

**THE ROLE AND INFLUENCE OF INSTITUTIONS IN  
ECONOMIC DEVELOPMENT IN UGANDA: EVIDENCE  
AND INSIGHTS FROM THE DEVELOPMENT OF THE  
UGANDA COFFEE SECTOR: 1900 – 2004**

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## **ABSTRACT**

Today there is no agreement as to how developing countries can achieve sustained economic growth and wellbeing. Over the last 50 years many suggested policy panaceas have failed. Policy makers are now faced with growing economic challenges and confusing policy prescriptions. Against this background, the re-emerging study of institutions now offers new promise in explaining why development has so far eluded so many countries, and consequently, what can be done about it.

This thesis deals with questions which to date have only received partial or cursory attention. The study asks: What really are institutions? Why do they matter? What can we learn about them that can help us deal with the current challenging development debacle?

This study starts by reaffirming what institutions are. It shows that institutions are inescapable influencers of the way we relate to each other, and the effects we have on our societies' economic development. Yet so far, scholars and policy makers have not yet fully taken up the opportunity of identifying and utilising the insights that the institutional perspective offers.

This study deliberately picks up the challenge. Using the experience of the Uganda coffee sector, it shows that the nature of institutions can be better understood, and their role and impact, better addressed towards pressing development questions. The study shows that by integrating old and new institutionalist perspectives and theories of institutions and institutional change, it is possible to make much more progress towards understanding, explaining and addressing the role and influence of institutions in the development of an economic sector.

In so doing this study goes beyond existing works on definition, taxonomy and explanation of institutional influence. It raises new insights to be considered as we face today's contemporary development challenges. This research should therefore be of interest and value to researchers, students, policy makers and entrepreneurs concerned with economic development and the factors that shape and influence it in practice.

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**Sector: 1900 – 2004**

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## **ABBREVIATIONS**

CIB	Coffee Intervention Board
CMB	Coffee Marketing Board
CMBL	Coffee Marketing Board Limited
CRIE	Centre for Research in Institutional Economics
EHMG	Ethnically Homogenous Middlemen Groups
ERP	Economic Recovery Programme
GDP	Gross Domestic Product
HIV – AIDS	Human Immunodeficiency Virus – Acquired Immune Deficiency Syndrome
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
NGO	Non Governmental Organisation
NRM	National Resistance Movement
ODA	Official Development Assistance
SOAS	School of Oriental and African Studies
UCDA	Uganda Coffee Development Authority
UCEA	Uganda Coffee Export Association
UCFA	Uganda Coffee Farmers Association
UCTF	Uganda Coffee Trade Federation
UNEX	Uganda Joint CMBL and Cooperative Unions Marketing Organisation

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## **PREFACE**

## PREFACE

### “Coffee runs through my veins”

“People in rural areas are not making the economic decision of saying now I have done the calculation - I am going to plant coffee. It is a cultural thing they just do it by default.”

“I am first and foremost a coffee farmer.... coffee grows in my blood veins”

Ugandan coffee farmers - June 2005

Simioni Njuki, my maternal grandfather, “*Jajja*” had a formidable reputation. Tall, upright and with a partially bald shiny pate, he had been, (by the time I was old enough to be impressed) a “*Saza Chief*” [County Chief], a member of the “*Buganda Lukiiko*” [Buganda Parliament], wealthy landowner, strict disciplinarian and coffee farmer. As a young boy, I recall spending long hot days in December playing with siblings and friends in his “*Nimiro*” [Food Garden] at the bottom of Makerere hill, a stone’s throw from the already renowned Makerere University College.

Our playful exuberance in the banana plantations, diving into sweet potato mounds and dashing between coffee trees, often left strings of bruised plants and broken branches in their wake. However, as far as I can recall, we were never reprimanded for these childish misdemeanours.

At first therefore, I was puzzled by my grandfather’s awesome reputation as a civil authority figure, a strict disciplinarian and formidable unbending man. I was particularly perplexed at how he *simply commanded* obedience and respect from all those around him.

However as I grew up I became aware that this was at least in part due to the various roles he had assumed over many years, extending beyond his household into a number of organisations and even into the wider political community. In the stories I heard told about him, he was presented in the traditional (a chief), the colonial (an educated administrator), the local heroic (a past exile to Karamoja in northern Uganda on account of resisting colonial policy), and the socio-economic, (a prominent farmer, from a well known large family).

I later came to appreciate that the many stories told about this balding, precise and authoritative man, in many ways embodied the intersecting influences that were shaping the newly independent state of Uganda. *Jajja* epitomised once enduring but now disputed authorities, loyalties and traditions. These were changing as the remaining vestiges of colonialism were challenged by the rising aspirations of a different kind of political independence: one characterised by new norms, and associated with a new socio-economic way of being. Against this background, *Jajja* can be seen as representing a socio-economic and historic mix: impossible to comprehend without examining the history and nature of the mixing.

Like my *Jajja* I too, as a young man, lived and was shaped by changes I was not entirely aware of. The connections between my family, its environment and its relationships, (encapsulated in the banana plantations and coffee beans that I illicitly frolicked in), and the development story of my country, were on the whole almost completely lost on me. I was also mercifully unaware that Uganda's story was to take significant traumatic turns

over the coming quarter century. Like many other Ugandans I witnessed, in the years that followed, the rise and fall of Idi Amin, devastations of war, socio-economic disruption, increasing poverty and far reaching ravages of health pandemics. Events in Uganda were often in the news (particularly between 1971 and 1987) – and it was rarely *good* news.

After 1990, the news out of Uganda started to get better. The country's political and economic fortunes improved. As Ugandans we now experienced the joys and disappointments of a seeing a country being painstakingly rebuilt. We began, very slowly, to leave behind the tear-jerking shadows of war and disease. We became inescapably aware of the cruelty and socially devastating impact of persisting conflicts in southern Sudan, Rwanda, Congo and Northern Uganda. We sensed the gradual loss of any remnants of post-colonial euphoric African aspiration. But having left behind the failures of the post colonial, post Amin, and then civil war eras, we were now confronted with a new cynical realism (often readily presented vociferously to us by some veteran expatriate development workers) suggesting that the inevitable fortune of countries like Uganda was one of poverty, failing economy, and failed state.

At the same time, we also remained captivated by an unexplainable hope, endurance, energy and local pragmatism, expressed in a (naïve?) commitment to rebuild our country and to avoid the mistakes of the past. We were thankful for the assistance the world was offering but also mildly and continually irritated by what we saw as uninformed presumptions. We disliked how our country's developmental predicaments tended to be implicitly linked to an assumed innate inability to deal constructively with our own

political and economic development. Many of us were moved (as Jajja must have been many times) to participate, to be part of creating a new nation.

Sitting in the British Library working on this study in 2005, I was reminded of my *Jajja*. He was as attached to coffee as many of the farmers that I had met in the course of the study. I imagined that he too might have claimed that “*coffee grows in my blood veins*”. He certainly would have been proud of his economic contribution and representatively indispensable place in the socio-economic fabric of the country. I thought that he might have been somewhat perplexed at the unforeseen challenges associated with making a living from coffee farming, through times of war and of fragile peace. As a former chief, member of the *Lukiiko*, as well as a colonial era administrator, he would no doubt be politically exercised by the changing state, legislative and constitutional arrangements. Having protested against some British colonial policies, he might have protested at a few post colonial ones. He might also have lamented the passing of an age of the traditional Buganda authority and its attending custom and practice. Yet I think he would have been curious about the innovations and opportunities that new technologies and entrepreneurs had brought to his communities.

I wonder, however, the extent to which he might have recognised and made any conscious or coherent representation of his own significant contribution to the development story. I wonder too, when confronted with today’s realities (and very much aware and part of the history that has preceded them), what insights he might have drawn about the nature of the influences that have shaped the development of a country. I

imagine that as an authoritative, well grounded pragmatist he would have recognised his own hand in it. I also suspect that having witnessed the retreat of colonialism, the collapse of traditional kingdoms and the creation of new republican independent authority, he might also have acknowledged the *smallness* of that hand. Perhaps he might even have been drawn to question and look further than his own agency to question what enabled and / or encumbered his own intents and those of millions of Ugandans that over the years have lived this remarkable (if at times tragic) development experience.

This study is motivated in part by personal history but also by overall professional interest. In my personal experience as well as in the course of my professional duties I have been challenged, occupied and eventually intellectually completely captivated by questions relating to the nature of “true” development; the meaning, desirability and feasibility of participation; the role of history, culture and context and the development of new socio-economic roles; and the place of the agency within a social setting subject to new local and global influences and unforeseen echoes of past developments.

Working for a local NGO alongside many others fighting the HIV – AIDS pandemic in the early 1990’s in Uganda, I quickly realised that personal energy and commitment aside, we faced major developmental challenges and were in quite uncharted waters. My encounters with development “experts” and advisors, well meaning volunteers and philanthropists and hard pressed local workers, all brought home to me what appeared to be some enduring simple truths. First of all our history and cultures were unavoidably present and influential in the health and community development predicaments I faced in

my work daily; Secondly the communities I worked with had drawn some simple but profound lessons from their recent experience but the challenges they still faced were potentially overwhelming; thirdly some of the models and solutions on offer were at best ill-informed, unfortunate and naïve but at worst negligent and dangerous; fourthly there remained an urgent and ongoing need to ensure that what was offered and accepted by way of development prescription or direction, should at least be grounded in the realities on the ground and take into account the intricacies of Uganda's history and social reality. Given these concerns a study of economic development and institutional change had to be grounded in the actual experience of development in Uganda.

In this study “coffee” offers such grounding. The Uganda coffee sector has played a significant role in shaping the development fortunes of Uganda. The sector contributes directly and significantly to Uganda's GDP as well as indirectly to the socio-economic fabric and economic infrastructure. The sector's development, stretching right back to the inception of the country itself is a window through which Uganda's broader developmental vicissitudes can be examined. The coffee story sheds light on Uganda's struggle to initiate and create conditions that can maintain development over a sustained period.

As in many other developing countries, the Uganda coffee story is a story of intricately “mixed” developments. It is a story of promising starts, successes, failures and disappointments as well as remarkable achievements. The evidence and the insights from this experience, combined with the appreciation and growing scholarship into institutions,

provide an opportunity to shed new light on the challenge of development that still faces many countries today.

The study that follows in the next pages is a contribution to understanding and learning about the intricacies of institutional development and change and in particular what enables and what constrains development. Through the coffee development story: (one of Uganda's most enduring and important sectors and development stories) it examines these intricacies, their historical "mix" and the nature of the "mixing" that we now see as the sector (and country) development experience.

I imagine *Jajja*, my grandfather might have approved.

Anthony Kasozi

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**CHAPTER ONE**

**INTRODUCTION**

# 1 Introduction

This introductory chapter starts by summarising what this study is about. It then goes on to describe the motivation and background to the study; presents the key issues and questions it addresses; discusses the methodology and approach to the Uganda case study; presents an overview structure and presentation of the rest of the thesis and summarises the original contributions of the thesis.

## ***1.1 What this study is about***

This study is about the role and influence of institutions in development. It acknowledges the reasons for the recent revival of interest in institutions in economics. It considers why and how institutions have been identified as offering a promising line of inquiry that may explain variations in economic development. It then offers a new examination of the existing diverse and wide ranging theoretical ideas about what institutions are. It shows how a coherent perspective of the nature and definition of institutions can be identified and asserted.

The study then goes on to develop and propose a new, comprehensive, theoretical taxonomy framework. The framework provided is used to examine a case history of institutional influence on economic development. The case history describes the development of the coffee sector in Uganda from an institutional analysis perspective. In doing this, the study uses insights from a historical case example to refine and develop

new theoretical understanding of how institutions are created, change and influence development.

The study also establishes and explains how institutions have shaped the development of the coffee sector in Uganda, from inception and over the last 100 years. The study is therefore able to use the institutional perspective to crystallise new lessons that can be drawn from the Uganda case history. In so doing, the study suggests fresh new insights and considerations that are relevant for analysing and understanding the experience of other sectors and countries. The study thus offers new insights about, and opens new avenues of inquiry into, how institutions influence and shape economic development.

This research project therefore brings together theoretical and empirical considerations to address a central question and a number of subsidiary important questions, as shown below:

### **Key Questions**

#### **What role have institutions played in the economic development of the Uganda coffee sector?**

- **What are institutions?**
  - How can they be best identified, described and categorised?
- **How have institutions been implicated and influential in shaping the sector, its economic development path and the economic development experiences and outcomes?**
  - What does the sector's development experience suggest matters most in explaining the role and significance of institutions in economic development?
  - What key insights and implications from this study may be more broadly applicable to other sector and developing countries experience?

## ***1.2 Background to the study: The elusive ideal development path***

This study is motivated by questions that have developed out of the ongoing quest to identify an ideal path to achieving continuing economic development. After years of concerted policy efforts, underpinned by different theoretical models, there is as yet no settled agreed, ideal, path to continual economic well-being for developing countries.

Today, fifty years after the early post colonial policies and planned interventions were launched; it has still not been possible to demonstrate any undisputable best route to economic growth and development. In the period since the Second World War there have been a number of shifts in development policy orthodoxy. Initially state-led planning and state-led industrialisation gave way to export led growth and then to regional and world market integration. Subsequently the focus shifted to advocacy for the decreased role of the state. More latterly there has been an emphasis on the promotion of privatisation and creation of less regulated markets.

Over this period there has been various studies of the evidence of differences in economic growth across countries (Brander, 1992). Explanation for the differences has nevertheless remained elusive. “Experts” have continued to be confounded by the varied policy experience of countries (Easterly, 2002). As a result it is evident that neither state-led, and state-planned development, nor deregulation and privatisation, qualify as universal policy panaceas or guarantors of growth.

Within the broad shifts of policy a number of theoretical assumptions and associated intervention strategies have been successively adopted, relegated and discarded as they proved inadequate or insufficient to the task in hand. Therefore today, the simple truth is that there are big (and in most cases growing) gaps in education, skills, technology, capital, productivity and income between the "developed" and much of the "developing" countries (Ros, 2000; Sachs, 1997).

Furthermore, the prospects for achieving tangible improvements (such as those enshrined in the so called Millennium Development Goals) are not promising. Indeed for some of the poorest parts of the world the goals themselves may appear unfair and misplaced (Easterly, 2007).

Even more significant than these differences in achievements to date, is the fact that for many developing countries, the dominating reality is that growth is variable, volatile and unpredictable. For many of these countries development prospects are deteriorating. A main concern continues to be the divergence of incomes between the rich and the poor; with the rich countries together getting richer, faster.

In contrast, poorer developing countries have increasingly been scattered all over the development landscape. A few have experienced explosive growth while a large number have simply stagnated. Many "unfortunates" have, even more drastically, gone into chronic decline (Pritchett, 1997). In an era of growing population mobility, global trade and economic interdependence, there is curiously a growing "bunching" of productive factors, economic activity, growth and development convergence, within communities,

ethnicities and cities, as well as across national regions, states and the global economy (Easterly, 2001).

Given this perspective, it may be tempting to conceive of developing countries as locked in a trend of perpetual decline – the “unfortunate victims” of poor allocation and accumulation of resources. But the exceptions and variability in experience belie this presumption. A number of countries have "escaped" the trend whilst others have succumbed. This suggests that the “bunching” of growth experiences has to be attributable to other factors; otherwise there would be no way of explaining these differences in fortunes experienced by different countries over the last fifty years.

Economic policy prescriptions over the period show that one by one, each growth explanation and associated policy "panacea" that has been put forward has also eventually been found wanting (Easterly, 2002) and subsequently dropped.

For example, low investment and capital accumulation have not led to higher productivity and growth. In the absence of technological change and socio-technical adoption and change, capital investment policies have not been the answer.

Similarly attention has turned to focus on "human capital" in general, and education in particular, as a crucial missing requirement. In time it has been shown however that there is no simple and straight forward link between developing levels of education and economic growth. The development impact of education has been found to be below

expectations and to vary tremendously across countries (Pritchett, 1997). Higher levels of education clearly do not imply higher levels of requisite skill and technical capability. Furthermore expansion of educated labour forces does not increase demand for the labour. Educated labour does not necessarily engage in productive activities within the developing / educating country and often skills are engaged in non-productive activities or end up leaving the country and joining the extensive brain drain from developing to developed countries (Pritchett, 1997).

Against this sobering reality, there has been, nevertheless a continued consensus and commitment to providing development assistance. This has been primarily in the form of official intergovernmental bilateral and multilateral aid transfers of various forms. Aid has been provided for investment, or to address shortfalls in resources, technology, skills and capabilities.

However, as Overseas Development Assistance (ODA) as a whole (and debt relief in particular) has grown<sup>1</sup>, its effectiveness has been increasingly called into question. The evidence suggests that higher levels of economic aid have not led to higher levels of economic growth in developing countries. Far from increasing investment or benefiting the poor it is suggested that aid merely increases the size of government regardless of whether the receiving government policy is repressive or liberal (Boone, 1996).

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<sup>1</sup> ODA levels have, fluctuated over the last fifty years in part reflecting changes in global political alliances, trends in economic and political policy thinking (including public opinion) in donor countries and concerns relating to world economic and political stability (International Development Association, 2007).

It is further noted that donors persist with extending aid even when it has been proven to be ineffective. Alesina and Dollar (2000) found that the reasons for persisting with foreign aid are dictated as much by political and strategic considerations as they are by the economic needs and policy performance of receiving countries. Furthermore evidence of aid ineffectiveness has not led to changes in donor or recipient expectations or performance. Donors and countries have very different approaches to aid and vary in their concern for, and responsiveness, to evident causes of aid ineffectiveness<sup>2</sup>.

Yet the dominant theme as far as development assistance is concerned has not remained stuck on a pessimistic note. There is evidence that in particular circumstances, and under certain conditions, aid can be beneficial. This has led the policy debate to shift onto new ground and to emphasise selectivity (and conditionality for some donors). Aid is useful and needed but not a new panacea (Dalgaard, 2004). For example, Burnside and Dollar (2000) emphasise the need to direct assistance to where it does good.

However, as Easterly (2003: 19) points out there is no one single "Next Big Idea" that will "make the small amount of foreign aid the catalyst for economic growth of the world's poor nations". So while it is acknowledged that aid has an impact on poverty - the debate has moved on to how this takes place, and how it should be optimally allocated to ensure its effectiveness (Hudson, 2004).

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<sup>2</sup> These include political pressures, poor information and data about needs and development problems, lack of feedback about performance effects and outcomes and uncertainty as to real beneficiaries involvement and ability to voice their needs in relation to aided projects (Alesina, 2000); (Easterly, 2003).

### 1.2.1 Renewed acknowledgement of institutions

Scholars, policymakers and politicians, are therefore, today, more tentative in their economic diagnoses and prescriptive pronouncements. In circles considering policy for developing countries the question of the missing path to development is still open. In addition, there is growing acceptance that it is no longer credible to argue simply that one prescription can fit all developing countries, regardless of history or context.

Following the experience of transitional economies of the former soviet bloc, and, more recently of India and China, it now has to be acknowledged that "developing countries" do not represent a homogenous body of nations with common cultures, histories, civilisations or institutions (Burnside and Dollar, 2000). Developing countries cannot be expected to follow a single optimal development policy path leading to identical growth and development outcomes.

Thus after many years of concerted and organised efforts at creating sustained economic growth – it is evident that the conception of a universally agreed common “ideal” path to sustained economic wellbeing has been fundamentally challenged and increasingly abandoned - at least for developing countries<sup>3</sup>. Through the litany of failed policy prescriptions, it has also become evident that countries starting out with broadly similar

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<sup>3</sup> Collier et al (1999: 4] notes that in the closing decade of the last millennium, individual countries' experience with growth and poverty reduction varied considerably. East Asia fared better than Eastern Europe and Central Asia. African, Middle Eastern and Latin American countries fared modestly at best. Examining the different regional experiences – Collier notes the positively influencing role of China's history, “its advantageous starting points” (notably the high educational levels and high life expectancy) and reforming institutional innovations (notably the TVE's) in contrast with Russia's far less favourable historical antecedents, including the “nomenclature tradition” and far lower commitment to, and understanding of, the need for long term commitment to institution building (Collier, 1999: 6].

resource and economic endowments can diverge considerably in economic fortune<sup>4</sup>.

There is now greater and more widespread appreciation of the complex of factors involved and importance of context, history and culture<sup>5</sup>.

Todaro and Smith suggest (2005: 14) that “resolving problems to achieve development is a much more complicated task than some economists would lead us to believe” They go on to note that historical, cultural and institutional considerations matter. Furthermore these considerations are sometimes mistakenly dismissed as “non quantifiable” and by implication of dubious importance<sup>6</sup>.

This renewed acknowledgment of institutions, however, merely takes the whole debate full circle back to a re-joining and / or re-opening of the debate about what the effective path to development really is. The false starts, blind alleys and disappointments of the last 50 years have ultimately led scholars, analysts and policy makers back to a questioning of the underlying processes and the conditions that enable sustained growth and development. The revival of interest in, and expanding study of, the nature and role of institutions in development, has thus re-emerged as an important aspect of this evolution.

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<sup>4</sup> Even with close geographical and socio-demographic proximities countries can face quite different economic development challenges in practice (regardless of common policy prescriptions) can have very divergent development outcomes (Acemoglu et al., 2001]. At most it has to be accepted that history and context matter and that on the whole economists, scholars and policy makers cannot arrive at singular and effective prescriptions that determine growth and development.

<sup>5</sup> As Easterly (2002: 25] puts it “ many times over the past fifty years, we economists thought we had the right answer to economic growth... none of these elixirs has worked as promised...”

<sup>6</sup> Todaro and Smith (2006 : 14) also emphasise that “Increasing national production, raising levels of living and promising widespread employment opportunities are all as much a function of the local history, expectations, values, incentives, attitudes and beliefs, and institutional and power structures of both domestic and the global society as they are direct outcomes of the manipulation of strategic economic variables such as savings, investment, product and factor process and foreign exchange rates”

It is worth noting that this current interest in matters historical and institutional, while being significant in its own right, is nevertheless best seen as a renewed appreciation rather than a completely new development. The German Historical School, spanning over 100 years from the mid nineteenth century well into the twentieth century (and which encompassed scholars such as Friedrich List, Gustav von Schmoller, Werner Sombart and Max Weber, amongst others) was concerned with actual historical circumstances and understanding differences between economic systems (Hodgson, 2001a). This school represents an earlier, influential interest in understanding the role of technology, institutions and political developments. In doing so it sought to study history, identify patterns and develop theories that could be used to explain economic problems (Chang, 2003).

### **1.2.2 Re-examining economic transformation**

The differences in levels of economic growth as well as the remarkable development transformations that some countries have experienced, have led to calls for variations in growth and development to be explained. The challenge of how to "unify the world's experience of variable economic growth and development" has been restated (Pritchett, 1997: 15). Specifically it is necessary to understand better: why the leading countries enjoy continued growth and technological progress; why some others are able to initiate and sustain long periods of growth; and why some lose momentum or remain in low growth for long periods.

Increasingly institutional considerations have been put on the agenda by scholars, researchers and policy makers that have been informed by the empirical experience and evidence from everyday country development events. Rodrik (1999) notes, for example, that the "dismal failure" of price reform in Russia, the "lingering dissatisfaction" with market oriented reforms in Latin America and most recent Asia financial crisis, have all served to reveal the institutional underpinnings of market economies. Consequently he argues that the question for policy makers is no longer whether institutions matter, but simply, which institutions matter and how they can be acquired. Therefore institutional explanations for the divergence in economic experiences, as well as suggestions as to what institutions matter and how they matter, have begun to be more thoroughly examined.

In their study "The colonial origins of comparative development: an empirical investigation", Acemoglu et al. (2001) argue that the long term development of institutions does indeed matter. They point out that the varying experience of developing countries can be explained by differences in institutions that resulted from the different approaches to colonisation adopted by Europeans. Following the colonisation of, overseas territories of the Americas, Australasia and Africa, institutions were developed in different ways. Where Europeans aimed to settle, they created institutions to support private property rights leading to economic growth, which was higher and different from the countries where they did not aim to settle, and therefore sought merely to extract resources and wealth. Consequently, it is suggested that today's variations in income are explained by the initial and persisting differences in institutions (Acemoglu et al., 2001).

In a related vein, questioning “why capitalism succeeds in the west and fails everywhere else”, Hernando De Soto’s detailed observation and analysis of the in-field experience of developing country asset accumulation refers to “the mystery of capital” (De Soto, 2000). De Soto examines why third world countries on the whole fail to convert assets to capital - even though there is evidence that they manage to accumulate vast amounts of valuable assets. De Soto points to the lack of a process that can fix protect and enable the transaction of capital. He argues that while in the west such a system has developed historically over many years and is now taken for granted, in many developing countries, it is simply non-existent. He adds that the prospects for it developing in the short term, without some kind of intervention are not necessarily that good. He also argues that resolving the “mystery” depends on unravelling five other embedded mysteries - all of which require quite significant developments of an institutional nature<sup>7</sup>.

Furthermore, hidden in the accumulating evidence pointing away from a single ideal path to economic growth, are suggestions that contextually specific factors play a key role in shaping countries’ development experiences. In reality many different ways of organising economic activities emerge over time, often with widely varying and distinctive outcomes. For example, differing patterns of economic organisation result from and are effective within particular institutional and cultural settings (Whitley, 1990). Whitley also

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<sup>7</sup> The five embedded mysteries that need unravelling include: 1. The mystery of missing information – which leads to a misleading focus on misery and helplessness and not on the capacity for accumulating assets; 2. A focus on capital that has not encompassed its origin, including what capital is and how it is produced and is related to money; 3. The way an individual commercial revolution is underway, but is being largely ignored; 4. The fact what is happening now in the third world ex-communist countries actually happened before in North America and Europe; 5. The way laws copied from the west have not on the whole produced the kind of institutional framework that enables citizens to convert savings into capital.

finds that despite continuing internationalisation of business activities of capitalist firms, countries' key business systems have characteristics relating to "ownership relationship", "non ownership coordination" and "worker relations and work management" that are long term in nature and do not necessarily change quickly (Whitley 1992). He notes that in order to change business systems, far-reaching institutional changes are required.

This view of socio-culturally specific, resilient and persisting patterns of economic life is supported by other studies of the value patterns and cultural orientation from outside economics. For example, it has been argued that more broadly and at a national level there are quite different constellations of values and orientations that have a profound effect on the organisation of economic activity, approaches to innovation, investment and paths and prospects of development (Hampden-Turner, 1993). It is also suggested that social groupings develop commonly shared interpretations or "myths" of reality that inform, guide and influence behaviour, habits, capabilities and institutional development (Thompson, 1990). These "myths" similarly influence the organisation of economic activity.

In summary it is apparent that economists and scholars of quite different hues are increasingly acknowledging what institutional economists have long contended: that is – it is impossible to understand, advocate or prescribe for sustained economic change in society without paying attention to history, context and institutions.

This study is thus stimulated by the frustrating paucity of institutional - contextual appreciation that continues (despite the failures of past economic policy prescriptions) to plague popular, policy as well as some scholarly discussions of the growth and development experiences and needs of developing countries. It is also given impetus by the emerging and renewed acknowledgment of the role, explanatory value and potential for a much richer understanding offered by institutionalist thinking and ideas. In this vein Nelson and Sampat (2001: 32) helpfully recognise “a growing conviction that the satisfactory understanding of economic performance requires going beyond the lean logic of neoclassical theory”.

### **1.2.3 Acknowledging institutions**

On closer examination it is evident that the increasing acknowledgement of the importance of institutions has developed on a number of fronts. Firstly there has been a multi-faceted revival concern for institutional considerations. This revival has been in the form of the emergence of “new institutionalism” as well as the resurgence of “old institutionalism”. These two institutional traditions have developed as intersecting, internally diverse, but also theoretically quite distinctive schools of thought. Together they have exerted a growing challenge to mainstream neo-classical orthodoxy.

“New institutionalism” has emerged within the overall frame of neo-classical economics. It has focused attention on offering explanations to issues that mainstream neo-classical

economics has found problematic and / or difficult to explain within the pre-existing dominant conception of the tradition (Harris et al, 1995). New institutionalism has thus:

- i. advanced theory relating to the nature of the firm;
- ii. developed theory relating to the importance of transaction costs;
- iii. sought to explain divergence in economic development experience; and
- iv. addressed questions relating to the influence of social, historical and cultural considerations on economic choices and activities.

Scholars associated with the advancement of these new institutional ideas include Coase (1937; 1960), Williamson (1975; 1985) and North (1990; 2005) amongst others.

On the other hand, “old institutionalism” is best seen as a further development and resurgence of ideas that date back to the institutional economists’ ideas at the beginning of twentieth century. As Hodgson (2004: 4) points out, historically institutionalism (and specifically old institutionalism) has as “as big and as genuine a historical claim to be economics as neoclassicism”. Preoccupation with the nature of social economic systems and the institutional factors is evident in the writings of Adam Smith, Thorstein Veblen, John R Commons, and Wesley Mitchell and as well as Gunnar Myrdal and John K Galbraith (Hodgson, 2004);. The more recent (post-1990) revival of “old institutionalism” has expressed itself in re-examination and re-validation of the relevance of ideas and theories fundamental to old institutionalists. These have included :

- i. the admission and encouragement of cross-disciplinary inquiry;
- ii. the acknowledgement of the critical role of habits, norms and societal rules of all kinds on economic actors, activity and behaviour;

- iii. the conception of the economy as an open system that is embedded and relating to broader systems and relationships;
- iv. the dependence of individual cognitions and perceptions on their cultural and institutional context, and
- v. the rejection of the assumption of economic actors as utility maximising or rational (Hodgson, 2000).

Overall, institutionalism has continued to pay attention to the development and extension of institutional theory (Schmid, 2004). This has involved addressing and adapting institutionalist thinking and ideas to confront contemporary economic problems; and taking account of institutional considerations in understanding and explaining economic change (North, 2005).

Secondly, there is now also a growing body of economic historical study, empirical research and associated literature, acknowledging the dominant role and influence of institutions on economic development. Grief et al. (1994) study of Genovese traders in the twelfth century and the Maghrebhi traders of the eleventh century, suggests that institutions influenced the development of organisation in a manner that determined the paths that subsequent institutional frameworks took. In so doing institutions influenced the nature and success of these communities' economic activities (Grief et al., 1994).

The force of findings of various empirical studies has also influenced an acknowledgement of the importance of institutions. A growing number of studies have

pointed towards the primacy of institutions as the decisive influence over and above geography, endowments or location. For example Easterly and Levine (2003) found that geographic endowments, “tropics, germs and crops affect development through institutions” and that there is no evidence of impact or any effect on policies once they controlled for institutions. Acemoglu, et al. (2001) also discounted the role of geography, but found large effects of institutions on income per capita. Engermann and Sokoloff (2003) noted that it is difficult to conceive of any processes of economic growth in which institutions do not matter. They add that "Institutions matter, but our thinking of how they matter should recognize that they are profoundly influenced by the political and economic environment, and that if any aspect of institutions is crucial for growth, it is that institutions change over time as circumstances change" (Engermann and Sokoloff, 2003: 1).

Furthermore, the research has been embraced as policy makers have sought to explain variations in country experiences as well as the varying impact of similar policy prescriptions. As a result the studies have stimulated further work in the international policy mainstream. For example IMF economists make particular reference to the growing body of research into the differences in institutions and economic development experience across countries and the "channels through which institutions may affect economic outcomes..." (The IMF, 2003: 95). The agency notes that studies involving statistical assessment of institutional measures and their impact on GDP per capita have shown that quality of institutions have a significant impact on GDP per capita. Internal IMF empirical work carried out in relation to the April 2003 report, was consistent with

other studies indicating that institutional quality (as measured by aggregate governance measures) alone explained nearly three quarters of the cross-country variation in income per head (IMF, 2003: 106) The IMF also notes in its World Economic Outlook report, entitled "Growth and Institutions", that whilst there had been long standing understanding of the importance of institutions there had been "a resurgence of interest" in institutions (The IMF, 2003:95).

Similarly in its 2003 World Development Report titled "Sustainable Development in a Dynamic World" The World Bank dedicates an entire chapter to discussing institutions, and their role in development. The Bank notes that "In practice many socially worthwhile policies are not adopted or implemented. The institutional perspective examines the forces that work to shape and implement policies" (IBRD, 2002: 37). Finally both the IMF and The World Bank have sought to introduce measures and conditionalities that advocate and support action aimed at strengthening institutions, (The IMF, 2003:116) or that develop norms and conventions to protect and enhance the opportunities for sustainable development (IBRD, 2002).

#### **1.2.4 Outstanding questions**

However, it is evident from the discussion above that acknowledging institutions is not the same as understanding institutions. While scholarly, empirical and policy progress is evidently being made, it remains as yet ambiguous and undecided as to what institutions are and why and how they matter. It is necessary to go beyond simply stating that

institutions are implicated and to begin to establish in some detail what institutions are implicated, how they may be implicated. Thus both better definition of the nature of institutions; as well as closer examination and critical explanation of the role they actually play in economic change and development, are called for.

Such closer theoretical review and scholarly examination as well as empirical, descriptive and explanatory study are the subject of this project. The study addresses the outstanding questions raised above by clarifying what institutions are (i.e. the theoretical definition) and then examining how and why they matter in a real life context (i.e. their role and influence). The research strategy adopted for this has two aspects. Firstly it involves an extensive review of the theoretical literature on institutions. Secondly it involves an empirical study of institutions within a chosen case study setting. Thus an original contribution of this study can be seen as being this new combined theoretical and empirical further examination of the role of institutions in development in a specific context<sup>8</sup>.

### **1.3 Project formulation, focus and methodology**

This research project has been formulated as an investigation into the *theory* and the *experience* of role of institutions in the development of a growing and transforming economy from the hitherto relatively under emphasised *institutional* perspective. The focus of this research project is as follows:

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<sup>8</sup> It should be further noted (and is demonstrated in this thesis) that the claim of originality rests on an examination of institutions that has never been done before, in a way that has not been carried out before. In addition the thesis contributes new insights that offer new considerations that may be tested and applied in other development sectors and country situations.

