies of demand management.

¹ Assuming that the claim that real poison is used by witches is false.

In the earlier discussion, the common claims by residents that business people protect themselves with anti-witchcraft '*kingo*' were reported. While most of the business people asked about this said that it was false, one highly successful self-employed skilled labourer said that he had obtained a *kingo* from 'Koran experts'. Also the wife of a young farmer and palm-tapper said she had purchased a *kingo* for 4,000/ which would protect their family for ten years. Lastly, the retired elder K60 who returned to the village to find that his relatives had taken over his land claimed that they used witchcraft to try and enforce this claim. He stated that he obtained a *kingo* from a traditional doctor which repelled the witches from the land. When one of the females approached him to claim money using the threat of witchcraft the *kingo* worked again. She died two days after going home empty handed.

Towards the end of the study period I observed two episodes of anti-witchcraft activity that were much more visible than the private purchase of a *kingo*. These were visits to the neighbouring village of Darajani by a group of traditional doctors or *waganga* with the stated aim of identifying and curing 'witches'. Officials in the Darajani office said that this team of *waganga* had been officially invited by the village government following receipt of a petition from more than ten local elders. The justification for this invitation was said to be the belief that such visits could reduce any ill feeling that had been building up among local people. The officials informed me that 40 percent of the fees charged by the *waganga* for house inspections would be paid to the village government. Having been given official permission, the officials said that participation by all residents in the ceremony would be, if not compulsory, subject to strong social pressure.

Whether as a result of this support from the state, social expectations or some other reason, the visiting *waganga* certainly seemed able to exert pressure. A single female farmer with several small children was among the first to be picked out. The *waganga* inspected her house in front of the gathered crowd, producing magical potion that they claimed had been hidden inside. At this point the woman decided that she had no choice but to pay for the 'treatment' supposed to cure her of witchcraft. She went into her house and emerged a few

moments later to hand the leader of the *waganga* 6,000/-, almost the value of a full month's rural median per capita consumption.

Two weeks later the group visited the centre of Darajani, preceded by the village chairman who appeared to decide which houses were to be inspected. There was a group of five *waganga*, including three men and two women, dressed in a flamboyant combination of red shirts, traditional Swahili kofia hats, baseball caps, sunglasses and even a gold chain. Local residents claimed that this was the first such visit for many years, variously since 1976/1977 or the 1980s.

In the days following this visit there was much discussion of whether or not the *waganga* would be invited to visit Kipatimu, and whether the shopkeepers, formal sector employees and business people living in the village centre in particular would cooperate. At the time of my departure at the end of the study period it was rumoured that the visit would take place within a few days. It turned out however that no invitation was extended and the *waganga* never arrived.

It is not, I think, possible on the available evidence to give a definitive account of the economic significance of this anti-witchcraft activity. On the most trivial level it clearly represented a means of income generation for the *waganga* themselves¹, as well as for the village council. For the individuals who pay for *kingos* or for treatment by the *waganga* the costs involved could be, as noted above, considerable. The fact that the individuals who were publicly identified and treated as witches appeared to be relatively poor elders and women may lend support to another interpretation, as might the fact that the *waganga* were able to visit a recently emerging centre of commercial activity in Darajani but not the long established Kipatimu. This is the interpretation advanced by Maia Green who proposes that anti-witchcraft activity in Tanzania is often used to pursue disputes over social influence and resource control. In the context of Darajani it seems reasonable to conjecture that public humiliation may lessen the influence some poorer residents within social institutions, leaving them less

¹ Although one skeptical shopkeeper said that whenever people told him about the powers of such *waganga* he advised them to observe how little wealth the *waganga* themselves possessed to see how effective these powers really were.

able to press demands for help from those individuals starting to find success in business. Similarly, in the case of Kipatimu, part of the reason for the lack of a visit to the village centre may be because the business people there have, in a sense, already got their *kingo*.

6.5.6 Chapter Conclusion

This chapter first analysed the evidence on how demands made by social institutions can present problems to accumulating individuals. Attention then turned to the strategies which such individuals could adopt to cope with these difficulties, while at the same time protecting the benefits which the same institutions provide to their business activity as described in the preceding chapter. Given the clear evidence of interdependence between these two sets of considerations, the implications of each for strategy cannot be understood in isolation. For this reason the findings of both chapters are summarised here.

Chapter 5 concentrated on economic activity and how individual accumulators make choices about the allocation of their assets to economic activities. If business is successful then these assets increase, contributing to the 'individual asset buffer' which can be used in the event of age or misfortune. The aim of the chapter was to show how social institutions could support this accumulation activity in the context of weak formal institutions by constraining choices. The enforcement of institutional rules involving the individual was understood to be influenced by the role or status of that individual within the institution's structure and their record of past conformity with the institution's rules.

In Chapter 6 individuals were shown to face a fundamental choice between the allocation of assets to economic accumulation activity or to satisfying the demands of social institutions. This choice was shown to have implications for institutional support or sanctions affecting ongoing accumulation activity, current asset allocation and ultimately the help expected from social institutions in the event of misfortune and in old age. These implications depended for each individual upon their role within, and history of conformity or non-conformity with the rules of, social institutions, as well as upon their ability

and accumulated assets. This dependence transforms the fundamental choice in to a rich set of possible strategies, highly differentiated between individuals.

This set of arguments completes the analysis of study data. The final chapter summarises the findings on each research question, then concludes by discussing the wider implications of the thesis results.

7 Conclusions: Institutions, Non-Farm Business and Accumulation

7.1 Introduction

7.1.1 Summary and Findings

In this final chapter, the evidence on each of the research questions is summarised and conclusions drawn. Broader implications of the thesis findings are then considered.

Chapter 0 introduced the main concerns of this study set in South East Tanzania: how the increasingly sophisticated coordination of activity associated with economic development can begin at low levels of income; how this process is affected by socially embedded forms of coordination; whether the existence of such non-market coordination creates 'rigidity' in the economy, limiting response to such opportunities as there are; the strategies of individuals who attempt to accumulate in these circumstances; and the implications of these efforts for private sector growth and employment.

Reviewing the literature, Chapter 2 first presented some of the main themes in economic analysis of markets in developing countries. Successive sections of that chapter then explored the literature on the foundations of market coordination, setting out the 'concentric' set of theoretical ideas which were used in addressing the research questions. Chapter 3 explained the research approach of the thesis, principally 'analytic narrative', and discussed its methodological implications for data collection.

The following three chapters contained the main presentation and analysis of data. In Chapter 4 household survey findings on demographics, education and wealth were given, along with analysis of the rules, structure and resources of social institutions in the study area, accompanied by background information on local history and politics. Chapter 5 examined in detail the role of social institutions in the coordination of economic activity by accumulating individuals. A theoretical model of contract in the presence of institutional rules was developed to assist this analysis. Finally, the demands made on accumulating

individuals by social institutions, particularly kinship, and the strategies adopted in response were considered in Chapter 6.

Following this analysis, conclusions on the six research questions can now be drawn from the evidence gathered during the study. These were stated in Subsection 1.3.1 as

Is market coordination of economic activity emerging?

Is the embedded nature of economic activity diminishing or changing?

Is individual asset buffer accumulation becoming more important for some individuals than social asset buffer construction and if so for whom?

What are the likely patterns of and limits to enterprise growth and the provision of employment?

How do accumulating individuals seek to escape from, modify or use their involvement in embedded social organisation to support their market-coordinated activities?

How does the formal institutional environment influence the planning of local entrepreneurs?

7.1.2 Chapter Overview

The remainder of this chapter is set out in the following way. Section 7.2 has seven parts, the first of which considers the question of change over time while the following six each summarise the evidence on one of the research questions and draw conclusions. The following section discusses the implications of the study findings for research methodology, theoretical understandings of market development, public policy and further research.

7.2 Research Questions: Evidence and Conclusions

7.2.1 Change and Institutions

The first three research questions all directly ask whether certain phenomena of interest are changing, while the fourth attempts to judge the prospects for

future developments. As remarked in the chapter on research methodology¹, the ability of a study such as the present one where data were obtained during a single year to provide evidence of change over time is subject to important constraints which must be acknowledged. This limitation will be addressed for each research question in turn but first some overall implications of the thesis findings for the problem of studying change over time are considered.

The earlier discussion in Chapter 3 pointed out that the absence of data from earlier time periods with which to draw comparisons places limits on what can be said about how any phenomenon has changed. This single point-in-time limitation means that the evidence on the dynamic aspect of the first four research questions is very likely to be significantly weaker than would be possible with repeated data gathering over a longer time period. For each of the questions there is some earlier data which can be used as a comparative baseline, including: data from secondary sources; recall data, both explicit and implicit, obtained in the study; and information from my own previous residence in the village. The availability of such data sources varies between questions and none is a perfect substitute for a prior study however.

Of the analytical concepts discussed in Chapter 2, the institution has been the most important for the interpretation of data. Because all understandings of 'institution' in the literature², including the definition adopted for this thesis³, include the idea of persistence over time, the central role of the concept in data analysis might be taken to indicate that evidence has largely been obtained for the existence of stasis rather than change. Two objections can however be made to such a conclusion. The first is to observe that all understandings of 'institution' also include elements designated 'rules', 'norms', 'habits' or the like which are supposed to influence behaviour. Implicit in any such understanding must be the corollary that in the absence of such rules, some behaviour at least would be different and the persistence in time associated with the institution would weaken. To find evidence which supports the existence of an institution then is at least to find evidence of some pressure for change, if not for the

¹ See subsection 3.2.1 above.

² As well of course as in non-academic usage.

³ See page 48.

presence of actual change, in the sense that some individuals would act differently were it not for the institution's constraint.

The second reason why finding evidence for the influence of institutions is not to find evidence only of stasis relates to the question of how institutions themselves change over time. From the discussion of literature, five groups of effects which could lead to such institutional change were described and having examined the study data we can see that at least four of these are relevant in the case of Kipatimu.

The explanation for change for which there is only weak evidence is the idea that certain exceptional individuals may be less constrained by rules than others and so take actions that will upset institutional equilibrium. There are obviously candidates for the role of such 'mutants' (Aoki 2007) in the shape of the entrepreneurs, particularly those who have achieved a degree of accumulation. However, the only direct evidence that any of these individuals are intrinsically different in terms of preferences, abilities or other characteristics that might affect their susceptibility to institutional rules is contained in the claims to this effect made by some of them. For example, there were statements that successful business people were harder working and less fearful of family disapproval than others. The association between educational level and involvement in some business activities discussed in Chapters 4 and 5 may give indirect support to a role for exceptional characteristics but of course this would only hold to the extent that education outcomes in this case reflect intrinsic rather than acquired ability or other factors¹.

The other four kinds of explanation for institutional change are better supported by the study data. One of these is the idea of accretion: behaviour in full accordance with rules may change some variable over time which in turn undermines the strength of some rule. Examples in the study include those individuals who engaged in farming or some other activity as youths under the authority of their families. Eventually the capital built up in this way enabled them to escape or renegotiate their family relationships. Similarly, other

¹ Such as the ability to obtain education because of wealth or connections for example.

entrepreneurs obtained education or training through conformity to the rules of kinship or religion which in time reduced their dependency on these institutions.

Another possible cause of change drawn from the literature review was the idea of competition in situations where the same coordination problems can be addressed by the rules of more than one institution. If actors are able to choose which institution they will use then such aggregate choices over time can lead to an evolutionary selection among institutions. In the study data the most frequent examples of this kind of choice are the reported decisions of individuals to attempt contract enforcement through either family authority or the formal state system.

The same two institutions also provide evidence of the fourth group of effects thought to explain institutional change in the literature, the influence exerted by the rules of one institution on the rules of another. A number of interviews with entrepreneurs and state officials recounted cases of obligations under family rules that were overruled by the appeal to the hamlet chairman or court. Discussion of individual strategies for managing institutional demands in Chapter 6 revealed that these frequently involved such appeal to the rules of other institutions, as in the use of political party sanctions against a relative.

The final explanation of change concerned the role of focal points in helping to establish institutional equilibria. As discussed, this argument is potentially a powerful one as it offers an explanation of how shifts in beliefs, expectations and values can effect behaviour without appealing to the presence of special enforcement agents or rules. In the current study perhaps the most important instance of this is the anti-private business ideology promoted by the state and ruling party prior to liberalisation. The study found evidence that this had a lingering focal point influence on institutional rules after liberalisation but also that this was weakening with the passing of time.

