Within a particular action arena (see pamphlet 4), various institutional actors and agencies have roles and responsibilities, capacities, relationships with other actors and agencies and rules and incentives that govern those relationships. The process of mapping these action arenas should help to describe the mechanisms through which institutional actors create the results that affect poor people’s livelihoods. However, the factors that determine the roles and responsibilities of different actors may not come from “inside” the action arena itself, but be generated by the overall institutional context that surrounds it.

While the analysis of action arenas concentrates on the particular institutional arrangements that influence a set of results that have been observed “on the ground”, the analysis of this institutional context takes into account not just the capacities, relationships and rules and incentives that are specific to the particular action arena with which the analysis is concerned, but also the mechanisms that govern these institutional actors as well as other actors and agencies.

It is important to fully understand this context because only then can the practicality, viability and sustainability of change in institutional arrangements be properly assessed. Without a full understanding of the institutional context, many factors that are likely to strongly influence how change takes place will continue to be regarded as “givens” or risks against which the actors involved in change cannot act. This is particularly important when conducting an institutional analysis for pro-poor change, as many of the factors that influence poverty most strongly are likely to be found in this institutional context – what is known as “structural” poverty. Attempts to address poverty without dealing with the factors that cause it in the institutional context are likely to be unsustainable over the long term.

A thorough analysis of the institutional context is particularly important for understanding the broader implications of changes that pro-poor rural development interventions might introduce. Such an analysis can help in formulating strategies for dealing with features of the institutional context which, in the short term, may seem difficult to influence. The process of understanding the institutional context can also be thought of as a means of expanding the action arena to include some of these actors and agencies which, in the past, have been regarded as difficult to address but which are often of such fundamental importance that a way of including them in the process of institutional change needs to be found.

**Understanding the policy context**

Particular policy decisions may have contributed to specific results, either in the form of livelihood outcomes of the poor, or delivery and governance results. But before proposing changes or adjustments to these specific policies, the broader policy context needs to be analysed more fully.

Any policy context is generally complex and it is often difficult to define the boundaries of the policy context relating to particular issues – at the level of policy, often everything seems to influence everything else. However, a brief analysis of the most obvious linkages can help to put specific policies in context and understand the processes that might be involved in policy change.
This analysis should focus on:

- An assessment of those policies which are immediately relevant to a particular set of concerns, through a review of policy documents; particular attention should be given to the statement of **policy objectives** and the **consistency** of policy statements, both internally (across different policy areas or sectors and among different levels of policy, from the local up to the national) and internationally;

- An analysis of the formal mechanisms which **generate** policy, including mechanisms for identifying how **policy agendas** are set, the kinds of **information (and their sources)** that feed into policymaking, the process of **consultation** leading to policy formulation, the form of **policy statement** produced and the roles played by different actors in these processes;

- An analysis of the **informal** mechanisms that generate policy, including factors that influence the setting of **policy agendas**, the effect of past **policy practice** (both policy-setting and implementation) and **incremental factors** that contribute to the policy process, the role of **key actors and opinion leaders**, different **policy narratives** (the stories that describe events and gain more or less authority and acceptance), and the **actor networks** that spread and maintain different policy networks and whose interests they serve;

- The mechanisms envisaged for the **implementation** of those policies, the gap that may exist between policy-setting and implementation, and the processes at work that may change policies during the process of implementation, including the **relationships between policymakers and policy implementers** ("enabling agencies" and "service providers"), and the **interests and incentives** of different actors involved in policy implementation;

- The ways in which **feedback** about policy implementation and the impacts of policy reach policy makers and influence future policy processes;

### Rules governing an apex organization

Consider the apex organization of a network of credit associations.

Its **working rules** are laid down in the internal regulations and are defined in two manuals: the manual of administrative and financial procedures and the manual of operational procedures. The articles of association for both the apex organization and the various associations at different levels under it represent the **collective choice rules** and are sanctioned by the government; they also define how the annual policy statement of the apex organization should be produced and formulated.

The **constitutional rules** governing the apex organization describe the procedures to be followed in order to set, or modify, the articles of association (collective choice rules).

- A **comparison** of policies across areas, sectors and levels in order to identify possible areas of **linkage**, **harmonization** and **policy conflict**. Particular care needs to be paid to linkages and conflicts between sectoral policies and the policies developed at different levels of government.