- i. The *analysis* to be carried out is focused on institutions. The study is aimed at furthering understanding of what institutions are and how and why institutions influence development.
- ii. The *context* of the study is the coffee sector in Uganda.
- iii. The *key questions* being addressed are as follows:
  - **What role have institutions played in the economic development of the Uganda coffee sector?**
  - **What are institutions?**
    - How can they be best identified, described and categorised?
  - **How have institutions been implicated and influential in shaping the sector, its economic development path and the economic development experiences and outcomes?**
    - What does the sector's development experience suggest matters most in explaining the role and significance of institutions in economic development?
    - What key insights and implications from this study may be more broadly applicable to other sector and developing countries experience?

The rest of this section presents and explains the chosen methodology and the approach taken to carry out the research involving desk-based review of scholarly work and case related documents, as well as field work involving structured interviews and focus groups.

### **1.3.1 Research methodology**

The chosen methodology for research reflects two key methodological choices. The first is a choice of overall research approach (whether to choose a quantitative, qualitative or mixed method approach), (Creswell, 2003); and the second, involves a further choice of

research strategy within the initial overall approach (Whether to carry out an experiment, survey, archival analysis and review, history or case study); (Yin, 2003).

Table 1.1 summarises the approach taken to selecting a methodology approach and research strategy for this study.

**Table 1.1**

**Overview of approach to selecting a methodology for the study**

Type of methodology choice	Chosen	Rejected
Choice of overall research approach	<ul style="list-style-type: none"> <li>• Qualitative Approach</li> </ul>	<ul style="list-style-type: none"> <li>• Quantitative Approach</li> <li>• Mixed method Approach</li> </ul>
Choice of research strategy to use	<ul style="list-style-type: none"> <li>• Initial Literature Review</li> <li>• Followed by Case Study</li> </ul>	<ul style="list-style-type: none"> <li>• Experiment strategy</li> <li>• Archival analysis strategy; History strategy</li> </ul>

The first methodological choice was in relation to overall approach. The approach chosen for this research project was to carry out a qualitative study. This choice of approach was determined by the following considerations (Creswell, 2003; 19):

- **the research questions to be tackled were open ended:** – the study is about “what” institutions are; what their role is and “how” and “why” they matter
- **there was a need to study the historical context and the sector in which the analysis was being carried out:** – the study examines institutions as well as the history and sector within which they are manifest – i.e. the coffee sector and Uganda
- **there was a need for researcher intervention to cross reference, relate and interpret and comment on the emerging information:** – the study involves

- detailed formulation and framing of the issues and perspectives to be examined and iterative review and testing / reframing of the analysis
- **the research involved interacting directly with participants in the field work and formulating and reformulating conversations to elicit the necessary information:** – the participants expected the researcher participate directly in the interviews to facilitate the discussions and carry out the interviews.

Alternative approaches to this research considered were the quantitative or mixed method approaches. For the reasons outline above – quantitative and mixed method approaches were not appropriate for the study and the qualitative approach was preferred<sup>9</sup>.

The second methodological choice for this study was what specific research strategy to apply. Two complementary research strategies were chosen for this study. These were: an initial literature review; followed by case study research. These are discussed briefly below.

The initial research strategy selected was a literature review of scholarly works. This was selected to address questions relating to theoretical definition (“What are institutions?”).

The second research strategy selected was case study research. This was chosen to address questions of influence and role (“How and why did institutions matter and how

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<sup>9</sup> Quantitative approaches are specifically considered most appropriate when testing or verifying very specific theories or explanations; identifying variables for study; collecting, observing and measuring numerical data; carrying out statistical analysis and procedures. Mixed method approaches can be considered when there is a mix of the requirements applicable for quantitative and qualitative approaches. (Creswell, 2003)

did the influence economic development?). The literature review and case study choices were preferred to the alternative choices of strategy. The alternative strategies considered (and rejected) were an experiment strategy, an archival analysis strategy; and a history strategy.

The literature review was selected as it is best suited to answering the type of questions that the initial part of the research needed to address. These were questions that were theoretical and definitional. They typically related to establishing questions such as “what institutions were”, “how many types of institutions there were”, “who had defined these institutions” or “where the authority for the definitions was from”. None of the other strategies would have been as well suited to address these questions<sup>10</sup>.

The case study strategy was selected for the second part of the research as it is best suited for addressing exploratory, definitional and / or explanatory questions. This strategy was better able to address questions like “why institutions matter” and “how they influence development / how they matter”. In addition this strategy also allowed examination of the social – historical context and could accommodate the ambiguous boundaries between the institutions being analysed and the context within which they lay. As both were of interest it was necessary to have a strategy that allowed the researcher to examine both, and to establish the relationships between them without having to strictly differentiate

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<sup>10</sup> The experimental strategy was rejected as it involves testing predetermined closed statements or questions and verifying predetermined theories and / or hypothesis. It is therefore typically concerned with verification rather than exploration. An archival analysis strategy was rejected as there were no specific archives to be examined. A history strategy was rejected for this part of the research because the matter in question was not to do with establishing the history of institutions.

them before hand. In addition this strategy enabled the study to be exploratory, descriptive and explanatory as required – in order to answer the questions being posed.

In order critically to examine the role institutions play in development, a case study of a real country experience is therefore seen as a necessary complement to the theoretical and analytical work examining institutions covered in this study. Examination of a specific country case experience enables the study to locate and test the theoretical relevance of insights about institutional influence and change with the help of actual historical experience. In addition the case work makes it possible to examine the processes involved in development and to do so considering the evolution of events and outcomes over time. Hence by using a specific case, the study is better placed to yield insights that are theoretically robust, contextually grounded and can be supported by contextual evidence.

More generally the case study strategy enables inquiry into the theoretical relevance and useful insights that may be drawn. It allows for better understanding of the background to the conclusions, and therefore their usefulness as wider developmental conclusions that are potentially applicable in the contexts of other developing countries. While Uganda (and the Uganda coffee sector are specifically chosen for the study, their experience of significant institutional change and mixed economic outcomes provide conclusions that are analytically generalisable and available to be applied and tested within the contexts of other sectors and developing countries.

### **1.3.2 Organisation of the research**

In order to address the key questions, the research work was organised to cover the theoretical issues raised by the questions as well as to gather and review information that could provide insights into the coffee sector. The work was organised to encompass desk based and field based research. Information and data for the study ranged extensively across different subjects. The study examined different scholars' perspectives and used a variety of sources. Sources used included published literature, reports and surveys, field work involving individual interviews and group discussions. The literature reviewed as part of the study was drawn from across the social sciences covering political scientists, anthropologists, sociologists and some legal viewpoints in addition to a broad range of economists' perspectives.

Considerable effort and time within the overall research was dedicated to preparing and carrying out the fieldwork interviews and focus groups that took place in Uganda. The interviews and groups involved meeting, interviewing and discussing questions and issues relating to institutions, culture and development as well as the history and socio-economic development of Uganda (generally) and of coffee in particular. Interviewees and focus group participants included professors and teachers, civil servants, regulators, entrepreneurs and business men, farmers, NGO workers and Members of Parliament.

The research also drew on used reports and surveys including internationally published reports from development agencies and authorities as well as local Ugandan reports and papers from coffee sector trade bodies and local regulators.

The research represented in the study, was carried out between April 2003 and December 2006. Chronologically it covers developments in the period 1900 – 2004: from the inception of the coffee sector to the establishment of the NRM government and associated reforms and institutional developments.

The study was organised into the following steps:

- a) an initial phase of desk based research and design work leading to a selection of initial field work interviews;
- b) a second stage assessing the initial field work findings, carrying out further desk research and designing further work;
- c) a third stage of field work interviews focus groups; leading to
- d) a final stage of analysis, findings and concluding remarks.

Appendices 2 to 4 provide descriptions of the approach and the case work carried out, including a summary description of the interviews and focus groups involved.

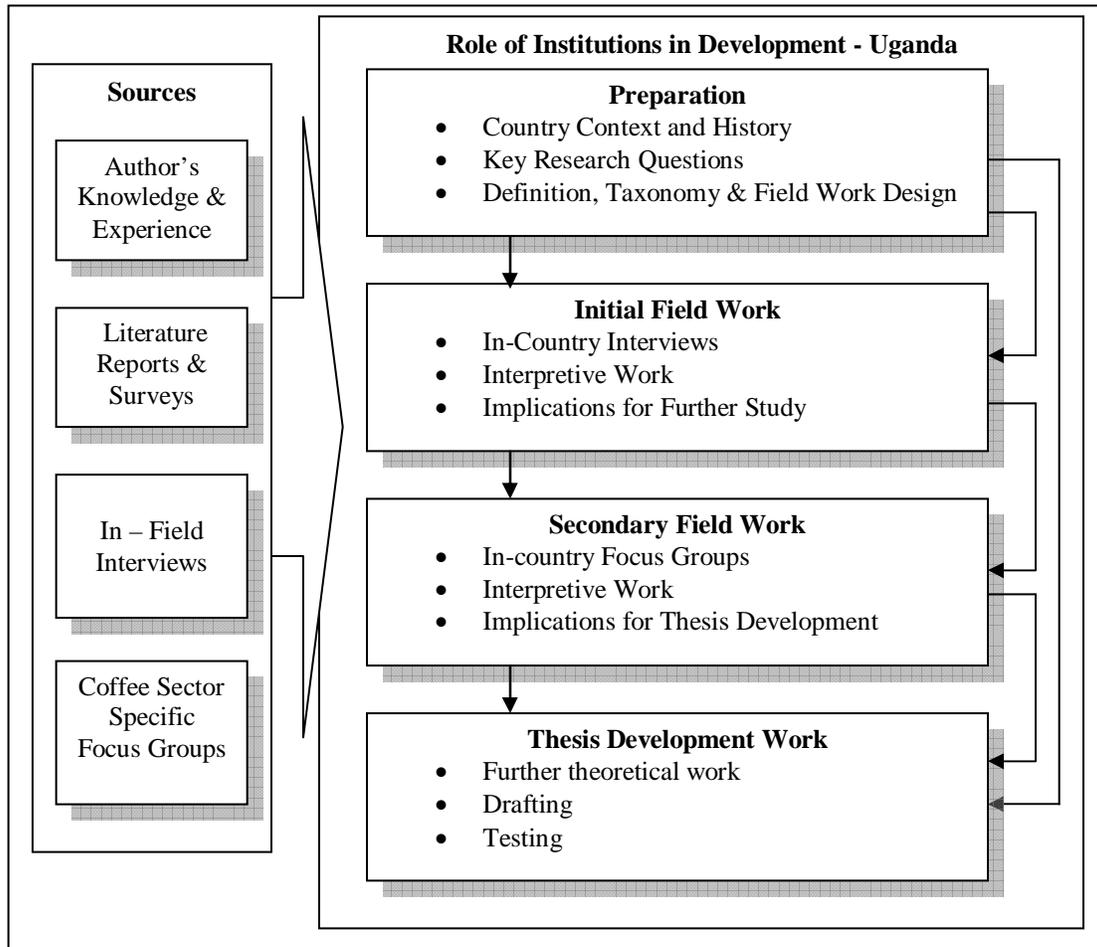
Initially the research was organised to progress from desk research to field work with the intention of using the fieldwork to gather information, test assumptions and identify / draw insights that could then be gathered back and related to the initial questions and early theoretical work. As the research unfolded it became evident that an iterative rather than linear approach to the research work was needed. This was because the initial field work indicated the need to revisit the theoretical framework to further develop the

institutional definitions to make the framework better adapted to the task of analysing the experience being uncovered. In addition the field interviews indicated the need to focus more specifically on participants in the coffee sector and to understand their views of the coffee sector and the story of its development to its current state.

The research work as it developed was therefore carried out in 4 iterations between desk based development, interpretive work and field based interview and focus group discussions and thesis drafting. Each of the iterations took the study a step further, leading to further refinement of the next research step as well as continuous updating of insights and conclusions being drawn.

Figure 1.1 shows the overall study design showing types of sources and nature of work carried out.

**Figure 1.1**  
**Overall Study Design – Sources and Key Steps**



### 1.3.3 Ensuring research validity and reliability

Particular attention was paid to ensuring the research approach, strategy and execution of the research was in line with best practice standards of design and study. This was

achieved by ensuring that the research was design and carried out in a way that ensured its validity and reliability. In particular the author took the following specific actions:

- a) The approach taken to gathering and interpreting the data was design to ensure that the study was constructed in a way that utilised valid sources of information.

This was achieved by:

- using multiple sources of information;
- checking sources provenance and implied credibility;
- inviting interview participants to comment on and make suggestions about data choices.

- b) Care was taken during analysis to check that information and data were being interpreted in a valid way. This was achieved by:

- cross referencing findings and comments between available literature, reports and interviews/ focus groups;
- admitting and testing possible alternative explanations;
- inviting comment from interviewees, other peer researchers and supervisors on interpretations being drawn;
- presenting findings at an academic conference and in peer workshops;
- cross referencing interpretations with theoretical literature;
- carrying out a final “common sense” checks for consistency.

Finally care was taken to ensure reliability by preparing questionnaires beforehand including: reviewing them before use; recording findings carefully (written and audio) and collecting and storing information consistently and effectively to avoid confusion<sup>11</sup>.

Table 1.2 below gives an overview of the key research steps, key case findings and their use in the study.

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<sup>11</sup> Information from the field interviews and focus groups was initially recorded using a digital tape recorder. Notes were also taken. The information from the tapes and notes was then referenced to and integrated with studies, reports and publications about Uganda's history, and development and reports and interview information and papers from local scholars, industry commentators and sector workers.

**Table 1.2****Research work, key findings and use in the study**

<b>Phase</b>	<b>Work Done</b>	<b>Sources Used</b>	<b>Key Findings</b>	<b>Use in this study</b>
<b>Preparation</b>	Context setting Setting key questions Initial Methodological design	Authors own knowledge and experience Literature review	Problems of development Problems of definition of institutions Criteria for case study selection Research considerations	Designing the study Selecting the topic Planning the work
<b>Initial Field Work</b>	In-country interviews Interpretive work Thesis formulation	Reports Interviewees in Uganda	Confirmation of coffee as a vehicle for study Institutions mattered – through roles and impact on attitudes Key role farmers play Need to explain why institutions change	Analysis and thesis formulation Identification of key insights Listing of areas to be pursued further Update and rescheduling design of study
<b>Secondary Field Work</b>	In-country interviews Interpretive work Thesis formulation, review and discussion	Focus groups in Uganda Literature review (focus on explaining institutional change)	Confirmation of key issues and insights Emerging Importance of external events and different levels of rules on explaining change Persistence of institutions over time Prevalent Mixed attitudes and motivations as well as mixed perspectives towards future prospects	Confirmation of key insights Formulation and testing key responses to questions - interpretations
<b>Thesis Development</b>	Testing Drafting Review	Notes and summaries Initial drafts and working papers Literature review findings	Why institutions matter Role of institutional dynamics Impact and development in of institutions in coffee sector in Uganda Impact on roles and growth / development Insights for other sectors – additional work	Final draft of thesis Confirmation of contribution being put forward

### **1.3.4 Research contribution of the fieldwork**

The fieldwork interviews and group discussions proved invaluable as sources of new information. They provided insight into historical events and developments in the sector, testing and corroborating views and assumptions gathered from other local sources or arising from the literature survey. Field interviews and focus group discussions were particularly helpful in surfacing, testing, and putting into perspective, experiences and implicit knowledge about coffee and Uganda's history, which the author had gathered over the years as a young man growing up and living in Uganda.

More specifically the fieldwork helped to underline the importance of, particular institutions and influences as experienced by some of those currently directly involved with them, in various roles and from different perspectives. Whilst theoretically it was possible to identify, for example, which special types of institutions matter most at critical junctures, the fieldwork presented real people, situations and examples that described actual situations and experiences that testified to this.

Furthermore the interviews and focus groups allowed historical events and their effects to be "brought back to life" re-examined and discussed and their outcomes and implications to be explained, challenged or clarified. In this way the fieldwork enabled the study to become more aware of, and sensitive to, how institutions and institutional influences operate in different ways and at different levels. In addition the fieldwork findings practically revealed and highlighted the subtleties and interlinking of institutional influences across domains and over time. These important insights from the fieldwork

contributed to the analysis and conclusions presented in this study and are discussed in more detail in chapters that follow.

## ***1.4 Uganda as a development case study***

Before proceeding further into this thesis, it is necessary to introduce Uganda and the choice of the country and its coffee sector as the case example that is used in this study.

Firstly some points of essential historical background about the country are needed.

Secondly the choice of the coffee sector as a vehicle for examining the country's development experience has to be explained.

### **1.4.1 Introducing Uganda**

Over the last 100 years Uganda's development story has often been presented as a story of complicated societal interaction characterised by socio-economic and political evolutions, revolutions, continuities, disruptions, false starts, and unforeseen developments. It has, however, never been told as a story of simultaneous institutional change.

The different institutional story given in this study, offers the opportunity to deepen understanding of Uganda's economic development and history. It promises better explanation of developing countries' entry into a new mode of economic existence, within a global economic reality. It also better explains the role of new socio-economic

and political relationships and interactions, new regulations, identities, opportunities and associated challenges and constraints.

The Uganda that exists today is chronologically a relatively recent creation. Before the late nineteenth century, Uganda as we know it today did not exist. There was no nation state, no internationally recognised boundaries and no “Ugandan” peoples. There was also no unifying legislative or political system and no governmental authority over the territory we now recognise as a unified independent state. The late nineteenth century thus provides a chronological “back stop” as well as starting point to the development story of modern Uganda.

It would make no sense to review the effect of institutions as exist in Uganda today on the economic development prior to that time. It also makes no sense to examine today’s institutions without acknowledgement of their emergence and change since the early twentieth century. Like other former colonial developing countries Uganda has over the last one hundred years, since colonisation, gone through a dramatic history of unfolding political, economic and institutional eras that have brought it to its present day incarnation. Each succeeding socio-political era has been characterised by its own institutional developments and attending economic development outcomes. The institutional changes that followed colonisation opened novel socio - political and economic pathways which rapidly led to the transformation of the country.

Across colonised Africa the transformation of societies was typically swift and disruptive. Typically transformation involved a series of pivotal events, significant influences, and path shaping developments that led to widespread, often fundamental socio-economic change. In the case of Uganda, the chronology of significant events may be simply summarised: the country was first colonially claimed, then territorially delineated, politically subjugated, administratively regulated, economically re-directed and eventually nationally and internationally politically recognized. More latterly it was also nationalistically emancipated, politically recreated, internally disputed, economically disabled and then most recently politically and economically re-born<sup>12</sup>.

Over the last fifty years, Uganda has therefore experienced relatively volatile and at times rapid economic growth and transformation (Bigsten and Mugerwa, 2001). Recent as well as past economic growth and change in Uganda has been attended by far reaching institutional change. Policy makers and scholars have noted the economic significance of the institutional transformation the country has experienced (Bigsten and Mugerwa, 2001 and 1999; Kreimer, 2000). Yet the role and influence of institutions in the country's development has not been specifically examined and explained. A theoretically informed assessment of the empirical experience, based on some clear categorical definition of institutions as well as explanation of institutional change, has as yet to be made. It is just such an assessment that is the subject of this study.

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<sup>12</sup> See Appendix 1 for a Uganda chronology of events from colonisation to the present day

### **1.4.2 Introducing the Uganda coffee sector**

The focus of this study is on understanding institutions and the role they play in economic development in the Uganda coffee sector. The case work offered as part of this study is distinctive because it does this through the lens of institutional analysis and assessment. It is also distinctive because it re-examines the country's experiences of socio-economic change and development with a different approach that is capable of yielding new insights.

The case study is able to do this effectively because it uses a selected, well-defined social economic setting and entity: the Uganda coffee sector. The study examines the development of the sector using the taxonomic description as research vehicle to draw out the influences, as well as the developmental paths, new and old, that have created the economic realities that Uganda as a whole experiences today. The case study examines the experience of the coffee sector as a contained, long established and reasonably well documented, microcosm through which institutional change and the role institutions have on development and growth can be examined. The coffee sector therefore offers an appropriate entity for use to examine the role and influences of institutions.

The transformation of the Uganda coffee sector has in many ways echoed the changes in the wider society that the sector is part of. Socially the sector emerged and developed new organisational entities. Economically the sector enjoyed as well as suffered from the vicissitudes of change and growth. Politically the sector grew in role and significance and stretched in influence and dependence – locally and globally. Thus coffee and its

development course can be seen as epitomising the changes over time that Uganda as a nation has experienced in its wider developmental transformation from hesitant colonisation to independent African state<sup>13</sup>.

The sector's significance in this development story also derives from the coffee sector's sheer economic and social significance to the country. Uganda today is a leading African and international coffee producer and exporter. It is Africa's second largest producer of coffee after Ethiopia<sup>14</sup> and the fourth largest world exporter of Robusta Coffee in the world (Ponte, 2002).

The Ugandan coffee sector is renowned for the high quality of its Robusta. The sector has a large geographic and socio-economic footprint. In the twenty five years to 2005 coffee contributed approximately of US\$ 250 million a year to Uganda's export earnings<sup>15</sup> (Note that Uganda's GDP is circa US\$9300 million a year)<sup>16</sup>. Between 2000 and 2004 coffee earnings have accounted for just less than 20% of export earnings<sup>17</sup>. Coffee cultivation stretches across significant parts of the east, south east and north west of the country.

Coffee engages 500, 000 families as smallholding farmers. The sector is believed to benefit about 3.5million directly and employs, directly or indirectly, about 5 million

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<sup>13</sup> The creation of Uganda a protectorate marked the culmination of a British colonial interval of somewhat mixed intent. The interval curiously combined disparate religious, commercial, exploratory and colonising concerns with the meddlesome representation of the activities of missionaries and philanthropists, agents of the Imperial British East Africa Company. Uganda was created as a result of the collusion and competition between varied foreign interests, traditional rulers and influential local and foreign notaries. As Kanyeihamba (2002; 4 - 5) notes often local rulers did not understand the implications of agreements they were signing and the colonial interest at the time was not peoples but spheres of influence, strategic advantage and trade or commercial gains

<sup>14</sup> Historical production figures compiled by the East African Fine Coffee Association

<sup>15</sup> Export value data compiled by East African Fine Coffees Association from industry data

<sup>16</sup> The World Bank Development Databank at: <http://www.worldbank.org/> (28/04/08)

<sup>17</sup> Data compiled by East African Fine Coffee Association. In recent years coffee earnings have fallen by 60% due to lower world prices and lower volumes (In part a result of the spread of Coffee Wilt Disease which since 1996, is said to have destroyed about 45% of the older trees)

people through which it impacts the livelihoods of about 7million Ugandans, which equates to approximately 25% of the population<sup>18</sup>. The coffee tree crop yields two harvest seasons - in line with duality of the rain patterns - concentrated in November to January and June to July. Socio-economically this means that farmers and others in the sector can be involved in some way with the business of tending, processing and trading the crop all the year round.

Coffee thus not only represents a large number people, the way it is grown and marketed means that it defines social activities that are the very essence of life in significant parts of southern and eastern Uganda. Coffee is at once and the same time rural and urban, modern and traditional, domestic and international, indigenous and foreign, public and private. Historically, socially, economically and institutionally the Uganda coffee sector is clearly an excellent vehicle for examining the Ugandan development and institutional change experience.

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<sup>18</sup> UCTF 2004/2005 Yearbook and Focus Group discussions

## ***1.5 Structure and presentation of the thesis***

The rest of the thesis is organized as follows.

Chapter two examines the idea of institutions. Whilst institutions can be presented as broad in conception and lacking in coherence, in fact, a continuing body of scholarship means that, progress in definition has actually been made. Chapter two makes a significant contribution in that it effectively takes on the challenge of navigating the literature and drawing out coherent strands of thought that indicate how further progress can be made. It reviews a large body of literature representing the diverse, differing and at times confusing scholarship relating to the idea of institutions. It settles on a coherent defensible definition of institutions. The chapter shows that further progress can be made by addressing ambiguities and conceptual confusions and putting forward some defining characteristics of institutions that enable us to state more clearly and coherently what institutions are and what they are not. It goes further by offering some criteria to sort out what may or may not qualify as an institution. In so doing the chapter significantly and distinctively advances the requirement for a more detailed singularly presented taxonomy of institutions than has hitherto been available.

Chapter three addresses the requirement raised in the previous chapter by proposing a taxonomy of institutions. This further contribution is significant because robust taxonomy is essential for the study of the role of institutions in development. The chapter

establishes that the requirement is to consider in some detail what the various forms of institutions are and how they may be differentiated. The chapter starts by drawing attention to the challenge of creating a taxonomy of institutions. It elaborates on the different forms of institutions that exist, identifying how they may be differentiated, the different socio-economic roles they play and the different ways they are experienced. It also briefly reflects on how the different types of institutions become manifest and notes their dependence on each other and / or other social and cultural factors before considering how they may be classified as sub types within the broader definition of institutions.

The following three chapters, (chapters four, five and six) are best seen as acting together as a set that bridges the theory and the practice. The chapters are significant because they identify and develop a new and relevant case history. They use this case history to examine apply and test the usefulness of the taxonomic theory. They also focus on insights and learning from the case that can inform further theoretical development as well as generate insights relevant for other developing sectors and countries.

Each of these next three chapters has distinctive areas of focus. The purpose of chapter four is to examine the development of the Uganda Coffee sector from an institutional perspective. The chapter identifies the different kinds of institutions involved in the development of the Uganda coffee sector from its inception at the end of the nineteenth century. In doing this it is shown that the completeness of the development story depends on a refined understanding that differentiates various types of institutions, the roles they

play and the varying levels of influence they had. The chapter also reveals that it is still necessary to:

- further develop the initial taxonomy of institutions in order to take into account the different levels at which institutions may be identified;
- provide an adequate explanation of why institutions change and why they are able to exert such decisive influence on socio-economic activity and development.

Chapter five is an important and pivotal chapter. It reviews briefly theories explaining why institutions change. In particular it examines the extent to which theories advanced are helpful in of addressing institutional change questions raised by the case example studied in the previous chapter. The chapter specifically asks why institutional change takes place in a particular society or domain and how the complexities of change across domains and hierarchies may be explained. The discussion in this chapter concludes that that the coffee sector case example raises issues that cannot be adequately explained with preferential reference to endogenous institutional change theory alone. Exogenous factors and influences have to be admitted as plausible theoretical explanations. In addition other change influences and considerations also have to be pointed to.

Chapter six provides the concluding insights and explanation of the reasons why institutions changed and developed and in so doing influenced economic change and development within the coffee sector in Uganda. Specifically the chapter examines the role of endogenous and exogenous events and considerations at critical institutional change junctures, and discusses the influence of higher and lower level institutions had

on shaping institutions in decisive ways and the evident effects observable within development of the coffee sector.

Chapter seven concludes the study. It summarises the issues addressed in the study, the main conclusions and insights of the study, relating to the definition and classification of institutions. It examines how institutions change and the essential role they have in influencing and shaping development. The chapter discusses how the insights from this study might inform the ongoing study of institutions in development and this may have for policy makers. The chapter ends by pointing to questions raised by the study as well as commenting on what still remains to be addressed and / or further examined.

## ***1.6 The original contribution of this thesis***

The original contribution of this study is specific and multifaceted. The thesis:

- i. furthers the development of institutional theory;
- ii. it tests the application of that theory in an original case history study of Uganda from an institutional perspective;
- iii. it identifies and establishes the role of institutions in the development in a key sector in Uganda;
- iv. it uses the learning from that case study to refine and develop the theoretical explanations of how institutions change and influence development; and
- v. it offers insights and explanations of development that are relevant for other sectors and developing countries;

- vi. it reveals new ways of applying institutional theory and analysis to explain change and development in an economy.

This thesis therefore draws attention to important of issues of present concern to researchers, policy makers and citizens alike. Selected countries are often held up as development models and the reasons for their economic fortunes paraded (e.g. political will, development aid and assistance; skilled people; access to markets; inward investment and so on). These explanations on their own do not illuminate the actual processes and influences that play the essential roles in creating the circumstances and successes that are so often reduced to journalistic slogans and simple macro-economic representations of performance<sup>19</sup>. More detailed, considered studies are called for.

This study is a more insightful and educative work that goes beyond mere description of outcomes narrowly based on a lean logic of capital and investment. It also goes beyond merely drawing reference to panaceas that have already been found wanting. The thesis reaches further back and extends deeper into a country's experience to seek out relevant contextual information as well as specific experiential data with which to further examine the nature, role and experience of institutions in economic development. In so doing this work takes existing scholarship further and also opens up new avenues for further studying the role of institutions in development.

This thesis should be of particular interest to those seeking to draw out common insights and possible implications for institutional design and policymaking. Today not much

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<sup>19</sup> References often liken them to fast growing Asian economies and refer to them as "tigers"

work currently already exists that pulls together the body of theory - looking at old and new institutional economics, locating the role of the social and cultural, reviewing the evidence from country's recent economic histories and the actual experiences of key players and interest groups. This research is therefore advanced as a contribution that will be of interest and value, in differing ways, to researchers, students, policy makers and entrepreneurs concerned with economic development and the issues influencing it.

**CHAPTER TWO**  
**INSTITUTIONS: DEFINITIONS AND PERSPECTIVES**

## **2 Institutions: Definitions and Perspectives**

### ***2.1 Introduction***

This chapter examines the concept of an institution. Its purpose is to show that whilst institutions can be presented as having become broad in conception and lacking in coherence, in fact, a continuing body of scholarship has meant that notable progress in definition has been made. Consequently, it is suggested here that further progress may be made by clarifying what is settled and defined; what is useful and informing; and what may be set aside as distracting and potentially unhelpful. This makes possible the proposal of an unambiguous set of criteria for defining what institutions are. Using these criteria, definitional ambiguities and conceptual confusions can be addressed and essential characteristics of institutions crystallised. This then clears the way to a more informed consideration of differences in types of institutions, within a broad, but well defined and coherent, conception of what may qualify as an institution.

This chapter starts with a brief reflection on why and how the notion of institutions has developed to become widespread in use, and lacking in coherence. It then reviews some of the diverse and differing scholarship relating to the idea of institutions outside and within economics; recognising the differences in perspective, theoretical provenance and foci of interest that has developed. It shows how progress has been made and suggests that clarity may be best served by dealing with questions relating to external boundaries (what qualifies and what does not qualify as an institution); internal differences (not all institutions are the same); and robustness (what breadth and depth of definition is needed

to be able to “contain” the different aspects of what qualifies as institutional). In conclusion it is suggested that whilst progress has been made, for the study of the role of institutions to be advanced further, a more detailed taxonomy is essential.

Surveying the various uses of the term “institutions” it is evident that within economics and across other disciplines in the social sciences, the term “institution” is not commonly defined or consistently used. Surveys and reviews of the nature of institutions repeatedly reveal and affirm the variety of characterisation (Nelson and Sampat, 2001; Hodgson, 2000; Hodgson, 2006; Searle, 2005; Hall and Taylor, 1996; Scott, 2001).

Within economics the notion of institution to those informed by the “old” institutionalists tradition, will include consideration of habits, rules, and individual agents within an institutional and cultural context. It will also encompass an evolutionary process of change and continuity, as well as an appreciation of learning that can be conscious or tacit and that is related to habits (Hodgson, 2000; 2006).

The notion of institutions to those informed by the “new” institutionalist tradition will place greater emphasis on the individual as the primary unit of analysis and consider the development of institutions as a choice response to problems faced (Hodgson, 2000; Harriss et al, 1995). Fundamentally different assumptions evidently inform and underpin the different schools of institutionalist thinking (Hodgson, 1998).

In addition the definitional ambiguity has been affected by the way the study of institutions has embraced contributions from other disciplines (Hodgson, 2000). As a result institutionalism has developed into a very broad church, encompassing quite different and distinct schools of thought and an extensive array of scholars.(Hodgson, 2001; Schmid, 2004; Hall and Taylor 1996).

It remains the case that that there is no single, coherent development of the notion of institutions. Nevertheless, that there exists a core of considerations and ideas that define institutions and institutionalism. Consequently I argue after Nelson and Sampat (2001) and Hodgson (2005) that the definitional cause is not lost. Forsaking the quest for a single notion of institutions is not the same as being unconcerned with the issues of definitional boundary and clarity of meaning.

What is needed now is to go beyond broad understanding to more specific clarification. An ordering of what is settled and understood about the nature of institutions is clearly possible and needed. Such an endeavour has to start with an examination of the different perspectives of institutions that have emerged and been able to gain defensible currency.

## **2.2 *Perspectives on institutions***

### **2.2.1 Political science perspectives**

Different disciplines within the social sciences use different labels and often have quite different emphases on what their conception of institutions comprises. Within the political sciences institutionalism has developed some lines of scholarship that mirror in part sociologists and economists ideas on institutionalism. In political science, analysis focuses on how institutions influence decision making and the development, or adoption, of public policy. This includes, for example, institutions in the domains of redistribution, regulation, democratization, modernisation and liberalization (Reich, 2000).

Under the overall umbrella of contemporary institutionalism, different schools or perspectives of institutionalism are identifiable. The schools have a variety of approaches and assumptions, some of which echo, but are not necessarily, conceptually consistent with, perspectives and ideas in sociology and economics. Hall and Taylor (1998) identify the three overall schools of thought of contemporary institutionalism in political science as being the historical, the new economic (or rational choice) and the sociological<sup>20</sup>. Each of these schools can be associated with particular aspects that distinguish them.

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<sup>20</sup> Hall and Taylor (1998: 1) note that each of these schools call themselves “New Institutionalism” even though they “paint quite different pictures of the political world”

Within political science “Historical Institutionalism” is conceived of as being more descriptive in nature<sup>21</sup>. It approaches the analysis from the perspective of formal organisations and the rules and conventions associated with organisations and entities active in the polity. The perspective it takes centres on organisations and institutions of the state and how the routines and norms embedded within the different structures create interests that have particular political outcomes. Historical institutionalism is also concerned with the realities and imbalances in power that exist, and how these affect the development and operation of institutions. Institutions and organisations are seen as affecting political activity, influencing behaviour along particular lines of interest and determining actors’ choices. Actors, institutions and organisations are seen as affecting outcomes. Notions of path dependence and unintended consequences are acknowledged as being relevant in this regard.

As regards definition, historical institutionalists characterise institutions as “the formal and informal procedures and conventions embedded in the organisational structure of the polity or political economy.” (Reich, 2000: 505). Historical institutionalists are portrayed as being “eclectic”, willing to take a “calculus – strategy”, as well as a “cultural – embedded” view of how institutions are created, develop and influence behaviour. In this respect they are willing to see individuals as having set goals and preferences and selecting strategies to maximise benefits. Institutions are seen as affecting behaviour by

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<sup>21</sup> This is a (misconceived) charge laid against “Old Institutionalism” in economics (Hodgson 2004); whilst it may also be misconceived in political science, it is important to note that “Historical Institutionalism” as it has been conceived in political science is quite different from “Old Institutionalism” as it is understood within economics.

promoting certainty about how others may act in given circumstances (Hall and Taylor, 1996).