To summarise, as well as extensive evidence that institutional rules have an important role in economic coordination, the study obtained much data that were consistent with our ideas of how institutions change. To this extent, the research carried out can support claims that some of the variables of interest were changing during the period of data collection. As an approach to showing

change over time this has the advantages of being very specific both about the details of how change is occurring and about what we might expect to see next: in everyday terms, how change might be 'institutionalised'. However, these analytical insights remain minor compensations for the serious constraints faced by this study in showing that change has happened. These limits are fully accepted and should be kept in mind as the research questions are now individually discussed.

7.2.2 Market Coordination

The first research question was:

Is market coordination of economic activity emerging?

For this question, the evidence collected gives strong support to an affirmative answer.

Chapter 5 presented details of a wide range of activities in which market coordination had a central role. Among these activities, those which generate the highest earnings were suppressed, if not banned outright by the state until Julius Nyerere was succeeded as president by 'Mzee Ruksa'¹ Ali Hassan Mwinyi in 1985. As discussed, the ideological hostility to all private enterprise was widespread during the preceding *Ujamaa* years and arguably still had real effects on local state actions towards business in the study period. In addition both my own observations from residence in 1993-5 and the recall of informants indicate that in Kipatimu the extent of market activity was lower in the earlier post-liberalisation years than during the study period. As stated in the preceding subsection, these three sources of information on prior conditions are an imperfect substitute for an earlier study in the same area. However, they do taken together represent a baseline from which judgements about change can be drawn with some degree of confidence. The observed multiplicity of commercial activities, the plans for expansion described by existing entrepreneurs and the expressed desire to enter business on the part

¹ *Mzee Ruksa*: literally 'Old Man Permission' was a popular sobriquet for the second president.

of many other individuals all suggest that market coordination had grown and was likely to grow further.

An area of particular interest where market coordination seemed to be playing a larger role was that of agricultural employment. According to the survey of all households, individuals in only five percent of them did agricultural work for wages over the preceding year. However, as the study period progressed observation, interviews and other conversations strongly suggested that the actual incidence of this activity was much higher. It was partly to obtain more evidence on this puzzling question that the second survey was carried out with a random sample of 30 households. This was a more focussed exercise administered by myself rather than my research assistant. Instead of being a small part of a long, structured questionnaire, the information could be elicited in a more sensitive interview style. In this survey, 46.7 percent¹ of respondents said that they expected members of their household to do agricultural wage labour for other people during the coming year. The same survey suggested that demand for this labour was also widespread, with 40 percent of households² saying that they expected to pay others to do work on their plots. The study evidence then supports the finding of other researchers that the extent of wage employment in rural Sub Saharan Africa is already far beyond what the common conception of such areas as dominated by self-provisioning small farmers would suggest (Sender and Smith 1990; Bryceson 2002).

More sophisticated organisation of economic activity is associated with a need for transactions spanning time and space, as discussed in Chapter 2. The evidence presented in Chapter 5 showed that many such 'vulnerable' and more complex transactions were successfully completed by individuals doing business in the study area. The evolution of contracts used for pre-harvest loans made in return for orange sale rights is an example of how such market exchanges had been developing in recent years.

¹ 14 out of 30 households. Wilson's method gives a 95% confidence interval for the population proportion of 30.2% to 63.9% (1927)

² 12 out of 30 households giving a 95% confidence interval of 24.6% to 57.7% by the Wilson method (footnote above)

The increasingly common role of the *dalali* as a trade-making intermediary providing price and availability information, as well as the financial services provided by shops, further indicated the growing importance of market coordination.

Relative to the more visible activity of shopkeeping and trade, there is less clear evidence available on the level of wage employment, trade intermediation and money-lending in years before the study. It is hard to claim then that the study shows that market activity in these areas has emerged. There is evidence suggesting that some of the institutional change effects discussed in the preceding section may be active however. A significant number of successful young accumulators have either escaped from or renegotiated kinship obligations; formal institutional rules are being used to challenge those of informal institutions, as in the enforcement of unpopular *dalali* contracts; and focal points for the enforcement of anti-business rules have weakened with fading ideology.

Such observations then imply that market activity was emerging during the study period. However, as the earlier studies of rural South East Tanzania discussed in Chapter 0 make clear, a diverse range of non-agricultural activities such as those found in Kipatimu is not a recent phenomenon. It is possible that some of the observed change processes could be better described as 'churning' in the aggregate, with for example a certain proportion of young people always breaking away from family ties and agriculture only to return as businesses fail or to migrate out of the area. While the evidence of institutional change suggests that at least some elements of increased market coordination seem likely to persist, in the absence of earlier data and pending a follow-up study the confidence with which it can be established that change has happened is limited.

7.2.3 Embedded Coordination

Is the embedded nature of economic activity diminishing or changing?

The study evidence clearly supports the conclusion that the embedded nature of economic activity is changing but less unequivocally that it is diminishing.

For this question, the only information available on earlier conditions is that provided by the recollection of study informants. Accordingly, on the basis of the data collected during a single year it is not possible to make a strong claim that the embedded nature of economic activity 'has diminished' or 'has changed'. Insofar as the analysis of study data suggests a positive response to the dynamic aspect of this question, it is limited to the finding that data supported an interpretation of 'was diminishing' or 'was changing'.

The term 'embedded' has neither a single consistently applied definition within academic use nor a wide corpus of non-academic use to guide interpretation. The term 'diminishing' on the other hand clearly implies quantitative reduction. A judgement on whether the latter term is appropriate is contingent on how 'embedded' is defined and the BRAN model developed in Chapter 5 suggests one way that this could be done. If R is meant to indicate the rules of social institutions, then we would expect that in most states of the world these rules would not fully dictate the action to be taken by an agent to whom they apply. There is room for choice within the rules. To see this we recall that institutional rules are understood to 'guide' rather than 'prescribe' behaviour. We could suppose further that institutions may give a degree of support to agreements made about actions permitted by R . For example a son may agree to meet his father one morning to clear part of the family *shamba*; failure by the son to arrive may be censored by the kinship institution. Thus activity coordinated by agreements that are both consistent with and enforced by R may be seen as 'embedded'. By contrast where agreements become more exotic, extending or contradicting R , we have non-embedded coordination.

Among the data there are elements that do seem to support the idea of diminishing embedded activity. One is the observed and reported reluctance of young people to take part in household cultivation, perhaps the archetype of 'embedded activity' in rural areas. Relatedly, a number of respondents stated that the practice of *kiyao*, where relatives and neighbours work on the plot of a single household for a day in exchange for food, palm-wine and/or reciprocal assistance, had become rare in recent years, replaced by wage labour. Another example of market-coordination displacing embedded coordination is provided

by the evidence of business people's readiness to put agreements with kin members in witnessed, written form, and to prosecute breaches using the formal state apparatus.

While caution is needed in the use of 'diminished', the evidence allows us to be more confident in saying that the embedded nature of activity has changed. Much of this is directly associated with the increased scale and sophistication of market coordination identified in answering the first research question. For example, the large number of more complicated, 'vulnerable', transactions successfully completed was cited in this answer. In Chapter 5 though it was seen that 16 percent of such transactions were supported by kinship relationships, a proportion that rose to over a quarter for employment transactions¹. In that chapter and the next, the importance of kinship in many facets of business activity was shown. Start up capital was often provided by family members, either directly or indirectly through access to employment gained by family association with the mission and other formal institutions². Kinship contacts in state positions can reduce the costs of regulation and tax for entrepreneurs. Family meetings are used to enforce agreements, to prevent dishonesty and to filter demands that might threaten business capital. Non-casual employment relations are almost exclusively within families. Migrant kin members provide information and accommodation for those who travel on business.

More generally, in a context of weak formal institutions and high uncertainty, the rules and norms provided by social institutions allow contracts to be incomplete (Hart 1995), so as not to deter a partner who fears that unforeseen circumstances may leave them unable to carry out the agreed actions. A good example of this is the modification of pre-harvest loan contracts so that the price to be received by the borrowing farmer was no longer fixed in advance, but to be set at 'the going rate' when they were sold. There was evidence of erosion in some embedded restrictions on activity. As observed above, agricultural wage labour had increased despite norms that held it to be shameful. Similarly, many individuals violated religious rules by producing,

¹ See Table 5.2.

² See Table 6.1.

selling or consuming palm wine. Embedded limits were not infinitely flexible however, as seen when social disapproval of one *dalali's* dealings led to the slashing of his maize crop.

If the embedded were understood simply as the 'non-market' then the evidence of an increasing role for the market would allow us to conclude that the embedded nature of activity is indeed declining. However, the conception given above in terms of the BRAN model defines embedded coordination as including those agreements which are consistent with and supported by social institutions. Using this conception, the evidence suggests that embeddedness may actually be increasing; alternatively we could say that embedded coordination is becoming more market like. The 'market' does not arise in a vacuum created with the removal of 'non-economic' social organisation (Granovetter 1985). On the contrary the evidence here throws light on the way that social organisation changes to support forms of coordination that are more market like (Platteau 1994a, 1994b).

7.2.4 Individual and Social Asset Buffers

Is individual asset buffer accumulation becoming more important for some individuals than social asset buffer construction and if so for whom?

The first part of this question can be answered with a qualified 'yes', the qualification being a stress on 'becoming'. In this case the evidence on accumulation activity by all of the more successful entrepreneurs supports the view that for them the individual asset buffer was growing relative to the social asset buffer and likely to continue doing so. The data do not allow direct measurement of either buffer and it is not clear that any feasible methodology would have enabled such measurement¹. However, to understand the implications for individual strategies it is the relative change in buffer importance that is most relevant.

There is almost no direct evidence of prior conditions in the survey area with regard to this question, aside from a few recollections on the part of elders of

¹ Only for the leading shopkeepers and a handful of other business people does it seem likely that the individual asset buffer was already actually larger than the social asset buffer.

higher levels of generalised social solidarity a number of decades in the past. On the basis of this study therefore it is not possible to draw confident conclusions about whether change in the importance of asset buffers has happened. The information collected on entrepreneur strategies does however suggest strongly that such relative change was in the process of happening for some of them during the study period.

As discussed in Section 6.5, accumulating individuals do seek to build up assets in forms that are difficult for others to make claims upon, such as building materials, property in Dar es Salaam, or accounts in distant banks. Furthermore, some entrepreneurs state that investment in such assets is intended to offset the risk of any future loss in social support.

Study data suggest that significant help is often given to kin in the event of misfortune and during old age. There is some evidence that social asset buffer support is higher for those who have been successful in business or employment. It also appears clear that there is some element of variation in help given that is not fully accounted for by the material circumstances and kinship relationship of giver and recipient, consistent with a role for deliberate actions by business people to build up their social asset buffers.

The evidence then suggests that entrepreneurs deliberately build up individual asset buffers, that their actions in the process of doing this may affect their social asset buffers and that they are aware of the possible trade-off implied. It seems in fact that accumulators rarely default entirely on their family obligations. Instead a number of strategies are used to reduce the costs of the individual/social asset buffer trade-off, or perhaps to evade it entirely by building up both buffers. These are discussed after considering the next research question.

7.2.5 Growth and Employment

*What are the likely patterns of and limits to enterprise growth
and the provision of employment?*

Unlike those considered above, this research question does not directly ask whether change is occurring or has occurred. However, as the question

concerns future conditions there is an implicit enquiry about such change, from which extrapolation is to be made. There is no earlier study on enterprise size or employment in the study area so again it cannot be claimed that such change had taken place. The study did however identify a number of restrictions on current enterprise size and employment, due partly to the rules of institutions and partly to other factors such as infrastructure and national market conditions. Consideration of the information available on how these constraints were likely to change permits some comments on the prospects for future growth and employment.

In Chapter 4 we saw that in terms of population demographics and the distribution of educational achievement, Kipatimu during the study period occupied an intermediate position between rural and urban areas. With the extent of non-agricultural business and employment revealed in the data, this research question could, *inter alia*, be thought of as asking whether Kipatimu can be described as a nascent rural town.

The expansion of business activity has already been discussed. Links to the economy of Dar es Salaam and other urban areas were found to be critical for all local businesses. Insofar as the rapid expansion of the commercial capital in particular continues, the extensive kinship links with residents of these areas shown in the data are likely to be beneficial for local entrepreneurs. This may help the prospects for enterprise growth, both in the study area and in planned Dar es Salaam ventures.