These can be assessed applying criteria that have already been used to evaluate the relationships between institutional actors and agencies in different action arenas, namely:

- **Transparency** whereby all actors understand the process leading to policy formulation;
- **Accountability** for the effects and impacts of policies introduced;
- **Contracts** that define who should do what with regard to policy implementation;
- **Choice** regarding how policies should be implemented;
- **Effective feedback** allowing users to inform and influence policymakers (enabling agencies) and policy implementers (service providers) regarding policy impacts.

The extent to which these criteria are manifested in the policy context will generally have a strong influence on the **governance results** encountered on the ground.

### Evaluative criteria for the policy context

- **Transparency**
- **Accountability**
- **Contractual arrangements**
- **Choices**
- **Feedback**

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Understanding the legal framework

The legal framework, including the different sorts of laws, rules and regulations that are in place, as well as the processes by which these are established and enforced, plays a key role in establishing how events and processes within an action arena are played out.

Several levels of the legal framework need to be understood:

- The working rules, or rules that determine the roles of different actors and agencies, the way in which they work together and the quality of their relationships (such as clear rules that ensure transparency);
- The collective choice rules that establish what processes or conditions are required in order to set, or modify, the working rules; this includes those mechanisms that permit different actors with different functions to generate feedback within a particular action arena so that changes can be considered;
- The constitutional rules determine the procedures that can be used to set, or modify, the collective choice rules.

The example in the box on the previous page can clarify what is meant in practice by these different types of rules.

Issues that can be considered when assessing the legal framework include:

- The coverage of legal documents that define these rules, or how, and in what form, these different rules are set down;
- How the rules “perform” or satisfy the needs of a particular set of relationships and actions;
- The extent to which the framework includes rules regarding the governance of the system, in other words:
  - the distribution of roles and responsibilities among different actors and agencies;
  - the extent to which the instruments and procedures of different action arenas are set down in law, including the mechanisms that ensure accountability and transparency;
  - the presence of measures to protect the interests of consumers, and other specific interest groups;
  - procedures for appeal and the resolution of conflicts.
- Whether there are mechanisms in place that regulate environmental issues;
- The extent to which national legislation is harmonized with international norms and regulations.

The same levels and issues will apply to informal institutions such as, for example, the traditional rules, regulations and processes that may govern natural resource use in rural communities, only that these may be, strictly speaking, illegal (although locally legitimate), and not set down in any written form, but rather expressed orally and through customary practices.

Analysing resources and incentive structures

The broader structures and mechanisms surrounding a particular action arena that establish how resources are provided and managed, particularly in relation to poor people, and the incentives available for pro-poor investment, will play a major role in determining the extent to which institutional processes support the poor or otherwise. Appropriate resource and incentive structures should:

- Foster good management;
- Encourage the efficient, equitable and sustainable use of resources, including natural and physical assets;
- Ensure the production and distribution of appropriate goods and services where and when they are required;
- Encourage investment that reduces vulnerability to shocks such as natural disasters.

While traditionally the role of the state has been regarded as paramount in investing in development in most countries, there is a growing realization of the role of the private sector and the potential of public-private partnerships in harnessing resources for pro-poor investment.

The mechanisms that need to be analysed include:

- Investment policies of the government, including an assessment of how they affect actors at different levels (international, national and local, public and private);
- Public sector incentives, or the measures in place that ensure that public sector functions are performed effectively and efficiently;
- Private sector promotion measures including efforts to promote public-private partnerships, with a focus on those measures that ensure the effective delivery of good, affordable services to poor people;
- Cost-recovery and pricing policies, and the extent to which they ensure that systems delivering key services to poor people are financially sustainable and able to maintain both quality and accessibility;
- Investment appraisal tools which may be used to identify those investment projects that are most likely to improve overall system efficiency and equity and result in maximum positive impact for poor people.
Why analyse the institutional context?

The critical role played by the institutional context in influencing rural poverty will often become clear during the process of institutional analysis. This will often suggest how critical it is for rural development programmes to attempt to bring about change in this institutional context if the positive impacts of their work in the field with poor people are to be sustainable.

Many of the processes required to bring about changes at this level are long-term and complex. They may require a strategic approach beyond the capacity of a single project, programme or development agency to implement, as well as require the formation of broader coalitions for action and a long-term commitment to change by the leading agencies involved. But one of the key outputs of an institutional analysis should be to bring about a shift in how these elements of the institutional context are regarded – from considering them as “givens”, to treating them as issues that can and should be addressed through policy dialogue and concerted action.