Historical institutionalists are also seen as willing to emphasise that the behaviour of actors is tied to the world view which actors live with and in. Institutions thus act as templates and filters for interpretation and action and affect actors identities, preferences and choices. Past policies have influential effects on paths of future decisions and outcomes. The role of different interests and groups is also acknowledged (Hall and Taylor, 1996).

Also within political science, “new economic institutionalists” (also referred to in political science as “rational choice institutionalists”) borrow ideas from what economists would recognise as the new institutionalist perspective in economics. They emphasise the mechanisms by which agents make choices to achieve their desired goals by considering the costly alternative of making deals and taking action without institutions.

New economic institutionalists take a rational choice perspective of socio-political and economic life. Actors are seen as having fixed preferences and seeking to maximise benefit. Like the other perspectives they emphasise the ongoing struggle for power and the ongoing collective learning. However they also pay particular attention to the series of collective dilemmas that face groups. It is in response to these dilemmas that agents are seen as developing responsive strategies and valuable institutions. Institutions then play a role in structuring the interactions that arise. Hence new economic institutionalists

contend that the institutions that develop and survive are the ones that are selected by virtue of being the most valuable and effective at resolving the collective dilemmas facing the group (Hall and Taylor, 1996).

“Sociological institutionalism” draws on institutional ideas in sociology, as the name suggests. The argument here is that institutions are best seen as being culturally specific and embedded in particular cultural settings. Institutions are defined more widely and in a way that “breaks down the conceptual divide between “institutions” and “culture” by including “not just formal rules, procedures or norms, but the symbol systems, cognitive scripts and the moral templates that provide the frames of meaning guiding human action” (Hall and Taylor, 1996: 14). Sociological institutionalism conceives of institutions as influencing not only the choices, but also individuals’ perceptions and imaginings off the choices. In so doing institutions are seen as impinging on the self images and identities of actors (Hall and Taylor, 1996).

In political science it is evident that the demarcation between old and new institutionalism does not exist in the same way as in economics. In particular, the ideas corresponding to historical institutionalism cannot be directly mapped to ideas normally associated with new institutionalism in economics<sup>22</sup>. Furthermore the eclectic borrowing of ideas from the economics and sociological institutionalist perspectives does not necessarily reflect some of the underlying distinctions in assumptions that are evident in those disciplines. From a definitional stand point, the historical institutionalists’

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<sup>22</sup> Contemporary analysis is seen as encompassing aspects that institutionalists from the economics tradition might view as being informed by the old institutionalist perspective

juxtaposition of the rational choice and cultural approaches leaves unresolved ambiguities as to the nature and defining characteristics of institutions. It also raises broader questions as to the underlying assumptions about the nature of individual action, the relationship between agency and structure as well as considerations of the order of precedence between actors and institutions.

The sociological institutionalist perspective leaves definitional ambiguities about the difference or boundaries between culture and institutions. It also raises questions about the assumptions being made regarding agency and determinism. Rational choice institutionalism leaves questions about the assumptions relating to actors' preferences and choices. Furthermore additional questions may be raised about the variety of institutions, and in particular the nature of organisations, states and so on. As a consequence it is possible to see how within the political sciences the clarity of what institutions are, and what they are not, (as well as how and why they are influential) is obscured.

### **2.2.2 The law and economics perspective**

In the law and economics tradition, conception and definition of institutionalism is far less developed. Institutions and institutionalist analysis may be seen as being primarily encompassed in the attention being given to the economic consequences of laws and considerations of how legal systems affect socio-economic behaviour and the equitable administration of justice.

In relation to economics, Posner (1998) points out for example that legal acts otherwise considered good can be costly and economically adverse, and vice versa. In addition to addressing issues relating to monopolies, taxation and corporations, the law and economics tradition has been informed by Coase's ideas relating to social costs as well as Gary Becker's economic commentary on Crime and Punishment (Posner, 1997, 1998).

Lawyers have evidently acknowledged the economic implications of laws alongside economists growing acknowledgement of the need for and the broad nature of legally-based governance. It is no longer simply assumed that the state on its own provides the governance framework essential for a "healthy" regime of economic activity. The behavioural and social consequences of laws, legal systems and practices can also be seen as having specified, as well as unspecified, effects on activities in the economic sphere. This is most evidently the case in relation to contract law, corporate law and laws of tort and liability. It is also evident in relation to some aspects of criminal law (in relation to fraud) and civil law (in relation to obligations).

In addition economic government and legal governance whilst necessary are considered to be far from sufficient. As Dixit (2004: 3) points out "the problem is that (conventional economic theory) takes the existence of a well functioning institution of state law for granted" which is simply not the case in many developing countries because the apparatus of the law is "very costly, slow, unreliable, biased, corrupt, weak, or simply absent". Dixit (2004) acknowledges the findings that governmental provision of legal institutions is not strictly necessary for achieving reasonably good outcomes. Dixit (2004)

also acknowledges the findings of Rodrik (2000) in relation to the importance of high quality institutions, Greif et. al (1994) in relation to contract enforcement, Gambetta (1993) in relation to hired protection and Hirshliefer (2001) in relation to protection of property rights.

### **2.2.3 Sociological and anthropological perspectives**

Within sociology one strand of analysis treats institutions as arising from rational choices of actors (the so-called rational choice sociologists). This strand of analysis emphasises the emergence of institutions as a result of the rational choices and interactions of individuals. The rational choice sociologist perspective is in contrast with another strand of analysis within sociology – often referred to as the functionalist school. The functionalist school is associated with Parsons (1937) and treats the existence of social structure as primary and behaviour as being best understood in the context of structured relationships (Landa, 1997). The functionalist school would view norms and beliefs as internalised and determined by socialisation that occurs through pre-existing social structures that the individual is born into (Landa, 1997).

Institutionalism within sociology has more evidently interacted with, and sought to influence, economics. In particular, sociologists have paid attention to deepening understanding of the mix of economic and social motives people have when engaging in economic activity. Economic life is conceived as being primarily social. Most behaviour, including economic behaviour is seen as being closely embedded within the networks of

interpersonal relations. Analysis of history, sociology and social structure is seen as the key to understanding how exactly institutions come into being and gain influence.

Institutions are not simply seen as efficient responses to economic problems. The idea of individuals as atomised independent units of self interest is rejected. People are seen as seeking goals that are not merely or even primarily economic. Acceptance of goals relating to sociability, status and power are advanced as plausible and necessary in order to obtain a more comprehensive understanding of so called “economic” behaviour (Granovetter 2001; 1985).

Some sociologists informed by the rational choice perspective also introduce considerations of trust and power as well as of identity. The interaction between trust, identity and power, and their influence on behaviour, and on the development of behaviour-shaping social rules, is acknowledged. Rules reinforce or challenge views of “our” identity vis a vis “others” identity which in turn has social implications in relation to trust and power. Existing and emergent rules relating to trust and identity are seen as influencing beliefs and behaviour directly as well as indirectly.

For example Landa (1997) advances the concept of EHMG (ethnically homogenous middleman groups) which use ethnic identity as a marker of reliability and reputation. Under this argument rituals and taboos can serve as symbols of identity, signalling who may or may not be trusted. Associated with perceptions of identity, “us” and “others” are institutional arrangements that incorporate, beliefs, rules and expectations. In addition identity at individual, group and country level can be seen as having economic

implications not simply social ones. Tilly (2004) argues that the development of modern societies that are integrated rather than segregated, and based on voluntary commitment as opposed to coercion, occurs when trust relationships are established and pervade the institutional arrangements.

Within anthropology, social interactions have often been studied within the wider context of understanding cultures and social groups and how they have developed and changed. In this context anthropologists have emphasised the importance of shared beliefs and values in shaping and influencing behaviour. For example Douglas (1966: 128) refers to "the public, standardised values of a community, (which) mediates the experience of individuals". She goes on: "Any culture is a series of structures which comprise social forms, values, cosmology, the whole of knowledge and through which all experience is mediated. ...The rituals enact the form of social relations and in giving these relations visible expression they enable people to know their own society. The rituals work on the body politic through the symbolic medium of the physical body."

Anthropologists also see the rules associated with culture of particular groups as responses to the practical problems of living (Harris, 1979) and / or society's attempts to mediate, make sense of and order its experience (Douglas, 1966). Wildavsky et al. (1990) for example, consider the need for relations and cultural biases to be congruent with and mutually supportive of ways of life. In their view of societies they also reflect on how societies develop particular biases depending on the strength of the social grouping, the boundaries and the strength of the rules individuals feel subject to, and regulated by. In

their conception of groups' cultural biases, Wildavsky et al. see social groups as open to holding a number of associated myths, which affect their social behaviour and are supplied by and reinforced by institutions.<sup>23</sup>

## 2.2.4 Perspectives in economics

Historically within economics, institutionalism never developed into a single homogenous body of thought. The work of prominent scholarly grandfathers such as Veblen, Commons and Mitchell<sup>24</sup> established a number of the core ideas of institutionalism but these were not presented in a systematic approach or theory. Institutionalism could be therefore be caricatured as a diverse and incoherent body, with a multiplicity of theoretical concerns, and no unified theory.

Without concerted scholarly advocacy or custodianship after the Second World War, the twists and turns of the developing scholarly ideas within the mainstream led economics as a discipline away, rather than towards, greater consideration of the importance and relevance of institutionalisms' core ideas. Consequently institutionalism was eclipsed by

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<sup>23</sup> Wildavsky et al (1990: 5) assert that " ...although nations & neighborhoods, tribes and races have their distinctive sets of values, beliefs and habits, their basic convictions about life are reducible to only a few cultural biases" . Using Mary T Douglas's Grid / Group Typology they refer to - the experience of a bounded social unit – (The Group) - the extent to which an individual is bounded into units as a boundary effect and a prescription effect – i.e. rules that relate one person to another on an ego centered basis – (The Grid) - the extent to which social context is regulated and relationships subject to prescription. They introduce 6 orienting Myths of Nature “Nature Capricious”; “Nature Perverse / Tolerant”; “Nature Benign”; Nature Ephemeral”; “Nature Resilient”. Institutions are seen as supplying and reinforcing these myths within a social grouping

<sup>24</sup> Hodgson (1998: 167 ] notes for example that “Veblen’s work shares common features with a variety of economists including Alchian, Hayek, Nelson and Winter, and Commons has been acknowledged as a major influence on the economics of Simon and Williamson.

new renditions and presentations of economics. Hodgson (1998), notes that there were significant changes in the social sciences between 1910 and 1940, which, in economics, resulted in a greater emphasis on mathematical analysis and formalised techniques. For example Hodgson (1998: 167) notes that mathematical economists “with their use of formal techniques .... caught the imagination of both theorists and policy makers”. The new economic orthodoxy that was established in the decades following the Second World War left very little room for the further development and application of institutionalist ideas within the mainstream.

However, outside the mainstream economic orthodoxy, institutionalisms’ core ideas have endured. Since the end of the century they have been gaining greater currency and attracting wider scholarly attention. Increasingly there is growing evidence that institutional considerations are being acknowledged even if their scholarly forerunners are not.

Nevertheless it is outside the mainstream of economic orthodoxy, and sometimes outside the discipline of economics, that the examination of institutionalist ideas has gained greatest pace and depth. It is within these areas of scholarship that the prevalent lines of inquiry that shed light on questions of institutional description and definition are to be found. Therefore, it is in this direction the definitional quest can best proceed. The definition of institutions thus approached can be more effectively achieved. This requires:

- a) paying attention to the clear ideas that are being more widely but more clearly and specifically articulated about institutions; and

- b) stating more clearly and explicitly the essential ideas implicit in and necessary for any definition of institutions.

This clarification will enable us to arrive at a good enough and coherent criteria for understanding and defining the nature of institutions. In turn this enables us to establish a conceptual foundation on which a more detailed description and classification of institutions can be built. Without such a conceptual framework, an examination of the way institutions shape individual behaviour would be difficult. In addition further study of how institutions develop, change and establish themselves as inherent in society and essential to social relationships and economic development, would be greatly hampered.

Having surveyed the different perspectives of institutions that exist in different traditions and schools of thought, I now turn specifically to what may be considered to be the key defining attributes of institutions. The next section of this chapter focuses on this. It examines prevailing conceptions of the idea of institutions, and establishes the core relevant and authoritative defining attributes to be taken into account.

### ***2.3 Key attributes of institutions***

Over the years a number of characterisations of institutions have been advanced with later definitions sometimes building on or assuming earlier ones. Consequently selecting a definitional starting point is difficult and arbitrary. Definition therefore has to rest more on identifying or clearing away ideas that either enable or obscure the definition of

criteria and features rather than on claims of extraction or derivation. It is necessary to focus more on aspects that help clarify what institutions are. That is what their nature is (*character and role*) and how they are manifest (*form, means and potency*). These are first summarised below and then discussed in the sections that follow:

- a) the rule like nature of institutions (encompassing coded and uncoded rules)
- b) the social and relational nature of institutions
- c) the relationship between structure and agency
- d) differences in institutional forms

### **2.3.1 The rule-like nature of institutions**

The rule like nature of institutions is often represented by the much quoted description by Douglas North (1990) of institutions as the “the rules of the game in a society or more formally, the humanly devised constraints that shape human interaction” encompassing formal rules and informal constraints. Notably North’s description emphasises a) institutions as rules; b) institutions as constraining; c) institutions as shaping human interaction. As Hodgson (2006) points out, North explicitly recognises that institutions can be effectual in different ways, but also does not refer to the existence of “informal” institutions nor make a clear distinction between “formal” and “informal” rules (Hodgson, 2006).

More broadly Hodgson (2001a: 295) refers to institutions as “durable systems of established social rules that structure social interactions”. Hodgson (2006; 3) sees

institutions as social rule systems, including and involving the formal, codified and enforceable rules as well as the informal norms of behaviour and social conventions”.<sup>25</sup>

As a social rule system it is evident that the force to structure and constrain comes as much from the formally specified as well as the attending implicit aspects that develop and reinforce each other over many years and are habitually and culturally enforced.

It is also evident that institutions come in quite different forms from the highly codified, often written and specific (a legal system of rules) to orally transmitted and unrecorded (some local dialects of smaller pastoral / gathering tribes in Africa and parts of Pacific Asia). In addition some are unified and purposeful – as in established markets and organisations – whilst others may be diffuse and pervasive – as in behavioural codes. Yet in all cases their rule-like nature is undeniable. It is necessary therefore to reflect on the meaning of rules and in particular to consider how these relate to norms.

Advancing a grammar of institutions Crawford and Ostrom (1995) and Ros (2000) suggest the differentiation of rules, norms and shared strategies. The suggestion here is that this differentiation can be made on the basis of:

- the value / attributes of participant in the situation in question (A - Attributes);
- what is permitted, obliged or forbidden (D -Deontic);
- specific actions or outcomes that are permitted, obliged or forbidden (I – Aims);

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<sup>25</sup> Hodgson (2006) goes further in that he points to the rule like character of norms (What North may see as informal constraints) In so doing establishing a much broader description and scope of institutions and their effect.

- conditions under which such actions or outcomes are permitted, obliged or forbidden (C – Conditions); and
- the sanctions that apply if the requirement is contravened (O – Or Else).

Crawford and Ostrom identify *rules* as encompassing “A+D+I+C+O”; *norms* as encompassing “A+D+I+C” and *shared strategies* as encompassing “A+I+C”. Hence rules define what specific actions and outcomes are permitted, obliged or forbidden under what conditions as well as the sanctions that apply if the rule is contravened. On the other hand norms define what specific actions and outcomes are permitted, obliged or forbidden under what conditions but the sanction is not specified. This does not mean that norms do not carry sanctions, since the shared notion of what is permitted or forbidden creates the shared understanding that contravention of the norm is contrary to the expected shared behaviour, is frowned upon and may be punished in unspecified ways. On this basis it may be argued that norms are different from rules but in practice norms can take on a rule-like nature.

Similarly Searle (2005) sees rules as a regularized assignment of functions – whereby the procedure or practice of treating an entity “X as representing Y in circumstances C”, when regularized, becomes constitutive of an institutional structure. Hence institutions are seen as collectively accepted systems of rules that through being regularized and accepted are able to create “institutional facts” including private property, government,

contractual relationships or informal as involved in family and other social relationships (Searle, 2005: 10)<sup>26</sup>.

Tuomela (2003) differentiates “rule-norms” from “social-norms”. Tuomela sees norms of any kind as involving “collective acceptance” and “social reason”. He defines “collective acceptance” as a disposition to perform relevant collective actions and “social reason” as a “shared we attitude”. Rule-norms are distinguished from social-norms by virtue of their existence involving

- a) explicit agreement (“collective acceptance”);
- b) a shared we attitude (“social reason”); and
- c) the involvement and sanction of an authority in creating and enforcing the agreement.

Thus for Tuomela (2003) rules are different from norms which develop as behaviours that have become regularised as a result of shared beliefs and attributed intentions that are held in a reciprocating manner by members of a group<sup>27</sup>.

### **2.3.2 The social and relational nature of institutions**

Institutions are also presented as social and relational. They are seen as rules that impinge on behaviour by enabling or constraining. They are also seen as being socially embedded socially constructed and socially constructing.

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<sup>26</sup> Searle (2005) differentiates between brute facts. Taking Searle’s differentiation one points to the existence of Earth (brute fact) as different from the existence of different nationalities (institutional fact). Institutional facts can only exist given the existence of human institutions. Brute facts exist regardless although they require the prior existence of the institution of language to be represented.

<sup>27</sup> Hodgson notes however that the difference between rules and norms is difficult to sustain as mutual beliefs easily become explicit agreements with the addition of single and shared signs or words of assent. (Hodgson 2005: 5)

Searle (2005: 10) notes that the essential role of institutions is that they create new power relationships that are essential for social life. For Searle a number of important notions are required to explain how institutions are central to human social relations. These are:

a) the notion of collective intentionality:

- relating to a state of directedness of the mind which is shared with others.  
Hence beliefs, desires and intentions can be held collectively.
- seen as being the basis of all society - human or animal (Searle, 2005; Pinker, 1990). The engagement in collective intentionality creates “social facts”.  
However collective intentionality on its own does not create new institutional realities<sup>28</sup>;

b) the notion of assignment of functions:

- whereby human beings (and a few animals) have the ability to impose a function on an object that does not have the intrinsically have the said function;
- combining the notion of assignment of functions with the notion of collective intentionality, it is possible to see how human societies (and some animals – such as primates) collectively assign functions to objects – either as tools, artefacts, symbols or living aids;

c) the notion of status functions:

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<sup>28</sup> Searle (2005: 7) comments for example that a Supreme Court decision and a pack of wolves hunting are both engaged in acts of collective intentionality but only the wolves do not in so doing create institutional facts.

- whereby human beings assign a function to an object or person that they cannot perform by virtue of their physical status alone. In this case status function X is assigned to object or person Y in circumstances C (Searle, 2005: 7). Searle points to the rules of that regulate much human activity such as games (Chess; Football) and government (presidential elections) whereby specified procedures actions or moves are taken to represent another – for example – scoring a touchdown, check mate or choice of president.
  - hence institutions can only be created by human beings because they are able to act collectively, to assign functions, and to do so in a manner that is not dependent on the physical attributes of the object or person. In so doing they create new deontic powers that apply and are relevant in structuring social relationships. These powers include “rights, duties, obligations, authorizations, permissions, empowerments, requirements and certifications” that would otherwise not exist (Searle, 2005: 10).
- d) Additionally human beings have the capacity of language. This means that they alone can are able to represent the assigned functions and associated status implications in ways animals on the whole cannot (Searle, 2005; Pinker 1990).

Institutions can thus be defined as any system of constitutive social rules of the form X counts as Y in C. Searle contends that once an institution has become established (i.e. is regularized and accepted) it becomes a structure within which one can create institutional facts. (Searle, 2005: 10). Institutions can therefore be seen as collective carriers of deontic powers.

### **2.3.3 The relationship between structure and agency**

As regards the relationship between structure and agent, Hodgson (2006) notes that in order to reach a proper understanding of the nature of institutions, it is necessary to stress that both are vital. Neither aspect takes precedence over the other. Thus “actor and institutional structure, although distinct, are ... connected in a circle of mutual interaction and interdependence .... A dual stress on both agency and institutional structure is required, in which it is understood that institutions themselves are the outcomes of human interactions and aspirations without being consciously designed in every detail by any group or individual” (Hodgson, 2006: 8).

Early institutional economists, in the tradition of Veblen (1899) and Commons (1934) understood institutions as a special type of social structure with the potential to change agents including changes to their preferences and purposes (Hodgson, 2001a: 291; 293) Thus individuals mould and are moulded by circumstances. An institution free state of nature just does not exist – individuals are born into institutions and are shaped by them. On the other hand a deterministic philosophy is not assumed. The possibility of the individual and the environment co-evolving is important. Human beings are biological as well as social beings who respond to their environment on the basis of their physical and biological needs as well as their social and relational realities.

Hence it is possible to conceive of individuals and social structures co-evolving and doing so at a number of different levels. History need not be determined or interpreted purely on the basis of role or relationship, materialism or genetics. There is not only the possibility of evolution but also the possibility of emergence: a possibility that quite different, new and different social structures are capable of being created. Institutions enable and are the basis of socio-economic change as well as social continuity.

Essential to the understanding of the relationship between actors and their social environment is therefore the appreciation that individuals are not independent actors that are totally independent and un-influenced in the way they make sense of, and act in, their environment. In addition actors are not completely lacking in purpose, nor are they entirely influenced by, or victims, of their circumstance and environment.

Reflecting on the tendency to over-socialize or under-socialize the individual, Granovetter (1985) suggests that in both these circumstances the tendency is to assume the atomization of individual in their relationship with others and in their social responses and actions. Granovetter argues for a more fruitful analyses that avoids atomization and recognises instead that “Actors do not believe or decide as atoms outside a social context, nor do they adhere strictly to a script written by the particular intersection of social categories the happen to occupy. Their attempts at purposive actions are embedded in concrete ongoing systems of social relationships” (Granovetter, 1985: 487).

This concept of embeddedness highlights the importance of personal relations and structures and how they generate the trust, needed for beliefs to influence behaviour and to discourage violation of commitment and hence of customs, rules or norms. Granovetter (1985) notes that standard economic analysis ignores the past relations of individual transistors which is in fact critical to understanding the nature of existing socio-economic behaviour.

Searle (2005) similarly notes that not all behaviour is deliberative and guided by a specific desire. He notes that institutions create “desire independent” reasons for action. In addition humans learn from each other and from the environment. There are “never ending” loops of feedback, conscious and unconscious reinforcement as well as evaluation and action. In addition valuations of outcomes do not remain the same over time and are dependent on beliefs as well as habitual patterns of behaviour (Schmid, 2004).

In a similar vein, Tuomela’s (2003) conception of norms and rules, and view of collective intentionality illustrate the central role and importance of acquired beliefs. By seeing norms as involving attribution of intent to the group, with individuals believing that the intent they hold is held in common with the rest of the group, Tuomela (2003) emphasises beliefs as critical to the establishment of rules and norms. Hence a norm (or rule) results in regularized behaviour that is repeated and habitual because *mutually held beliefs* exist relating to the intentions and expectations of all members of the group. Hence institutions rely on the rules that are “embedded in shared habits of thought and

behaviour” and can therefore be seen as “emergent social structures, based on commonly held patterns of social behaviour” (Hodgson, 2001a; 296).

The involvement of beliefs and habits in the development of patterns of behaviour is important and contributes to understanding the vital interaction between structure and agency. Habits are distinct from and should not be confused with or equated to behaviours. Noting that over the ages the term “habit” has been used in different ways by social thinkers, Camic’s study of how the term has been used leads him to define habit as “a more or less self actuating disposition or tendency to engage in a previously adopted or acquired form of action” (Camic, 1986; 1044). Hodgson (2001a) acknowledges this definition and goes on to note that habits are formed “through repetition of action and thought” and are “the basis of reflective and non-reflective behaviour” (Hodgson 2001a; 289).

Habits are implicated in relation to rules, norms and customs in that they help to constitute and sustain them. Habits are also by definition the manifest non-deliberative representations and evidence of enduring belief that underpins rules norms and customs. Thus it is through habits that “individuals carry the marks of their unique history” (Hodgson 2001a; 289).

### **2.3.4 Differences in institutional forms**

It is evident that the idea of institutions is not confined to systems of rules and norms in the narrow sense of regulations and permissions. If we consider institution in the sense of

the structuring of social relations, then it is evident that institutions are manifest in several forms and at different levels of society. In this respect an important aspect to consider is the nature of some socially prevalent, distinct (and arguably more complex) types of institutions such as markets, organisations and states and how they qualify as institutions nevertheless<sup>29</sup>.

Organisations can be conceived of in terms of bounded groups of relationships, systems of rules and of individual and collective actions. Schmid (2004: 75) notes that organisations have boundaries that define “who is in and who is out” In addition there is a shared notion of intent and means for achieving that intent. Hence Schmid refers to organisations as “systems of relationships for coordinating individual actions according to some decision rule or persuasion – a mix of authority and custom” Hence organisations can be treated as actors mainly in respect of their involvement and influence on socioeconomic and political affairs.

However there is no implicit assumption of homogeneity, unanimity or singularity of purpose of all within an organisation (Hodgson, 2006). In that sense organisations are not actors in the way individuals are. Hodgson (2006: 8) defines organisations as “special institutions that involve:

- a) “criteria to establish their boundaries and to distinguish members from non-members;

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<sup>29</sup> Institutions are sometimes referred to as equilibrist, norms and rules (Ostrom, 2000) leading to a debate as to which of these represents their true nature. Hodgson (2005: 2) notes that in fact if the different conceptions can be seen as institutions affecting individuals and vice versa the three references to institutions are entirely compatible.

- b) principles of sovereignty concerning who is in charge; and
- c) chains of command delineating responsibilities within the organisation”.

Evidently simply sharing objectives is not sufficient to form an organisation. Members of an organisation are subject to systems of rules, explicit and implicit, as to the way they interact and the purposes to which they interact. North (2005: 59) refers to this as “groups of individuals bound together by some objectives”. North asserts the importance of differentiating the rules of the game from the players of the game. Notably he comments alongside this separation that “The study of institutions and institutional change necessitates that as a first requirement the *conceptual separation* of institutions from organisations. Institutions are the rules of the game, organisations are the players. It is the interaction between the two that shapes institutional change(my emphasis)” North goes on to list examples of economic, political and social organisations – all of which on reflection would conform to the definitions of organisations as institutions offered by Hodgson (2005) and Schmid (2004)<sup>30</sup>.

Markets can be conceived of as social and human institutions. They are dependent on human collective intentionality, the assignment of functions as well as the recognition and acceptance of deontic powers (Searle 2005). They are also distinctive from the coordination and cooperation that occurs amongst animals, in that they involve

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<sup>30</sup> Hodgson (2005) discusses North’s position on the definition and conceptualisation of organisations. He points out that North primary concern was not with the definition of organisations – and is somewhat ambiguous about definition of organisation. Hodgson further notes that organisations being abstracted as actors – which is defensible – is not the same thing as organisation being defined as actors – which would be indefensible.

assignment of contracts and exchange of property rights (Hodgson, 2001a). Hodgson (2001a: 257) defines markets “as “organised and institutionalised exchange”.

Markets are not spontaneously generated by exchange – rather they are a result of culturally specific and long term evolution of rules and behaviours. Markets are not merely defined by price setting mechanisms and exchange of goods or services; they often encompass aspects of sophistication in relation to considerations of ownership, stewardship and / or control. Furthermore not all markets are the same. By virtue of their cultural and social embeddedness, quite different rules may emerge to govern the interactions and exchanges involved. Markets may trade tangibles or intangibles and their realm and extent of coordination is not restricted to the price of what is tangibly offered in direct exchange. Markets are often reliant on shared conceptions of what is and what is not allowable and require state or other regulating or overseeing institutional arrangements. “There is nothing to trade without some institution for deciding who is seller and who is buyer and what each may do to get the agreement of the other to a price” (Schmid, 2004)<sup>31</sup>.

In summary, institutions can be conceived of as occurring in different forms and at different levels. Societies exhibit a variety of social coordination or organising formations. Such social formations will in turn have prominence as institutional

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<sup>31</sup> Ayres in a discussion of institutional economics in 1957 noted the dissent that existed then (and still exists now) as to the conception of the market and its relationship in shaping or guiding the economy. Ayres argued that the market could not be seen as being somehow above the influence of society and its institutional organisation: “It is simply not true that scarce resources are allocated among alternative uses by the market. The real determinant of whatever allocation occurs in any society is the organisational structure of that society – in short, its institutions” (Ayers et al, 1957).

arrangements. Notably some institutional arrangements are provisioning and have primacy over others in that the other institutions are dependent on them. Hence the state structures have primacy over markets and family structures primacy over the state (Hodgson, 2001: 338). Institutions of private property, contract and market exchange cannot exist without the prior enabling and sanctioning existence of the state. The state is therefore presented as a special type of institution that is of a high order in that it is the system of political, legal - judicial and social rules that creates the framework of governance, enforcement and sanction upon which many other institutions (systems of rules) depend. Over time systems of state rules influence economic rules and vice versa and the direction of causality can be difficult to determine. (North, 1990: 48)

## ***2.4 Towards an overall definition of institutions***

The current widespread and diffuse use of the term institutions has left us in an exciting if rather unnecessarily confusing state. Social scientists define institutions in a variety of relevant and useful ways but appear less able to decide whether some important and widely-acknowledged phenomena reflecting and regulating social activity actually qualify as institutions (Nelson, 2001).

In this chapter having extensively examined the literature in relation to the notion of institutions, it is evident that a lack of coherence that has attended the concept. I have reflected briefly on the reasons for this and gone on to consider the greater scrutiny now being given across disciplines to the important defining aspects of institutions. In doing

so I have argued that it is possible to draw out of the diversity of ideas some important considerations that clarify and help define what institutions are and are not.

Having examined the breadth of ideas relating to the nature of institutions, within and outside economics, it is evidently quite wrong to conclude that the areas of uncertainty, the variance in views or the challenge of addressing the particular, at the same time as the whole, have prevented the emergence of any authoritative definitions. Clearly a single short definitional statement of all encompassing elegance and simplicity of definition can be accused of obscuring difference in form, or nuance of type. I propose that this difficulty is best dealt with by developing a detailed taxonomy of institutions rather than eschewing the challenge of better overall definition. Before turning to this more detailed taxonomy, it is necessary now to offer a robust overall definition within which the more detailed taxonomy of institutions can be developed.

#### **2.4.1 Overall definition proposed**

In proposing an overall definition of institutions, the extensive survey<sup>32</sup> carried out in this study provides some vital guidance. This survey has indicated that while there are many terms and notions of institutions across the social sciences – there are also some core aspects that necessarily have to be included in any robust definition of institutions. These core aspects reflect definitional criteria that are consistent with notions of institutions widely used and accepted by scholars within economics, across the social sciences and

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<sup>32</sup> The extensive survey of perspectives and definitions of institutions carried out as part of this study examined the notion of institutions across the social sciences and from old and new institutional perspectives. This work has studied and recognises the detailed reviews and works of a number of scholars

amongst old and new institutionalism schools of thought. The overall definition that can be offered here therefore has to rest on these core definitional aspects.

In identifying these aspects it has been necessary not only to carry out the extensive survey of literature presented above. It has also been necessary to draw on evidence from other authoritative studies similarly concerned with questions of institutional definition raised by this study<sup>33</sup>.

On careful examination, and with reference to the extensive review carried out in this study, a few specific definition elements prove to be able to form a core that is compatible with the diverse understanding of the notion of institutions. It is proposed that these necessarily have to form the basis of an overall definition of institutions. This is because these elements represent a core that is evident in seminal works on institutions and may also recognised to a lesser or greater extent by works reviewed by this author and authoritative scholars before him<sup>34</sup>. This core of definitional ideas is underpinned by a wide ranging body of theory and scholarly work ensuring that it is not only theoretically robust, but also academically defensible.

Specifically the core of essential definitional ideas consists of the following elements:

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<sup>33</sup> For example Nelson and Sampat (2001) acknowledge as well that the notion of institutions lacks coherence but also go on to note that understanding the reasons for the diversity is necessary in order to develop a concept of institutions that can be integrated into a theory of economic activity. Nelson and Sampat rest this assertion on the detailed reviews that they and others before them have carried out. They identify amongst the authoritative and thoughtful scholarly works contributions from Hodgson (1998, 1994, 1998) Hall and Taylor (1994) Powell and De Maggio (1991) , and Rutherford (1994) amongst others.

<sup>34</sup> Works including for example Veblen (1994), Hamilton (1932), Commons (1950) Di Maggio and Powell (1983) Grannovetter (1985), North (1990), Hall and Taylor (1996, 1998), Knight (1998) Hodgson (1998, 2000, 2005), Rutherford (200a), Scott (2001) Parto (2005) and Searle (2005)

- a) Human relationships and interactions
- b) Rule-like effects on human activities and behaviours
- c) Constraint and enablement

Given this defensible and robust core of essential definitional ideas, I suggest that an overall definition is thus possible. I propose that the overall definition of institutions offered for the purposes of this study is as follows:

***Institutions are socially established rules, or systems of rules, that systematically organize, enable and constrain all human beings and interactions in a society***

This proposed definition is neither too broad that it is meaningless) , nor too narrow that it is unable to take into account the important informing considerations that clarify what is and is not to be included within the institutional gambit.

#### **2.4.2 Turning to taxonomy**

Having settled on an overall definition, attention now has to turn to connecting the definition with a more detailed taxonomy in order to address the problem of institutional proliferation, difference in form and nuances of type. In addition to the elegantly stated definition of institutions at a general level (and the detailed explanations of different institutional aspects discussed above), I suggest that it is necessary now to assemble the articulated and complementary set of definitions of terms commonly used to describe

institutions. These need to be arranged into a taxonomic description that identifies and classifies them and more clearly specifies how they relate to each other.

In the next chapter, I suggest a more detailed taxonomic description of institutions as a basis for examining the role of institutions in economic development of the coffee sector in Uganda.