As noted in Chapter 6, nearly half of all entrepreneurs obtained start-up capital from agriculture. Some of the increase in agricultural wage labour use is due to entrepreneurs for whom farming represents an additional investment opportunity. If agriculture benefits from better integration with national markets, it seems likely that further increases in business investment will follow. Unfortunately, the potential for growth in both agriculture and non-agricultural businesses during the study period was severely constrained by the very poor road access to the village, as well as by the lack of telecommunications, power and water.

Turning to employment, the data showed that many different types existed. Among the 30 households sampled for the second survey, 20 reported that members did some kind of wage work. These included casual labour such as farming, transporting or guarding goods, carrying water and picking tree crops. While this might fit in with long standing visions of 'proletarianization' (Thorner 1982), the fact that a quarter of those who reported the employment of farm labour also stated that members of their household themselves did agricultural wage work suggests a less homogenous and predictable pattern more like that described in an Indian village studied over five decades by Lanjouw and Stern (1998). There was also longer term employment in private businesses such as restaurants, shops and machine milling.

The evidence showed that the types and terms of employment were closely related to the presence or absence of kinship relations. Where transactions were sequential but conformity observable at low cost, non-kin were employed. Family members were preferred where transactions involved hidden action. The division between casual and longer term arrangements too corresponded almost exactly with that between non-kin and kin employment. In Chapters 5 and 6, the analysis of interview data identified three reasons for this division. Sanctions that employees can expect to face for breaches of normal social expectations, notably those prohibiting theft, are higher when they are related to the employer. On the other hand, sanctions for breaching agreements are likely to be lower. Secondly, information about hard-to observe actions such as the taking of money by a waiter is more likely to be obtained if worker and employee have common relatives. Finally, entrepreneurs may offer ongoing employment to family members in order to satisfy kinship demands.

This pattern of employment may have implications for enterprise growth. The evidence showed that entrepreneurs predominantly paid their long term family workers in kind, or in ways better described as 'gifts', or 'help', than as regular money wages. There was no clear relation between performance and earnings and this was in fact explicitly ruled out by some respondents. If employment relations remain on these terms, it seems likely that both a worker's actions and the rewards they receive will be guided more by existing social expectations

than by consciously designed and voluntarily made agreement. This would appear to be favourable for neither business dynamism nor the organisation of more elaborate activity within single enterprises, as Alexander and Alexander found in Malaysia (Alexander and Alexander 2000). Rather than the expansion of microenterprises into small and medium sized enterprises, we may at best expect to see growth by replication, such as the several instances of family members being set up with their own branch of a shop to run. As some respondents themselves stated, only once family enterprises have finally reached much larger sizes might significant long term employment be provided to non-kin members (Bhattacharya and Ravikumar 2004). The immediate prospects for casual non-kin employment may be better, particularly if social rules are becoming more supportive of such labour agreements.

7.2.6 Accumulation Strategies and Social Institutions

How do accumulating individuals seek to escape from, modify or use their involvement in embedded social organisation to support their market-coordinated activities?

Analysis of study data in Chapter 5 showed a number of strategies used by accumulating individuals in this way. In forming these individual accumulation strategies, individuals also had to consider the possible implications for their social asset buffers as discussed in Chapter 6.

The way that individuals sought to use embedded organisation in support of their business activity were conceptualised in Chapter 5 as using the rules of social institutions to support vulnerable transactions. There was evidence that these institutions, particularly kinship, were used both to enforce social rules helpful to business, in particular honesty, and to punish the breaking of agreements. As noted in the discussion of employment, the existence of socially embedded rules could also allow the use of incomplete contracts by 'filling in' unspecified obligations should unforeseen events occur. Information exchange within social institutions such as kinship or religion could also add to the strength of reputation effects in enforcing honesty and conformity with agreements. Similarly, obligations within an institution could help establish trust

with outsiders as shown by patterns of employment recommendation within families and among the young men who provide bicycle goods transportation. When employing, business people chose kin or non-kin workers according to the role involved, as explained in answering the previous research question. A final consideration is the evidence that access to formal property rights enforcement could be mediated by informal institutions as described elsewhere by Rao (Rao 2005) and van Donge (Van Donge 1993), with the consequence that individuals poorly placed with respect to the latter faced almost insuperable difficulties in doing business successfully.

Chapter 6 examined the ways that individual strategies attempted to deal with demands from social institutions while preserving the benefits offered by these institutions both for their business activities and in the form of social asset buffers. These ways were categorised as 'limiting', 'resisting' and 'reshaping demands'. An example of the first was the effort by some entrepreneurs to conceal or dissimulate the extent of their accumulated assets. An important case of the second is the building up of an individual asset buffer to reduce the impact of any threatened loss of social asset buffer.

Reshaping of demands seemed mostly associated with more successful individuals. Even visiting migrants who had obtained formal employment and wealth far in excess of any local resident, as well as the leading Kipatimu entrepreneurs, would build up the authority of family elders in conversation and interviews. The evidence suggests in fact that they seek to use kinship meetings to manage both the demands made upon them by, and their reputation within, their extended families.

Another way to reshape demands was to use formal litigation against family members, for example in claiming debt repayment. This could be thought of as 'setting apart' the entrepreneur from the relation concerned. Some business people described a similar approach as using '*ukatili*' or 'cruelness' in refusing demands. The wealthiest migrants living in Dar es Salaam had set themselves apart culturally to the extent that relatives would no longer feel able to approach them for help at all. Migration itself could be used to limit and reshape demands, though it also implied new duties in the obligations to host travelling

relatives, to visit home periodically and to remit aid to remaining family members.

These findings on the strategic reshaping of social rules, although arrived at by an institutional analysis oriented primarily around rational choice interpretations, closely echoes David Parkin's anthropological account of strategy among young palm-wine entrepreneurs discussed in Chapter 2 (Parkin 1972).

The need to consider these multiple institutional effects imposed significant constraints then on the decisions of accumulating individuals. An important example arises from two features of institutions. Firstly that the current nature and effectiveness of their rules is influenced by their own history and that of other institutions which have interacted with them over time. Secondly, the rules that apply to an individual and the degree to which conformity is enforced is often influenced by that individual's personal history. These two features tend to produce a degree of path dependence in the opportunities faced by entrepreneurs and the choices they are able to make in response to them.

Such path dependent limitations on business decisions represent what Chapter 0 described as 'rigidities' in the economy. In an uncertain environment, when information is costly and the risk of severe material hardship in the event of failure is significant, we would expect strategy in the presence of such path dependent rigidities to proceed slowly and cautiously. The step-by-step, fragile pattern of private sector development suggested by the analysis of study data is consistent with this expectation.

7.2.7 Formal Institutions and Market Coordination

How does the formal institutional environment influence the planning of local entrepreneurs?

This question is of interest for two reasons. Firstly it is relevant to the view commonly found in the literature, as discussed in Chapter 2, that well functioning formal institutions are necessary for market development. In addition, if policy changes or other forms of intervention by state or non-governmental agencies were to be used in an attempt to assist the rural private

sector in Kipatimu, it appears clear that implementation would primarily be achieved through formal institutions like the state, the mission, political parties or non-governmental development organisations.

Unfortunately for the latter concerns, the study data suggest rather limited effects of the state on local businesses. Tax demands for most businesses were low relative to turnover and margins. Only a small number of problems associated with regulatory requirements were reported by interviewees. Some entrepreneurs stated that they had been obstructed by officials when attempting to fulfil regulatory requirements such as licensing, and a smaller number reported that side payments had been sought. Overall however few reports of problems with these institutions were volunteered when people were asked to describe the difficulties of doing business in Kipatimu.

Some important positive effects of formal institutions were clear from the study data. The enforcement of basic property rights appeared to satisfy most entrepreneurs and there was little concern over theft, particularly in the central village area where most permanent business premises were sited. This finding surprised me given the lack of police presence in the area and the efforts that had been made, unsuccessfully, by the main village businesses to facilitate their return by building a police station. There was also evidence that the contract enforcement services provided by the *kitongoji* government were trusted and often used. The reported willingness of some businesswomen in particular to use formal enforcement suggests that the state institution at least to some degree was able to help women overcome the barrier of unfavourable social rules based on gender.

Conversely however, there were claims of bias in the operation of formal institutions relating to religion, gender, family and party political allegiance. A number of instances of corruption or attempted corruption were alleged to have taken place by interviewees. In observed public meetings, as well as in interviews with officials and others, there was evidence that the anti-business ideology of the *Ujamaa* years under Nyerere still had an effect on the dealings of local government with entrepreneurs.

The weakness of some state provision is closely linked to some features of market coordination which emerged from the analysis of data in Chapters 5 and 6. The lack of low cost health care for the treatment of serious illness and the absence, or at best severe inadequacy, of pension provision sharpens the need for all agents to accumulate either an individual or a social asset buffer. The non-existence of a social welfare 'safety net' means that risk aversion remains high for most individuals in the study area. The poor state of roads, electronic communications and other physical infrastructure was remarked upon by many interviewees. Although responses such as the use of bicycles for transport of goods during the rains could mitigate these shortcomings it is clear that they represented a barrier to market development.

7.3 General Conclusions

7.3.1 Research Approach and Methodology

The previous section has summarised the evidence obtained during the study on the six research questions and presented the conclusions that can be drawn in each case. While this completes the main objective of the research, there remain some broader outcomes of the study process which are discussed in this concluding section. First some reflections are offered upon the research approach and methodology adopted. After this, the relevance of the thesis for the theoretical understanding of market development is considered. Next, some policy implications are drawn. The last part of the chapter concludes with some suggestions for future research.

The principal research approach of analytic narrative has enabled a number of difficulties to be addressed and a diverse body of evidence to be synthesised. The institutional analysis at the centre of the approach has allowed historical and political information, evidence provided by the statements of interviewees and quantitative data to be interpreted in terms of individual strategic decision making. The inductive nature of the approach meant that focused theoretical interpretation could be developed as the data were gathered and examined, so overcoming the problem that not enough was known about the relevant variables and their relationships to develop a model prior to data collection.

The nature of the model arrived at by this inductive process did in turn allow formal analysis of strategy choices. However, this modelling of choice by deductive logic was interpreted pragmatically rather than as an exercise in what critics of economics have called 'social physics' (James 1985; Mirowski 1989). It seems to me that particularly where statistical testing of hypotheses is not possible, Alexandrova is right that judgement of claimed explanations should be made on the basis of detailed data presented in ordinary language rather than abstracted formal models (Alexandrova 2009).

The construction of a household wealth measure by recording possession of a fixed list of assets proved useful for the analysis and the collection of necessary data during the household survey administered by my research assistant was straight-forward. Although the poor design of one relevant section of the survey questionnaire meant that some data could not be incorporated into this measure, as discussed in Chapter 3, the results were generally consistent with other evidence of wealth distribution. In my view this method has much to recommend it over alternatives such as participatory wealth ranking exercises. From the point of view of establishing a relationship with local people that would be helpful in eliciting responses during interviews, to organise a forum for the public discussion of the wealth of different households would not, in my opinion, have been at all wise. In my experience a certain degree of shame can be experienced by those shown to be very badly off in Kipatimu¹, in addition to the reluctance of those with relatively more wealth to reveal the extent of it. Both in terms of preserving goodwill with interviewees, and the ethics of arranging the exposure of what people wish to remain confidential, I am not comfortable with the use of such group methods.

The use of narrative interview techniques seems well matched with the analytical narrative research approach. These interviews elicited lengthy sequences of coherent statements in response to questions about personal history, business strategy, future plans and other matters. Of course this internal coherence, along with the attempt to understand the effect of my relationship with the interviewee, does not eliminate the problem of how to

¹ Sometimes referred to as the fear of *kudhalilishwa*: 'being exposed' or 'shown up'.

interpret the interviews reliably. However, it must also be borne in mind that this problem does not affect only interview data. In fact on the occasions where there was duplication between the information requested in both survey and interview the latter generally proved more reliable. The clearest example of this is the evidence on agricultural wage labour presented in Subsection 7.2.5 above.

Brasselle, Gaspart and Platteau note¹ that the quantitative, survey based methodology of most applied economic studies is not well suited to understanding the way that markets are embedded in social contexts (Brasselle, Gaspart et al. 2002). The research approach adopted here has sought to take account of factors whose importance has long been demonstrated by anthropologists, historians and others but which economics has arguably neglected. These hard to quantify factors include family obligations, complex sets of differentiated interpersonal relationships, identity, culture and socially constructed meaning. This study has attempted to address these factors while still organising the analysis primarily around economic models of rational choice. The aim in doing this is not to supplant non rational-choice accounts and reassert the universality of *homo economicus*. The more modest claim made is that even if for most individuals, most of the time, decisions may not be taken in a way well described as rational choice, this is an appropriate way to understand the decisions of some individuals, some of the time. The evidence collected suggests in particular that individuals do apply such reasoning to important questions such as accumulation or the protection of social asset buffers. In this study factors such as identity, relationships and meaning have been modelled using the concept of social institutions. The message for economics is that an actor who makes only rational choices does not escape the influence of these factors merely by doing so. In the first chapter of *The Anti-Politics Machine*, James Ferguson gives a pyrotechnic account of the myriad interwoven influences on development outcomes in Lesotho (Ferguson 1994). The position taken on economic

¹ See Subsection 2.4.3.

analysis in this thesis is that while the careful examination of choice making can help to explore such complexity, it cannot simply shrug it off.

7.3.2 Market Development Theory

Of all the concepts in the 'concentric' scheme of market theory outlined in Chapter 2, it is the institution which proved most useful in the interpretation of empirical material. The approach of extending the rather narrow definition of institution in terms of rules found in much of the literature enabled richer conceptualisation of real world institutions such as the Kipatimu mission or kinship. This wider understanding of 'institution' includes rules, a structure of individuals to whom rules may apply differentially, resources whose allocation is controlled by the institution, the historically antecedent institutions and other institutions with which there is interaction. While no single conception of 'institution' from the literature reviewed in Chapter 2 proved sufficient, a number of them proved useful in analysing particular aspects of the study data. For example Aoki's (2007) idea of interlocking institutions could help interpret the interaction of gender, family and state rules. The importance of past institutions observed by Greif (2006) shed light on the effect which past rules concerning religion or business could have on present expectations.

The review of literature discussed a number of areas that have become central in attempts to understand rural private sector development in recent years. These include the question of how market coordination moves beyond face to face spot transactions in the absence of formal contract enforcement; how trust is sustained in environments characterised by uncertainty and rewards for opportunism; and the significance of 'traditional' non-market forms of coordination for market development. The analysis of how transactions are sustained in Chapter 5 showed that, far from representing an obstacle to market functioning, such non-market institutions play an important role in enforcing agreements, dealing with uncertainty and enabling credible commitment. Chapter 6 qualified this interpretation of the role of social institutions by considering the need for entrepreneurs to manage their disadvantages for business and accumulation.

As discussed above in answering the second research question, the theoretical view adopted in this study does not oppose 'embedded' with 'market' coordination. Rather it follows Granovetter (1985) in accepting that all economic activity is socially embedded. The interesting question then is how the form of embeddedness can change so that the coordination of economic activity more closely resembles what is normally described as that produced by a market. The aim of this study then, was not to evaluate the desirability or otherwise of socially embedded coordination. The central motivations were rather to find out whether and how more market-like forms of embeddedness were likely to emerge; to assess the possible benefits of this change for growth and employment; and to consider the influence of state provided infrastructure and institutions on this process.

Along with the study's enhanced definition of institution, the way that individuals subject to their rules were modelled was broadened beyond the usual economic characteristics to include asset ownership, abilities, role in institutional structures and history of conformity or default with institutional rules. This differentiation between individuals in applying the concept of social institution is perhaps the most distinctive theoretical innovation made in this thesis¹. It certainly plays an indispensable role in the model used to analyse business strategies in Chapters 5 and 6.

Two elements, individuals and institutions, were combined in the BRAN model that was used for most of the theoretical analysis of data. The aim of this model was to help understand how the making and enforcement of voluntary agreements is affected by the prior existence of involuntary obligations imposed by social institutions.

The outcomes predicted by the model depended upon the characteristics of the two individuals involved. As each individual's set of characteristics is likely to be unique within any set of possible transaction partners it seems reasonable to adopt the term 'institutional identity' as a shorthand for an individual's set of characteristics within the BRAN model. That is: the individual's role in each social institution; their history of conformity or non-conformity with institutional

¹ See page 49.

rules; their abilities and their assets. In my view this idea of institutional identity, closely related to social institutions, offers a number of advantages.

Defined in this way for example, the methods used by individuals to deal with demands that were discussed in Chapter 6 can be understood as strategic attempts at institutional identity adjustment. The word 'attempts' here is significant because it implies that institutional identities cannot always be totally refashioned. This is one advantage of an institutionally based view of individual identity. A person cannot retrospectively change their history of conformity or non-conformity with institutional rules. They are also unlikely to be able to change their current institutional role unilaterally as this is dependent upon the perceptions of other individuals about the rules that apply to them. Furthermore, even if change is possible, this may only be to new institutional identities with patterns of characteristics conforming to a limited number of types. In other words there may only be certain recognised institutional identities in any particular context. To simplify, suppose that a person is identified as an *'unreliable person who rarely attends church'* and finds it difficult to obtain credit because of this. If the role of *'a reliable person who rarely attends church'* is not recognised within local social institutions then they may have little choice but to try and identify as *'a reliable person who regularly attends church'* in order to obtain credit more easily.

The definition of institutional identity suggested here differs sharply from the well known conception of identity by Akerlof and Kranton (2000). That rather essentialist approach, it seems to me, can say little about how different individuals acquire different identities and does not readily admit the kind of strategising over identity described by this study, among others. It might be objected that the concept proposed here is simplistically instrumental. However, as observed above, the definition only allows choice within limits. The understanding of 'institutional identity' used here is, to return again to Granovetter (1985), neither under- nor oversocialised.

By understanding institutional identity as path dependent, not easily changed and variable only within a finite set of types this model captures the power of institutional identity to enable individuals to make credible commitments.

People may be constrained by their institutional identities in an almost contractual way. At the same time the dependence of an individual's institutional identity on the perceptions of other actors about their past behaviour and current obligations emphasises the degree to which institutional identity is socially constructed.

7.3.3 Policy Implications

Some steps that could be taken to promote economic activity in Kipatimu are clear but have large resource requirements which have until now prevented their implementation. For example improvement of the road, electrification and a water supply system.

In the following remarks I concentrate on how policy and other institutional interventions might give better support to emerging market coordination.

Richard Posner's (1998) views on the requirements of a formal legal system to support development noted in Subsection 2.6.1 can be interpreted in terms of the BRAN model. A developed market could be described as existing when the rules of social institutions R have evolved so that punishments D and d no longer vary with the institutional identity of the parties involved. In other words all are equal before the law, where D represents criminal law sanctions and d is contract law sanctions.

Formal institutions should continue to try and provide rules which support the enforcement of voluntarily made agreements, as well as supporting basic property rights. Viewing 'development as freedom', subject to the above proviso the set of rules should be minimised as far as possible. In addition efforts should be made to ensure that the application of institutional rules is truly independent of institutional identity. This may mean for example improving the ability of individuals to appeal to the formal enforcement system without the need for intermediation by family elders.

As discussed in Chapter 2, much writing on institutions has concentrated on their conservative nature in resisting change (Veblen 1909; Hodgson 1998). This might lead to the conclusion that existing social institutions are likely to

represent a barrier to policy as claimed in the Tanzanian case by Hyden (1980). However, the evidence of increasing market coordination, adapting embedded organisation and the strategic avoidance or reshaping of social demands found in this study suggests that change is not only permitted but mediated by institutions.

This is not to say that interventions will not encounter the rigidities described in Chapter 1. Indeed the central message of this thesis for policy is that where poor people are dependent upon the complex patterns of mutual obligation represented by social institutions for their protection against serious loss of well-being, they are unlikely to throw off these patterns rapidly in response to policy changes or development projects¹. This message is tempered by the observation that social institutions do change, although in uneven ways and paces, under the influence of a large number of factors.

Two related policy aims for which these considerations are relevant are on the one hand the promotion of more rapid market development and on the other the support of those who do less well from this development. Both adaptation in institutions and the welfare of those worse off following such change should be promoted by any rise in general levels of living. In particular it seems likely that the provision of either some kind of health insurance and/or universal pension entitlements would have benign effects if feasible. It might be argued that such measures would benefit entrepreneurs disproportionately by lessening their dependence on social asset buffers and even leading them to abandon support for less well off kin entirely. However, this possibility must be set against the observation that the wealthier entrepreneurs were already renegotiating their family relationships to this effect during the study period. Health insurance or state pensions would at least give some fall back position to those who lose out in such renegotiation.

A more general observation for policy arising from the research is to reemphasise the degree to which the concept of small farms and agriculture as the 'backbone' of the Tanzanian, or even the rural economy may well be a poor

¹ In fact where this is ignored, it is the pattern of behaviour introduced by the intervention that may turn out to be more fluid than rigid, whether it be a project or reform of existing formal institutions for example.

guide to intervention planning. The evidence from this study supports the view that both in terms of actual activity and future plans, the roles of rural non-farm business and migration to urban areas may be more important.

7.3.4 Further Research

The analytic narrative research approach was used in this study because precise modelling of hypothesised relationships was not possible in advance of data collection for the reasons discussed already. Having developed a model inductively further opportunities to evaluate it will now be sought. Such evaluation could be carried out by repeating the kind of interpretative analysis used here with data from another context. Although it is not easy to see how this can be done in a satisfactory way at present, it may become feasible in future to operationalise the model variables so as to permit statistical testing using quantitative data.

Eight years have elapsed since the end of the study period in 2001. My immediate research aims concern the changes that have taken place in the study area during this time. The complete household survey should provide a valuable baseline for assessing overall changes among the resident population, although significant attrition is likely among the original cohort of 242 households. The main focus of a return study would once again be on the private sector however, and the degree to which market coordination has continued to develop. The question of how the businesses present in 2001 have fared will clearly be another central area of interest. As described in this thesis, a range of analytical concepts were developed during and following the data collection period which it is to be hoped will be of benefit in carrying out such future investigations in Kipatimu and elsewhere.

A variety of evidence in the current study suggested that migration by individuals to urban areas and the relationship of these migrants with kin members remaining in Kipatimu was important for the strategies of some accumulators and their businesses. The expressed plans of a number of entrepreneurs suggested that migration to Dar es Salaam was likely to become even more important for their businesses. I intend to base part of any future

research exercise in Dar es Salaam in order to study the activities and strategies of these migrants. Related to this a more extensive and thoroughgoing quantitative investigation of farm production, wage labour and remittance receipts in Kipatimu would help understand better the relationship between migrants and non-migrants.

More broadly I am interested in pursuing a programme of research to refine and apply the ideas about institutions and markets developed in this thesis. In particular I will explore further the concept of 'institutional identity' which emerged from the theoretical analysis of data in this study, including its relationship with the large existing literature on 'identity', its relationship to New Institutional theory and its usefulness in future applied work.

Finally, my longer term aim is to attempt to make further contributions to the understanding of strategies that people in poor countries use in the attempt to improve their lives. It is my hope that such understanding may contribute to helpful interventions or at least discourage unhelpful ones.

Appendix 1 The Rural Private Sector

1.1 Enterprise and Poverty

If the arrival of the Poverty Reduction Strategy Paper (PRSP) represented a movement in the development policy agenda away from a narrow focus on economic growth, a number of writers ask why this has been accompanied by an increase in the attention given to the role of the private sector, particularly small and medium enterprises (SMEs)¹.

Kenneth King and Simon McGrath (1999), introducing a set of contributions on African enterprises, cite the increased importance in recent years of flexible production systems featuring smaller economic units in the developed world. They suggest that this could have had an effect on policy advice and donor behaviour through developed country economists involved in these fields. They also point out that this turn towards the private sector in development thinking is consistent with a disillusionment with the role of the African state on the part of academics and a growing preference for bypassing official structures on the part of NGOs and official aid agencies. Their reference to the more general phenomena of globalisation and ideological change is echoed by an Economic Commission for Africa (UNECA) report on private sector development, which picks out in particular the dramatic pro-market changes in Russian policy of the early 1990s as significant events (United Nations Economic Commission for Africa 2005). Some observers take a positive view of the reforms designed to favour the private sector in Tanzania and their effects on growth, but stress the need for an understanding of why the benefits for the poorest have been so meagre (Temu and Due 2000).