**CHAPTER THREE**  
**A TAXONOMY OF INSTITUTIONS**

## **3 A taxonomy of institutions**

### **3.1 Introduction**

The purpose of this chapter is to propose a taxonomy of institutions. This is necessary to complete the definition of institutions introduced in the previous chapter, and to enable this perspective to be used as an analytical tool for use in the case study examination of the role of institutions in an economic sector development experience in Uganda.

Good practice in case study design recognises that theory development is essential. It provides a framework or blueprint that enables empirical work to create insights and understanding needed to evaluate or extend theory as well as appreciate dynamics within social settings (Eisenhardt, 1989; Yin, 2003,).

In this study – the theoretical definition of a taxonomy is needed, in the first instance, to focus the empirical work that is proposed. A case study examination of institutions is only feasible if the institutions in question can themselves be clearly defined and recognised. This means that there is a need for an effective nomenclature to identify them during the empirical work. The taxonomy thus has the important role of focusing the work on the essence of the study. It ensures that the empirical work can find the “trees” in the wood and that the study is not overwhelmed by large amounts of interesting but essentially distracting data.

Secondly the taxonomy is needed more effectively to discriminate the role of different forms of institutions. It has already been noted, in the previous chapter, that there are many institutional forms. It is simply not possible to examine the influence of institutions and variations in the roles they play if there is no clear way of recognising the different forms of institutions. Hence without a taxonomy the study's insights would be more difficult to distil, valid empirical generalisations more difficult to arrive at, and initial theoretical understanding less easily enhanced.

Thirdly the taxonomy is a framework of organised ideas under study that provides a baseline understanding of institutions that can be challenged, informed or developed in the light of the findings of the empirical work. Emergent theory from the empirical work can thus be located within a broader understanding of the nature and definition of institutions, improving and building on the initial framework offered.

Finally, as the purpose of the overall study is to understand the role of institutions in economic development, the taxonomy provides the language needed to bridge theory and real life experience. It provides the way to describe what matters and how it matters. Without a taxonomy the task of understanding and evaluating the proliferation of, and differences between, institutional forms and their influences, would be difficult to carry out well.

However, the variety of institutional forms and the problems of definition associated with them have meant that taxonomy for this kind of study is not self evident or adequately available in work carried out to date. If the taxonomy developed is to be effective, it is useful to start by examining why developing a taxonomy of institutions has so far proved rather elusive and to offer a classification for the purposes of this study that deals with the encumbering difficulties.

In this next section I start by further examining some of the reasons for this difficulty. These include: the problems associated with the multiplicity of institutions; the multiplicity of institutional spheres of influence and the inter-relatedness of institutions, their interactions and influences. I then go on to consider how the difficulties may be overcome and to propose a detailed taxonomy of institutions that addresses the issues noted.

### ***3.2 The challenges of taxonomy***

The challenge of definition and classification goes far beyond the large number and wide ranging descriptions of institutions that are in use. It relates to problems with how they are generally confused and misperceived as well as how they have been studied. Before considering how a taxonomy may be approached an examination of the underlying challenges that encumber classification helps lay the basis on which a taxonomy may be proposed.

Institutional taxonomic classification has remained challenging for a number of reasons. A survey of the literature reveals that commentary on, and studies of, institutions show that there is a proliferation of terms used (often in conjunction with each other) to describe aspects, effects and / or types of institutions. For example Parto (2005) notes that terms referred to include “*rules of the game*” North (1990), sets of *conventions* (Kratke, 1999) *habits of thought* (Veblen, 1919; 1994), *collective action* in control, liberation and expansion of individual action (Commons, 1950), standardized *social habits* (Mitchell, 1950), *codes of conduct* (Young, 1994), *patterns of behaviour*, *negative norms* and *constraints* (Coriat and Dosi, 1998) *mental constructs* (Neal, 1987), *mores* (Hughes, 1939), *conventions* (Hodgson, 2001), shared *codes of meaning* (March and Olsen, 1984).

In addition institutions are referred to in terms of cognitive framework for interpreting sense data (Hodgson, 1998; 171), humanly devised constraints, informal constraints (*sanctions, taboos, customs, traditions and codes of conduct*) (North, 1990), formal rules (*constitutions, laws property rights*) (North, 1990), *Money, Language* (Searle, 2005), *contracts and agreements* (Greif and Laitin, 2004), *organisations* (Schmid, 2004), *systems of knowledge* belief and moral authority (Scott, 2001), *markets* (Hodgson, 2001) *government and law* (Dixit, 2004). In summary – there a many of terms, referring forms of institutions. There is also limited cross referencing to explain how the terms used or the forms described relate to each other.

The difficulties associated with developing a classification relate primarily to the proliferation of terms used and the multiplicity of institutional forms, which means that

terms commonly used are taken for granted but not classified in relation to each other. As institutions and terms referring to them abound in human society – therefore classification, to be useful, has to cover a large number of terms and yet avoid being too cumbersome.

Institutional typology is difficult to develop because quite dissimilar forms are confused with each other. In addition subtle differentiating nuances between very similar forms are also simply missed. As institutions are typically interrelated or nested, emergent and forming and subject to unforeseen or unexpected change, they are simply not easily captured in unique definition. As they occur at different levels in society and across different spheres and are all pervading in influence their separate identification and classification requires careful attention. Hence taxonomy of institutions presents itself as a challenging endeavour.

### **3.2.1 Multiple institutional forms**

It is simply impossible to conceive of human society without institutions. Institutions are evident as operating at a social level (amongst individuals interacting as interdependent actors at large), at an organisational level (within organisations to secure cohesion and between organisations to maximize flexibility and enable interdependence with other organisations) and at a meta-system level (within and across operationally autonomous functional systems that set their own boundaries, develop and regulate themselves within and across a prescribed environment) (Parto, 2005).

Intriguingly however, the multiple forms of institutions often go unnoticed. Institutions, whilst being all pervading, are rarely separated out and described with clarity. They are so common and widespread they are assumed in everyday life. Consequently it is easy to assume or to completely miss their variety as well as their varying significance. For example, Searle (2005) notes that whilst language is the fundamental social institution it is nevertheless often taken for granted. Yet it is essential for survival because it expresses conceptions and commitments that are essential for human cooperation and therefore survival. Searle (2005, 12) notes that “..you can have language without money, property government or marriage, but you cannot have money property or marriage without language” It is impossible to conceive of human society without language<sup>35</sup>. The business of living is through organised activity and organised activities for human beings “entails a structure to define the way the game is played” (North, 2005: 49).

In addition to operating in different forms and at different levels of consciousness and social fundament, institutions also manifest and impinge on social life in different ways. For example institutions are experienced and can be described in relation to the different forms they are seen to take. They can be presented in terms of organisations, states and organs of the state; political bodies such as senates, parliaments and parties; economic bodies such as firms, trade unions and cooperatives; and social bodies such as kin groups, clubs and religious organisations. Institutions can also been described in relation to behaviour of human beings within societies. These so-called *behaviour-based*

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<sup>35</sup> There appear good reasons to believe that human language is a species specific ability that is a consequence of biological pre-adaptation with heritable and cultural selection (Pinker and Bloom 1990)

descriptions relate institutions as “constraints on human beings”, prescriptions or proscriptions of behavioural and attitudinal patterns, regularities of behaviour and prevalent and standardized social habits.

In contrast there are also what Parto (2005) refers to as *context-based* descriptions – focusing on the configuration of the “institutions, norms, rule and practices” that provide the contextual setting and configuration that determines the way individuals in the society interact and behave (Parto, 2005). These different descriptions are helpful in that they highlight the variety of institutional manifestation role and influence. They indicate how institutions are experienced. However as a basis of taxonomic categorisation the different descriptions appear less useful. This is because a form (such as firm) is at once and the same time a context for individual action and social interaction as well as a constraint or enabler of patterns of shared behaviour.

Taxonomic organisation is also challenging because whilst conforming to the overall definitions so often identified<sup>36</sup>, institutions are varied in form. Furthermore the variations they exhibit do not necessarily follow straightforwardly discernible patterns of relationship or simply differentiated hierarchies of existence. For example North (2005, 50) refers to an institutional framework consisting of *a political structure* (relating to political developments and choices), *a property rights structure* (involving formal economic incentives) and *a social structure* (of norms and conventions that defines the informal incentives on the economy). This reference may be read as suggesting that institutions can be viewed as being political, economic or / and social.

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<sup>36</sup> See chapter 2 for a discussion of the definition of institutions.

Yet a classification based on that distinction alone would be problematic for a number of reasons. It is difficult to classify an institution as being simply economic, social or political. Our experience of most institutions is that they have an influence that may have *simultaneous* social, economic and political effects. For example, it is undeniable that organisations are at once social, political and economic. Schmid (2004, 64) notes that “organisations are the dominant fact of our social and economic existence”. Hodgson (2001a: 321) notes that conceptually, organisations are constituted of a wide variety of forms. Reflecting on this conceptualisation, (ranging from states and tribes to worker cooperatives, modern corporations and nationalised industries), it is evident that the sphere of influence of institutional forms extends across the social, economic and the political.

Similarly it is recognised that laws extend across spheres in that they can have undesirable and unintended consequences in economic spheres as well as politics and society in general (Posner, 1998). However, if in conceding this reality we are led to conclude that all institutions are economic, political and social, such a conclusion would have little taxonomic value. This is because we know that not all institutions are the same, and our purpose here, is to shed light on that difference. Some alternative way of approaching taxonomic classification of institutions is thus clearly called for.

### 3.2.2 Institutional inter-relatedness

Institutions relate to and are often dependent on each other. It is evident for example that for certain institutions, such as those relating to property rights, the guaranteeing role provided by other institutions is essential. North (2005) notes that in many Latin American and Sub-Saharan countries the institutions needed to enforce low cost contracts do not exist. In other countries the absence of institutions relating to property and ownership influence the development of sophisticated markets and capitalist organisations. Hernando De Soto (2000) in his study of capitalism's failure to successfully take root outside the west, comments on the lack of capital as being a result of the absence of under-girding and transformative institutions capable of enabling the transformation of assets into capital rather than the absence of actual assets themselves.

Like North (2005), Greif et al. (1994) point to the widely recognised ability of the state (as an institution with the power) to strengthen or undermine markets as institutions. In their study of the merchant guilds Greif et al. (1994) also consider that it is not only the institution of the state that can be critical to the development of other ancillary institutions. Institutions other than the state can play a key role in enabling the development of (for example) trade and exchange institutions. They note how the merchant guild institutions were administrative institutions outside the direct control of the rulers, but were instrumental in enabling the development of Mediterranean trading centres. This was because the merchant guild institutions acted as coordinating and enforcement institutions to the benefit of the traders and the rulers (By discouraging trader - ruler malfeasance, as well as encouraging the development of trade between

centres). Institutional classification therefore has to allow for this inherent inter-relatedness and interdependence between institutional forms.

Institutional relatedness is also evident in other ways. Hodgson (2001, 284) notes that some institutions are “provisioning” in that they are involved with the provision and protection of human life and society, whilst others being less crucial to “reproduction and survival of the society ... can be lost or replaced in the evolutionary process” (Hodgson, 2001: 284). However Hodgson notes that it is not always easy to separate provisioning institutions from ceremonial or leisure-related ones because custom, ceremony and ritual are often involved in protecting and sustaining institutions that are essential for production, reproduction and survival.

Institutions’ cross-societal interaction and relationships also mean that they defy generic classification by historical stages of development of societies. Human societies have always historically influenced and interacted with each other. As a result many countries manifest a mixture of institutional forms. This mix typically reflects a variety of interactions, a mix of influences as well as a number of historical social change paths. The prevalence and relevance of particular institutional forms is associated with and reflects the nature, evolution and development of that society. It is not necessarily transferable across to other societies. In modern capitalist western societies, for example firms and markets play a key role in economic activity and life of the society. In developing countries peasant households may be the dominant provisioning institution. But it is also possible for different and quite distinctive institutions to emerge. This has

happened in China, for example, with the role of the local governments and their control of TVE's (Town Village Enterprises). In this example it is notable that China's reform and economic development in the last two decades of the twentieth century proceeded without complete market liberalisation, privatisation, secure property rights or democracy (Yingyi Qian, 1999).

Taxonomic classification is needed to examine the role of institutions in the processes of economic growth, change and development. Such a classification would provide a more sufficiently detailed and unified means of differentiating types of institutions. As Parto (2005) suggests, there is now a need for institutional analysis to go beyond arguing over the semantics of what constitutes institutions<sup>37</sup>.

### **3.2.3 Classification**

As institutions have become more widely acknowledged and their role in economic change and growth recognized, attention has turned to determining what institutions matter and how they matter. Not surprisingly, an immediate challenge that has emerged to confront empirical analysts' work in this area has been the question of how to identify and measure the effects of institutions.

Much of the focus of recent study and literature examining economic growth and the role of institutions has been rather narrowly centred on political institutions. Empirical

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<sup>37</sup> There needs to be a shift to seeing the requirement as being "carefully organized categories of institutions that reveal the levels, scales and systems around which institutions are woven and methods to operationalise the rich and diverse concepts developed by institutionalists" (Parto, 2005, 22).

investigations have appeared somewhat constrained and unable to differentiate between the wide range of institutions that may have a considerable effect on economic growth and change.

Critics have argued that the focus of studies has been on institutional outcomes rather than institutions themselves as constraints or enablers. Glaeser et al. (2004) note that to measure institutions the literature has focused on indicators of institutional quality, aggregated indices of surveys of government effectiveness, and polity IV data measuring the limits of executive power. They go on to note that all these data measure outcomes that rise with per capita income and are highly volatile. In addition they argue that measures of institutional quality and government effectiveness represent institutional outcomes that are nothing to do with durable constraints actually prevalent in the society.

A first step in developing empirical studies that examine the role and influence of different types of institutional influence clearly has to entail some further taxonomic categorization of institutions as well as identification of acceptable proxies to act as measures of the institutions. In the absence of this, it would appear that a tendency may develop to focus on a few institutional outcomes of a formal regulatory nature, or superficially on the nature of political governance, rather than on other, arguably significant, but hitherto analytically less accessible, aspects.

Problems of classification arising from how institutions have been studied are evident in other respects as well. Whilst the old institutionalist tradition acknowledges the

importance of a wide variety of institutions, much of the recent analyses and literature focuses on property rights, political institutions, rule of law and governance. Parto notes that new institutionalism has tended to focus on transaction cost analysis of property rights, contracts and organisations. He goes on to observe that neither old nor new institutionalist traditions deal with how institutions are “linked, dovetail or hierarchically organized” (Parto, 2005: 29).

It appears that attention to taxonomic categorization, whilst being necessary for institutionally informed analysis of economic change, has received mixed kinds of concern. The new institutionalist tradition has focused on “extending the range of neo-classical theory by accounting for factors such as property rights and governance structures”; whilst the old institutionalist tradition has resisted “making simplifications and assumptions” that could lead to “mimicking the much-criticized reductionist approach used widely in neoclassical economics.” According to Parto, “meaningful institutional analysis would require “simplifying” complex phenomena, and making assumptions about [the] relative importance of some connections or relations among some variables as opposed to others” (Parto, 2005, 30).

The evident challenge facing recent classification endeavours has been that of arriving at a simple but meaningful taxonomic categorization of institutions. That is a categorization capable of representing the wide variety of institutional manifestation, while introducing clear distinctive *inter* and *intra-category* definitions that do not unduly ignore, violate or

simply confuse the inter-relationships that exist between types of institutions and are the essence of institutional reality.

Whilst this challenge has not been the predominating focus of recent scholarly work, it is evident that this challenge has not gone entirely without attention. Scott (2001) suggests a categorization of institutions built around three “pillars” identified as:

- a) *regulative* – including regulations and regulatory processes, inspection and monitoring and sanctioning punishments and rewards to influence behaviour
- b) *normative* – including constraints and enablers of particular social behaviours or actions
- c) *cultural-cognitive* – including shared conceptions of the nature of social reality and the frames through which meanings are made.

Therefore for Scott institutions such as the state and its laws would fall into the regulative ambit. Kinship and religious norms and customs would be classified as normative, and culturally-embedded views of the environment and the expectations associated therein, would be classified as cultural-cognitive. Scott’s pillars of institutions helpfully identify the different aspects of institutional types that need to be included in a taxonomic categorisation. In particular they highlight that institutions are rule-like and influential in different ways, which are, in themselves, not mutually exclusive.

In doing so however, Scott's pillars appear more as an overall sorting of institutional influence rather than as a detailed effort at classifying different types of institutions into recognisably distinctive and distinguishable categories.

Parto builds on Scott's "pillars" suggesting a 5 category typology of institutions. Parto's typology (2005, 37) suggests that institutions can be:

- a) *Associative*: - as mechanisms to facilitate, prescribe or privilege interaction among particular interests. Included in this would be business networks, kinship groups, social classes., associations and interest groups
- b) *Behavioural*: as recognizable and standardized social habits that are manifest in the activities of individuals and groups as reflections of social norms
- c) *Cognitive*: as mental models and constructs or definitions, manifest in expectations held by society in relation to individuals
- d) *Regulative*: as prescriptions and proscriptions. Included in this would be written and unwritten rules, state laws and decrees.
- e) *Constitutive*: as setting bounds of social relations. Included in this would be firms, unions, language, property rights structures, agreements, marriage and family

Parto goes on to note that institutions may in fact be hybrids – noting that regulative constraints can in time become behavioural as individuals and groups of individuals internalize them. It is arguable however that in such a situation different institutions may be involved, with regulative constraints leading to the emergence and development of new norms, which in themselves, are institutional in their own right. Parto's typology

does not directly provide for the existence of institutions that are at one and the same time associative, regulatory and constitutive – such as markets, organisations and states.

Williamson (1998) advances a classification of institutions in the form of a 4 level framework of different levels of social analysis with the higher levels imposing constraints on the lower levels. In addition the lower levels feedback to higher levels but are not considered constraining in the same way. In Williamson's framework the levels are as follows:

- a) *Level 1 – Embeddedness*: “Informal institutions”, customs, traditions and norms;
- b) *Level 2 – Institutional environment*: “Formal rules of the game” : including laws, property rights as well as the polity judiciary and bureaucracy”
- c) *Level 3 – Governance*: “*Play of the game*”: including alternate modes of organisation such as markets and firms
- d) *Level 4 – “Resource Allocation and Employment”*: including economic activities that focus on price, output and agency

Williamson notes that most economists often treat level one as a given and changing very slowly. In addition he notes that level one can be seen as being in the realm of social theory and has tended to be studied by economic historians.

Williamson's insistence that informal institutions are at level 1 (given and change slowly), as opposed to level 2 (part of the institutional environment), does not go without critique. Dixit (2004, 7) notes that “others would locate many informal institutions at the

second rather than the first levels” Others might well be more fundamentally critical of framework, seeing the use of the term “informal institutions” as being meaningless<sup>38</sup>.

Dixit (2004; 7) notes that Williamson’s classification is not universally followed and like other attempts at taxonomy leaves “ambiguities and overlaps”

In summary – the challenge is to advance a taxonomic classification of institutions that is comprehensive, not overburdened with detail and aware of the different levels at which institutions operate. It also has to be acknowledge that institutions are have a multi-spherical influence and manifestation and are interrelated and interdependence.

Furthermore there is a need to note and clarify the existence of non institutional considerations which are legitimately associated with but are not themselves institutions.

### **3.3 Towards a taxonomy of institutions**

The proposed overall definition put forward above in chapter two was as follows:

***Institutions are socially established rules, or systems of rules, that systematically organize, enable and constrain all human beings and interactions in a society***

I now suggest that the *complete* definition of institutions consists of this *overall definition* accompanied by a *descriptive taxonomic framework* that takes into account the variety of institutional forms that have to be categorised. This additional framework needs to be:

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<sup>38</sup> If institutions are “durable systems of established social rules that structure social interactions” (Hodgson 2001; 295] then they are by definition both informal and formal in effect and the term “informal institution” is rendered quite meaningless.

- a) able to contain institutions that are quite different in their social manifestation. (It needs for example to be able to encompass the legal, explicit and written as well as non legal, implicit and unwritten);
- b) unequivocal about laying down some boundaries around what is truly institutional and what may be merely influential;
- c) able to accommodate the complexity evident in social interactions. Relating not simply to specific rules but also systems of rules of different combinations of formality and legality;
- d) distinctive from other ideas such as “culture” and “social capital” which are often associated, with but are clearly different from, institutions

### **3.3.1 Proposing a taxonomy of institutions**

Whilst certain institutional forms may qualify as institutions according to the overall definition put forward above, many would quite evidently not be the same types of institutions. So how are institutions to be taxonomised? It is evident for example that unwritten family norms, laws, financial markets and commercial organizations are all institutions in that they are socially established systems of rules that systematically organise human beings and their interactions. They are also self-evidently represent quite *different types* of institutions in that they relate to different social domains and have manifestly different scopes of influence. Therefore once a form of institution is qualified and included in the broader class of institutions, the question we then face is: - what family categories do they belong to and why? Furthermore, how do the various families relate to each other?

For the purposes of a case examination of real life institutions it is important first to be able to identify differences in categories of institutions correctly. It is also necessary for the categorisation to be useful in helping to focus the study and to enable meaningful generalisations to be made across any category of institutions. The taxonomy proposed therefore offers a further familial categorisation that describes the different kinds of institutions that make up the overall grouping. This further familial categorisation is built on clear definitions of the institutional forms in the taxonomy and provides a discrimination that is meaningful and recognisable in real life. Recent categorisation endeavours (noted above in section 3.2.3) have approached classification in terms of the types of roles institutions have played or the level they are believed to operate at.

It is proposed here that in order to avoid the shortcomings and confusions associated with these previous endeavours, a clearer categorisation of institutions for the purposes of the empirical case work is better described *in terms of*:

- a) *how **essential and fundamental they are to human society**; enabling basic human communication, interaction and coordination and essential for the existence of other institutions;*
- b) *how **implicit** they are in the way they are articulated, applied, observed and sanctioned in day to day life;*
- c) *how **explicit** they in the way they are articulated, applied, observed and sanctioned in day- to-day life;*

- d) *the extent to which they are **distinctive and complex regulating arrangements** that may include a variety of other institutional forms but still remain distinctive entities that are not simply reducible to those forms.*

These considerations relating to the combination of institutions' essence, manifest nature (implicit or explicit) and emergent complexity together provide the basis of the taxonomy. On the basis of these categorising criteria, it is proposed that in addition to language (the fundamental institution of all human societies on which all other institutions are dependent) there are essentially three other categories of institutions in the taxonomy (i.e. making a total of four categories). These four categories of institutions included in the proposed taxonomy are:

1. **Language:** – the fundamental social institution that underpins and provides the foundation for all other institutions. Language is common to all human species and is constitutive of social reality<sup>39</sup> (Searle, 2005) (Pinker and Bloom, 1990)
2. **Explicit institutions:** these are overtly expressed and authoritative prescriptions, rules and systems of rules. They are often written or otherwise openly specified and accessible to all members of a social grouping as well as outsiders regardless of the degree of intimacy and socialisation within the social grouping.
3. **Implicit institutions:** these are unwritten rules that are held commonly within a social grouping. They are often embedded in social practice and accessible to, and maintained amongst, members of the group through different forms of social interaction, social sanction and socialisation.

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<sup>39</sup> Searle (2005; 12) Notes that “In order to have institutions it is necessary to assign status functions. Status functions have to be represented by symbolic devices. Language provides the symbolism that enables status functions and therefore institutions to exist.

4. **Other “complex” institutions:** These are complex institutional forms that vary in appearance and intricacy depending on the nature and complexity of the civil society they are develop in. These “other” institutions tend to emphasise association, constitution, behaviour and regulation but cannot be simply reduced to any one of these. In that sense they are more complex and exhibit emergent properties. They are also both explicit and implicit and can have officially written as well as unwritten communal aspects.

All institutions belong to at least one of these four categories; and, because institutions are often complex, multifaceted and dynamic, institutions can span more than one of these categories at the same time. Therefore an institution may (in one instance or circumstance) be manifest as belonging to one category and then subsequently be manifestly experienced as belonging to another category. The experience of an institution in a category does not exclude it from being in another category even though in any social setting at a point in time it may be predominantly manifest in a single category<sup>40</sup>.

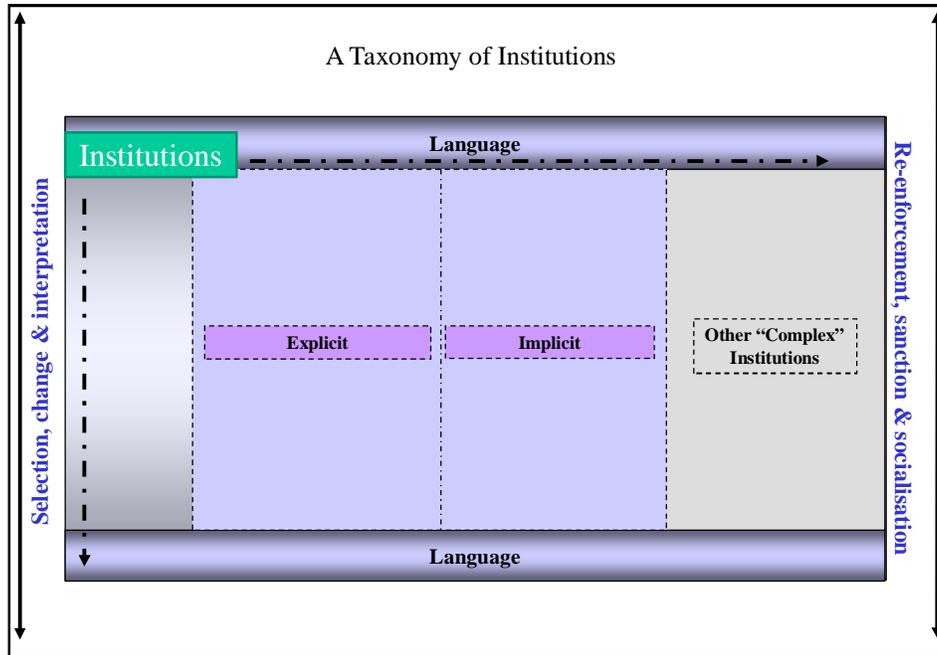
*Figure 3.1* below graphically represents the proposed categories of the taxonomy within which the variety of specifically definable institutional forms has to be located.

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<sup>40</sup> In presenting / using the taxonomy it makes sense therefore to refer to an institutional form as being primarily evident in a particular category, and to recognise, that at the boundaries, this same institution may manifest as belonging to another category.

**Figure 3.1**

**Categories of Institutions in the Proposed Taxonomy**



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**3.3.2 Examples of types institutions within categories**

As a further step in building the taxonomy, examples of institutional forms that qualify as true institutions need to be identified. In *Table 3.1* below I give a descriptive definition of examples of institutional forms indicating the category within the proposed taxonomy that they may be predominantly identified with<sup>41</sup>.

Studying existing usage of terms describing institutional forms shows that very often these different types of institutions, even when defined, are not necessarily identified by

<sup>41</sup> *Table 3.1* was created following a wide ranging review of literature that refers to terms that are descriptive of institutional forms. This contribution is important because it allows us to exemplify institutions within the taxonomy before proceeding to the empirical study of them

scholars as institutions. This is because the scholars defining or discussing them may not themselves necessarily be informed by an institutional perspective. They are therefore not primarily concerned with the institutional nature of the form they are describing. Often they are concerned with the definition of the term itself, something which can be achieved without reference to the institutional nature of the form being defined.

In addition the institutional forms when defined are also not located within a taxonomic framework. While some scholars have advanced hierarchical classifications of institutions; these have generally focused on attempting to differentiate institutional categories. They have not gone on to develop a more detailed listing of representative institutional forms. This is evident in relation to Crawford and Ostrom's grammar of institutions, (Crawford and Ostrom, 1995), Parto's five-category typology (Part, 2005) , Scott's three "pillars" (Scott, 2001) and Williamson's 4-level framework (Williamson, 1995) . None of these scholars go on to give a detailed listing of representative forms. Evidently these scholars concern has been with introducing appreciation of the role institutions into scholarly rather than with the additional task of identifying and locating details of representative institutional forms.

In this thesis however, this author's concern with overall institutional definition, as well as more detailed taxonomic involving further categorical classifications (discussed above), clearly makes an illustrative, detailed listing of representative forms, a logical and necessary step in articulating the nature of institutions. Furthermore, description of representative forms provides additional detail necessary for the study of institutions in

the case study that follows. Given these considerations *Table 3.1* can be seen as an important additional contribution to existing works as well as a necessary adjunct for the further work that this specific project involves. The creation of this table has therefore involved:

- a) acknowledging the scholarly provenance – identify which scholars the definition being considered has been informed by;
- b) statement of the definition – confirming the description and the institutional nature of the form;
- c) identification of category – locating the institutional form within the taxonomy I am advancing;
- d) further consideration and reflection – adding clarifying comment as necessary (drawn from observation as well review of scholarly definitions) to further highlight the distinctiveness of the form.

The table is presented as an illustrative listing and categorisation of institutional forms. It is not intended to be a listing of all terms that could possibly qualify as institutional forms. It simply advances forms that are examples of the categories of the taxonomy being presented. It includes an additional acknowledgment that forms have predominant representation in particular categories and have to be recognised as such in the tabular presentation.

The process of selection of forms for inclusion in the table proceeds from locating it within the broad category (as suggested by the taxonomy) and then to associating it with

a representative form as being illustrative of that form (as selected from a survey of literature to identify representative forms). Other forms not included in the table may be identifiable – in which case they would join one or other of the institutional forms already included as being representative of one of the categories of the taxonomy presented here.

**Table 3.1**

**Definition of forms qualifying as institutions<sup>42</sup>**

<b>Institutional Category</b>	<b>Illustrative Institutional form<sup>43</sup></b>	<b>Definition</b>	<b>Informing References</b>
The Fundamental Institution	Language	An innate and complex human ability and specialisation using rules and representations to code propositional information for the purpose of social information-gathering and exchange and interaction  <i>All human societies have language.</i>  <i>Language is the fundamental social institution and is distinctive because it plays a constitutive role in all social institutions. Rul- like, socially embedded and constructed and codifiable.</i>	(Kirby and Christiansen, 2003) (Sachs & Warner, 1997); (Pinker and Bloom, 1990) (Searle, 2005)
Predominantly Explicit	Constitution	System of rules that define relevant administrative entities, concepts, roles practices, permissions and limitations that are involved in directing behaviours and regulating relationships of members in a society.  <i>Often creative of new behaviours, entities and roles</i>	(Easterly, 2007)
	Law and legal systems	Legislated, codified and stipulated systems of rules that are under the oversight of juridical authority and are enforced by the authority of the state.  <i>A legal system involves enforceable rules and rule systems governing social relations some of which may arise from, but cannot be simply reduced to, societal custom and practice</i>	(MacCormick, 1994); (Pritchett, 1997) (Hodgson 2008)
	Decree	Executive diktat stipulating rules expected to apply to specified relationships and activities within a jurisdiction	(Easterly & Levine, 2001)
	Money	A standard unit of account by which values are recognised and measured and that is homogenous and interchangeable – qualities that are the basis of monetary exchange  <i>A store of value and unit of exchange that is homogenous within a jurisdiction</i>	(Easterly, 2002) (Pritchett, 1997)

<sup>42</sup> In advancing the proposed definitions I have excluded from *Table 3.1* entities that clearly do not qualify as institutions. Conceptual entities such as culture, social capital, knowledge and social technology are excluded.

<sup>43</sup> The location of a form in the listing merely locates it with a category. It is not intended to suggest that there are no possible links or relationships between forms.

Table 3.1 Continued

**Definition of forms qualifying as institutions**

<b>Institutional Category</b>	<b>Illustrative Institutional form</b>	<b>Definition</b>	<b>Informing References</b>
Predominantly mixed Explicit and Implicit Institutions	Conventions	Instance of a rule applied in a specific way in relation to specific circumstances or occasions.  <i>Conventions are accepted rules that are applied in a particular way in a society and circumstance.</i>  <i>Repeated and widespread – derived from and continuity relying on beliefs and actions in a community</i>	(Granovetter, 2000) ; (Hodgson, 2005); (Akerlof, 1980)
	Codes <sup>44</sup>	A collection of specific rules dictating the appropriate activity or behaviour expected of individuals in a group in specified circumstances or occasions.  <i>Relate to a specified and defined group of individuals that consider themselves bound by the system of rules by virtue of their membership of the group.</i>	(Posner, 1999) (Pritchett, 1997)
	Contract	An enforceable commitment, made under an established legal system and recognised juridical authority, between parties recognised as exercising and / or exchanging specified rights within a given specified timescale.  <i>Parties share a common understanding of how they are bound in relation to each other what activities and behaviours they are bound to. Contract terms are considered to embody the understanding between parties.</i>	(Hausman and Kraakman, 2002)
	Property right <sup>45</sup>	Range of rights and privileges individuals are legally granted over their labour, foods, services or assets they legally own.  <i>Property rights confer ownership that is legally granted, enforceable and protected by a state authority. Ownership is distinct from possession</i>	(North, 1990); (Libecap, 1989) (Hodgson 2008)
Predominantly Implicit Institutions	Norm	Specific actions and outcomes that are permitted, recommended, obliged or forbidden under specific conditions.  <i>Have a rule like nature but sanction may not be expressly specified.</i>	(Crawford and Ostrom, 1995) (Alesina & Dollar, 2000)
	Custom	A social complex of shared habits – relating to a group of individuals  <i>A communally prescribed act whose purpose and utility derives from shared observance based on shared acceptance, belief expectation of gain or loss in the future.</i>	(Easterly, 2003); (Hodgson, 2001)

<sup>44</sup> Codes, conventions, norms and customs will all be viewed differently depending on the context and perspective of the person(s) experiencing them. Whilst the categories suggested may hold – nuance of definition may be added or subtracted. For example a doctor and a soldier may agree on broad definition of a code or convention but have additional nuanced differentiation derived from their different traditions.

<sup>45</sup> Property rights are specifically included here because of the economic context of this work. Note however that they are being illustrative of the institutional form. Other rights relating to social interactions also qualify. For example legal rights, human rights etc.