Insofar as agriculture remains their primary source of income, the increased availability of consumer goods for the rural poor is a major benefit that may be hoped for under liberalisation (Berthelmy and Morrison 1987). Another channel through which private sector growth might reduce rural poverty is the provision

¹ I follow standard nomenclature in the literature by using 'Small Enterprise' to mean less than 50 employees. Unfortunately there is less agreement on the use of 'Microenterprise'; in this thesis it will mean under 5 employees unless otherwise flagged. Where the 'Micro' category is being used, 'Small' will then mean less than 50 but bigger than 'Micro'. To avoid monotony of expression however, terms such as 'business', 'firm' and 'venture' will also be employed where context suffices to make the meaning clear.

of employment, whether as a supplement or a replacement for farming in an individual's livelihood. In his survey of the available data on African SMEs, Carl Liedholm found that small-scale, 'informal' enterprises accounted for nearly twice the total employment in all formally registered private businesses and the public sector combined (Liedholm 2002).

A long standing puzzle for writers on the African private sector has been the question of the 'missing middle'. That is, the presence in most economies of a relatively small number of large firms alongside a very large number of tiny enterprises, with very few businesses of an intermediate size (Bigsten and Soderbom 2005; Fafchamps and Soderbom 2006). Clearly, if the multitude of microenterprises represent a 'seed bed' for large employers of the future, one would expect at some stage to see more substantial numbers of firms reaching an intermediate size. Micheline Goedhuys has analysed possible reasons for the failure of smaller firms to grow into medium ones, and its implication for employment in the case of Tanzania (Goedhuys 2002).

It has been common to distinguish between involvement in small scale business as being either due to the inadequacies of alternative income sources, such as agriculture, or to the attraction of high returns to entrepreneurship. Paralleling the usage in studies of migration, these motivations are often termed 'push' and 'pull' respectively (Liedholm and McPherson 1994). King and McGrath refine this by including the two dichotomies 'emergent-survivalist' and 'developers-survivors' in their consideration of SME heterogeneity (King and McGrath 1999). Liedholm suggests that such distinctions may be important for intervention design; if one is interested in poverty relief then assistance should be directed at 'survival SMEs', if the aim is firstly to promote growth, then the more productive enterprises should be targeted (Liedholm 2002).

However, in at least one sense the view of Ellis (2004) that the push-pull distinction is largely an unimportant matter of phrasing has surely much to recommend it. The absolute trajectory of agricultural incomes, or of returns to business may be of importance to analysts and policy makers whose primary concern is with, respectively, agricultural development or SME growth. But for

the poor individual making a decision on where to invest their time and resources, and hence for the observer with a primary interest in poverty reduction, regardless of occupational designation, the more important factor is the relative evolution of agricultural and SME incomes. Subtle differences in the way that the push-pull distinction is itself used are perhaps related to such differences of primary focus: an International Food Policy Research Institute policy brief categorises as 'push' any case where people leave farming because of falling returns, reserving 'pull' for the situation where non-farm activity is stimulated by demand from a successful agricultural sector (Islam 1997). Of course, it may be important to understand what is happening to rural incomes in both agricultural and non-agricultural activities. Suppose that one were to take the view, however, that in a certain situation where poor farmers were switching towards microenterprise because of relatively higher earnings, the best response was to try and increase returns to agriculture and thus incentivise a return to the land. Even in such a case, intervention planners would surely be well advised to consider firstly, the possibility that poor people themselves may be better placed in some regards to judge which mix of activities has the best prospects, and secondly, that the task of raising farming incomes may be more difficult in the face of growing disinterest among the poor.

These questions have salience for the people involved, and relevance for possible future trends, where non-farm income earning is a relatively small adjunct to the overwhelmingly agricultural basis of livelihoods among the mass of rural residents. However, their significance may be greater by orders of magnitude if non-farming sources of income in fact constitute a substantial proportion of total rural earnings, and if small enterprise activity, far from being peripheral, is actually central to the livelihoods of a large part of the rural population. In recent years, evidence has been presented suggesting that in much of Sub-Saharan Africa exactly this latter scenario may in fact prevail. A central contribution was the book edited by Deborah Bryceson containing case studies from nine African countries under the title '*A Farewell to Farms*' (Bryceson and Jamal 1997). The chief conclusion of this book, that a process of 'deagrarianisation' was under way in much of rural Africa, was further

supported by the subsequent 'Deagrarianisation and Rural Employment' research programme (Byceson 2002). Elsewhere, similar findings have been described for Thailand (Rigg 2006) and India (Deshingkar, Johnson et al. 2006).

While care should be taken to overstate neither the homogeneity nor the unidirectionality of this trend in Africa (Yaro 2006), the widespread existence of rural livelihood diversification into non-agricultural activity and its significance for policy aimed at poverty reduction appears well established (Reardon 1997; Ellis 2004). In the light of deagrarianisation, the view that improvements in the productivity of, and returns to, small-scale agriculture must be paramount in such policy has been criticised particularly strongly in the case of Tanzania (Bahigwa, Mdoe et al. 2005; Bahigwa, Rigby et al. 2005). However, such views remain widespread and variations on such phrases as 'agriculture is the backbone of the rural economy' perhaps capture the imagery that still informs much thinking on African development (Wanmali and Islam 1997; Reidhead 2001; Shah, Osborne et al. 2002). This seems particularly to be the case at broader levels of analysis. A paper by prominent authors in 2004 gave a sophisticated account of 'Africa's Poverty Trap' but when turning to policy advice its first prescription was based on simpler and perhaps less critical reasoning: "*The first area of interventions focuses on raising rural productivity, because three-quarters of Africa's poor live in rural areas, and an overwhelming percentage are employed in agriculture*" (Sachs, McArthur et al. 2004 p. 149).

To identify rural non-farm business activity as an important component of poor people's livelihoods that is worthy of investigation is not to suggest that agriculture be ignored. Indeed it is likely that the conduct and success of each kind of activity are intimately related (Mwabu and Thorbecke 2004). Similarly, understanding the particular significance of rural location for non-farm ventures is not to imply that urban conditions are irrelevant. In questioning the extent to which 'rural livelihoods' can be usefully analysed at all without taking account of rural-urban interdependencies, the current study in fact joins other writers in supporting the opposite view (Bigsten 1996; Bahigwa, Mdoe et al. 2005).

Whether couched in terms of market interdependence (Zaal and Oostendorp 2002; Tiffen 2003; Simon, McGregor et al. 2004), studies of migration (Beauchemin and Bocquier 2004; de Haan and Zoomers 2005) or the social relationships in which activities are embedded (Geschiere and Gugler 1998; Englund 2002), the mutual importance of urban and rural economies appears clear.

Such market integration considerations are reflected in this study's concern with microenterprises in terms of their relationship to economic organisation and efficiency. Several writers on the African private sector stress the importance of exporting for firms to overcome the barrier of limited domestic markets (Manu 1999; Bigsten and Soderbom 2005). Clearly, foreign sales are well beyond the horizons of most of the tiny rural businesses that are discussed in this thesis. However, the existence of multiple rural-urban trading links suggests that such small enterprises may have a role at least in the distribution of gains from overseas trade to benefit the rural poor. Beyond this, we can note that production by exporting firms at internationally competitive cost does not take place in a vacuum. It may be that rural private enterprise growth, involving amongst other things the increasing use of market coordination and the development of its supporting institutions, can contribute to the emergence of a nationally integrated economy, lowering costs for front-line exporters.

1.2 Survey Data on Small Enterprises in Africa

One source of information on the contribution of small enterprises to rural people's welfare, and the factors that may affect the growth and efficiency of these enterprises, is a group of large-scale surveys on the private sector carried out in a number of countries since 1990. Following a brief description of these exercises I summarize findings most relevant to the current study on the size-distribution, growth, performance and earnings of enterprises.

Between 1990 and 1992, surveys covering over 43,000 enterprises in seven Southern and East African countries were conducted as part of a USAID study entitled 'Growth and Equity through Microenterprise Investment and Institutions' (GEMINI) (Liedholm and Mead 1993). As well as this, various surveys have

been carried out with World Bank involvement (Bigsten and Soderbom 2005). From 1991 to 1995, the Regional Programme on Enterprise Development (RPED) collected panel data from around 200 firms in each of eight African countries, including Tanzania. These were followed by the Investment Climate (IC) surveys and the World Business Environment Survey (WBES) continuing into the 2000s, involving 17 Sub-Saharan African countries including Tanzania.

An important point to bear in mind when interpreting this body of evidence is that while the GEMINI and WBES exercises covered small enterprises in general, the RPED and IC surveys were concerned only with manufacturing firms. As will be seen in the presentation of research data to follow, there are significant business ventures of both manufacturing and non-manufacturing types involving people in the study area of this thesis. The analysis will attempt to throw light on the importance or otherwise of the distinction between these types of activities for income generation, enterprise growth and the wider issue of how market coordination may be developing.

The GEMINI data indicate that between 47 percent and 79 percent of MSEs (Micro and Small Enterprises) in the countries surveyed are single person activities. On average, 78 percent of employment in such enterprises takes place in rural areas. Women owned 48 percent of all firms covered in the surveys. Between 20 percent and 40 percent of all rural households had a member running a microenterprise of some sort and such businesses employed from 17 percent to 27 percent of the working age population. In rural areas, the proportion of all activities accounted for by manufacturing and commerce exceeded 90 percent in all countries except Zimbabwe, with 81 percent. Within these two types of activity, the distribution of firms was quite heterogeneous, with the proportion engaged in commerce ranging from 16 percent in Zimbabwe to 66 percent in Kenya.

For Tanzania, WBES reports that 98 percent of MSEs are in the microenterprise range of under 5 employees¹ and that 60 percent are situated in rural areas. Trade is the main activity for 54 percent of these businesses while 34 percent are categorised as providing services. This data appear

¹ See the first footnote in this section. The WBES terminology differs slightly from that of GEMINI.

consistent with the GEMINI surveys in suggesting a size distribution heavily skewed towards enterprises involving one, or a handful of people, a very substantial proportion of non-urban businesses and an important role for activities other than manufacture.

On growth, less than a fifth of all startups in the GEMINI dataset surviving for more than 5 years grow at all in terms of employment according to Mead (1999). Furthermore, and also of direct relevance to the range of activities examined in the present study, he concludes that growth by increased employment 'has overwhelmingly been the exception' (p.63 op cit) for firms that begin as single person ventures.

Expansion is highly concentrated in a minority of successful firms. Although more than two thirds of all MSEs in the GEMINI study did not grow at all in employment terms, the mean rate of employment growth was almost 14 percent per annum (Liedholm 2002)¹. This unevenness of growth rates is compounded by the high incidence of enterprise failure: for Tanzania more than 60 percent of new enterprises had exited within five years.

Turning to the correlates of growth found in these surveys, Liedholm's econometric analysis found significant positive coefficients for dummies representing male ownership, location near roads or in commercial districts and participation in either manufacturing or service activity, as opposed to trading. Rural location on the other hand, was associated with lower rates of growth (Liedholm 2002). Although only based on RPED evidence from another, non-African country, the Dominican Republic, the observation by Liedholm that less than half of enterprise closures were associated with 'business failure' in the usual sense, but rather with personal or institutional causes is salient enough to mention here.

The RPED data of course deal only with the manufacturing firms which appear from the broader based work to be a faster growing group. Among this category of enterprises, growth rates are also very varied, with investment often characterised by indivisibilities and a majority of firms not investing at all in any

¹ I quote Liedholm's compound rate here as it is surely more meaningful than the larger simple rate of 16.7%.

given year, paralleling the features of employment growth that emerged from GEMINI (Bigsten, Collier et al. 1999). Again, just as among enterprises in general, where manufacturing firms exited there was only a weak link with low productivity. The RPED data did reveal also an association between ethnicity and growth rates; on average firms controlled by entrepreneurs of Asian or European origin grew significantly faster than those operated by indigenous Africans (Ramachandran and Shah 1999).

Findings on performance and earnings for manufacturing firms are also of relevance to the current study. Bigsten and Soderbom described great variability in performance, within as well as between countries; profit to capital ratios ranged from four times below to four times above the median level (Bigsten and Soderbom 2005). Table A1.1 gives some statistics on investment and profit rates from this dataset. Mean values are shown, and the skewness of the investment rate distribution is apparent if one considers that the *median* investment rate for firms in all countries excluding Uganda was virtually zero¹.

	Investment Rate	Return to Capital
Cameroon	0.11	1.36
Ghana	0.13	3.63
Kenya	0.11	1.82
Uganda	0.12	0.75
Zimbabwe	0.12	0.85
Belgium	0.13	0.18
France	0.11	0.12
Germany	0.12	0.16
UK	0.12	0.13

source: reproduced from (Bigsten, Collier et al. 1999; Bigsten and Soderbom 2005).

Investment Rate is defined as Investment/Lagged Fixed Capital, Return to Capital is Profit/Fixed Capital

Values shown are means for all firms in the three years 1992/3 to 1994/5.

Table A1.1 Comparison of Rates of Investment and Return to Capital in Europe and Africa

The contrast between the similarity of investment rates in both African and European firms and the dissimilarity in rates of return to capital is striking. The

¹ 0.007 for all countries excluding Uganda and actually zero in Cameroon and Kenya (Bigsten, Collier et al. 1999)

rates of return are both higher and more dispersed in the African enterprises. Bigsten and Soderbom cite the higher uncertainty of doing business in Africa as likely to be a major factor increasing required returns to capital. In addition, they interpret the fact that most firms do not invest at all each year as consistent with minimum investment thresholds caused by the irreversible nature of some investments and unavoidable one-off costs of increasing operational scale. Both phenomena, along with these and alternative explanations, will feature in the examination of material gathered for this study.

On the side of the costs of and rewards to labour, there is a clear association between productivity and wage rates for the manufacturing firms in the RPED dataset. However, although there is also a strong positive relationship between labour costs and size, the evidence from Ghana at least does not suggest any such connection between labour productivity and size (Söderbom and Teal 2004). In considering the issue of employment at the microenterprise level that typifies firms on which data were gathered for this thesis, a number of institutional considerations may help us understand this apparent puzzle. As firms' employment level moves through the relevant scale for such enterprises from one to nine workers, the GEMINI data covering both manufacturing and non-manufacturing firms suggest clear efficiency gains, though these are not discernable beyond this size range (Liedholm 2002). Of course, this only sharpens the problem of explaining why such expansion of employment seems so very rare in the smallest rural businesses.

Finally, we have noted above the widespread involvement of rural residents in MSEs suggested by this dataset. The GEMINI results also bring out the importance of this involvement for those residents; income gained from the enterprise accounted for over half of total household income for two-thirds of those households with at least one member running such a business venture (Mead 1999).

1.3 The Formal Institutional Context for Rural Business

In analysing the environment for private sector business in contemporary Tanzania, Temu and Due conclude that the overall impact of liberalisation has

been positive. However, a key reservation is that financial services for the small businesses and rural areas have not developed sufficiently (Temu and Due 2000). Blanc reports in his work on the Tanzanian RPED data that finance is a binding constraint on the growth of small enterprises (1997).

Machiko Nissanke considers two possible reasons for such shortcomings in Africa's formal financial institutions (Nissanke 2001). One is the legacy of policies adopted in many countries after independence designed to channel credit to investors at below market rates, with varying degrees of rationing to favour politically identified recipients. Under such policies of 'financial repression', banks and other lending institutions did not have sufficient need to develop methods of selecting and monitoring borrowers. After liberalisation, these institutions were thus ill-placed to expand their services to previously neglected sectors. The second possibility is that higher costs intrinsic to dealing with the MSE sector would constrain formal bank involvement in that sector even in the absence of unfavourable policy. This is due to several effects, two of which are related to the increased difficulty of obtaining information on smaller borrowers. Information costliness makes the screening of loan applicants more expensive; it also makes it more difficult to arrange loans on the basis of 'state-contingent' contracts, the importance of which will become clear in the analysis to follow for the context of this study. Additionally, uncertain property rights at the MSE scale increase the difficulty of providing acceptable loan collateral, an issue which is clearly of particular relevance in rural areas in relation to land ownership systems and the effectiveness of legal services such as courts and police.

This discussion begs the question of how far rural MSEs are, in fact, constrained by lack of credit. According to Biggs and Shah (2003), the large majority of rural firms at the very small end of the size distribution that most concerns this thesis obtain their start-up capital from personal savings or as loans from family and friends, rather than from formal financial institutions¹. Of course this could indicate either that the shortcomings of such institutions are of little relevance to the development of this sector of enterprises or that they

¹ Biggs and Shah base their observations upon RPED survey data.

force it into an informal method of financing which has had deep and persistent consequences. A way to try and assess the degree of credit constraint, if any, which may have affected small firms is to look at reinvestment levels. If enterprises do face viable investment opportunities but are also held back by finance availability, then investment should be positively related to profits. Although only covering manufacturing firms, a measure of this can be gained from analysis of the RPED data which shows that although a significant relationship exists, the size of the effect is weak, with firms investing on average only between 6 and 10 cents of an extra dollar made in profit (Bigsten, Collier et al. 1999).

In surveys, African entrepreneurs report that finance availability is the most important constraint in expanding their businesses (Batra, Kaufmann et al. 2003)¹. Though Tanzanian business people seem to conform to this pattern, only a small minority of rural MSE owners ever actually apply for formal sector loans (Blanc 1997). Again, it is difficult to draw firm conclusions from this without further evidence. Failure to apply could be caused by lack of sufficient business opportunities and hence of demand for loans; alternatively entrepreneurs running small ventures with little to offer as collateral beyond an unregistered claim to a village plot may not apply in the expectation that they are likely to face refusal, particularly if there are significant up-front costs to application in the form of time and travel.

The most recent national household survey gives the following data on the highest level of education reached by Tanzanians now of working age: 53.8 percent of Tanzanians in the age range 15 to 64 years have completed primary education; only 4.6 percent have completed secondary education and just 0.4 percent have a university degree. If we restrict our attention to rural areas, the corresponding figures are 52.5 percent, 2.2 percent and 0.1 percent respectively (all figures from United Republic of Tanzania 2002). In comparison, RPED data for Tanzania show that among all owners of manufacturing microenterprises, the proportions having attained each of these educational levels are respectively 48.5 percent, 32.0 percent and 6.2 percent

¹ Based on WBES surveys which, as discussed previously, cover both manufacturing and non-manufacturing firms.

(Biggs and Shah 2003). The higher level of formal education received by entrepreneurs in comparison to the general population is clear, as is the location of this advantage at the secondary and tertiary levels, rather than the primary. This pattern is consistent with surveys covering both manufacturing and non-manufacturing enterprises which suggest that the positive association between education and MSE success is considerably stronger at these later stages of attainment (Mead 1999). Of course the precise causality that underlies any such association may be neither straight-forward nor easily demonstrated. This issue is related to broader debates on the contribution of education to economic activity, such as the degree to which formal schooling functions as a way to increase human ability, to screen for existing aptitude or to support a credentialist labour market (good examples include Boissiere, Knight et al. 1985 (based on a comparison of Kenya and Tanzania); Smit and Siphambe 1999; Glewwe 2002; Chevalier, Harmon et al. 2004) . The following are among the multiple possible causal channels between formal educational level and entrepreneurship discussed in this literature: education could make people into better entrepreneurs, a 'human capital' explanation; those with greater aptitude or inclination for business could also do better at school, a 'screening' hypothesis; those who can show that they have reached a certain level of education may find it easier to establish business connections of various kinds, a 'credentialist' explanation; or education may simply make people more attracted to a business-based livelihood, an 'endogenous preferences' explanation particularly awkward for traditional microeconomic analysis.

Whatever the precise nature of the interaction between formal education and enterprise, the fact that this relationship seems to be stronger at higher levels of the former indicates that rural-urban differences in the outcome of this interaction are likely to be significant; as the figures given above show, it is precisely at these higher levels that the disadvantage of rural Tanzania is clearest.

Such data, however, only relate education to the success experienced by those who choose to enter business. If the effect of education upon this choice itself

is not accounted for, conclusions may well be subject to selection bias. The meta-analysis by Justin van der Sluis et. al. (2005) of studies into the effect of education upon developing country entrepreneurship found that only 19 percent of the surveyed studies addressed this issue. In summarising findings on entrepreneur selection, the same authors describe a pattern which implies a further rural-urban distinction. It appears that in a context where the main alternative to non-farm business activity is formal employment, a higher level of education is associated with a lower probability of being an entrepreneur. On the other hand, if the main alternative activity is agriculture, more education increases the likelihood of entry into the non-farm enterprise sector. Clearly, the latter scenario would appear to be the more likely in a rural setting.

As recently as 1984, Basil Mramba, a former head of the Small Industry Development Organisation (SIDO) in Tanzania wrote that *“Collective and public entrepreneurship will be the central focus as individual private enterprise is thought undesirable for the rural areas”* (Mramba 1984:37). Twenty-one years later, as finance minister, Mramba was declaring his government’s successful record of privatisation and encouraging the private sector in an IMF journal (Mramba 2005). The case of one such prominent individual can serve as emblem for the journey of the Tanzanian state during the reform period. According to some sources though, change has been neither uniform nor complete. Temu and Due (2000) point out on the one hand that prior to liberalisation, civil servants who were supposed to be suppressing the private sector actually had to take part in business activity themselves because their own wages were insufficient for survival. On the other hand, they observe that post-liberalisation the limited understanding of, and cultural bias against, the private sector on the part of the bureaucracy have worked against its provision of a more enabling environment for business. While these two statements, a few paragraphs apart, may appear to be in partial contradiction, they do serve to bring out some of the ambiguities and resistance to change in the state’s relation to private enterprise. It is also pertinent to the kind of institutional analysis to follow to note how in this case an entity can at the organisational level seem to follow a particular set of rules, while simultaneously many of its members act individually in accordance with directly opposing principles:

further, that even during such a period of apparent contradiction, a sufficiently strong institutional culture is built up to ensure that when the formal rules are changed, the behaviour of the organisation continues in substantial ways to adhere to former habits.

Perhaps the most important ways in which the state directly impinges on private business are registration, taxation and regulation. Here the evidence from large scale studies appears mixed. Analysing WBES data, Batra and Kaufman report that taxation and regulation costs were negatively correlated with both sales growth and investment (Batra, Kaufmann et al. 2003). However, they also state that these issues, aside from the related area of 'corruption' did not feature in the primary concerns as expressed by interviewed CEOs. Similarly, entrepreneurs covered by the GEMINI study rarely cited tax and regulation as being among their principal impediments (Liedholm 2002). In Tanzania at least the highly uneven distribution of the taxation burden on businesses plays some part in explaining these findings. Table A1.2 gives a breakdown of central government taxation receipts by type of tax for selected regions for the most recent year available, 2004/5. As can be seen, revenues are highly concentrated in urban areas, with over 80 percent of receipts deriving from the Dar es Salaam region. The contribution of the poorer, predominantly rural regions is almost negligible. Lindi region, where the study area is situated, had the lowest tax receipts in 2004/5, though in per capita terms it was slightly above Singida in the penultimate position. The most pronounced characteristic of the regions collecting the lowest amounts is a considerably smaller role for international taxes. In terms of the tax burden on the individual citizen, the contrast between the mean payment of more than 1000 dollars by a Dar es Salaam resident and the one and a half dollars paid on average in Lindi is clear¹.

¹ All monetary values in this discussion of taxes have been adjusted to 2005 TShilings using the Tanzanian CPI and converted to US dollar equivalents using a PPP rate of 488.66 (World Bank 2006b)

	Region					
	DSM	Arusha	Kagera	Rukwa	Singida	Lindi
direct taxes	1320.19	48.19	7.56	1.54	1.10	0.85
indirect taxes	790.22	33.29	3.09	0.52	0.51	0.34
international taxes	719.70	24.00	4.47	0.55	0.05	0.06
total taxes	2830.10	105.47	15.12	2.61	1.66	1.25
population	2497940	2333434	2033888	1141743	1090758	791306
*per capita total						
taxes	1132.97	45.20	7.44	2.29	1.53	1.58
% of national						
taxation	82.14	3.06	0.44	0.08	0.05	0.04
rank out of 20	1	2	10	18	19	20
<i>tax composition(%)</i>						
direct	46.65	45.69	50.00	58.91	65.94	67.93
indirect	27.92	31.56	20.45	19.91	30.84	27.51
international	25.43	22.75	29.54	21.18	3.22	4.56
total	100.00	100.00	100.00	100.00	100.00	100.00

source: data from TRA (Tanzania Revenue Authority 2006) regional summaries and author's calculations.

monetary values all in US\$m except *US\$ converted at PPP rate of 488.66 (World Bank 2006b)

direct taxes include income tax and corporation tax; indirect taxes include VAT and internal excise; international tax includes duty, excise, VAT on imports; population as 2002 census; DSM is Dar es Salaam

Table A1.2 Distribution of Tax Revenues in Tanzania 2004/5

As these figures only apply to national taxes collected by the Tanzania Revenue Agency, consideration must also be given to locally levied revenues. Prior to 2003, the regulatory environment within which local authorities set taxes has been described as 'permissive', leading to great heterogeneity between regions and shortcomings in the central collection of data on local tax receipts (Tanzania 2005). However, following reform of the local taxation system in 2003 when a more uniform system was imposed and several taxes abolished, a more systematic review of receipts has been undertaken. According to this review, mean per capita local taxes paid by urban residents in 2003 were almost US\$6.10 while the figure for rural areas was just below US\$1.60 (Tanzania 2004). The figure for Dar es Salaam was just over US\$22.20 while Lindi residents paid on average US\$2.03.