**Table 3.1 Continued**

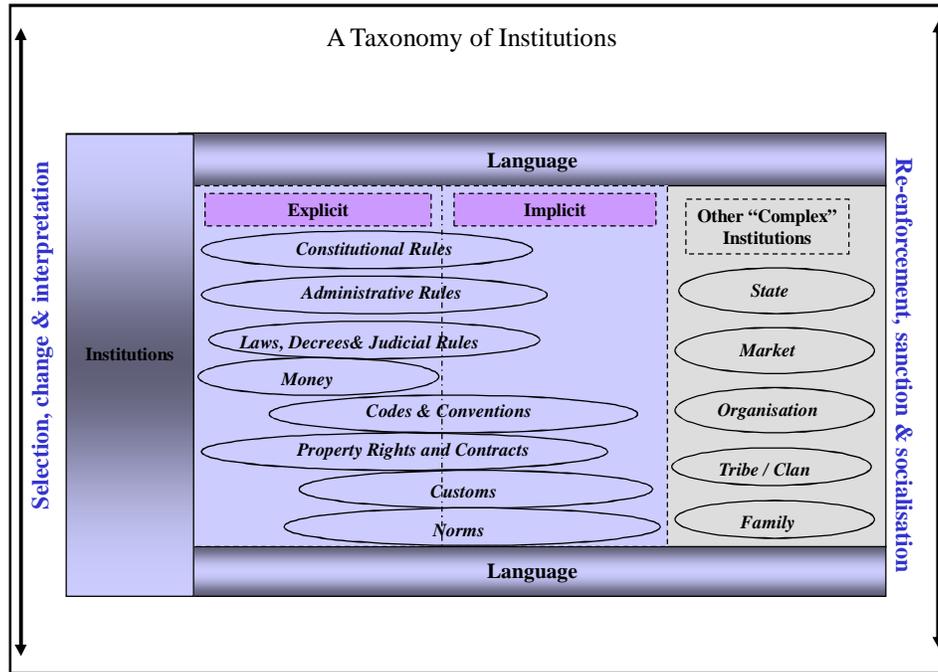
**Definition of forms qualifying as institutions**

<b>Institutional Category</b>	<b>Institutional form</b>	<b>Definition</b>	<b>References</b>
Other “Complex” Institutions	Family	A primary social group of kin linked together by descent, marriage and / or law and encompassing specified customary and legal obligations, restrictions and commitments relating to nurture and sexual relations  Primary function of nurturing and socialising the newborn and involving regulation of economic, reproductive and sexual relations	(Dalgaard et al. 2004)
	Clan	An extended group of kin linked together by descent, customary adoption, marriage, common claimed ancestry or hereditary	
	Organisation	Bounded groups of qualifying members in relationships governed by systems of rules that define and coordinate individual roles, responsibilities and actions towards an acknowledged purpose.  <i>Membership is specified in accordance with distinguishing criteria</i>  <i>Relationships are coordinated “according to some decision rule or persuasion – a mix of authority and custom”</i>	(Schmid, 2004) (Hodgson 2001a)
	Market	Organised and institutionalised exchange of commodities involving assignment of contracts and exchange of property rights..  <i>Coordination and cooperation involves repeated transactions, negotiations and contracting in accordance with established and accepted rules and behaviours,</i>	(Hodgson, 2001a)
	State	A sovereign, recognised public authority within an exclusive jurisdictional domain.  A nationally and internationally recognised system of rules that constitute, organise and express public authority over an exclusive territorial domain and society of people	(Burnside, 2000) (Easterly, 2003) (Hudson, 2004)

Figure 3.2 below graphically represents the categories of the taxonomy within which the examples of institutional forms are located.

**Figure 3.2**

**A Graphical Representation of A Taxonomic Classification of Institutions**



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**Notes on the taxonomy**

1. This taxonomy is put forward for a purpose - to facilitate the assessment and study of the influence of institutions on economic development of a country. It has to provide a categorization and description that is meaningful in the context of a country's economic and social political development. In addition it needs to provide a useful, pragmatic and usable framework for discussion and fieldwork (i.e. comprehensive but not over elaborate or unnecessarily complicated. Able to be used to explain and help interpret the reality that is observable on the "ground")
2. The proposed taxonomy should enable more focused and discriminating study of institutions and related features. It should help clarify what matters and how and make it easier to avoid interesting but less relevant distractions and debates that disintegrate rather than help integrate the insight and understanding that we are seeking.
3. The emergence of particular form of institutions can precede the development of another. The sustained existence of some form of institutions presupposes the pre-existence of another form. Forms of institutions can be seen as evolving, one to another, coevolving one with another or developing in proximity one to another. The dynamics of evolution, co-evolution and development are outside the scope of the taxonomy (to be discussed later) - however the representation of forms within the category should be consistent with what we know about how institutions develop and change to emerge from and succeed each other.
4. The taxonomy is however not intended to (and is unlikely to) suggest that cultural features and broader social considerations do not matter. By offering a taxonomy that focuses on institutions the role of associated features can be identified separately and more clearly explained in relation to institutions.

Having presented the taxonomy of institutions, it is important to emphasise that I have specifically and deliberately excluded from this classification a number of terms often associated with institutions but not qualifying here as institutions.

In this respect it has to be emphasised that beliefs, ideas and values are not rule-like and therefore are, strictly speaking, not institutions. Although beliefs, ideas and values may be held by different people and some do influence social and economic choices and social behaviours (Hampden-Turner and Trompenaars, 1993) they are themselves not institutional because they do not systematically structure and organise human interactions in a rule-like manner nor do they depend on depend collective intentionality or independently create deontic powers<sup>46</sup>.

Institutions by definition are socially obligatory, socially enforced and socially sanctioned. Human beings within a give society cannot opt out of their obligations and / or their implications. The fact that individuals can opt out of holding a belief, idea or value – indicates their non-obligatory nature. It is possible that beliefs, ideas and values may under-pin or reinforce institutions (Thompson, Ellis and Wildavsky, 1990), but this merely indicates that they need to be seen as being part of the broader cultural setting of institutions. It does not mean that they themselves are true institutions.

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<sup>46</sup> It has to re-iterated that beliefs are not the same as norms. Beliefs relate to propositions that are held by individuals to be true. Norms are activities and outcomes that are permitted, recommended, obliged or forbidden under specific conditions (Crawford and Ostrom, 1995) ; (Alesina & Dollar, 2000). It is of course possible to have a belief about a norm – but that is clearly a different matter and is not the same as saying that a belief is the same as a norm. Most importantly it has to be emphasised that norms are institutions whereas beliefs, in themselves and on their own, are not (Ostrom, 1995); (Searle, 2005)

Table 3.2 below lists these additional terms that are important for a full appreciation of how institutions matter and why they matter. I refer to them as Myths, Beliefs and Ideologies and see them as socio-cultural expressions of identity, values and attitudes. I consider them to be important expressions, influencers and shapers of institutions life. However for the reasons described above, they are clearly not institutions.

**Table 3.2**  
**Myths, Beliefs and Ideologies (Socio – Cultural Expressions of Identity, Values and Attitudes)**<sup>47</sup>

	<b>Definition and Comment</b>	<b>References</b>
Habits	Self actuating disposition or tendency to engage in a previously adopted or acquired form of action”  <i>Habits are formed “through repetition of action and thought” and are “the basis of reflective and non-reflective behaviour”</i>  <i>Habits are associated with individuals even though different individuals might have similar habits.</i>	(Hodgson, 2001) (Hodgson, 2001).
Beliefs	Propositions (consciously) held to be true  <i>Beliefs underpin and shape institutional reality but are themselves not rule like and therefore not institutions</i>  <i>Beliefs are held at an individual level even though they may be shared amongst a group of individuals.</i>	(Hahn, 1973) (North, 2005)
Attitude	An organisation of several beliefs around a specific object or situation. Attitudes are implicit and not codifiable. They operate at an individual level even though a group of individuals may share similar attitudes.	(Spates,1983) (Rokeach, 1973)
Value	A conception explicit or implicit, distinctive of an individual or characteristic of a group, of the desirable which influences the selection from available modes means and ends of action.  <i>Values are not codifiable - they may be internalised instigators of behaviour which are not always self evident.</i>  <i>They operate at an individual level even though a group of individuals may share similar values.</i>	(Spates1983) (Kluckhohn 1951)
Rites and rituals	Customary practices or activities often associated with religious belief performed in observance of an event of social significance	(Douglas, 1966; 1970; 1973)
Ceremonies	A specific activity or behaviour enacted in recognition of the significance of an event or occasion	(Douglas, 1966; 1970; 1973)

<sup>47</sup> I have included in my *Table 3.2* descriptions that are closely associated and involved with institutions indicating. These are presented for completeness to differentiate them from the true subgroups of institutions given in *Table 3.1* above. Indeed appreciation of these aspects (beliefs, habits and values) is critical to the understanding of the nature institutions whereas appreciation of concepts such as culture, social capital and so on (further discussed below), whilst interesting, is clearly less critical.

### **3.3.3 Institutions, culture and social capital**

Before drawing the chapter to a conclusion it is necessary briefly to locate two other quite different concepts that are often used in association with, alongside and / or instead of institutions. At times it appears that these concepts and ideas are related to, or even defined as institutional without adequately explaining them, their provenance or their varied usage. It is evident that this mixed reference and often ambiguous use of these concepts may tend to further obscure what institutions are and what they are not.

The terms “culture” and “social capital” are often referred to in discussions relating to economic development and are sometimes used interchangeably or in explanation of institutions and vice versa. In the case of “culture” I suggest that the term refers to considerations that need to be taken into account and indeed may have been somewhat ignored by traditional mainstream economics. However it is necessary to avoid equating institutions to “culture” and vice versa. It appears essential instead to admit the importance and role of “culture”, but to do so in such a way that clarifies what “culture” is and is not and how it relates to and is different from the specific idea of institutions.

In relation to “social capital” I suggest that the whilst gaining widespread usage the concept has remained ambiguous in the way it had been applied and therefore remains, in this taxonomic context at least, of limited additional explanatory value over and above the terms that are already used to explain what is (namely trust, norms, networks and

social ties). I suggest that for the purposes of this study the direct reference to the underlying terms is more meaningful than adopting the term “social capital”.

### **3.3.3.1 Institutions and “Culture”**

Descriptions of culture can be broad and lacking in specificity. The Cambridge International Dictionary of English (Cambridge University Press, 2001) refers to culture as a way of life, – as in: “the way of life, especially the general customs and beliefs, of a particular group of people at a particular time” So conceived, it comes across as being quite difficult to pin down. It is multidimensional; dynamic; a whole of interacting parts; characterised by tangibles and intangibles and evidently about ways of thinking and seeing not just ways of behaving.

Kroeber and Kluckhohn’s (1952) detailed review of definitions over an extended period testifies to this. Their study identified a number of representations of culture and the different perspectives that they represent<sup>48</sup>. The representations included for example descriptions of culture as:

- a) the human state of being,
- b) a historical evolution of practices and behaviours,
- c) a summation of norms and rules governing ways of life,
- d) the resulting and reality creating synthesis of human effort and experience,
- e) the learned behaviours of a society,

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<sup>48</sup> For example Kluckhohn & Kroeber’s 1952 study of definitions of culture “Culture, A Critical Review of Concepts & Definitions” refers to definitions of culture that have developed overtime. They group different definitions from different perspectives – the Genetic; Descriptive; Psychological; Structural; Normative

- f) the common habits of a group and
- g) the evolving and transmitted ideas through generations.

Not surprisingly the conception of the nature of culture often reflects the particular emphasis and focus that has been brought to the enquiry. From an anthropological perspective one of the central debates on the nature of culture has centred around whether it best seen as a response to the practical problems of living (as in Marvin Harris's (1979) conception of cultural materialism) or if it is better seen as society's attempts to mediate, make sense of and order its experience (Douglas 1966). In that sense culture is seen as both changing and rigid. Mary Douglas (1966: 128) refers to culture in broad terms in relation to a categorising, facilitating, sense-making and ordering role with a cohesive and enjoining capacity:

“the public, standardised values of a community, (which) mediates the experience of individuals. It provides in advance some basic categories, a positive pattern in which ideas and values are tidily ordered. And above all it has authority, since each is induced to assent because of the assent of others. ... Any Culture is a series of structures which comprise social forms, values, cosmology, the whole of knowledge and through which all experience is mediated. ...The rituals enact the form of social relations and in giving these relations visible expression they enable people to know their own society. The rituals work on the body politic through the symbolic medium of the physical body”.

Further developments of Mary Douglas's theme are represented in work by Wildavsky et al. (1990), which portray culture as way of life influenced by social biases and social relations. In this conceptualization culture can be seen as consisting of mental products, (values beliefs, norms, rationalisations, symbols and ideologies) or as a total way of life (the interpersonal relations of people and their attitudes). Thus Douglas and Wildavsky et al. see culture as being in the mind and not just in the material world.

Wildavsky et al (1990) go on to introduce the idea of "myths of reality" which inform and influence the way social groupings perceive of and relate to their world. They postulate a theory of socio-cultural viability - seeking to explain how a way of life gets created and sustains itself and why particular ways of life may wax and wane. Their argument is that social relations and cultural biases need to be congruent with and mutually supportive of ways of life. In particular they use Douglas's Group – Grid typology to present the underpinning for their focus on cultural bias<sup>49</sup>. In their view societies can develop 5 particular biases depending on the strength of the social grouping *boundaries* and the strength of the *rules* individuals feel subject to and regulated by. In their conception of cultural biases, social groups also hold a number of associated myth<sup>50</sup>s, which are supplied by and reinforced by institutions. (Wildavsky et al., 1990).

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<sup>49</sup> Wildavsky et al (1990: 5) assert that " ...although nations & neighborhoods, tribes and races have their distinctive sets of values, beliefs and habits, their basic convictions about life are reducible to only a few cultural biases" Using Mary T Douglas's grid / group typology they refer to a boundary effect the experience of being part of a bounded social unit, a group effect - the rules that relate one person to another on an ego centered basis and a prescription effect – the extent to which social context is regulated and relationships subject to prescription.

<sup>50</sup> They also introduce 6 orienting myths of nature "Nature Capricious"; "Nature Perverse / Tolerant"; "Nature Benign"; Nature Ephemeral"; "Nature Resilient". Institutions are seen as supplying and reinforcing these myths within a social grouping

The Wildavsky et al. definition and usage shows how their conception of the nature of culture is closely bound with the representations and descriptions that they use for representing it. For them culture is complex, tangible and intangible, given and giving, individual and social and institutionalising and institution creating. They further suggest that it is possible to gain some access to and understanding of cultures by considering some of universally applicable descriptors of orientation and myth (Wildavsky et al. 1990). On the question of how culture relates to institutions they state:

“A recurring debate among social scientists is whether institutional structures cause culture (defined as values and beliefs & mental products) or culture causes structure. As our definition of ways of life makes clear we see no reason to choose between social institutions and cultural biases. Values and social relations are mutually interdependent and reinforcing: Institutions generate distinctive sets of preferences and adherence to certain values, legitimising corresponding arrangements. Asking which comes first and which should be given causal priority is a non starter" (Wildavsky et al.,1)

Hofstede(1991) and Hampden-Turner and Trompenaars (1993) work in a similar vein and also present us with suggested universal descriptors of culture but based on empirical studies of the responses of large numbers of individuals from different countries.

Hofstede’s work based on a study of IBM workers from 50 countries across different geographies draws out at (the nation level) dimensions of cultural values relating to: power distance, uncertainty avoidance, individualism-collectivism, masculinity-femininity, and long- versus short-term orientation (Hofstede, 1991). Similarly Hampden-

Turner and Trompenaars in their study of 7 capitalist nations draw attention to what they call “valuing processes” a combination of which are held in greater or lesser measure by social groupings from different countries (Hampden-Turner and Trompenaars, 1993). These valuing processes create quite distinctive cultures, which inform and guide not only how they behave and organize activities but also what they produce and how they produce it.

What emerges is a sense that the concept of culture is broad, broadly-defined and encompassing of many different aspects. In addition it has been used in ways that are suggestive of culture being fixed and given (when typifying and describing cultures) as well as dynamic and evolving (when adapting to environmental and social requirements).

However it is perhaps more appropriate to view culture as a complex pattern of values, beliefs and norms, which influence a social group’s behavioural and material orientation and determine activities and choices. In this sense culture is manifest in, but not equal or equivalent to, a social group’s shared ways of life, including habits, customs, myths, symbols, artefacts, and institutions. It can also be seen as an emergent property of social systems (Hodgson, 2001a: 293). In this respect it is also multifaceted, complex and dynamic and irreducible to its constituent parts. Culture matters, but it does not do so in a narrow, deterministic or static sense. Culture has an important and directing influence on social and hence economic behaviour and activity but its influence is not static and predetermined.

However for analytical purposes, being so broad and multifaceted a concept is cumbersome and problematic. Allying the concept of culture to the (now) better defined and delimited notion of institutions that is being presented in this study, compounds rather than reduces the potential analytical muddle. Most importantly (for the purposes of this study) culture is not the same as institutions and the concept of culture is not interchangeable with the notion of institutions.

As economists focusing on institutions and incorporating them in our analyses of development it is necessary to reinforce rather than deny the importance and relevance of culture. This is because institutions are conceived as being embedded in a social and cultural context. In doing so we should seek to avoid falling foul of the tendency that Billig (2000) notes to be common amongst economists, either to ignore culture because it seen as irrational and messy, or alternatively to invoke it in narrow, static and deterministic terms.

Billig notes that often for economists “culture represents the unimportant, irrational, messy noise that we must hold constant if we ever hope to get on with formal analysis. But there have been a few economists in the last decade or so who have "discovered" culture and think it important (North, 1990; Sowell, 1994; Harrison and Huntington, 2000). Unfortunately, many of those tend to adopt a rather antiquated view of culture as a static, prior, and disarticulated "thing" that ensnares individuals within its powerful clutches and persists unchanging into eternity” Billig goes on to suggest that what is needed is a different way of approaching the role of culture to avoid simplistic thinking

and to incorporate culture into economic analysis. Focusing on the differentiated and better defined role of institutions may give us a realistic opportunity of achieving this.

### **3.3.3.2 Institutions and “Social Capital”**

Social capital has in recent years grown in popularity as a concept used to point to, or to explain, situations deemed to have been affected adversely by the existence or absence of social ties that are beneficial to economic and social wellbeing. The term “social capital” is attributed in its recent regeneration to Bourdieu (1985), and in different respects to Coleman (1988) and to Putnam (1993) and (1995).

Bourdieu (1985) saw social capital as involving individual’s deliberate cultivation of relationships and involvement in groups in order to develop resources. Hence the individual established relationships with a network and in so doing gained access to the networks resources. Coleman (1988) emphasises the importance of social structures and the way that they benefit individuals. Coleman’s contribution pays attention to the mechanisms that enable structures to create these benefits. In addition Coleman has been seen as supporting the concept in its applicability to acquisition of human capital (Portes, 1998). Putnam on the other hand draws attention to the importance of horizontal ties and considers the evolution of new networks and organisational forms on reciprocal interactions between people and the effects on their collective action and social identity (Putnam, 1995).

Portes (1998) discusses provenance of the term “social capital” and goes on to note that the term has gained extended usage outside strictly scholarly circles. It has become widely disseminated and evident in everyday language. It has also gained widespread usage across the social sciences and notably within and alongside discussions of institutions and development. Furthermore it has been related to or defined in relation to networks, trust and norms. Portes (1998) notes that “the point is approaching at which social capital comes to be applied to so many events and in so many different contexts as to lose distinct meaning”. For the time being the consensus appears however to have settled around “the ability of actors to secure benefits by virtue of their membership in social networks or other social structures” (Portes 1998; 8)

Charting the provenance of the term, Portes notes, however, that the core idea represented by the term social capital (i.e. that involvement and participation can be beneficial to individuals and communities) is not new, at least to sociologists. He argues that it “simply recaptures an insight present since the very beginnings of the discipline (sociology). It can be seen as an exercise in re-labelling ideas and concepts which is “to a large extent, just a means of presenting them in a more appealing garb” (Portes, 1998; 21).

Woolcock and Narayan (2000) identify a number of different perspectives of social capital. The “communitarian perspective” equates social capital with local organisations such as associations and civic groups. The “networks perspective” points to the importance of social ties within and between groups. The “institutional perspective”

points to the importance of political, legal and institutional environments and the “synergy perspective” emphasises complementarity of state and community / private and public as a means of addressing effects of weak, hostile or indifferent formal institutions and environments.

The concept of social capital is also not without its critics. Its rapid proliferation and use across so many situations and events and has left concerns as to its real utility. It is seen as coming across as an idea that has been over-promoted by proponents and that is unlikely to remedy major social problems. Portes, (1998: 21) and Schuller et al. (2000), whilst acknowledging its widespread adoption and value in promoting a different focus on the development debate, nevertheless acknowledge a number of important criticisms.

The common criticisms include:

- a) concerns over usage alongside other forms of capital which are quite different in nature and meaning within economics and the social sciences;
- b) the multiplicity of concepts embraced under the umbrella of social capital;
- c) the difficulty of meaningful quantification; and (probably most significantly)
- d) the circularity of argument that presents social capital as a property of communities and nations as being both the cause and effect and thus caught in a meaningless tautology.

In addition Ben Fine (2001) sees it as a construct that avoids the "proper confrontation" with political economy. He challenges the use of ideas without engaging fully with corresponding and relevant literature. Fine (2001: 19) notes " the re-introduction of the

social has the ... dual aspect of both smoothing the acceptance of - at most marginally altered - economic policies and analysis and of broadening the scope of justifiable intervention from the economic to the social in order to ensure policies are successful. Social and covert political engineering is to complement economic engineering with social capital providing a client friendly rhetoric"

In view of the definition and taxonomy of institutions (offered above) I suggest that whilst the term (social capital) has re-introduced themes such as trust, relationship, network and norms to policy discussions, for the purposes of this study it does not add clearly different ideas that are not already contained and / or more precisely and accurately explained by reference to earlier / original ideas (and the literature relating to them) directly<sup>51</sup>. In this present study I will refer directly to networks, trust and norms in preference to the broader catch-all concept of social capital.

### **3.4 Conclusion**

There is growing acknowledgement that institutions play an important and significant role in economic development, and a deeper understanding of the nature of institutions. In addition institutions have been more widely studied, better defined and their impact better understood. Yet despite this progress, an authoritative taxonomy of institutions has still been lacking. For those seeking to understand how and why institutions matter, the increased definition has raised the need for taxonomy of institutions. This is because

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<sup>51</sup> Discussions of the importance of networks, trust and relationships and the importance of ties ethnic and otherwise are directly and arguably more specifically addressed in works by Granovetter (1985); Landa (1997); Whitley (1992); Ostrom (2000); Tilly (2004) to mention but a few.

institutions relevance, scope and priority in economic understanding cannot be advanced without establishing such taxonomy.

Whilst there have been endeavours to classify types of institutions, the development of a classification of institutions for use in empirical examination of real life experience has proved elusive. A number of important considerations underlie the problem of a lack of taxonomy and have encumbered its further development. Institutions are numerous. They come in many forms, are multi-faceted, and are manifest in a variety of ways and at different levels. These considerations have made their identification, differentiation and definition, difficult.

The taxonomy advanced in this chapter takes existing accepted definitions further by providing criteria to establish how to categorise institutions. It draws from existing scholarly work defining institutions and identifies the categorising criteria as being how they how essential and fundamental they are; how implicit or explicit they are; and / or the way in which they are formed into distinctive and complex regulating arrangements.

The taxonomy therefore goes further by providing further descriptive detail to the overall definition of institutions previously offered. It suggests categories of institutions and provides an illustrative listing of forms that are representative of the categories identified. In addition to providing a descriptive and discriminating framework that clarifies and classifies institutions (for students of institutions and institutional change), the framework

provides a basis for empirical institutional study by providing a means of identifying and then sorting out what matters as a society changes and an economy develops.

Finally the better definition, taxonomy and representative listing of institutional forms together enable easier differentiation of institutions from other commonly used and often related terms and aspects, which may be of interest for other reasons but are not of immediate relevance to this examination of how institutions matter.

## **CHAPTER FOUR**

### **THE DEVELOPMENT OF THE UGANDA COFFEE SECTOR: AN INSTITUTIONAL PERSPECTIVE**

## **4 The development of the Uganda coffee sector: an institutional perspective**

### ***4.1 Introduction: the coffee development story***

The purpose of this chapter is to examine the development of the Uganda Coffee sector from an institutional perspective. The taxonomy advanced in the previous chapter is used to distil out of an empirical case example a description of how specifically institutions are implicated in such a development experience. The chosen case example is the creation and development of the Uganda coffee sector. The chapter starts by identifying the variety of institutions involved. The taxonomy is then used to map the way influential institutions developed and interacted and the different roles they played. In doing this it is shown that the completeness of the development story depends on a refined understanding that differentiates various types of institutions, the roles they play and the varying levels of influence they had.

The coffee development story is essentially a story of commercialisation and commodification. It is also a story of significant social-cultural and institutional change. In order to understand this duality, appreciation of the place and role of coffee in society is important. Ugandan coffee is primarily an export crop. Domestic consumption of coffee remains negligible. In Uganda there is no established tradition of coffee consumption<sup>52</sup>. Although Robusta coffee (*Coffea Canephora*) grew wild along the shores

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<sup>52</sup> As there is in Ethiopia for example helping to make Ethiopia Africa's largest coffee producer.

of Lake Victoria it was never traditionally used as a beverage by the indigenous peoples<sup>53</sup>. The coffee bean has, nevertheless historically had a deep cultural significance amongst the Baganda people and culture<sup>54</sup>. In pre-colonial times it was not unknown for whole families and clans displaced by war or famine to migrate (Kusenga) and resettle or seek refuge with other communities under the protection of a powerful chief or king. Rites and rituals often attended the integration of peoples in the communities. Coffee played a significant role in the Baganda blood brother rite (Okutta Omukago) which often accompanied the affirmation of acceptance. In this ritual participants exchanged and chewed beans that had been dipped in each other's blood as a sign of acceptance and togetherness<sup>55</sup>.

Before 1900, therefore, coffee growing was not an extensive commercial / economic practice. It was not recognised or introduced as a commercial crop until the beginning of

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<sup>53</sup> Both Uganda and Ethiopia have coffee deeply rooted in history and culture but in quite different ways. In Ethiopia it is part of the folklore and Ethiopian legend accords a special place for coffee in folklore and culture. The traditional coffee session consists of 3 preparations in accordance with the legend of Abol, Atona and Baraka, 3 men in search of God, expecting Manna from heaven faced starvation. God revealed 2 plants kat and coffee – instructing them to chew the leaves of one and drink the infusion of the other. Each prepared the infusion and offered it to the other two (hence the 3 preparations) at which their hunger disappeared and they were able to continue with their quest. Other legends relate to the discovery of the stimulating effects of coffee by an Abyssinian goatherd in 1445 chewing the coffee cherries after noticing his goats prancing "in an unusually frisky manner" after doing the same. The news is said to have spread to Monks in a monastery and "soon..all the monks of the realm were chewing the berry before their night prayer". In Ethiopian tradition and culture coffee was believed to have hunger suppressing qualities, imbibed with mystical enlivening qualities

<sup>54</sup> The people Baganda and the territory Buganda is not synonymous with what became the country of Uganda. Geographically and ethnically Uganda is much more than Buganda (the pre-colonial Kingdom) and the Baganda (the people). It has been noted that mispronouncements, misspellings and misunderstandings often led to early dispatches and agreements referring to the Kingdom of Uganda (instead of Buganda). Eventually when Buganda and the surrounding districts and peoples inhabiting them were brought into one colonial entity as a British protectorate this was called "Uganda" – a colonial creation that neither equated to the previously existing Kingdom nor described the variety of language, race and ethnicity that was being annexed.

<sup>55</sup> Whilst the blood brotherhood cultural ritual is to my knowledge no longer practiced today, Buganda society's inherent openness to outsiders still remains and in some traditional settings a visitor may still be offered (bloodless!) coffee beans to chew on visitations within Buganda.

the twentieth century, after the establishment of the British Colonial Authority over the country<sup>56</sup>. The Uganda coffee sector as it exists today is the consequence of complex of social-economic and institutional change that took place between the late nineteenth century and the present day. It represents the transformation of coffee from a natural artefact of ritualistic significance to an internationally traded commercial commodity. The development story told in this chapter is the story of how this happened, the institutional change involved and the socio-economic development outcomes that resulted.

#### **4.1.1 Why choose the coffee sector**

As noted briefly in introductory remarks in chapter 1, the coffee sector is chosen as a case study because its transformation has echoed in many ways the changes in the wider Ugandan society that the sector is part of. Over the last 100 years, the sector, like Uganda itself – has emerged and become socially and politically established. It has developed institutionally and economically. Its fortunes have varied with successive changes in political fortunes and with internal and external influences and developments.

In addition the sector can be seen as epitomising the changes over time that other African developing countries (other than Uganda) have experienced in their wider developmental transformation from hesitant colonisation to independent African state<sup>57</sup>.

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<sup>56</sup> Focus group discussion and exchanges with Uganda coffee sector participants.

<sup>57</sup> The creation of Uganda a protectorate marked the culmination of a British colonial interval of somewhat mixed intent. As in a number of other former British colonies in Africa, the interval curiously combined disparate religious, commercial, exploratory and colonising concerns with the meddlesome representation of the activities of missionaries and philanthropists, agents of the Imperial British East Africa Company. Uganda was created as a result of the collusion and competition between varied foreign interests, traditional

The coffee sector also represents a significant sector within the Ugandan economy in its own right. This significance is social and economic. The sector has a large geographic and socio-economic footprint. Recently coffee accounted for about 20% of the country's export earnings<sup>58</sup>. Coffee is widely cultivated, engages many farmers and their families in its activities and is believed to benefit about 3.5million directly<sup>59</sup>. In addition it employs, directly or indirectly, about 5 million people through which it impacts the livelihoods of about 7million Ugandans - approximately 25% of the population<sup>60</sup>.

**Figure 4.1**  
**Map of Coffee growing areas in Uganda**



rulers and influential local and foreign notaries. As Kanyehamba (2002; 4 - 5) notes often local rulers did not understand the implications of agreements they were signing and the colonial interest at the time was not peoples but spheres of influence, strategic advantage and trade or commercial gains

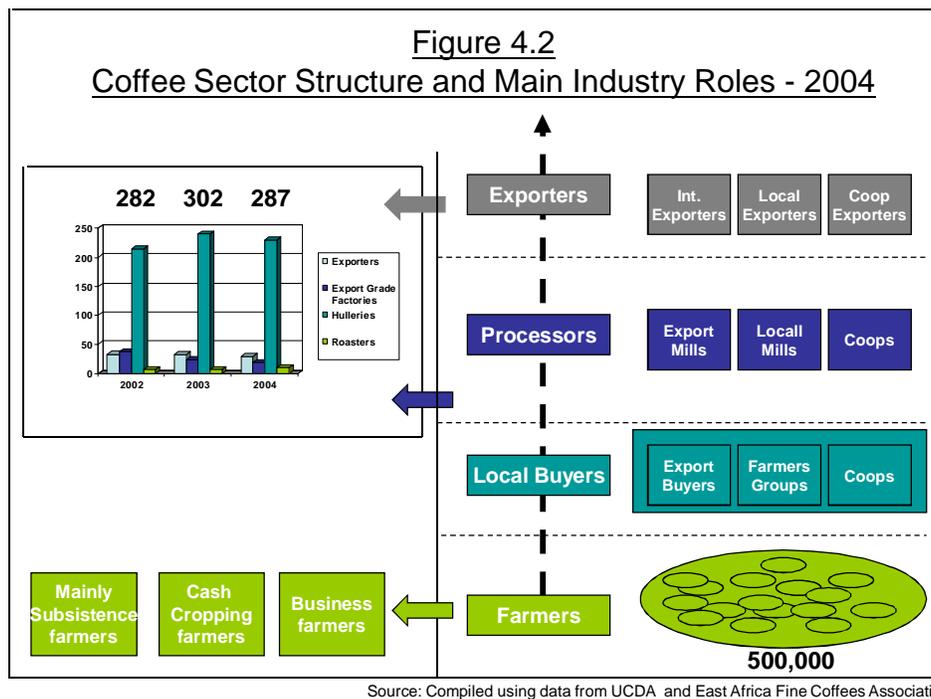
<sup>58</sup> Exports in period 2000– 2004. Data compiled by East African Fine Coffee Association. In recent years coffee earnings have fallen by 60% due to lower world prices and lower volumes (In part a result of the spread of Coffee Wilt Disease which since 1996, is said to have destroyed about 45% of the older trees)

<sup>59</sup> Coffee is cultivated in the south, south west, east and North west tip of Uganda. It engages 500,000 small holding farmers and their families. (UCTF 2004 / 2005 Yearbook and Focus Group verifications

<sup>60</sup> UCTF 2004/2005 Yearbook and Focus Group discussions

Coffee thus not only represents a large number people – the way it is grown and marketed encompasses aspects that are the very essence of life in significant parts of southern and eastern Uganda. Today the coffee sector has developed into a fully fledged agribusiness that involves a number of differentiated specialised roles. This structure enables the sector to impinge on society at different levels – stretching from the rural farmers to the international export traders.

Figure 4.2 below shows the coffee sector’s current structure and roles – illustrating its now well developed structure.



The sector is therefore representative of different aspects of developmental spheres and can be seen as being rural and urban, modern and traditional, domestic and international, indigenous and foreign, public and private. Therefore the Uganda coffee sector is clearly an excellent vehicle for examining the Ugandan development and institutional change experience.

### 4.1.2 Distinct phases of development

The case work shows that from an institutional change and development perspective it is possible to identify three distinct phases through which the Uganda coffee sector was created and transformed into its current manifestation. The first phase was *the colonial / commodification phase* – in which coffee was first identified and exploited as a commodity. The second phase was *the post independence / interventionist phase* in which the sector was expanded and key the state and private interests sought deliberately to establish and institutionalise their dominant role in the sector. The third phase was the *post conflict / liberalisation phase* in which state authorised a rolling back of its own explicit intervention and substantially redefined the basis of sector participation and control of sector activities. Using the taxonomy introduced in the previous chapter, the three phases of evolution are described mapped and analysed to determine the key events, influences and development implications over the whole period.

These three phases occupied distinctive (but connected succeeding) historical eras with dominant (but changing) configurations of group identities and interests, socio-cultural myths and ideologies and institutions. Hence in this chapter the phases are examined in the first instance as distinct eras of development separate from preceding and succeeding phases of development and then re-examined and assessed as snapshots of an ongoing dynamic, complex and ongoing evolution – evidently changing overtime time and leading to the current development and economic outcomes and the present incarnation of the sector.