Combined with national government taxation then, it would appear that total taxation per capita in Lindi region is of the order of four dollars or less a year. As, in addition, only around 35 percent of national revenue (Tanzania Revenue Authority 2006) and 14 percent of local revenue (Fjeldstad 1995) derive from sources that can broadly be thought of as substantially 'business' taxes it would

appear that this level of payments is only likely to be a serious impediment to private sector development given sufficient concentration on a small subset of the population. The evidence already discussed that non-farm enterprise is widespread among rural households would suggest that this is unlikely if the burden of business taxation is distributed evenly across all such enterprises. However, if taxation affects dynamic firms more severely than the large majority that expand slowly if at all, this may explain why it can have a significant effect on overall growth measures while not featuring among the top concerns of the average business owner.

Insofar as the formal environment for business has unfavourable features, one strategy which firms can adopt to mitigate their impact is to operate outside of the formal sector. Since the term 'informal sector' first entered usage (Hart 1970; International Labour 1972; Hart 1973) it has achieved very widespread currency in the discourse of public policy making, multilateral organisations and development NGOs. Although it has also featured in a great deal of academic literature, inconsistencies in its use remain significant (Gërkhani 2004). In particular, the term is used both to discriminate between degrees of compliance with enterprise registration and regulation requirements and to denote the smaller scale, more labour intensive operations in an economy. Mead and Morrison (1996) show that variation in these four dimensions does not map in any simple or uniform way onto the sets of actual businesses that are commonly characterised as 'informal' in different times and places. For example, if one examines the actual firms described as comprising 'the informal sector', in one country this may include firms that are registered with the authorities but which pay few of the business taxes which are theoretically due; in another country it may include firms that comply with most regulations and taxation requirements but are largely unregistered. Because of the difficulties that this ambiguity of usage may present for comparison, even if implicit, with other contexts, the concept 'informal enterprise' is rarely invoked in this thesis. Where such terminology is used, it should be understood here to

refer purely to the registration status of an enterprise, rather than its size, choice of technique, conformity to regulatory rules or other characteristics¹.

1.4 Rural Business Issues And Strategies

A number of problems facing rural firms reoccur throughout the MSE literature, along with the strategies adopted by entrepreneurs to deal with them given the formal institutional conditions discussed above. The treatment of some of the more important of these themes in this literature will be noted here. In the following section some approaches used by institutional economics in understanding the same issues will be discussed.

Authors commonly emphasise two aspects of risk which pose a double challenge to rural businesses in the developing world. Not only are the degree of risk generally higher and its incidence more widespread in such contexts; many of the methods used by firms in urban and developed economies to manage risk are either less well functioning or simply unavailable (Fafchamps 2004b). Private investment rates appear to be very low in Africa, whether at the indigenously owned MSE scale or in terms of foreign investment flows. The coexistence of this fact with the presence of significantly higher returns to capital relative to other regions noted above in Table A1.1 is a question that receives much attention in the literature. As a contributing factor, the irreversibility of many African investments because of underdeveloped secondary markets in capital goods is identified by Darku in his work on Uganda (2001). More generally, a high level of uncertainty with causes such as macroeconomic instability, infrastructural weakness, contract enforcement difficulties and corruption is linked to the greater rates of returns required by investment in Africa by the cross country work of Bhattacharya, Montiel et al. and Bigsten, Collier et al. (1997; 1999 respectively).

Another frequently discussed set of problems concern the difficulty of organising business interactions by contractual agreement. There is some overlap with the area of risk here and once again the impact on enterprises is twofold. Greater uncertainty, along with more costly and asymmetric

¹ However, the distinction between formal and informal institutions is important and frequently used in the thesis.

information, complicates contract design ex-ante; the poor functioning of formal institutions which support property rights in other settings makes contract enforcement harder ex-post (Fafchamps 2004a; World Bank 2005 on Tanzania).

Closely related to these contractual issues is the broader question of 'trust'. The usage of this term is discussed in some detail in Section 2.7 of Chapter 2 as it appears to be rather inconsistent in the literature. Be this as it may, the term is associated with several important issues and is frequently invoked (King and McGrath 1999). In McCormick's study of African enterprise clusters, a key question is the success of such groupings in promoting trust (1998). Most often, trust is seen as sustained by social or business relationship networks (Liedholm 2002; McDade and Spring 2005).

'More trust' sounds like a desirable state for enterprise growth. However, the association of trust with specific networks in the MSE literature makes it clear that we need to ask *who* is trusting *whom*, and on *what terms*? In this discussion, the tradeoffs and potential rigidities referred to in the introductory chapter emerge. Where entrepreneurs need to rely upon a fairly fixed network of regular contacts to develop trust and mitigate risk, there may be a cost in terms of their ability to exploit opportunities associated with wider, more diverse networks (Barr 1999; Pedersen 1999). So while trust in networks can compensate to some degree for the shortcomings of formal institutions, this may occur at the expense of larger scale economic integration (Murphy 2002 on Tanzania; Bigsten and Soderbom 2005).

An easily observed and much mentioned case of the role of social networks in African business is the strong presence in some business sectors of minority ethnic groups (Ramachandran and Shah 1999; United Nations Economic Commission for Africa 2005). According to Quarles van Uffor and Zaal (2004), the ability of ethnic networks to produce trust has a strong influence on the market structure of both West and East African trading sectors in their study. Lyons (2000a) documents the creation of trust in Ghana among a wider class of networks, including relationships with customers and market intermediaries. A challenge for the institutional analysis to follow is firstly to understand both

how such networks can assist enterprise and how they themselves are created and sustained in the context of weak formal institutions. Secondly, this understanding must be used to examine the likelihood of path dependent rigidities in the evolution of the rural Tanzanian private sector.

1.5 Methodological Implications for Study of the Rural Private Sector

The large scale data collection exercises considered in this section have gathered two kinds of evidence on African private enterprise. There have been quantitative surveys such as the RPED exercises, including both cross sectional and panel designs. These have increasingly been supplemented by attempts to record “the voices of firms” (Batra, Kaufmann et al. 2003) such as the World Business Environment Survey programme already described.

The quantitative data have given us a broad view of the size and shape of the African private sector. It has also uncovered patterns that appear to relate firm level variables such as investment, employee numbers and growth, with environment variables such as taxation, macroeconomic stability and the formal financial system. However, with the great heterogeneity of outcomes within, as well as between, individual countries, as well as the presence of puzzles such as the “missing middle”, the view afforded by this quantitative data alone remains far from a fully determined system. Although economics in particular is happier with revealed rather than stated inner states, in order to discover more about the causality underlying patterns in private sector development it has been necessary to ask entrepreneurs directly about their perceptions of the business environment and its impact on their choices. This exercise in turn has shown distinct regularities in such relationships as that between reported obstacles to firm growth and enterprise size. Despite the fact that such material is more clearly of a subjective nature than quantitative survey information, it has been possible to validate some of the findings where there is overlap with relationships in the quantitative data (Batra, Kaufmann et al. 2003).

Unfortunately, many of the concerns reported by entrepreneurs do not directly relate to concepts captured by the quantitative surveys. This is particularly true

in regard to the questions of shortcomings in the formal institutional environment for business and the compensatory strategies adopted by entrepreneurs. Unless one is prepared to accept the use of rather heroic proxies such as population density to represent network size (Wahba and Zenou 2005) or number of languages spoken to represent 'social capital' (Collier and Gunning 1999), it is difficult to glean much from quantitative business surveys about the roles of information obtained through personal contacts, trust extended on the basis of common ethnicity or employment terms partly dependent upon cultural expectations.

At this stage, it seems fair to claim that at least as much has been learned from case studies about the specific nature of conditions faced by African MSE owners and the way that they respond to these conditions, as from large scale surveys. The approaches can be complimentary; the detailed focus of a case study can help interpret patterns thrown up in survey work; in turn, subsequent surveys can use case study findings to design data collection instruments to better capture, for example, institutional characteristics of the formal business environment. Such a combination of case study and survey approaches is evident in current World Bank research on private sector development (World Bank 2006a).

Another methodological problem is posed by the hypothesised importance for business of both formal and informal institutions. If regulation and taxation are indeed barriers which firms often seek to avoid, in part or entirely, then as King and McGrath have it, "Studying the SME sector is often a matter of researching the hidden, because those being studied are often reluctant to be opened up to the gaze of the state." (1999:11). This is all the more likely to be the case in Tanzania, with its history of especially strong private sector suppression, where the entrepreneurial class is emerging from a recent past in which "Hiding transactions, non-compliance with government directives, evading tax, and bribing to get licences and permits became pre-requisite skills to do business" (Temu and Due 2000:685). Clearly, there is no obvious basis upon which to make the assumption that an entrepreneur who is concealing business information from a variety of state agents will gladly offer up this same

information, upon which the well-being of themselves and their children may depend, to a researcher. Equally it seems reasonable to suppose that, if firms do indeed rely on long-term relationships with specific networks for matters such as information exchange and contract enforcement upon which their vital interests lie, it is not inevitable that they will casually disclose details of these arrangements to non-network members.

In researching the MSE sector then, the validity of data generated must be subject to particularly careful examination. In the current thesis the discussion of methodology in Chapter 3 incorporates these concerns.

Kaya { Household } Saa { Time } Tarehe { Date }

D1 Basic Demographic Information

1 Kuhusu Wakazi wa Kawaida { About those Normally Resident }

1	2	3	4	5	6	7	8	9
na.	Jina	Jinsia	Umri	Uhusiano na Mkuu wa Kaya	Hali ya Ndoa	Elimu	Dini	Mwajiriwa wa Kulipwa?
1	Name	Sex	Age	Relation to Head of Household	Marital Status	Education	Religion	Has Paid Employment?
2								
3								
4								
5								
6								
7								
8								
9	<p>IMPORTANT: Names, like any other information that may identify individuals are confidential and will not be divulged.</p>	<p>Male = 1 Female = 2</p>	<p>Years: <=1 use months 4 = 0.04 11 = 0.11 etc.</p>	<p>Him/herself = 1 Spouse = 2 Male child = 3 Female child = 4 Parent = 5 Other relative = 6</p>	<p>Unmarried = 1 Married = 2 Widow(er) = 3 Divorced/ Separated = 4</p>	<p>Level: pre-sch = A primary = D1, D2, ... sec = K1, K2, ... Diploma = St1, St2, ...</p>	<p>Muslim = I Christian = C Other = N None = H</p>	<p>Formal = R Informal = I None = H Retired = S</p>
10								
11								
12								
13								
14								
15								
16								
379	<p>MUHIMU: Majina, kama maelezo yo yote mengine yatakayoweza kutambulika yanahusu mtu gani, ni siri na yatahifadhiwa.</p>	<p>Mme=1 Mke= 2</p>	<p>Miaka: <=1 tumia miezi 4 = 0.04 11= 0.11 nk.</p>	<p>Mwenyewe = 1 Mke/ Mume = 2 Mtoto/me = 3 Mtoto/ke = 4 Mzazi = 5 Ndugu wengine= 6 Mfanyakazi wa Nyumba = 7 Bila uhusiano = 8</p>	<p>Hajaoa/olewa = 1 Ameoa/olewa = 2 Mjane = 3 Kutalikwa/ tengana = 4</p>	<p>Kiwangu: Awali = A Msingi = D1, D2, ... Sek = K1, K2, ... Stashahada = St1, St2, .. Shahada = S1, S2, ...</p>	<p>Mwislamu = I Mchristo = C Nyingine = N Hana = H</p>	<p>Rasmi = R Isio Rasimi = I Hana = H Staafu = S</p>
	<p>Note: English translations have been added for thesis</p>							