### **4.1.3 The situation prior to colonisation**

Politically, socio-economically and institutionally the territory and peoples that were later to become known as Uganda, inhabited a very different landscape before the colonial period. As a brief backdrop to the study that follows – it is helpful to draw some attention to some key differences.

Socio-politically, there were a number of key differences. There was no Ugandan state, nation or administrative unit. The area that was to form the country of Uganda was inhabited by over 50 social groupings of different administrative make up (Kanyehamba 2002) . Some of these societies were organised into centralised kingdoms with chiefs, supreme chiefs and hereditary leadership lineages (for example Buganda, Ankole, Toro and Bunyoro) whilst others consisted of more disparately organised socio-political units – with varying chiefly and non-chiefly leadership models.

Economically the societies were typically part agricultural, pastoral and trading. By the time the colonisers arrived in the southern Bantu areas, bananas had been cultivated and cattle had been kept for hundreds of years (Reader 1997; 291-315). Settlements had developed and trade routes had been developed. Local exchange and trade, and some trading centres had been established. Long distance trade, typically associated with high value commodities was emerging (Reader, 1997; 257 - 290).

Not surprisingly the institutional landscape too was different. A wide range of institutional forms existed. Different languages, families and clans had become

established. Associated norms and customs were evident, often defining roles and obligation within and between social groupings. Systems of law existed – under the aegis of chiefdoms, or kingly states. Organisations of military and / or commercial (trading) nature were also evidently emerging (Reader, 1997). There was of course as yet no sovereign Ugandan state, no apparatus of national state administration, and no coffee sector. The institutional landscape though, rich and varied was quite different from that which was to emerge following colonial intervention and the associated introduction of new influencing factors and different social pressures and needs.

#### **4.2 *The first phase: the commodification of coffee***

The institutional story that is the focus of this study starts with the single most significant and defining event of the first phase of development: the creation of Uganda as a national entity. This single historical event set in motion the other major changes in the power political and institutional landscape that can be seen today as the defining characteristics of first phase of development covered by this study.

The new constitutional arrangements arrived at in 1894 (with the annexation of Uganda as British protectorate and in 1902 with the Uganda Order in Council), created a new overall institutional reality at *a nation level* which provided the crucial foundational institutions that enabled the creation and establishment the coffee as a traded commodity. These foundational institutional developments included changes in implicit institutions as well as deliberate creations of explicit and codified institutional arrangements *at sector*

*levels*. In addition existing special institutions (such as the family) evolved and changed and new ones such as the modern state and its organs; markets and private and public organisations emerged. The rest of this section describes the key events that shaped the institutions that defined the development experiences of each of the phases identified and under study.

The first phase of institutional development took place during the colonial period starting with the emergence of the new independent African nation (i.e. between 1894 and 1962). The 1902 Order in council established British sovereignty and political, legislative, economic, administrative dominance over the indigenous rulers and their associated chiefs, peoples, families and clans. This created a new nation level authoritative identity around which other dominant interests and identities had to be re-aligned. The executive commissioner (later governor) and his associated rule making (legislative) and rule enforcing and sanctioning (executive) powers became the new dominant reality of a now dominant colonial administration.

Much of the early colonial administrative developments were concentrated in Buganda. The Baganda people – hitherto identified as family and clan members and subjects of the Kabaka of Buganda, became *additionally* subjects of the British Crown. The interests of the Imperial British Crown rather than those of the King of Buganda were now in the ascendancy. Baganda territorial chiefs (Bakungu) previously under the sole patronage of the Kabaka were gradually to become agents of the colonial administration and not the

Kabaka's<sup>61</sup>. The Bataka, clan chiefs overseeing the extensive clan system were to remain closely identified with tradition but the position of the Kabaka<sup>62</sup> was to be relegated in power and authority and marginalised in affairs of state<sup>63</sup>. Hence the nation level changes circumscribed the "state" power of the Kabaka and his chiefs and introduced the new state powers and national interests of the colonial executive and the new European settlers<sup>64</sup>.

#### **4.2.1 New institutions and new roles**

One of the first major acts of institutional legislation of the new colonial interest and the newly established sovereign authority was to negotiate and initiate a new model of property rights. The Buganda Agreement in 1900 introduced a form of land tenure to Uganda that hitherto had not existed. Half the land in Buganda was designated as Crown property whilst the other half was distributed in plots of square miles (to become known as the mailo lands) to 1000 nobles who could now hold this property in private ownership (Kanyehamba, 2002). This new model introduced the potential for alienation and sale of land as well as opportunities for personal agricultural husbandry. Ownership and wealth creation could now begin to be loosened from the direct patronage of the Chiefs and the Kabaka or the hierarchical position within the family or clan.

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<sup>61</sup> Bakungu - territorial heads of the counties - 10 - with subchiefs and lower notaries. Responsible for dispensing justice, collecting taxes and raising soldiers in the name of the Kabaka.

<sup>62</sup> Traditionally the Kabaka is referred to as Sabataka – the premier head of the Bataka who are the heads of the clans. The Kabaka is thus head of all the clans and unifies the Baganda practically and symbolically

<sup>63</sup> Bataka - 40 - clan chiefs - estates in different territories - clan system regulated by totemic avoidance - provided social relationships of mutual assistance and regulated social interactions and life.

<sup>64</sup> The governor ruled by orders and regulatory declarations and was advised and supported by a nominated executive council and legislative council.

From an institutional, analytical perspective the new legislation introduced new rules that inevitably were to change the social relationships and interactions that hitherto existed. In terms of the taxonomic framework introduced earlier, these new rules may be recognised as representative of an institutional form that is categorised as being a mix of explicit and implicit aspects. It was explicit in the way in that it was written and the rights it conferred were specified and codified. It was implicit in that it represented a shift of decision making authority over land – from the traditional hereditary arrangements to crown.

The new institutional arrangements effectively created new and different enablement and constraints that changed the relationships and interactions involving the mailo land, the state, the nobles and the local clans and families. This finding is consistent with the theoretical expectation discussed in chapters 2 and 3 above which discuss the definition and role of institution and recognises that they “*systematically organise, enable and constrain human beings and their interactions in a society*”<sup>65</sup>.

Along with the new state sanctioned colonial political interest came the new state sponsored economic interest and models of economic production and marketing. The colonialists brought with them new commercial agents and interests in the form of merchants and farmers / plantation owners seeking to grow crops for export. Great pressure was placed on the colonial authorities by European farming interests to establish

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<sup>65</sup> Chapters 2 and 3 preceding discuss and establish the definition and taxonomy of institutions consistent with this observation.

reserves and to alienate land for commercial use<sup>66</sup>. An economy that was hitherto composed of fragmented subsistence activities and rudimentary exchange and commodity barter began to be transformed under institutional guidance of unified state authority (Collier et al. 1999; Acemoglu et al. 2001). Now there were new interests and new (often protected) roles for the new actors (Export buyers, merchant bankers and foreign farmers as well as agents of the British state) engaged in new economic activities.

Thus commercial coffee growing and trading emerged and expanded and became established under the protection and oversight of the colonial administration forming what was to become the foundation of European owned plantation agriculture. Under this new institutional setting the sector grew. Between 1910 and 1914 it is estimated that there were 135 coffee plantations covering 58,000 acres in the Buganda area in the south of the country<sup>67</sup>.

However the development of a plantation-based coffee economy did not develop to ultimately define this phase of development of coffee in Uganda. Sector-level institutional development having first favoured a plantation economy was to develop along a different path. What eventually emerged to guarantee the establishment of the coffee as a commodity in Uganda was a set of sector-level institutions which had as their dominant defining characteristic the small holding cash cropper and not the plantation holder.

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<sup>66</sup> As late as 1921 the Carter Commission was recommending that Africans should provide labour and be restricted to subsistence (and not commercial) farming. Uganda was seen as having twice as much high quality land as Kenya and therefore more attractive as a home for large scale plantations.

<sup>67</sup> Zwanenberg and King (1975). Supplemented by focus group discussion and exchanges with Uganda coffee sector participants.

The shift from an emerging plantation economy to a widely-cultivated smallholding cash crop economy came about at the end of the First World War and was a result of the interaction of external events and ongoing internal developments. The initial external stimulus for change was the dramatic collapse in world commodity prices. This “*external shock*” led to the abandonment of large scale commercial cotton and coffee growing in the country. Zwanenberg and King (1975: 63) note that "Under the onslaught - European plantation agriculture collapsed and the prospects of large scale white settlement in Uganda, which had seemed so bright faded to nothing".

Amongst the Africans, the collapse of plantation agriculture represented a new opportunity. In Buganda and the other southern areas (following the 1900 Buganda agreement and other related treaties) prior state-level institutional changes meant that a land-owning and tenant smallholding class had emerged. Africans were encouraged (and coerced – through the local administration system of patronage chiefs by the colonial administration) to cultivate food and cash crops. With the exodus of many large European plantations, Africans operating on a much smaller scale seized the opportunity and began small scale coffee growing. The coffee smallholding was thus created at this early stage of the sector’s evolution, establishing a pattern of agriculture that remains institutionally dominant to the present day.

The motivations that lay behind increased African involvement in the cultivation of coffee, either as small holders or as paid labourers (discussed by a number of observers)

were complex. The available writings, commentaries and circumstantial evidence suggest that Africans faced a mix of institutional and non institutional encouragements, compulsions and hindrances. Roscoe (1923) notes that in Buganda the custom was that women and serfs laboured on land and it was considered derogatory for men to work as labourers. He notes that “it was not until they felt a need for money and realised that it was earned easily by cotton growing and coffee planting that they took to agriculture.”

Youe (1973) notes however, the influential role of the institutional factors as well as. He points to the combination of official encouragement and sponsorship by the colonial government, as well as peasant labourers increasing willingness to work on farms of wealthy land owners (for marginal monetary requirements), as being factors as well. In addition he points to the growing and encouragement and enforcement of coffee husbandry by the local bureaucracy.

Brett (1973) emphasises that the involvement in coffee and cotton growing was for many Africans a marginal activity which gave them leverage over the bureaucracy and the plantation owners. This was because “the whole political and economic infrastructure depended on their willingness to produce a cash crop whereas they did not depend on this crop for anything more than marginal requirements – to pay taxes, buy clothes and other consumer goods” (Brett, 1973; 245). It is evident therefore that it was the whole of the ongoing shift in patterns and ways of living associated with the establishment of a modern cash economy – that created the context within which the specific institutional and personal motivations to cultivate coffee were derived.

#### 4.2.2 The creation of the coffee sector

This early phase of colonial development is therefore characterised by the early beginnings of what was to become the Uganda coffee sector. The coffee smallholding as an institution was created. Coffee in Uganda began to develop as a widespread activity involving peasant farmers and families as well as migrant labour working on family owned small holdings. Coffee became a part of much of Buganda's every day existence.

Coffee also emerged as a cash crop. Enabling this development, was an elaborate interplay of sector-level and communal rules and regulations, practices and customs which defined roles and allocated specific activities in the sector to different groups. The beginnings of the infrastructure and mechanisms needed to produce; process and trade the commodity locally and internationally were established. Africans produced coffee on smallholdings and colonial and foreign private interests carried out the processing and foreign trade<sup>68</sup>. This infrastructure established some industry roles that have persisted to the present day – with small holdings remaining the preserve of Africans and processing and foreign trade being in part under foreign control.

By the 1920's commercial organisations dedicated to exploiting the commodity trade were active<sup>69</sup>. In addition, government regulated and intervened in the sector initially to protect (mainly) European farmers with more secure incomes to cushion them against vagaries of market, and eventually to ensure standards and practices to protect the quality

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<sup>68</sup> Africans were initially restricted from participating in processing and trade so commodity export trade remained in the hands of a few dominant European merchants

<sup>69</sup> Among them European agents and merchant companies such as Mitchell Cotts and Dalgety & Co.

and reputation of the industry. Thus the colonial authorities created the Coffee Industry Board (CIB) a new institution to regulate purchasing, processing and export of Coffee. As cultivation of the crop expanded and concern for commercial reputation and export quality grew, further new coffee regulations were introduced. The 1932 Coffee Controls required all coffee to be processed through licensed curing work and all coffee buyers were to be licensed by government. The 1935 Native Produce Marketing Ordinance gave the colonial government the authority to restrict the trade of any African produced commodity (Zwanenberg and King, 1975)<sup>70</sup>.

Alongside the official colonial measures and restrictions there also developed a mix of norms and associated customary practices that worked in mutual support and reinforcement of each other adapting to and coexisting with each other. For example having been identified as a cash crop, it became the norm for African farmers to be encouraged and coerced to grow it. Buganda patronage chiefs (Bakungu) enforced cash crop growing and specific crop husbandry and management practices. Often the enforcement was harsh, and poor husbandry was severely punished with the whip (Kiboko), a term that came to be associated with obtaining quality coffee and eventually became the substitute name for a quality of coffee that has persisted to this day.

These unwritten norms of enforced cash-cropping and smallholding were further reinforced by written restrictions enabled by the establishment of restricted controlled internal markets requiring colonial permit to export or participate in processing and

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<sup>70</sup> More government control followed during the war, when the government took more direct control of organising and directing the activities of the export companies and controlling the prices that growers could expect

trade<sup>71</sup>. Where farmers and traders agitated and managed to organise themselves into associations in attempts to gain greater control of production or processing they were frustrated by the licensing arrangements and or colonial regulations such as, for example, the Coffee Controls, the Native Produce Ordances and the 1946 Cooperative Ordinance (through which the colonial government was able to control industry participation to the benefit of the European framers and their commercial interests).

### **4.2.3 First phase institutional development**

Examining the developments through a taxonomy lens it is evident that at the national as well as the sector level the country was undergoing significant institutional change and transition. Values and beliefs from a pre-colonial era were now adapting to under-gird a new and shifting pattern of influential institutions. Tables 4.1 and 4.2 below summarise the key distinguishing nation level institutions classified in accordance with the taxonomy advanced:

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<sup>71</sup> In the north of the country it became government policy to coerce Africans into paid labour rather than to establish themselves as smallholders.

**Table 4.1**  
**Nation-level institutions: Commodification Phase**

<b>Commodification Phase – Key Distinguishing Characteristics – Nation-Level Institutions</b> Taxonomy Key 1 – Constitution 2 – Law 3 – Custom 4 – Clan 5 – State 6 – Organisation 7 – Market 8 – Norms 9 – Conventions	<b><u>Explicit Institutions</u></b> <ul style="list-style-type: none"> <li>• Kabaka and chiefs (Bataka) ; (Bakungu) as traditional authorities (1, 2, 3)</li> <li>• Colonial state as dominant authority – executive and legislative authority (1, 2, 3)</li> <li>• Traditional patronage chiefs as colonial administrators (2, 3)</li> <li>• Constitutional and administrative rules with colonial state sanction (1, 2, 3)</li> <li>• Land ownership from clan ownership to Crown and Mailo Land ownership(1, 2, )</li> </ul>
	<b><u>Implicit Institutions</u></b> <ul style="list-style-type: none"> <li>• Baganda as a territorial brotherhood of families and clans held together by the Kabaka (3, 4)</li> </ul>
	<b><u>Other “Complex” Institutions</u></b> <ul style="list-style-type: none"> <li>• Family and Clan (3, 4)</li> <li>• Buganda Kingdom (3, 4)</li> <li>• Colonial state (1, 2, 5)</li> <li>• Plantations as preferred colonial commercial agricultural production entity (9)</li> </ul>

**Table 4.2**  
**Sector-level institutions: Commodification Phase**

<b>Commodification Phase – Key Distinguishing Characteristics – Sector-Level Institutions</b> Taxonomy Key 1 – Constitution 2 – Law 3 – Custom 4 – Clan 5 – State 6 – Organisation 7 – Market 8 – Norms 9 – Conventions	<b><u>Explicit Institutions</u></b> <ul style="list-style-type: none"> <li>• Ordnances, controls and regulations creating coffee sector and coffee tree as a cash crop (2)</li> <li>• Traditional chiefs as local administrators (2,3)</li> </ul>
	<b><u>Implicit Institutions</u></b> <ul style="list-style-type: none"> <li>• Coffee beans as significant in traditional rites</li> <li>• Coffee cash cropping as a way of life – an inheritance</li> <li>• Coffee Growing and husbandry conventions</li> </ul>
	<b><u>Other “Complex” Institutions</u></b> <ul style="list-style-type: none"> <li>• Coffee trade and export market (3)</li> <li>• Plantations as initially preferred colonial commercial entities (6)</li> <li>• Smallholding as enduring commercial entities (6)</li> <li>• CIB (6)</li> <li>• Other Commercial organisations – Exporters, Processors and Cooperatives (6, 7)</li> </ul>

The institutional changes that took place in this phase when taken together represented a significant change in the rule making mechanisms of the society. They introduced a new authority and gave it the direct power to regulate and enforce particular patterns of socio-economic activity and behaviour. They enabled the new state authority to create new higher level and constitutional rules. These in turn enabled changes in subsidiary institutions and associated rules that created and structured the activities, relationships and obligations between individuals, groups and the state. There were changes in rule-making authorities, rules and rule patterns. This was evident at nation-level affecting Buganda and the emerging Uganda nation as well as within the coffee sector.

Within Buganda the Kabaka and his chiefs' traditional and customary authority no longer had judicial, administrative or political monopoly. Custom ceased to be the prime creator of law. Traditional organs of discussion and customary elaboration that involved the king and his chiefs in law making and adjudication began to be circumvented. Traditional chiefs and the Kabaka ceased being the prime political figureheads embodying law, tradition and custom. This meant that within the emergent commodity sectors, actors looked increasingly to newly established authorities and institutions as sources of law and eventually as sources of law and enforcement.

Over time the socio-economic activities of individuals and groups in the sector were increasingly regulated and enforced by non-traditional institutions. These included the colonial controls and ordinances that created the overall legal and administrative rules that

regulated activity in the sector, eventually leading to the creation of the Coffee Industry Board (CIB). The CIB then acted as the arm of the state charged with overseeing the development and execution of state policy and the observance and sanction of sector regulations.

With changes in authority came changes in the purpose and interest guiding and informing the rules. The new supreme authority – the colonial state - could introduce and guarantee rules to govern the sector. These new rules were more concerned with promoting the growth of the sector and less concerned with preserving the traditional nonmarket-oriented subsistence economy. This meant that actors were faced with new rules that offered opportunities which led away from subsistence to cash cropping. The existence of a traditional administration willing to modify and include the new responsibility for policing and enforcing new regulations within their traditional role enabled effective enforcement. Effective enforcement and habitual compliance created new economic choices (e.g. regarding to provision of land and labour for coffee growing) and activities (e.g. coffee planting, harvesting and drying). Africans' choices to participate as smallholding farmers were to become institutionalised within the now modified traditional setting – the cash crop small holding.

Table 4.3 below gives the taxonomic description of the key distinguishing institutional characteristics, and factors influencing them and their development impact.

**Table 4.3**  
**Colonial / Commodification Phase: Taxonomy description of implications of institutional developments**

	<b>Colonial Period – Defining Institutional Characteristics</b>	<b>Influencing factors sustaining pre-existing institutional reality</b>	<b>Influencing factors enabling new sector level institutional reality</b>	<b>Implications</b>
Explicit Institutions	<p><b><u>Nation-Level</u></b>  Kabaka &amp; chiefs (Bataka) ; (Bakungu) as traditional authorities  Colonial state as dominant executive &amp; legislative authority  Patronage chiefs as colonial administrators  Constitutional and administrative rules with colonial state sanction  Land ownership from clan ownership to Crown and Mailo Land ownership</p>	Privileged position of Kabaka and his notaries	<p>Acceptance of chiefs dual authority enabling them to be co-opted into enforcing new regulations using traditional authority</p> <p>Establishment of land tenure</p> <p>New constitutional and administrative rules</p> <p>Regulatory ordnances affecting production, purchasing, processing, trading and export of coffee</p>	Political & administrative control introducing new models of ownership and trade and ensuring property rights
	<p><b><u>Sector-Level</u></b>  Ordnances, controls and regulations creating coffee sector and coffee tree as a cash crop  Traditional chiefs as local administrators</p>			

**Table 4.3 Continued**  
**Colonial / Commodification Phase: Taxonomy description of implications of institutional developments**

	<b>Colonial Period – Defining Institutional Characteristics</b>	<b>Influencing factors sustaining pre-existing institutional reality</b>	<b>Influencing factors enabling new sector level institutional reality</b>	<b>Implications</b>
Implicit Institutions	<b><u>Nation- Level</u></b> Baganda as a territorial brotherhood of relatives and clans held together by the Kabaka	Continuing attachment to relatives, clan and family territory	Habituation of husbandry practices and standards  Relatives involvement in coffee growing  Coffee on family land inherited across generation	Coffee cash cropping as a way of life – becoming an expectation and an inheritance  High quality Robusta production
	<b><u>Sector-Level</u></b> Coffee beans as significant in traditional rites Coffee growing habits and husbandry conventions			
Other “Complex” Institutions	<b><u>Nation-Level</u></b> Family and Clan Buganda Kingdom Colonial state	Continuing adherence to clan and family	Creation of production, processing and trading roles – creation of a market for coffee combining assigning roles to local and foreign participants  Development of new organisational entities to organise labour, regulate activities and enable differentiate roles within the market	Availability of organised labour with incentive to produce coffee  Market and market organisational institutions providing an access to markets
	<b><u>Sector-Level</u></b> Coffee trade and export market Plantations as initially preferred colonial commercial entities Smallholding as enduring commercial entities CIB Other Commercial organisations – Exporters, Processors and Cooperatives			

### **4.3 The second phase: the post independence / interventionist phase**

The second phase of the institutional development of the coffee sector covered the period between independence in 1962 and the end of the civil war in 1987. For Uganda as a country, this period was dominated by politically and economically turbulent years. A short period of relative high economic growth immediately after independence was

followed by 2 decades of political turbulence, persecution, mass outward migration, military dictatorship, civil war and a severe collapse in economic fortunes. This second phase of development saw the initial expansion and transformation of the coffee sector from its most recent colonial incarnation into an indigenously controlled and managed post independence manifestation and its subsequent economic collapse in consonance with the overall economy.

#### **4.3.1 Second phase institutional development**

The predominant theme of this phase of development was the unrelenting search for political and economic wellbeing and stability and the inexorable cycles of political strife and economic volatility. At independence Uganda, like other newly-independent African countries, Uganda went in search of the three-faced holy grail of political independence, economic development and Africanisation. At the national level this involved ideological departure from the policies that dominated the pre-colonial era. There was a greater focus on government development planning, more attention to national control of the economy and economic resources and a vigorous political attention creating the political and economic conditions most likely to rid the new developing nation of the vestiges of colonial control and continuing dependency. Appendix 1 provides a chronology of events with details of the socio-political and economic developments over the period – In summary they included:

- a) a series of changes in government, involving *coups detats*, political and military intrigue and civil strife and violence<sup>72</sup>;
- b) sweeping constitutional political and administrative changes<sup>73</sup>;
- c) collapse of the economic activity and economic growth; and
- d) deterioration of social welfare and civilian wellbeing<sup>74</sup>.

This phase was dominated by increasing and institutionalised state intervention and regulation of hitherto "private" economic activities. The shift towards a predominantly interventionist state with an extended scope of activity was initially reflected in national political pronouncements and policy statements (The "Move to the Left" and "The Common Man's Charter 1969). It was later to be explicitly expressed in presidential written orders, decrees and national legislation establishing greater state control of national assets ("Nakivubo" pronouncements 1970) and extending government control over non-state organisations (Banking Act 1969; Cooperative Statutes Act 1970; Trade Unions Act 1970) (Pritchett 1997).

State interventionism embedded in nation-level institutions emerged within the forming institutions of the newly-independent nation and as the multi-party federal state was itself being transformed by constitutional and non- constitutional means first into a unitary

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<sup>72</sup> The short period of relative economic growth was followed by more politically and economically turbulent years between 1970 and 1987 when economic growth collapsed particularly following the Asian expulsion by Idi Amin in 1973. Between 1973 and 1985 military regimes that presided over the country intensified the interventionist and authoritative trend – ruling by decree and extending the state and military control and influence over many aspects of commercial and non commercial activities

<sup>73</sup> Including the a new unitary republican constitution in 1967, suspension of constitutional articles by military proclamation in 1971 followed by rule by military decrees and proclamations between 1971 and 1987

<sup>74</sup> In addition to a collapse of key social development indicators, hundreds of thousands of people lost their lives or were persecuted. Eventually political violence led to a to a civil war that effectively lasted to 1987

republic, then into a one-party state and eventually into a military dictatorship. Hence the nation level rule making mechanisms were transformed. Parliamentary rule, independent judiciary and elected executive gave way to rule by pronouncement, diktat and decree. Traditional rulers and authorities were completely eclipsed as appointed bureaucrats and executive presidents became ever more powerful and dictatorial. Government became increasingly characterised by bureaucratic control and intervention; compliance being often achieved through intimidation, patronage or compulsion. The state apparatus expanded with nationalisation of private foreign enterprises, appropriation of property (often for the benefit of favoured bureaucrats, politicians and military appointees). State laws were promulgated to change established notions of property and tenure.

At the sector-level, state control and regulation of channels to market and of roles within markets, was the dominant feature of this period. State interventionism re-emphasised soon after independence by the first post-colonial government was to be maintained or advanced by every subsequent governments until 1987.

The post independence transformation of the coffee sector began with the 1962 Coffee Act by which the CIB was superseded by the Coffee Marketing Board (CMB). The CMB was a more restrictive and interventionist successor to its colonial counterpart. It was created as a government monopsony encompassing a wider regulatory, buying, promotional and marketing remit than the CIB had enjoyed. It also had additional authority over the marketing of all coffee in the country. The state used the CMB to regulate the value and benefits accruing to participants in the sector. Private sector

companies and local cooperatives were restricted to primary processing. Acting as a government agency the CMB was meant to protect farmers, control prices and protect forex earnings, extract taxes and promote growth and quality. The monopsony was initially incomplete however as private exporters were still allowed to market and export pulped and washed Arabica and the Bugisu Cooperative Union in eastern Uganda was allowed to export wet processed prime Arabica<sup>75</sup>.

In 1969 a subsequent act of parliament gave the CMB further and more complete monopsonistic powers this time encompassing all marketing, processing, regulating and export of coffee in the country. The expanded role of the CMB meant that with the exception of small holding the only significant private participation permitted in the sector was restricted to primary processing. The professed government intent was to promote the health and growth of the sector and to protect it from price fluctuations, manage exchange earnings, ensure quality control and manage tax and customs revenues.

It is notable however that whilst the CMB was the form by which the state institutional intervention was enforced, it was distinctively different in character from the direct coercion that had been applied by the colonial government. Farmers were nevertheless faced with the mixed motivational effects of an explicit state institutional arrangement (backed by state authorities and agents) impinging on farmers choices and behaviours by offering the incentive of possible marginal personal benefits or the avoidance of personal loss.

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<sup>75</sup> In addition to the Coffee Marketing Board other produce marketing boards were set up including the Milk Marketing Board, the Lint Marketing Board and the Produce Marketing Board.

Table 4.4 below summarises the key distinguishing nation-level institutions classified in accordance with the taxonomy advanced:

**Table 4.4**  
**Nation-level institutions: Interventionist Phase**

<p style="text-align: center;"><b>Post Independence Interventionist Period – Key Distinguishing Characteristics – Nation-Level Institutions</b></p> <p>Taxonomy Key            1 – Constitution            2 – Law            3 – Custom            4 – Clan            5 – State            6 – Organisation            7 – Market            8 – Norms            9 – Conventions</p>	<p><b><u>Explicit Institutions</u></b></p> <ul style="list-style-type: none"> <li>• National Head of State and Head of Government (5)</li> <li>• Parliament (5)</li> <li>• Rule by decree (2)</li> <li>• Administrative officers as state and political agents (2, 5, 8)</li> <li>• State ownership of land and sequestration of property (2, 5, 8)</li> <li>• Cooperative control legislation (2)</li> </ul>
	<p><b><u>Implicit Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Nationalisation (8)</li> <li>• “Magendo” (Black market activities) (8)</li> <li>• “Mafuta mingi” (Corrupt rent seeking entrepreneur or official) (8)</li> </ul>
	<p><b><u>Other “Complex” Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Family and Clan (4)</li> <li>• Buganda Kingdom ((1, 2, 3, 4)</li> <li>• Multi-party state (1, 2)</li> <li>• One party (1, 2)</li> <li>• Dictatorial Military state (1, 2, 5)</li> </ul>

Table 4.5 below summarises the key distinguishing sector-level institutions classified in accordance with the taxonomy advanced:

**Table 4.5**  
**Sector-level institutions: Commodification Phase**

<p><b>Post independence Interventionist Period – Key Distinguishing Characteristics – Sector-Level Institutions</b></p> <p>Taxonomy Key            1 – Constitution            2 – Law            3 – Custom            4 – Clan            5 – State            6 – Organisation            7 – Market            8 – Norms            9 - Conventions</p>	<p><b><u>Explicit Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Coffee tree as a cash crop (9)</li> <li>• Heavy explicit taxation (9)</li> <li>• State control and regulation of channels to market and roles within market (2, 5, 6, 7)</li> <li>• Price control of prices paid to farmers (2, 9, 7)</li> </ul>
	<p><b><u>Implicit Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Statist intervention and monopsonistic practices (8)</li> <li>• State dominance and control (8)</li> <li>• Smuggling (8)</li> <li>• Heavy implicit taxation (8)</li> </ul>
	<p><b><u>Other “Complex” Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Coffee buying and export procedures (9, 7)</li> <li>• Smallholding as enduring commercial entities (6)</li> <li>• CMB as regulator and agent of state monopsony (6)</li> <li>• Nationalised preexisting commercial organisations (foreign and local) (6)</li> <li>• Cooperatives (6)</li> </ul>

### **4.3.2 The Coffee Marketing Board (CMB)**

The CMB’s formative years in the mid-to late 1960s coincided with the populist leftward shift in nation level policies under President Milton Obote. Consequently at sector-level the CMB’s activities and remit was consistent with the increasing state involvement in, and nationalisation of, commercial activities. Following the military coup which deposed the Obote regime and brought Idi Amin to power in 1971, the CMB continued to play its central role as prime regulator, buyer, processor and exporter for the coffee sector. Over

the next decade as Uganda's economic performance declined under the diktat and economic mismanagement of the military regime, the CMB's role and significance grew. The expulsion of the entrepreneurial and productive Asian communities and the continued nationalisation of key industries and commercial organisations led to the outflow of expatriate and indigenous managers and professionals. The consequent mismanagement of formerly Asian-owned and other foreign businesses led to a collapse in corporate tax revenues. As the alternative sources of export revenue fell the country became increasingly dependent on its commodity exports – primarily coffee.

Like other nationalised organisations, suffering from bureaucratic political interference, patronage and poor remuneration, however, the CMB was in no position to rise to this challenge. It has since been criticised as having been inefficient, badly managed, presiding over counterproductive regulatory interventions, lacking in sectoral oversight and governance, and poor in the stewardship of indigenous small holder farming interests<sup>76</sup>. The CMB had become a vehicle for extracting rents and taxes from farmers and primary processors, providing revenues for an unpopular regime unable to collect revenues in other ways and lining the pockets of politically appointed senior officials.

By the late 1970's and 1980's the CMB had become a key institutional cornerstone of a state-sponsored system for managing and exploiting the coffee sector through margin management and tax policy. In addition to suppression of farmer prices to generate government revenue and manage inflationary pressures the CMB also issued promissory notes to industry creditors, scheduled and managed payment to millers and unions,

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<sup>76</sup> Field interviews and focus group discussions

offered fixed undifferentiated pricing for high quality coffee, administered the export taxes, and was responsible for developing longer term strategies and crop financing to boost productivity and improve quality.

The sector-level institutional and administrative activities of the CMB resulted in a collapse of farmer morale and a dramatic decline in the coffee industry production and export performance. Coffee husbandry declined as smallholding farmers switched attention to other crops (e.g. bananas) and to subsistence farming. Coffee quality declined as there was no price differentiation or advantage in tending and selling high quality coffee (kiboko) and export volumes fell as the CMB experienced a decline in the volumes of quality coffee it was able to attract from smallholders.

Alongside the CMB's dominant and restricting direct role in the sector, farmers also faced other restrictions and constraints initiated by nation level developments. In 1969 all crown land was vested in the state. The nationalising pronouncements and setting up of the land commission by the Obote regime and Idi Amin's confiscation of Asian properties, land reform decree led to reduced confidence in land ownership and title. Obote's Trade Union and Cooperative Union Acts reduced confidence in free trade and farmer association and cooperative action. Nationalisation of banks, and state intervention the activities of the Uganda Central Bank and the Uganda Commercial Bank affected the availability of loan finance and reduced confidence in the banking system.

Farmer price controls and export taxes led to farmer abdication from the buying system, coffee smuggling and coffee piracy. Dominated by restrictive institutions and difficult political social circumstances over successive regimes, coffee sector volumes collapsed from the 1973/74 peak of over 3.5 million bags to a low of 1.7 million bags in 1979/80 and remained well below the 3 million bag mark for the next decade<sup>77</sup>.

Table 4.6 below shows how coffee production declined in the period after introduction of the complete CMB monopoly despite increases in average coffee prices. The shaded area in the table indicates period of low production that prevailed for the decade in which the CMB was the predominant institutional regulator.

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<sup>77</sup> UCDA statistics

**Table 4.6**

**Coffee production and prices by season 1970 - 1992**

	Coffee season	Quantity (60 kg bags'000)	Avg. Price (US\$/kg)
	1970/71	3,032	0.72
<b>CMB Coffee Monopsony Created and lasted through to 1996</b>	1971/72	3,139	0.77
	1972/73	3,677	0.8
	1973/74	3,283	1.16
	1974/75	2,861	1.02
	1975/76	2,341	1.68
	1976/77	2,449	3.8
	1977/78	1,742	2.99
	1978/79	2,353	2.76
	1979/80	2,219	3.25
	1980/81	1,973	1.95
	1981/82	2,785	1.93
	1982/83	2,194	2.24
	1983/84	2,519	2.6
	1984/85	2,500	2.45
	1985/86	2,392	2.72
	1986/87	2,280	2.26
	1987/88	2,318	1.89
	1988,89	3,114	1.58
	1989/90	2,364	0.98
	1990/91	2,085	0.97
1991/92	2,030	0.83	

UCDA Data

### 4.3.3 Consequences of intervention

The post-independence establishment of a state republic with powerful executive president, along with broadly unchallenged nationalistic, interventionist (and often populist) ideologies at nation-level, created an environment in which there was an

openness to new administrative arrangements in the country at large. Once established as the supreme authority successive nation-level institutional changes created increased executive powers enabling presidents to rule by decree, diktat or pronouncement.

As the state used its institutional influence to extend its sphere of economic control it squeezed out foreign and private interests, reallocated roles and the benefits of economic activity and enforced specific patterns of economic activity through regulation, institutionalised coercion, intimidation, patronage and organisational controls. For civil society at large the state became a much more present and influential reality in day to day activities. Not only was control of land, labour and capital passed to state institutions and to state agents, the state also intervened to reallocate property rights (Asian traders for example) and to control commodities distribution and pricing.

With the extension of state control and influence, new groups of interests emerged. Faced with the vacuum left by the expelled Asian businesses and with the mixed incentives of economic necessity, political compulsion and possible reward, new groups of bureaucrats, entrepreneurs, soldiers and politicians acquired used their positions to acquire businesses or to engage in rent seeking activities. Unsurprisingly the populist intent of creating a common man's charter and economic independence failed to materialise from this extension of local ownership and participation. The new interests did not include amongst their priorities neither programme for economic development nor a redistribution of wealth in favour of the rural poorer populations. A new constellation of notaries eclipsed the traditional leaders and politicians that had

dominated the colonial phase. A culture of wealth acquisition, rent seeking and entrepreneurialism emerged. Traditionally respected roles such as farming, teaching, and working for the civil service were denigrated. The new institutional reality created new groups of economic and social winners and losers.

Within the coffee sector this period created a series of mixed socio-economic and developmental outcomes. Smallholding farmers, too numerous and diffuse to control directly and too important to the economy to ignore and suppress were able to endure as small private enterprises with their immediate growing and primary processing activities generally remaining beyond the complete or direct control of the state. However, with the state able to manage and control the channels to market and the producer prices, farmers' incomes became even more subject to state policy and regulation.

Faced with inflationary prices of purchased goods, shortages of farm inputs and higher explicit and implicit taxation, farmers experienced falling incomes and declining returns, often despite improving commodity price conditions at regional and international levels. Thus in response to state monopsonistic prices the farmers abdicated, or exited participation in the government controlled market pace either by abandoning coffee harvesting and primary processing or by smuggling their produce. In so doing farmers were reallocating their resources to activities that benefited them and satisfied the requirements they had for cash that were not being satisfied by the new institutional arrangements

Table 4.7 below summarises the taxonomic description the key distinguishing institutional characteristics, and factors influencing them and their development impact.

**Table 4.7**  
**Post Independence / Interventionist Phase: Taxonomy description of implications of institutional developments**

	Exploitation and Intervention Period – Defining Institutional Characteristics	Influencing factors sustaining pre-existing institutional reality	Influencing factors enabling new sector level institutional reality	Implications
Explicit and Institutions	<u>Nation-Level</u> National Head of State and Head of Government Parliament Rule by decree Administrative officers as state and political agents State ownership of land and sequestration of property	Widespread private ownership of smallholdings – as mini enterprises autonomous of the state		Concentration of executive, political and judicial influence in the office of the state executive Increasing state intervention and ownership, restricting private, individual and foreign property rights Extension reach of state regulatory scope State control and avocation of benefits accruing within the coffee sector Restricted availability of and, labour and capital in the sector State enforcement of regulations through institutionalised control
	<u>Sector-Level</u> Coffee tree as a cash crop Heavy explicit taxation State control and regulation of channels to market and roes within market Price control of prices paid to farmers			

	<b>Exploitation and Intervention Period – Defining Institutional Characteristics</b>	<b>Influencing factors sustaining pre-existing institutional reality</b>	<b>Influencing factors enabling new sector level institutional reality</b>	<b>Implications</b>
Implicit Institutions	<u>Nation-Level</u> Nationalisation “Magendo” (Black market activities) “Mafuta mingi” (Corrupt rent seeking entrepreneur or official)	Continuing attachment to relatives, family and clan and family territory  Coffee as a family inheritance passed on across generations	Widespread entrepreneurialism, and wealth / rent seeking activities  Active black markets	Quiet rebellion and protest against state control expressed in selective non – compliance (Smuggling, negating coffee trees and harvests)
	<u>Sector-Level</u> Statist intervention and monopsonistic practices State dominance and control Smuggling Heavy implicit taxation			
Other “Complex” Institutions	<u>Nation-Level</u> Family and Clan Buganda Kingdom Multi-party state One party Dictatorial military state	Continuing adherence to clan and family	State organisations with the authority to implement interventionist policies  Weakening or exclusion of competing interests and voices by political means or intimidation	Decline in organisations and institutions capable of supporting and sustaining sector activities (Banks, Coops etc)  Abdication and exit from participation in the sector
	<u>Sector-Level</u> Coffee buying and export procedures Smallholding as enduring commercial entities CMB as regulator and agent of state monopsony Nationalised pre existing commercial organisations (foreign and local) Cooperatives			

#### ***4.4 The third phase: the post conflict / liberalisation phase***

The third phase of development started after the end of the civil war in 1987 and to 2004.

It was dominated by the leadership of President Yoweri Museveni and his National Resistance Movement (NRM, later Movement) government. At nation-level this period was characterised by liberalisation and economic reform, constitutional legislative and

political development and restored and sustained economic growth. However at its beginning this phase of development started in inauspicious circumstances. This was because following the civil war the economy and country was in crisis. The country faced high levels of price inflation, macroeconomic imbalances and balance of payment pressures. The infrastructure was in poor condition, enterprise and agriculture severely disrupted and most sectors of the economy retarded. In addition the country had experienced many years of loss of the economically active population and skilled personnel to, war, disease and exile. Civil administration had been weakened and civil political participation virtually abandoned. There had effectively been a complete collapse in all sectors of the economy, affecting regular employment and associated incomes<sup>78</sup>.

#### **4.4.1 Institutional reform**

The predominant features characterising this phase of development were the persistent ideological focus on reform, rehabilitation and liberalisation and the intervening influences of international agencies and donors. In addition the period is dominated by official Economic Recovery Programmes (ERPs) which had dramatic effects on economic growth. Between 1987 and 1990, the country's economic decline was reversed and there was 6% to 7% annual average GDP growth over the period.

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<sup>78</sup> K Sarwar Lateef notes: "In sum Uganda's once privileged status in the African Community had given way over a decade and a half to that of a least developed country" (Hansen and Twaddle, 1991: 25)

The country clearly benefited from the effects of peace and security, the ongoing rehabilitation of infrastructure, availability of better inputs, post civil war return to farms, good weather, and donor support for key inputs. Underpinning the reform policies was an extensive programme of large scale institutional change and reform. It was initiated by the NRM government, which faced with a need for foreign exchange earnings for the proposed NRM 4 year Rehabilitation & Development Programme, was forced to adopt a reform and structural adjustment programme sponsored by the IMF and World Bank and supported by the wider donor community.<sup>79</sup>

Overall at a nation-level this reform involved rolling back the reach and scope of state intervention as well as the state direct involvement in regulating and controlling social and economic activities across different sectors of the economy. In addition it involved a programme of constitutional reform and intensive legislation to counter the effects of years of political strife, lawlessness, disruption of administration and disregard of property rights. The key institutional features representing these changes at nation-level were the establishment of local administrative councils with local people electing their own representatives (Resistance Councils or RCs), the restoration of an elected parliament, the re-introduction of “no-party” and later multi-party political processes and the introduction of legislation to reform government as well as key sectors of the economy such as banking, agriculture, health and education.

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<sup>79</sup> After the civil war that led to the end of the second Obote regime and its military short-lived successor the initial National Resistance Movement (NRM) government stance was anti IMF, anti devaluation and anti laissez faire. Ochieng notes that the NRM government was initially reluctant to do business with IMF because it was associated with the Obote regime and for ideological reasons. Ochieng also notes that financing (US\$ 2420.5) could not be generated locally or through exports million and that other foreign financiers increasingly needed the IMF stamp of approval - see E.O Ochieng: Economic Adjustments in Uganda in Holger Bernt Hansen, Twaddle, M. *Changing Uganda. The Dilemma of Structural Adjustment and Revolutionary Change*. (Hansen and Twaddle; 1991)

The unfolding effects of the institutional changes at nation-level resurrected foreign direct investment, through increased foreign involvement in the economy: as donors, agencies and new private investors. In addition it led to the return of Asian business investment, relative strengthening of the financial system and the broadening of the tax base. Informally there began a shift in away from the “*magendo*” (black market) economy that had dominated the previous phase of development.

#### **4.4.2 Institutional change**

Within the coffee sector too, this phase of development was characterised by widespread institutional reform aimed at stimulating sectoral production, processing, and trade through liberalisation and encouraging non state participation and investment. In practice this involved tax and regulatory changes as well as organisational reform. As part of the reform, taxation of farm produce, export and sales was abolished. Pre-financing arrangements and joint ventures with foreign companies were permitted. Rail transportation restrictions were lifted and private participation in all aspects of production processing, trade and export was permitted. In addition foreign companies were not restricted in the activities they could undertake. Liberalised foreign exchange markets also meant that foreign companies were free to repatriate profits to their owners.

As part of the regulatory and institutional reforms the government coffee monopsony was abolished and its regulatory role restricted. The Coffee Marketing Board and its

regulatory and monopsonistic marketing and buying roles were dismantled<sup>80</sup>. Initially 5 other private coffee exporters licensed to compete in the market alongside the cooperative unions. Eventually the market was freed to open participation. The Uganda Coffee Development Authority (UCDA) was established as a new statutory regulatory body responsible for monitoring and regulating the industry and advising the Government on policy matters. Eventually price controls were removed when the mandatory minimum export price requirement was abolished and replaced with an indicative price.

The effects of the liberalisation were dramatic and multi-faceted. Most notably there was a rapid influx of re-entrants and new entrants onto the sector and an increase in farmer prices rose from 20% of the export price to 75% of the export price. Coffee production was stimulated as farmers actively reclaimed neglected coffee trees. Annual coffee production which had been as low as 2million bags in the late 70's and early 80's rose to as high as 4 million bags in 95/96 and has stayed above 2.5 million despite the devastating effects of the coffee wilt disease.

Similarly in the distribution and export chain the relaxation of processing marketing and export restrictions led to the issuing of a large number of new licenses to new coffee exporters and processors<sup>81</sup>. Foreign exporters and investors took renewed interest in the sector and services and facilities companies began to consider the opportunities that the

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<sup>80</sup> Coffee Marketing Board Limited (CMBL) as a company to handle the trading functions of the CMB

<sup>81</sup> The UCDA reported the number of new processors and exporters rising from a mere handful to over 180 export licenses by end 1996

sector offered<sup>82</sup>. The influx of processors and exporters created greater competition for farmers' production leading to a fall in the CMBL share of the market and the rise of private exporters eventually to dominate the market. In addition, amongst the private exporters the dominant group came to be the foreign owned exporting companies, often seen by their local counterparts as enjoying unfair information, infrastructural and financing advantages.

The higher demand for coffee also led to greater pressure in farm production, reputedly leading to sharp buying practices on both sides of the trade. Farmers were sometimes accused of paying less attention to quality in their rush to get the commodity to market, whilst middlemen were accused of fiddling farmers with poor quality assessment, tampering with measuring scales, and putting undue pressure on farmers to sell coffee at the flowering stage. In addition some exporters began to develop closer links with middle men and farmers employing commissioned field agents and seeking to extend their buying reach deeper into the market to establish more secure sources of production.

Unencumbered by the previous regimes' suspicious regard of any non-governmental trade or worker associations - new voluntary and industry coffee associations were also formed. In 1992 private exporters created the Uganda Coffee Exporters Association (UCEA). In 1994, the UCEA was strengthened by the joining of the CMBL and the Co-operative Unions (marketing operationally together UNEX) In 1996 the UCEA joined forces with other sector participants and interests to create the Uganda Coffee Trade Federation

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<sup>82</sup> For example there was a boom in the demand for seedlings, leading to the setting up of private nurseries and a fall in prices of high quality and high yielding varieties of clonal coffee seedlings.

(UCTF) thus including all registered organisations involved in the sell and marketing of coffee under one umbrella. In 1995 the farmers created the Uganda Coffee Farmers Association (UCFA) specifically to address farmers concerns, mobilise interests and activities, encourage growth and deal with issues of quality control at form level<sup>83</sup>. In 1996 the government established the Coffee Research Centre under the National Agricultural Research Organisation.

Table 4.8 below summarises the key distinguishing nation-level institutions classified in accordance with the taxonomy advanced:

**Table 4.8**  
**Nation-level institutions: Reform and Liberalisation Phase**

<p><b>Reform and Liberalisation Period – Key Distinguishing Characteristics – Nation-Level Institutions</b></p> <p>Taxonomy Key</p> <p>1 – Constitution</p> <p>2 – Law</p> <p>3 – Custom</p> <p>4 – Clan</p> <p>5 – State</p> <p>6 – Organisation</p> <p>7 – Market</p> <p>8 – Norms</p> <p>9 - Conventions</p>	<p><b><u>Explicit Institutions</u></b></p> <ul style="list-style-type: none"> <li>• National Head of State and Head of Government (1, 2, 5)</li> <li>• Parliament (1, 2, 5)</li> <li>• Resistance Councils – later Local councils (1, 2, 9, 5)</li> <li>• Land reform (2)</li> <li>• Financial Reform (2)</li> </ul>
	<p><b><u>Implicit Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Rehabilitation (8)</li> <li>• Liberalisation (8)</li> </ul>
	<p><b><u>Other “Complex” Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Family and Clan (4)</li> <li>• No Party state (5)</li> <li>• Multi Party state (5)</li> <li>• Donors, foreign governments and international agencies (6)</li> </ul>

<sup>83</sup> This included coffee exporters, processors, roasters, brokers, traders, and growers as well as companies associated with the industry such as banks, insurance companies, transporters, suppliers, clearing and forwarding companies.

Table 4.9 below summarises the key distinguishing sector-level institutions classified in accordance with the taxonomy advanced:

**Table 4.9**  
**Sector-level institutions: Reform and Liberalisation Phase**

<p><b>Reform and Liberalisation Period – Key Distinguishing Characteristics – Sector-Level Institutions</b></p> <p>Taxonomy Key</p> <p>1 – Constitution</p> <p>2 – Law</p> <p>3 – Custom</p> <p>4 – Clan</p> <p>5 – State</p> <p>6 – Organisation</p> <p>7 – Market</p> <p>8 – Norms</p> <p>9 – Conventions</p>	<p><b><u>Explicit Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Coffee tree as a cash crop (8, 9)</li> <li>• Sector de-regulation and liberalisation (2)</li> <li>• Cabinet orders, parliamentary acts and statutes reforming public and private sector related laws (2, 5)</li> <li>• Reduced taxation (2)</li> </ul>
	<p><b><u>Implicit Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Open access and participation</li> <li>• Codes of practice</li> </ul>
	<p><b><u>Other “Complex” Institutions</u></b></p> <ul style="list-style-type: none"> <li>• Smallholding (8)</li> <li>• Large coffee farms (6)</li> <li>• Open deregulated market (7)</li> <li>• UCDA (6)</li> <li>• Cooperatives (6)</li> <li>• Trade Associations (6)</li> </ul>

#### **4.4.3 Consequences of liberalisation**

The intervention of international agencies with power to influence state authority and policy played a pivotal role in initiating the executive action to reform the sector and reduce dramatically state influence and involvement in the sector. The changes meant that social identities associated with coffee were rejuvenated and elevated. Investor interest in coffee was established and farmers “pride” to be associated with and remain dedicated to the crop restored and vindicated. Consequently availability of labour, land and capital for production, trade and export increased. Changes in official institutions

also had evident implications on the actors' behaviours and choices. Government reforms establishing the UCDA and opening the market to participation (with reduced taxation and unrestricted ownership) created political, legislative and international guarantees for trade and property rights. The new regulatory and market model created by the reforms enabled private participation in a manner that reallocated benefits of production and trade away from the state and towards the farmers and entrepreneurs. New incentives for private commercial participation were thus created.

For all participants, coffee became more of an enterprise than merely a relic of a former way of life. Increased and open access to markets meant that, across the entire production and marketing chain, increases in relative possible returns were associated with increases in relative risks faced. Farmers could get more for their produce but were no longer protected by government guaranteed prices. Processors could invest in new plant but had to live with the implications of over capacity in processing or possible downturns in demand. Renewed incentives to dedicate capital, labour and land to coffee depended more on abilities, knowledge, information and cross-sector business networks. Success was increasingly dependent on business acumen, innovation and the ability effectively to acquire, manage and utilise factors of production.

Taken together, the dramatic institutional changes in this period represented an extraordinary and spectacular change relative to previous conventional government economic practice. The interventionist laws, norms, associated with institutions of previous post independence governments were abruptly and swiftly disrupted – being

dismantled or spontaneously dying out. In addition state involvement in micro-economic decision making within the sector was reduced. Instead the government focused its efforts on setting constitutional and administrative rules avoiding getting involved in details of market regulatory rules. In addition there was emerging a new nation level ideology and sense of identity that was to shape national and sector socio-economic behaviour. The NRM government established after a period of extended political and civil strife explicitly based its authority on an ideology of re-education and involvement. It invited a mix of participation and responsibility from citizens. It encouraged local representation on the basis of community interest rather than party political ideology.

This ushered in a new era in which local farmers and business people were once again free to associate on the basis of shared interest and to represent and lobby government to meet these interests. Trade associations, cooperatives and other local non-governmental associations were no longer seen as necessarily being in direct competition of the authority of the state. Consequently within the sector – locally and nationally, more decisions and practices could be left to coffee sector to sort out. Formal and informal codes of practice emerged. Various coffee trade, exporter and farmer associations emerged and even successfully lobbied and influenced government policy. Sector participation was opened to a much wider field.

Wider participation, however also meant more individual participation and choices and more risk of falling prey to unforeseen outcomes. The coffee sector was now a more complex, multifaceted sector and with new roles requiring a wider range of abilities and

competencies. There was more innovation in organisation activity and approaches to business. The sector had become more competitive and demanded greater skill and business acumen. In addition there was a need for more informal interaction and self organisation to gather information and share resources. Greater attention needed to be given to identifying shared interest and developing new ways of cooperating as well as competing. In addition participants could no longer limit their concern to the immediate activities affecting them in their markets locally. Market prices were set internationally. Market participants, customers, competitors, financing and partners were coming into the coffee sector from across the globe. Larger farms were beginning to be reconsidered as favoured means of production. Institutional change was transforming the coffee sector into a modern agri-business operating in the open global market spaces.

**Table 4.1.1**  
**Reform and Liberalisation Phase: Taxonomy description of implications of institutional developments**

	Reform and Liberalisation Period – Defining Institutional Characteristics	Influencing factors sustaining pre-existing institutional reality	Influencing factors enabling new sector level institutional reality	Implications
Explicit Institutions	<u>Nation-Level</u> National Head of State and Head of Government Parliament Resistance Councils – later Local councils Land reform Financial Reform Donors, foreign governments and international agencies	Widespread private ownership of smallholdings – as mini enterprises autonomous of the state	Government policy supported by international agencies, donors etc led by IMF and World Bank Adoption and maintenance reforms over a sustained period Political will - Popular and decisive executive president Response to economic crisis following civil war high level of indebtedness; need for revenue Supporting associated institutional reforms and legislation  Improved security and restitution of Asian properties and businesses	Political, legislative and international guarantees for trade and property rights  New regulatory framework and market model enabling private participation across the sector  Reallocation of benefits of production and trade away from the state
	<u>Sector-Level</u> Coffee tree as a cash crop Sector de-regulation and liberalisation Reduced taxation			

	<b>Reform and Liberalisation Period – Defining Institutional Characteristics</b>	<b>Influencing factors sustaining pre-existing institutional reality</b>	<b>Influencing factors enabling new sector level institutional reality</b>	<b>Implications</b>
Implicit Institutions	<b><u>Nation-Level</u></b> Rehabilitation Liberalisation	Continuing attachment to relatives, family and clan and family territory	Willingness to participate / enter sector in different roles	Coffee development as part of an agri-business enterprise
	<b><u>Sector-Level</u></b> Open access and participation Codes of practice	Coffee as a family inheritance passed on across generations  Urban expansion and competition from other sectors	Openness to foreign enterprise and investment	Dedication to innovation, high quality production and development restored – intensification of competition across the sector
Other “Complex” Institutions	<b><u>Nation-Level</u></b> Family and Clan No Party state Multi Party state	Continuing adherence to clan and family	Failure of the CMB  Growing confidence in state authority and respect for property rights	Renewed incentives to dedicate labour, land, and capital to coffee production and development
	<b><u>Sector-Level</u></b> Smallholding Large coffee farms Open deregulated market UCDA Cooperatives Trade Associations	Market regulating practices of the CMB and Central Bank	New organisations entering the market  Foreign and local enterprise participation and joint venturing  Removal of political restrictions to cooperative and NGO development	Access to export markets increasing relative returns and risks throughout the production and marketing chain  More formal and informal interactions and associations between actors to share information, coordinate actions and protect against risks

## ***4.5 Revisiting the taxonomy and explaining institutional change***

The study and analysis described above has some additional implications for the theoretical work carried out earlier to develop the taxonomy of institutions. Whilst identifying institutions indicates the nature of change that occurred (explicit versus implicit), the analysis shows that, in order to describe and explain the development story of the coffee sector, a vital aspect is the relationship between nation-level and sector-level institutions. It is evident that for the institutional analysis to be complete the taxonomy used needs to be capable of accommodating the distinction between state level and communal / sector-level institutions.

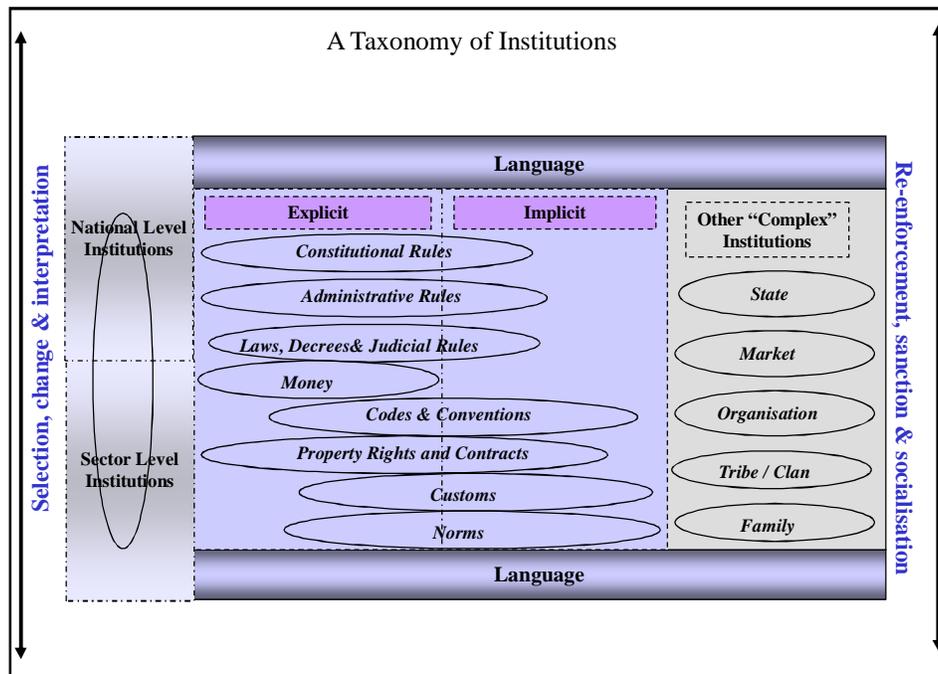
The case study example therefore leads to a re-visiting and further development of the taxonomy to accommodate this crucial addition. The implication of this addition is that a taxonomy led institutional analysis of the sector experience has to be able to place the sector-level institutions in relationship with nation-level institutions that influence them and are therefore also implicated in the changes and developments that occur. This is because institutions at each level play roles that are critical in shaping the forms of economic activities that follow. In addition changes at the state-level are evidently significant and pivotal influences on the development of subsidiary economic sector.

The separate and specific identification of nation-level institutional change improves understanding of what changes mattered most. Including this distinction in the taxonomy facilitates the mapping of influences and implications, enabling deeper insights into how (and how far) nation level institutions mattered. Figure 4.3 below shows the redeveloped

taxonomy represented in graphic form incorporating this further aspect to the previously developed taxonomy.

**Figure 4.3**

**A Taxonomy of Institutions: Revisited to include nation and sector level institutions.**



Anthony Kasozi 2008

However another key conclusion emerging from the case work in this chapter is that the reason for changes in institutions has still to be addressed. Whilst the institutional story can be better described and the influences mapped using a taxonomy; the reasons why institutions changed cannot be explained by the taxonomy. The taxonomy helps us to identify what institutions mattered and map how they mattered but it falls short of explaining why. What is missing is an explanatory theory that can explain why a state level institution changed as it did, and, furthermore, why other state-level and most

significantly, sector-level, institutions changed and specifically what the changes were a response to. The taxonomy on its own shed's no light on this process of change.

In the case of the coffee sector for example we are left with the understanding that the nation level institutions (the Buganda agreement, the creation of the presidency, rule by decree and the Economic Reform Programmes) were significant influences on identifiable sector level changes and developments. Nevertheless it is not clear as to why the nation level changes (implicit and explicit) appear to have mattered so much and why they led to the other changes that occurred. In addition, at nation and sector-level in the study of the Uganda coffee sector it is not clear why the pre-existing institutions gave way to new ones and did not simply resist and stay as they were created. It is possible to point to implied significance – but without explanation it is not evident or possible to explain the change processes that were involved. In the same vein it is not possible to explain why new institutions without local precedent developed. Furthermore it is unclear from the taxonomic description alone why some institutions had the ability to affect the behaviour and activities of individuals in the sectors in the way they did – leading to the developmental outcomes that resulted.

Thus it is evident that in order to understand why institutions were influential it is necessary to explain the underlying processes of change that took place. The explanation of the role of institutions so far advanced through better taxonomy and identification of what mattered has to be informed by theoretically-based premise that can explain why institutions change. This supplementary insight can then enable a more complete

understanding of the influence of institutions on economic development that encompasses what institutions matter most, how they matter and why they matter. The following chapter briefly examines prevailing theory of institutional change to draw from it insight that can supplement the case study work in order to achieve this.

## **CHAPTER FIVE**

### **INSTITUTIONAL CHANGE: FURTHER DEVELOPMENT OF THE ANALYTICAL FRAMEWORK**

## **5 Institutional change: Further development of the analytical framework**

### ***5.1 Introduction***

The taxonomy-based analysis offered in the previous chapter provides a means of reassessing the development of the Ugandan coffee sector and identifying the key institutions that merged and played influential roles in shaping the growth of the sector. The analysis reveals the significance of institutional changes at key points in time as well as the importance of ongoing trends and phases of institutional change.

These insights are valuable. They show how the coffee sector's economic growth and development occurred and the way the sector's creation and transformation was critically dependent on the existence and interaction of particular types of institutions over time. The analysis also shows that, while specific institutions were vital and necessary in shaping the sector's particular growth and development path, the wider socio-historical context mattered. Without the taxonomy-based analysis offered in the previous chapter, the intricacies of the changes in human activities (at different societal levels), and their consolidation into patterns, practices and established systems of interaction (the basis of the sectors socio-economic existence), would be merely glossed over; leaving an interesting narrative listing of historical events, but one devoid of the insight needed to explain the economic and developmental significance.

### 5.1.1 Limitations of static analysis

While the taxonomy-based analysis gives us a means of identifying significant events and linking them with subsequent developments over time that have led to the present day incarnation of the sector, it nevertheless remains essentially a static assessment of the sectors' development. By giving time-bound snapshots of change, the analysis provides information about the developmental path and sequence of institutional changes. This is revealing as to what changes occurred, when they took place and how they have influenced both the general path and specific outcomes of economic development.

However, this static assessment on its own it is not very revealing as to *why* the catalogued, sequenced and noteworthy changes happened. Identification of prevailing institutional conditions merely highlights difference in environment and outcomes. It does not examine the processes involved. The causes of change are not examined and no explanatory insight is offered that allows the use of the empirical assessment revealed in the historical narrative as information that may explain the change processes involved. In order to address the questions of *why* and *how* changes took place in institutions, the “static” descriptions of the key changes need to be accompanied by some explanation of the dynamics of institutional change.

This chapter is therefore a further development of the taxonomy-based analysis offered so far. Having briefly acknowledged the limitations of static taxonomic analysis, the chapter's prime focus is on explaining the institutional changes that took place in the Uganda coffee sector. First there is a brief comment on why understanding the dynamics

of institutional change matters. Then the chapter examines the changes that occurred in the sector, identifying the key changes observed and asking what *explanatory* questions they raise. The questions raised are then used to suggest an institutional change analysis framework with which to engage with the key strands of theory of institutional change. The aim in doing this is to establish what the theory offers as explanations of the changes and to examine what the empirical evidence may admit as plausible. Finally the chapter returns to the question of taxonomy based analysis and considers what implications the discussion has for the use of a taxonomy based framework for examining institutional change dynamics, as well as for explaining the developmental narrative, institutional influence, and institutional significance, in development.

## **5.2 Institutional dynamics matter**

Changes in the way human activities are organised have economic and developmental consequences. Institutional dynamics matter because they help explain how economic growth and development occur and particularly why it takes a particular path. Human societies' "cooperative solutions to complex exchange problems" are the basis of economic change and growth North (1991; vii). But societies do not always adopt socially productive modes of cooperation. Thus the outcomes of institutional change, beneficial or otherwise, are not guaranteed. Understanding the causes and processes involved in changes is therefore important if we are progressively to deal productively with the conflict and cooperation challenges presented by developmental change.

The Uganda coffee sector experience demonstrates that it is not possible to explain the developmental changes by which simpler societal rules and organisation are changed or replaced by more complex arrangements without reference to the causes, influences and processes involved. The case study shows that the transformation of coffee from a wild bush of ritualistic significance within the traditions of the Baganda into a commercial commodity is a story of institutional change. It is a story involving societal innovation, displacement, replacement, establishment and adaptation. The sector's nature and existence today, and its prospects in the future, as a nationally (more or less) regulated, widely cultivated and (locally and internationally) traded agribusiness industry of global significance, cannot be explained by mere reference to sector outcomes and outputs. The sector's developmental outcomes are consequences of changes in societal activities which, in turn, are the result of changing societal and organisational forms of interaction.

Developmental outcomes dissociated from insight into developmental dynamics can provide only partial understanding of the development that has taken place (Brett, 1995). Examination of institutional dynamics helps us understand better, how and why people change the way they organise their activities and interactions. We can see better why and how changes affect economic and developmental outcomes; appreciate better the development challenges that the sector continues to grapple with, and have a better insight into, the future prospects and attending challenges and opportunities, relevant to current economic management efforts as well as future policy consideration.

Understanding the institutional dynamics offers the possibility of better understanding the development constraints that face a society. By doing this we are potentially able to be

more attentive to how institutional stability or instability; fragility and or indomitable potency; lead to persisting developmental problems or new developmental opportunities.

Without exploration or understanding of the dynamics of institutional change, policy formulation is constrained to interactions and arrangements that are evident and prevail today and remains hostage to the less obvious, persisting and / or changing influences on which today's arrangements and possibly tomorrow's prospects depend. In a dramatically changing developmental context it could lead to the erroneous assumptions about which of today's institutional arrangements are as stable and persisting and which are unstable, fragile and / or in transition.

Processes of institutional change also matter because change processes do not inexorably lead to beneficial outcomes. Stimuli for, as well as concomitant paths of, institutional change may impinge on and or create interactions that are productive and socio-economically beneficial or ones that are non beneficial and inefficient (North 1991). Consequently processes of institutional change inevitably hold both the promise of better outcomes as well as the threat of deteriorating societal and economic conditions.

Identification of an institution that constrains or enables particular socio-economic activities at a point in time, helps us to explain the economic choices and outcomes that prevail but it does not explain how a society has developed. Understanding the processes that have led to the emergence of the institution tells us about the historical, socio-economic and political rationale that underpins the existing arrangements, and in so doing sheds light on why the society has developed as it has.

Explaining institutional change also matters specifically within the context of this project because it addresses in microcosm the challenge of achieving sustained development in societies overtime. Attention to the dynamics of change provides a means of developing a more relevant and explanatory framework for applying an analysis of institutions based on taxonomy. Having identified institutional significance by type (identifying what types of institutions mattered) it is necessary to consider how the initial taxonomy framework may be further developed to address questions relating to transitional processes (i.e. understanding a type of institution may develop and change its characteristics while remaining of the same overall taxonomic type). This kind of process understanding not only helps “account for diverse performance in economies, past and present ... [it is also] ... is the key to improving performance of economies present and future ... [unlocking] the door to greater human well being and to a reduction in misery and abject poverty.” (North 2005; vii)

### ***5.3 Theory and analysis of institutional change***

Theoretical works from a variety of scholarly perspectives address different aspects of change in the rules that govern societal interactions. Often scholars of institutional change are addressing specific problems of cooperation and / or conflict and are not directly seeking to attend to the development of a unified theory of institutional change. The specific issues they address range for example, from relatively delimited concerns regarding rules that promote efficiency when dealing with uncertainty and the risks and

costs of change, ( for example relating to transactions (Williamson, 1979), property rights (Libecap, 1989) and collective action (Ostrom, 2000) ); to the wider considerations of power and the role of agents and groups in change (Axelrod, 1986), (Ostrom, 2000). They also extend to the even wider concern for contextually and historically formed and continually changing beliefs and mental models (for example pre-existing mental models (North, 2005), prior scripts (Aoki, 2006) and norms and metanorms (Axelrod, 1986)). In addition there is consideration for the effects of external influences including technology (Nelson, 1994); the role of higher and lower level rules and rule-systems (Ostrom, 2000) and how rules may lock in (North, 1990), are subject to inertia (Ghrabhar and Stark, 1997), and create specific paths (David, 1985), or are subject to cycles of cumulative change that cannot be easily departed escaped (Myrdal 1978).