Appendix 2 Questionnaire for Main Household Survey (page 2 of 4)

Kaya Saa Tarehe A1 Activity and Change

1. Shuguli za kiuchumi za wakazi wa kaya { economic activities of household } { start here Anza hapa }

			1997	1998	1999	2000	2001
1	Mazao	Mpunga					
2		Mahindi					
3		Muhogo					
4		Mtama					
5		Mboga					
6		Maharage/Kunde					
7		Machungwa					
8		Nazi					
9		Ufuta					
10		Karanga					
11		Korosho					
12		Bustani					
13		Mengine (andika)					
14		Mengine (andika)					
15	Mifugo	Kuku/ kanga					
16		Mbuzi/ kondoo					
17		Ng'ombe					
18		Nyingine (andika)					
19	Ukusanyaji/	Kuni, maji, kuni, makuti n.k.					
20	Uwindaji	Kuwindia					
21		Nyingine (andika)					
22	Utengenezaji/	Pombe					
23	Urekebishaji	Kusaga					
24		Nguo/ viatu					
25		Vitu vidogo k.v.saa/ redio					
26		Vitu vya nyumba					
27		Vifaa vya kazi					
28		Vyombo k.v. baisikeli, gari					
29		Ujenzi					
30		Vitu vingine (andika)					
31	Biashara	Duka					
32		Kuza sokoni					
33		Migahawa/ chipsi n.k					
34		Kusaidia katika uuzaji- Dalali					
35		Nyingine (andika)					
36	Uchukuzi	Ubebaji kutoka kijiji					
37		Ubebaji kuingia kijiji					
38		Kupangia/ agiza ubebaji					
39		Nyingine (andika)					
40	Ajira	Serikali/ Chama/ Shirika/ Dini n.k.					
41	ihusayo	Mtu binafsi mkazi wa kata/ eneo					
42	Kilimo/ Mifugo	Mtu binafsi asiye mkazi wa hapa					
43		Nyingine (andika)					
44	Ajira	Serikali/ Chama/ Shirika/ Dini n.k.					
45	isiyohusa	Mtu binafsi mkazi wa kata/ eneo					
46	Kilimo/ Mifugo	Mtu binafsi asiye mkazi wa hapa					
47		Nyingine (andika)					
48	Huduma	Mganga/ mwanadini wa kienyeji					
49		Sanaa					
50		Nyingine (andika)					
51	Kazi Nyingine	(andika)					
52		(andika)					
53		(andika)					
54		(andika)					

[rows 1-14] Crops:
rice, maize, cassava, millet,
pumpkin, beans/peas, oranges,
coconuts, sesame, peanuts,
cashews, other veg/salad,
other (write down) x 2

[rows 15-18] Livestock:
chicken/guinea fowl, goats/sheep,
cows, other (write down)

[rows 19-21] Gathering/Hunting:
wood, water, palm leaves, etc.,
hunting

[rows 22-30] Manufacture/Repair:
palm wine, milling, clothes/shoes,
small items like watches/radios,
household goods, vehicles like
bikes/cars, building

[rows 31-35] Business:
shop, market selling, café/snacks
etc., helping with sales - as 'Dalali'

[rows 36-39] Transport:
from village, to village,
organise/order transport

[rows 40-43] Agric related
employment: govt, party, firm,
religious etc., private resident,
private non-resident

[rows 44-47] Non-Agric related
employment: as rows 40-43 above

[rows 48-50] Services:
Doctor/traditional healer, arts, other

[rows 51-54] Other work: (write
down) x 4

Appendix 2 Questionnaire for Main Household Survey (page 3 of 4)

Kaya Saa Tarehe W1 Wealth and Resources

1 Mali inayomilikwa na wakazi wa kaya { property owned by members of household }

1	mesa	tables, chairs, buckets, water butts, hurricane lamp, pressure lamp, torches, umbrellas, hoes, billhooks/machetes, charcoal stove, parafin stove, watch, clock, radio, cassette player, TV, orange trees, coconut trees, bicycles, motorbikes, cars, sewing machine	Household Livestock	2. Mifugo ya kaya	1	kuku	chicken, cocks, guinea fowl, goats, sheep, cows, ducks, pigeons, rabbits, other
2	viti				2	jogoo	
3	ndoo				3	kanga	
4	pipa				4	mbuzi	
5	taa la kioo				5	kondoo	
6	kiribai				6	ng'ombe	
7	tochi				7	bata	
8	miavuli				8	njiwa	
9	majembe				9	sungura	
10	mbopo				7	nyingine	
11	jiko la mkaa						
12	jiko la mafuta						
13	saa la mkono						
14	saa la ukuta/ mesa						
15	radio						
16	caseti						
17	TV						
18	Michungwa						
19	Minazi						
20	baisikeli						
21	piki piki						
22	gari ndogo						
23	cherehani						
24	nyumba	vyumba					namba au -
25	kama nyumba	paa ya mabati					
26	>1, andika eg.	kuta za kupaka saruji					
27	vyumba 4/2	kuta za matofaili					

house, if >1 then write eg. rooms 4/2

3 Ardhi zinazotumika kama shamba au bustani na wakazi wa kaya

land used as fields or garden by members of household

na.	wapi?	Ukubwa	Mavuno	Zao	Hulimwa na nani?	Chanzo ya sehemu
1	Where? Valley = B Hilltop = J In between = K	Size Estimate in hectares and/or compare [with other known plot]	Harvest Crop Estimate av. amount per harvest in normal year. For crops use first 2 letters	-	Usually farmed by who? labour for cash = 9 for palm wine = 10	Source of plot: Inherited = 1 Allocated by Village = 2 Cleared = 3 Bought = 4 Exchange = 5
2						
3						
4						
5						
6						
7						
8						
	Bondeni = B Juu Milimani = J Kati kati = K	Kadiri kwa Hekta na/ au Linganisha na =, <, >	Kadiri kiasi cha wastani cha mavuno, kwa mwaka usiokuwa na matatizo makubwa. Kwa Zao tumia Mp, Ma, Mu nk.	Mwenyewe = 1 Mke/ Mume = 2 Mtoto/me = 3 Mtoto/ke = 4 Mzazi = 5 Ndugu wengine = 6 Mfanyakazi wa Nyumba = 7 Bila uhusiano = 8 Vibarua = 9 Pombe = 10	Athiriwa = 1 Pangiwa na kijiji = 2 Fyekwa/ chomwa = 3 Nunuliwa = 4 Badilishana = 5 Nyingine = 6 Mission = 7 Mtu binafsi = 8	
	[from] Other = 6 Mission = 7 Private individual = 8					

Appendix 2 Questionnaire for Main Household Survey (page 4 of 4)

Kaya Saa Tarehe **G1b** Close Kin Record Sheet

Muhojiwa { interviewee } sheet no. _____

	Geneological Position	Jina	Kaya jina la Mkuu wa Kaya/ eleza mahali
1		Name	Household name of head of household/ explain location
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			

Codes used for location:
K = Kipatimu, L = Other Kilwa District, Z = Other South-East, D = Dar es Salaam, O = Other Tanzania, A = Abroad, F = Deceased

K / L / Z / D / O / A / F
tot: / / / / / / /

Appendix 3 Questions for Semi-Structured Interview

Example: Questions for individuals engaged in accumulation through economic activity ie. entrepreneurs. This was the most frequently used set of questions. Different sets were used for interviews with elders, political leaders, officials in other formal institutions and orange tree owners.

1. Personal Background

[welcome interviewees questions; now or at end- see section 8]

History: family, education, work.

2. Activity

Started when/ where? What made you decide to start this activity?

[inherited/ suggestion of family/ of friend/ availability of money/ other resources/ own skills/ contacts with suppliers/ with customers/ own initiative]

- follow up eg. which family? money from where?

Scope of process or trade and own involvement

- details of process: wider process then parts 'internalised' in own activity

- changes over time? was own business always covering these parts of process?

Relation to other activities in which respondent is involved, if any?

3. Other People Involved in Activity

(a) co-workers Numbers/ Kin or non-kin?/ 'out of area'-kin? Status?

[employees/ sub-contractors/ partners/ landlords/ equipment owners]

What is the involvement of other household members?

Terms of agreement/ payment form/ variation/ frequency- typical amounts.

Any non-cash benefits or demands, eg sickness?

Changes in personnel.

(b) suppliers Numbers/ Kin or non-kin?/ 'out of area'-kin? Status?

What supplied? Do they supply others? Others supply you? Changes here?

Always use them? How did you become introduced? communicate now?

. Price variation between suppliers? (Always) choose cheapest or are there other factors- eg. cheaper suppliers who you don't used- why?

Would you change/ why? To non-kin?

Quality variability- how checked, what if no-good?

Terms of payment: immediate/ occasional settling? Credit ?(direction?)

Kind? If not, why?

Ordering/ contracting arrangements. Regular order/ bulk/ cancellation?

Order by message?

Typical prices and time~/ inter supplier~ variation? Turnover and wastage. Seasonal variation?

(c) customers Numbers/ Kin or non-kin?/ 'out of area'-kin? Status?

Mix of regulars/ occasional? . other suppliers/ patronised on same occasion?

. Price variation? Must be competitive? Non-price reasons for choice?

Steps taken to attract customers apart from pricing? Complementary goods?

Price- how determined? By whom? Mark up? Agreement?

Quality variability- how checked, what if no-good?

Terms of payment: immediate/ occasional settling? Credit ?(direction?)

Kind? If not, why?

All customers offered same terms, eg. credit?

Ordering/ contracting arrangements. Regular order/ bulk/ cancellation?

Typical prices and time~/ inter supplier~ variation? How decided?

Turnover and wastage.

(d) others involved in similar activities

. problems that affect you all? Do you ever try to work together to solve these?

Is there any kind of regularity to meeting together, an association?

Are there more day-to-day ways in which you help each other?

Any who don't cooperate so well together?

4. Premises

Where, ownership/ value or rented? Are there other areas for storage or processing?

Choice of location [near home/ supply/ custom/ only available/ other]

Features of premises cf. other similar activities, innovations/ plans?

5. Regulations and Permits

What permission required from local government? Cost? Ease of obtaining?

Regulations/ bye laws- eg. location, hours, health, employment.

Inspections (who?), regularity?

Any taxes to be paid eg. VAT or business tax? Special taxes?

6. Problems

Disputes and resolution- any? with customers/ suppliers/ co-workers/ others?

3rd party resolution: [family/ elders/ balozi/ court?]

Broken relationships and bad feeling- consequences? Mending in time?

(eg. banned clients?) Any consequences of bad feeling/ jealousy?

Security- concern, effect on business practice/ outlook. Specific episodes of crime?

Who responsible for security? Steps taken? Trend?

Demands of other businesses? – eg. failed crop means you have to use resources from this businesses?

Lack of- customers/ suppliers/ workers?

of services and infrastructure?

When – seasonal? trend?

Finance- would greater availability help? Present avenues when in need?

Investment opportunities- ways to 'cycle around' money?

Demands- consumption or 'problems' of self, household, relatives, business.

Are you seen as being especially able/ liable to help?

Social pressure- politics, ideology, religion, jealousy, witchcraft

7. Future Plans

If things go well how do you plan to improve this business? How and where?

Would you go into other businesses? Which/ where? Leaving this one?

If business does well and you expand into other activities or locations, who will oversee the business here in Kipatimu?

Picture of your life situation in five years? Later? Hopes for children's lives?

8. Perception of Interviewer/ Process

Any (further) questions to me about this interview/ the research?

-about my background and aims?

Appendix 4 Questions for Small Household Survey

As explained in Chapter 3, this survey was undertaken with a sample of 30 households towards the end of the study period. While the main household survey questionnaire shown in Appendix 2 was administered by my research assistant I carried out this smaller exercise myself. The questions were asked using an interview style rather than in the form and order shown here.

1. Harvest: food crops

cash and tree crops

sales and prices

2. Food Sufficiency: 'usual', this year

how 'gap' covered [eg. help? Dar es Salaam? Other earnings?]

3. Non own-agriculture activities: esp. vibarua (casual) work or hiring in?

4. Any land sale/rent? prices?

5. Bati (corrugated iron sheets) on roof? How many? cf. number of rooms.

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