It is unsurprising therefore that the wide arrays of these and other individually quite significant theoretical contributions available to draw on do not offer a coherent body of theory. While many of their concerns and arguments address overlapping issues, the different works do not knit together theoretically. Scholars often use different languages, create different models for discussing the issues and focus on different aspects of institutional change. Indeed a number do not even directly address “institutional change” as being the subject primarily in hand<sup>84</sup>. So while addressing some important institutional change questions, on the whole many works that offer valuable contributions to the theory of institutional change are not themselves (understandably) primarily concerned with engaging the question of developing some kind of unified theory or perspective of

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<sup>84</sup> A brief survey of works of economic historians, game theorists, behavioural economists, law and economics theorists, sociologists and old and new institutional economists illustrates strikingly.

institutional change. This means that the analysis of institutional change may not rest singularly on the many valuable contributions of theories of institutional change for guidance as to how frame an inquiry into the dynamics of institutional change. The contributions *can* inform our analysis by offering insights into possible explanations.

However, in the absence of a unified theory it is suggested that a framework that points to the analytical questions that an analysis of institutional change has to answer is needed. Armed with this framework incorporating the key questions to be addressed, a more productive engagement with the disparate works addressing institutional change theory appears more fruitful.

### **5.3.1 Key institutions to focus on**

In order to focus our discussion on the institutions that most mattered within the sector as it developed it is necessary to state more clearly what kind of institutions the taxonomy-based case study analysis so far, reveal to be the ones to focus our attention on.

The institutional landscape that characterises the coffee sector in Uganda by the end of the twentieth century is a complex and sophisticated one. Over the previous one hundred years, the sector has developed to exhibit new dedicated explicit laws and new implicit customs. It is directly regulated by state organs, has spawned new organisational forms, incorporates new market arrangements and has developed new norms and conventions for many activities within the sector. There is evidence that the full gamut of the

taxonomy of institutions is represented, and that this is a result of a long ongoing process, or (more accurately), a combination of processes. The range of institutions in evidence today represent a mix of rapid as well as gradual conception; adoption as well as abandonment; stagnation and decline as well as prominence, adaptation and dominance. In other words – to understand institutional change, the processes by which institutions are created and evolve also needs to be examined and characterised. Having identified what institutions were significant in each phase of development we can consider when, and broadly what, characterised their creation and development as key institutions. Following that we can examine more closely (drawing on theories of institutional change), the detailed explanations of why and how institutions changed as they did.

Table 5.1 below shows the key institutional changes in the coffee sector in each phase of development. In the commodification phase the significant developments were:

- a) the creation and establishment of organisational forms, regulations and markets specifically dedicated to commercial exploitation of coffee; and
- b) the development of coffee growing and husbandry norms and conventions.

A full range of new institutional forms was relatively quickly established. It is important to note however that the variety of institutions created developed by or through a mix of processes of change. In the interventionist and the liberalisation phases it is noteworthy, (though given the earlier establishment of the full range of institutions, perhaps not surprising) that even though no completely new types of institutions were introduced, the changes that occurred also appear to have been a result of different processes of change.

The institutional developments that occurred were developments within forms rather than developments of forms. Therefore smallholdings became more ubiquitous and acknowledged, plantations did not. Government regulation and regulatory organisations encompassed new rules and purposes but regulation and regulatory organisations remained. Processing and trading intermediaries took on new and different roles and their number and pre-eminence changed but their presence as institutional entities within the overall landscape remained. There were notable changes in conventions, norms and practices associated with sector activity – quite different in each phase but significantly occupying the same broad taxonomic area – in that they were all changes in unwritten rules (norms, customary practices and unwritten conventions).

Table 5.1 below summarises the key institutional changes that took place in the Uganda coffee sector during the period under study. It emphasises how the key institutional changes are identifiable in overall terms through the taxonomic assessment over time, however this assessment can merely hint at rather than explain the significant change processes involved.

**Table 5.1**  
**Key institutional changes in the Ugandan coffee sector by phase of development**

<b>Commoditisation Phase</b>	<b>Interventionist Phase</b>	<b>Liberalisation Phase</b>
<b>New</b>	<b>New / Changing</b>	<b>New / Changing</b>
Small holding (6)		
Plantations (6) →	<i>Plantations</i>	→ <i>Plantations</i>
Coffee Trade & Export Market (7) →	<i>Coffee Trade and Export Market</i>	→ <i>Coffee Trade and Export Market</i>
Coffee Intervention Board (6) →	<i>Coffee Marketing Board</i>	→ <i>Coffee Development Authority</i>
Coffee Processing and Trading Intermediary Organisations (6) →	<i>Coffee Processing and Trading Intermediary Organisations</i>	→ <i>Coffee Processing and Trading Intermediary Organisations</i>
Colonial Coffee Regulations (2) →	<i>Coffee Regulations</i>	→ <i>Coffee Regulations</i>
		Trade and Sector Associations (6) Codes of practice (8)
Growing and Husbandry Conventions (3)	Magendo (8) Mafuta Mingi (8)	Voluntary Commercial and trading conventions (3)

Taxonomy Key

1 – Constitution; 2 – Law; 3 – Custom; 4 – Clan; 5 – State; 6 – Organisation; 7 – Market; 8 – Norms; 9 – Conventions

The next section uses the information gathered from the coffee case study to start to address this analytical “shortfall”. The section seeks to establish what institutional change questions are raised and therefore what kind of institutional change questions have to be addressed in any framework for analysing institutional dynamics. Having established the framework of questions the chapter moves on to reflecting on how theory helps us address these questions within the context of this case study. Finally the chapter suggests

how we may update our taxonomy framework and taxonomy based analysis approach to institutional analysis to accommodate the insights that emerge.

#### ***5.4 Institutional changes that need explaining***

The examination of key institutions presented above highlights the key institutions established or changing in each of the phases that significantly influenced the development of the sector. It is the changes in these institutions that now need explaining. Examination of the key changes in the sector reveals that under the broad phases of change, and the broad stability of institutional type there are specific, detailed and ongoing change processes that are less evident and need explaining. It is evident that detailed and intricate processes of change are involved, continually causing significant changes in the character institutions even though the overall landscape (categorised by taxonomical types) appears largely unchanged over time.

A further examination of each of the phases of development reveals the intricate processes of change to be addressed. In the commodification phase for example the changes that need explaining primarily relate to why new institutions are created. Before 1900 there was no coffee sector or institutions in existence specifically to enable or regulate coffee sector activity. Over the next 50 years the full array of institutional types were evident and formed the basis of the sector. New institutions that hitherto had not existed came into being. Their emergence is not explained by simply categorising them and pointing to their existence. Their sudden creation demonstrated that institutional

change is capable of being rapid, novel and without internal societal precedent. Their overall stability as forms of institutional types over the following years suggests that institutions can change slowly or even stagnate. These changes need explaining.

In addition in the commodification phase it is also evident that there is a need to explain how changes occurred. Some institutions, namely plantations, coffee trade and export market, sector Intervention (CIB), processing and trading intermediaries and sector regulations all involved some kind of deliberate direct intervention by the state. Whereas other significant institutions such as smallholdings and growing, trading and husbandry norms and customary practices developed without direct state intervention or direction. In subsequent phases of the sector development similar explanations of institutional change are needed.

Considering the period after commodification the institutions created in the earlier phase continue to evolve. It is important to note that while no completely new institutional *types* are introduced<sup>85</sup>, the existing types change in their detailed characteristics and their societal / sector significance. Smallholdings become ubiquitous. Commodity production and processing activities contained within the smallholding develop as families adopt roles and practices directed at growing and harvesting greater amounts of coffee for trade. The smallholding as a type of special type of institution remains. Its detailed characteristics and the rules / activities it encompasses change. Similarly plantations decline and their role changes, the intervention organisations change as do the regulations they supervise. In addition intermediaries and market arrangements change.

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<sup>85</sup> By institutional type I refer to the types identified in the taxonomy presented in chapter 3.

Furthermore, across the three phases certain characteristics of institutions lose significance and / or completely ceased to exist. For example, the “Magendo” and “Mafuta Mingi”<sup>86</sup> practices prevalent in the latter interventionist era completely disappear in the liberalisation era. It is notable however that amongst the institutions identified as being significant in the development of the sector, those institutions that ceased to exist (as opposed to those that declined or simply changed) tended to be implicit and communal in type. On the whole it takes a number of years for institutions to change their nature or to disappear. Indeed there is little evidence of any significant explicit and official or special *types* of institutions ceasing to exist (Although within types there were changes in the details of the form). Furthermore changes in internal forms of institutions appears to be incremental, slow and influenced by both deliberate directed acts as well as non deliberate, non directed developments. It is necessary to examine and explain the institutional dynamics involved in these changes.

#### **5.4.1 Institutional change questions**

Reviewing the data from the case example it is evident that important questions relevant to understanding institutional change can be drawn from observing the changes that are evident in each phase. Starting with the commodification phase the particular questions raised relate primarily to the creation of institutions that have no precedent within a society / economic sector and are:

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<sup>86</sup> “Magendo” was a colloquial term referring to black market and “Mafuta Mingi” referred to corrupt rent seeking”

- why and how are new institutions created?
- why and how do institutions go on changing?
- why do particular institutions take on specific characteristics?

Drawing again from the coffee sector case example, the important relevant questions after the commodification relate primarily to the development and establishment of difference in institutions that already exist within a society / economic sector and are:

- what changes (differences / variations) occur?
- why and how do the changes take place and survive?

The important relevant questions raised about the demise of institutions relate primarily to stability or extinction within a society and or economic sector and are:

- why and how did the institutions remain and remain unchanged in character?
- why and how did the institutions disappear?

In this case study, the significant institutions that are the focus of the change analysis are summarised in the table below. The table shows that the kind of explanations that need to be addressed includes explaining why as well as how. Table 5.2 below summarises the changes that need explaining.

**Table 5.2**  
**Institutional changes in the Uganda Coffee Sector**

WHAT		WHY		
		Commodification Phase	Interventionist Phase	Liberalisation Phase
<b>HOW</b>	<b>Institutional change dependent on predominantly state or state associated intervention in change processes</b>	<b>Creation of:</b> <ul style="list-style-type: none"> <li>• Plantations</li> <li>• Coffee trade and export market</li> <li>• Sector Intervention (CIB)</li> <li>• Processing and trading intermediaries</li> <li>• Sector regulations</li> </ul>	<b>Changes in:</b> <ul style="list-style-type: none"> <li>• Coffee trade and export market</li> <li>• Sector Intervention (CMB)</li> <li>• Processing and trading intermediaries</li> <li>• Sector regulations</li> </ul>	<b>Changes in:</b> <ul style="list-style-type: none"> <li>• Coffee trade and export market</li> <li>• Sector Intervention (CMB)</li> <li>• Processing and trading intermediaries</li> <li>• Sector regulations</li> </ul>
	<b>Institutional change dependent on predominantly non state initiated or non-state associated domination of change processes</b>	<b>Creation of:</b> <ul style="list-style-type: none"> <li>• Smallholdings</li> <li>• Growing, husbandry and trading norms and customary practices</li> </ul>	<b>Development of:</b> <ul style="list-style-type: none"> <li>• Smallholdings</li> </ul> <b>Decline of:</b> <ul style="list-style-type: none"> <li>• Plantations</li> </ul> <b>Changes in:</b> <ul style="list-style-type: none"> <li>• Growing, husbandry and trading norms and customary practices</li> </ul>	<b>Development of:</b> <ul style="list-style-type: none"> <li>• Smallholdings</li> </ul> <b>Changes in:</b> <ul style="list-style-type: none"> <li>• Growing, husbandry and trading norms and customary practices</li> </ul>

The questions raised here in relation to examining the changes experienced in the coffee sector are relevant for any analysis of institutional dynamics that seeks to explain change in institutions. Taken together, and considering the questions raised in the examination of the Uganda experience, it is suggested that an analysis of institutional dynamics has to clarify and deal with:

1. Identifying the institution(s) that is / are the subject of analysis over a specified period of change; and therefore identify *what* kind of changes are to be explained;
2. Explaining specifically *why* identified changes occurred; and
3. Explaining *how* the identified changes took place

## **5.5 Explaining institutional changes**

This overall study is concerned with the understanding the role of institutions in economic development, drawing on the experience of the Uganda coffee sector. With this in mind, a full review of institutional change theory is impractical and unnecessary. Nevertheless within the context of this study it is necessary briefly to reflect on the main strands of institutional change theory that inform how we may address the questions identified as being critical for understanding of the institutional dynamics within the sector.

A large number of scholarly works address the question of why new institutions are created. In general there are two overall explanations advanced and are accepted to lesser or greater measure by most scholars. One posits the view that institutional changes are deliberate creations that are result of deliberate acts of groups and individuals to better

their economic position. The other suggests that institutions are spontaneously created and change as a result of the ongoing interactions and undirected structuring and ordering of relationships, and that change emerges naturally in social relationships. Different scholars advance theoretical explanations that may tend to lean to one or other of these positions, or indeed admit both as being relevant<sup>87</sup>. They also raise considerations that constrain or influence how these explanations are constrained or modified. Hence deliberate acts can be constrained and or informed by previous experience, mental models or power relations. This next section discusses each of these theories of change and the arguments rational advanced to underpin them.

### **5.5.1 Institutional change that is deliberately initiated**

Theories that emphasise institutional creation and change as deliberate acts include those that consider that new institutions are created when groups are faced with opportunities of benefiting from higher returns if existing institutional arrangements are changed (North, 1990). In this explanation institutions are created by deliberate acts of individuals acting in service of their own rationally calculated interests. In a similar vein it has been argued (Williamson, 1979) that organisations seek to minimise transaction costs by instituting new governance arrangements that will reduce the uncertainty and costs associated with managing or protecting against that uncertainty. Conditions of uncertainty create a need to develop efficient governance structures that match the attributes of the transactions that are being enacted. In situations where no matching

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<sup>87</sup> As is illustrated further in the brief reflection on institutional theory that follows below in this chapter.

governance arrangements exist, such transactions may be experienced as cumbersome, unclear and uncertain, insecure, inefficient and costly. The inefficiencies and costs act as a stimulus for change and initiate group's action towards more efficient arrangements (Williamson, 1979). The demand for change comes from individuals and groups within the society who seek a different resolution to the perceived costs and interactions created by the existing "inadequate" institutions arrangements. Ostrom (1995) notes that rational individuals tend to continue adapting behaviour until no improvements are possible. When otherwise cooperative groups continually experience institutions as cumbersome and ineffectual in achieving collective outcomes then the seeds are sown for defection and for change in governing rules because they begin to look for more effective ways of changing rules to achieve their goals.

The new opportunity for individuals to benefit that had hitherto not existed is seen as potentially arising from an external factor or from internal changes. This may be a result of fundamental changes in environmental and contextual conditions encompassing physical as well as social or technological conditions. Nelson (1994) notes that when new technologies are introduced new institutional features are created and subsequently co-evolve as a result of the pushes and pulls exerted by the new development.

The institutional features influenced are wide-ranging – encompassing organisations, regulatory arrangements, property rights and activities in public as well as private, commercial domains. Kraatz (1998) points out that fundamental changes in industries' and organisations' environments create changes in preferences, boundaries, values,

regulations and technologies, in ways that create uncertainty, requiring fundamental changes in core practices within industries and organisations. It is theorised, that in practice, institutions change to minimise uncertainty and respond to these new conditions.

It is argued at one “extreme” that institutions once created survive as they do because they serve interests of individuals and groups with power and position, who are able to modify the institutions to meet their perceptions of what is needed. However individuals views of what is needed are subject themselves to experience, learning and prior understanding or customary or habituated practice. Therefore institutions survival is affected by changing individuals, individual interests as well as changing environmental circumstances.

Notably North (1991) asserts that the institutions that are chosen and that develop further are subject in their selection and shaping to the influence of history and mental models. So the selection of institutions by individuals to favour their interests is not a straight forward “here and now” weighing up of pros and cons, but is rather influenced by past and present social influence and limits of information knowledge and experience. History and belief matter because of prior "scripting" and the existence of "collective linguistic and symbolic" acceptance (Aoki, 2006).

Historical forces interacting with contemporary events in a society (and emerging ways of playing the game) ensure that particular paths emerge and particular kinds of institutions are more likely to emerge than others. These paths emphasise certain

behaviours or strategies amongst actors that reinforce the constraints on others – making changes in rules unlikely or difficult and adaptation easier and more plausible. Amongst the historical and social configurations and experiences that may have an important influence are the way the society is organised, the beliefs and expectations that have developed over many years and the established availability and distribution of knowledge, resources and income amongst the groups involved in and affected by the changes. This means that the choices actors make in the light of perceived changes will not, be direct, singular or always directly determined by the individuals and groups themselves. Heritage, experience, learning and pre-existing institutions influence the mental models that individuals employ to make sense of their environment.

Consequently it is suggested that beliefs and expectations matter a great deal. Prevailing views about the likely effects of change are constrained by limits of rationality and availability of information and shaped by embedded experience and influenced by changing awareness, learning and attitudes to risk and innovation.

Other scholars and perspectives would support the need to take into account individuals beliefs. Axelrod (1986) points out, for example, that player beliefs, (that is perceptions of payoffs and events affecting payoffs) matter and often these beliefs are subject to factors outside their control. The “shadow of the future” as well as the perceptions of the past, determine how individuals and groups perceive their decision making time horizons, the regularity of stakes that they have to put up, the information about others that they are able to obtain and trust, and the useful feedback about others actions that is available<sup>88</sup>.

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<sup>88</sup> Ostrom (2000) and Landa (1997) point out that individuals and groups in societies learn and develop ways of recognising who is likely to be deceitful and who is likely to be a "trustworthy reciprocator"

Greif and Laitin (2004) argue that ultimately institutions change when there is a change in belief due to underlying processes that disrupt previously self enforcing behaviour in a way that makes the prevailing beliefs untenable and new beliefs inevitable. Furthermore they argue that in the absence of certainty and complete information, socially articulated and distributed rules provide individuals with the "initial grains of truth" to develop subjective beliefs regarding others behaviour. Institutionalised rules assist individuals in forming beliefs - in placing a probability estimate - about what others will do." (Greif & Laitin, 2004: 637 – 638)<sup>89</sup>.

Individuals therefore follow past behaviour because of knowledge and learning, failure to give attention to a given situation and failure of coordination. Sugden (1989: 86) considers that certain considerations learnt by experience become prominent in individuals expectations and therefore influence responses they make. Hence rational analysis, as a concept to be applied in explaining how individuals may converge towards an agreed way of interrelating, is problematic. The best response is not necessarily the rational response (devoid of “prominence and experience”). History by shaping belief and expectation is implicated in the way participants respond in a game theoretic situation<sup>90</sup>.

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(Ostrom 2000). Particular societies have developed develop ways of signaling likeliness of untrustworthiness and punishing it (Ostrom,2000) (Landa, 1997)

<sup>89</sup> By way of empirical illustration, Greif and Laitin present the paired case examples of Genoa and Venice which from similar clan and family social organisation created institutional elements which were reinforced and or undermined by processes of change as parameters shifted because of underlying beliefs being constructed and shaped in different ways. They also present the cases of Nigeria and Estonia and relate how differences in institutionalised consideration of social status and desirable forms of ethno - linguistic cleavage interacted with dependent paths created by the respective colonial experiences to lead reinforced fractionalisation in the one and less fractionalisation in the other

<sup>90</sup> Hence rational analysis may not result in Nash equilibrium.

Consequently it is possible because of all these considerations for quite different choice patterns to result and, furthermore, because of different power constellations within a society, for the different choices to compete (North 2005; 61). As a result the changes involved in the development of institutions are intricate and multiple and may not be unidirectional, straight forward in linking cause and effect or linear in their cumulative effect over time.

### **5.5.2 Institutional change that is spontaneous**

Alternative to this view that extends from the assumption of deliberate individual action there is the other quite different (though not necessarily mutually exclusive) view that institutions survive and take on particular forms because of the undirected mutual and continuous interactions between individuals, institutions, environments and events. In this regard interactions maybe structured as part of an overall ordering of societal rules that “spontaneously” constrains or enables change or they may be a result an ongoing process of gradual learning and adaptation.

Ostrom (2000) suggests that institutions operate within a hierarchy of rules with higher level rules affecting and influencing lower level ones. It follows that higher level rules may be constructed (by design or by default) to enable gradual institutional adaptation and to constrain rapid and dramatic change. Ostrom notes that faced with common resource pools problems, local collective actions often leads to more sustainable use of resources. Higher-level rules can permit or constrain the collective action that would

enable local institutional arrangements at local level to so emerge. Therefore an adaptive locally arranged institutional change may be seen as being itself subject to higher-level institutional enablement or constraints<sup>91</sup>.

In addition institutional adaptation may occur because it is supported by higher-level laws. Axelrod (1986) considers that this may occur in a number of ways. In the case of implicit unwritten norms, explicit law may provide external validation for norms, and norms may eventually be developed into explicit laws. Furthermore “meta-norms” can develop as and be directed at the regulation of defectors and non punishers in ways that enable adaptive change but constrain the development of dramatic deviance of any notable degree (Axelrod, 1986).

Change is thus theorised as proceeding through permissible local experimentation, starting voluntarily and aggregating cumulatively to achieve outcomes that are favourable. Within this conception institutions are seen as being endogenous equilibrium outcomes of a game within which agents’ actions and plans become "mutually consistent and repeatedly implementable". The salient features / pattern of behaviours that are endogenously constructed and sustainable (enforceable) emerge as rules or institutions. What works tends to be adopted without recourse to rational calculation (Axelrod, 1986).

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<sup>91</sup> Ostrom also notes that external rules and monitoring unless strongly designed and imposed can adversely influence collective action and tend to crowd out cooperative behaviour within a domain. In addition the existence of a leader or entrepreneur who articulates ways of organising collective action to improve joint outcomes can be a an added stimulus (Ostrom, 2000)

In order to have such an equilibrium each player need not know the details of other players intentions but simply needs to share knowledge or belief summarising the consequences of their actions through the experience of others reactions New norms are learnt and adopted, new rules are explicitly promulgated and progress is made by a process by which players check for violations and consequences to determine what is permissible (Ostrom, 2000). New norms may gain adherents as actors adopt them. In addition network effects and economies of scale may gradually take hold and enable the new experiments from within existing institutional arrangements to take hold and gradually adapt the existing institutions from within<sup>92</sup>. Powerful interests, invested in both existing institutions and the desire for more efficient institutions, may lobby, bargain and act, to adapt existing arrangements, rather than create new ones which may be seen as inherently risky<sup>93</sup>.

Hodgson (2000) sees institutions as going beyond simply enabling to actually shaping and altering aspirations involved in deliberate acts of individuals. Institutional change itself involves more than mere stimulus and response. It involves learning, as well as change and adaptation. Institutions and individuals are engaged in mutual influence and change. As “learning involves adaptation to changing circumstance such adaptation means the reconstitution of the individuals is involved.” Institutions have powerful influence but that power is often exerted without conflict (Hodgson 2000; 326 – 327).

Thus Hodgson points to the notion of reconstitutive downward causation, (prevalent in

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<sup>92</sup> However success of experiments is not guaranteed. There is no in-built logic that suggests that new experiments necessarily have to succeed.

<sup>93</sup> Grabher and Stark (1997, 535) also note that once “an economy is locked into a particular trajectory, the costs of shifting strategies, outweigh the benefits of alternatives”

old institutionalist thinking) which asserts that the individual is not a given, but is rather reconstituted by institutions. Hence the process of institutional change is one in which causation is upward and downward and reconstitutive - involving individual and institution shaping and acting on the other.

Hodgson (2001a: 295 – 309) also considers that institutions have emergent properties as well as creative effects. Changes in society as well as factors impinging on society involve individuals and institutions in complex interplay that leads to changes in habits and behaviours (as discussed above). The outcomes of the interplay are not predetermined and are at best only generally and partially predictable. The paths and outcomes associated with institutional change can lead to widely varying outcomes.

Indeed the variation in institutional change outcomes as well as the persistence, demise, and alternative emergence and spread of institutional forms is not fully considered without admitting the relevance and contribution of evolutionary theories of change. Applying evolutionary theory to institutional change would suggest that social routines and social institutions replicate but such replications will include imperfect copies. Not all replicates would themselves necessarily have the capacity to survive. The processes involved are thus best characterised as evolutionary in nature. “The basic idea is that complex systems are likely to contain some replicating entities that are subject to the processes of selection” (Hodgson, 2001a: 281). Hence institutional change would involve inheritance, variation and selection and institutional change outcomes would vary and could not be pre-determined beforehand.

Furthermore societies themselves are subject to ongoing change that is cumulative and unpredictable. In situations of complex social change the idea of circular and cumulative causation is suggested as being universally applicable (Myrdal, 1978). This is due to dynamic endogenous causation and interaction with exogenous influences because all relevant economic and non economic factors are involved in influencing each other through an interlocking and circular process of change. Changes in external influences may induce circular causation whereby changes experienced within a society accelerate, decelerate or cease. If changes accelerate or decelerate, the resulting social change may have spread effects and backwash effects which cumulate with the ultimate outcome being unpredictable. Myrdal (1978) considers that this leads to the destruction of any neat simplicity of analysis and conclusions. The nature of change in a social system is such that the system does not typically tend towards equilibrium; other (cumulative) changes supporting and responding to the initial change in fact move the system away from equilibrium. Processes of change can be influenced or stopped by exogenous changes, but this is not a natural outcome of forces at play within the system. The new position taken can be unstable and new changes can start a cumulative process that affects the direction of change. Whilst a position of rest may be achieved by policy interferences - such a position is not the same as endogenous system equilibrium.

### **5.5.3 Institutional stability**

Theories explaining institutional change admit that in some situations, over possibly long periods of time, institutions can persist and remain largely unchanged despite changing conditions. Some scholars of institutional change characterise institutional change as being typically very slow and gradual (North 1991). It is suggested that this is because collective understanding and acceptance of norms and rules may be slow to establish and subsequently difficult to change. Others suggest that once established institutional arrangements are subject to “institutional legacies” and “friction” which means that they tend to survive until external pressure for change becomes substantial and overwhelming (Grabhar and Stark 1997) . It is also suggested that as institutional inertia is an inherent outcome associated with long established and largely effective institutions. It is further argued that effective institutions benefit from the increasing returns to effectiveness and this inevitably leads to institutional stability and inertia that may in time itself lead to the same institution becoming maladapted to contextual changes (Krasner, 1998).

Even institutions that persist over long periods cannot however remain completely impervious to all change. An institution may undergo periods of change after longer periods of stability. In addition institutions that manage to adapt incrementally and un-dramatically to become more efficient, have to be responding continually to the demands being placed on them. It is argued that whilst institutional discontinuities can and do occur – and creative destruction can lead to the transplanting of fundamentally new (and

more effective) institutions, it is also the case that incremental change is often a prevailing mode of change. Genschel (1997) notes that this kind of change allows “patching” and “transposition” whereby shortfalls can be remedied and scope of institutional effectiveness can be redirected or more effectively brought to bear on specific situations. In addition other internal conditions and factors may favour stability or slow and incremental change:

- a) individuals and groups may weigh up the costs and benefits and then act collectively in a manner that promotes stability or adaptation rather than wholesale dramatic change. Whilst endogenous or exogenous may impose pressure for change<sup>94</sup>, nevertheless poorly-defined rights may sometimes not be put right because of cost of doing so may be perceived as being too high for those concerned (Liebcap, 1989). In addition other historic barriers or institutional encumbrances may also get in the way of defining, strengthening or changing property rights (De Soto, 2000)
- b) under conditions of uncertainty and lack of information institutional innovation may be constrained due to lack of awareness of available options (Hall and Taylor, 1996) or even because there may be individual and collective aversion to taking risk with dramatic innovation being perceived as inherently costly and perilous and not worth the potential uncertainties and hazards it may unleash (Ostrom, 2000)
- c) powerful actors may have a particular preference for some of the arrangements existing institutions enshrine. Dominant strong groups may create and enforce

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<sup>94</sup> Pressure for change may include price changes, changes in production and enforcement technology and shifts in preferences and other political parameters (Liebcap 1989)

metanorms to ensure that weaker groups with different interests do not defect (Axelrod 1986)

Indeed Genschel (1997) argues that it is the very inertia and stability of institutional arrangements that creates the space and confidence that may be needed for processes of change (collective activities of interested and involved groups) to effect necessary changes in institutions. Thus institutions can be seen as also managing to avoid being set aside, supplanted or destroyed in favour of new arrangements. Therefore the indeterminate interactions of pre-existing and new influences and information (or the lack of it) have a key part to play in what institutional path prevails and what outcomes result. This consideration is associated with and admits the notion of path dependence (“the consequence of small events and chance circumstances can determine solutions that, once they prevail lead to one particular path”) (North, 1990: 94) first highlighted by David (1985); and further articulated by Arthur (1988) is seen as relevant here. Hence different solutions to coordination and conflict problems are possible. Inefficient outcomes can result. Adoption in one particular direction is not guaranteed. “Lock in” to a particular path can also occur (North, 1990: 94).

## ***5.6 Conclusion: implications for taxonomy based analysis***

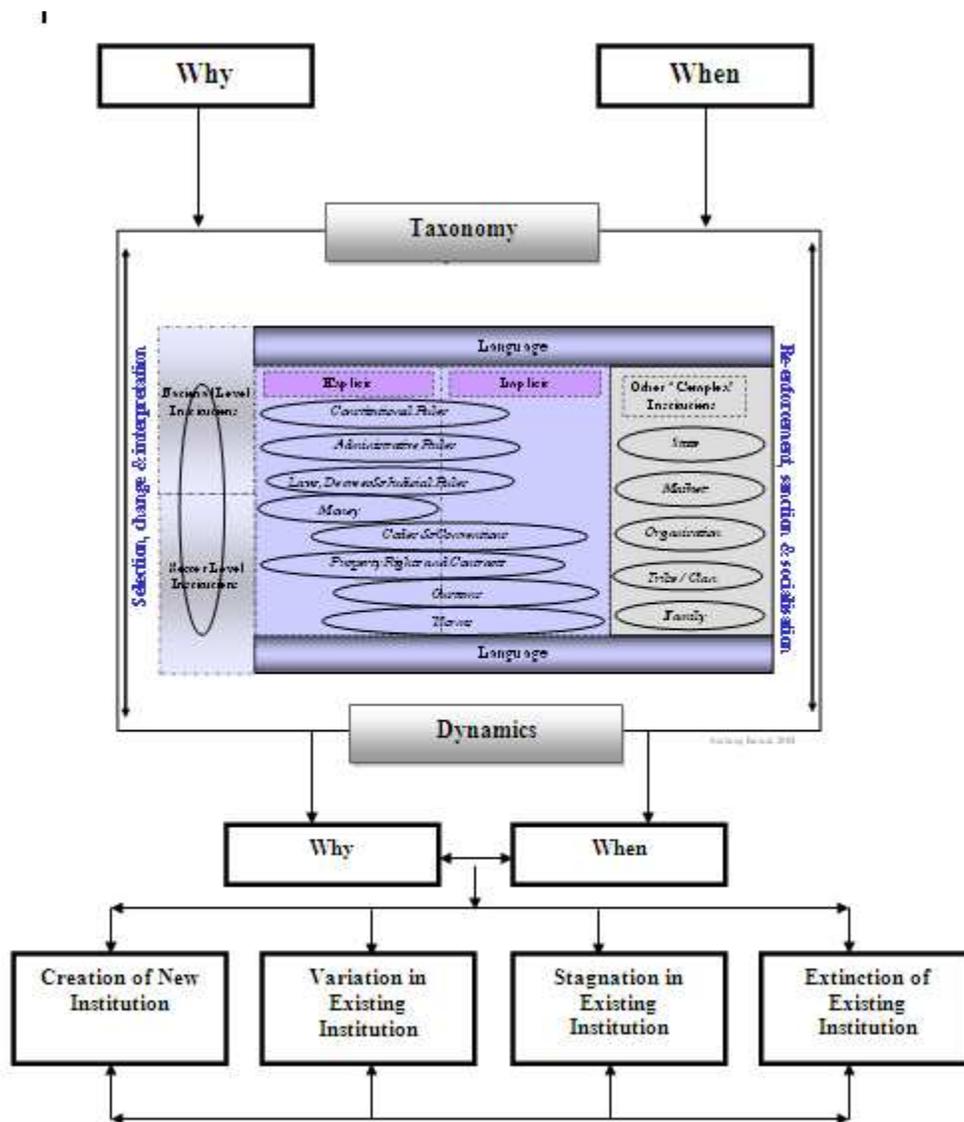
This summary of key strands of institutional change theory points to a number of important aspects that need to be included in taxonomy based analysis of institutions that takes into account the dynamics of institutional change. The suggested framework

derived from an analysis of the questions that the Uganda case experience raises frames some simple considerations that can be used to engage effectively with the otherwise disparate and wide ranging theoretical contributions about institutional change. The framework taken alongside the taxonomy identification of key institutions overtime enables a systematic analysis that:

1. identifies the significant institutions that are being created and develop to have over time;
2. explains why these institutions are created; specifically where the impetus for their creation comes from (what is the critical juncture that produces the stimuli for change and are the stimuli exogenously or endogenously generated);
3. identifies what groups and associated interests the institutional creation and or change relies on and / or promotes (Williamson 1979), (Axelrod, 1986)
4. reveals how ongoing change is influenced by:
  - a. past influences, historical scripting and mental models (North, 1990), (Aoki, 2006);
  - b. heritage, habits, learning and experience (Hodgson, 2000; 2001), (Sugden, 1989);
  - c. beliefs and expected payoffs (Greif and Laitin, 2004), (Axelrod 1986);
  - d. societal rules at different levels (Ostrom, 2000);
  - e. institutional inertia (Krasner 1998), friction (Grabher and Stark, 1997), lock-in (North 1990) and path dependence (David 1985), (Arthur, 1988).

Consideration of these institutional change theoretical contributions means that the taxonomy advanced in chapter 3 has to be redeveloped and enhanced to change it from a static assessment of significant changes to one that encompasses the dynamics of institutional change. Figure 5.1 below shows an updated taxonomy that combines the earlier taxonomy with the framework developed in this chapter to incorporate the considerations of institutional dynamics.

**Figure 5.1**  
**Taxonomy and Framework of Institutions and Institutional Dynamics**



The next chapter completes the study of the Uganda coffee sector experience by using this fuller analytical construction to draw some concluding insights on the role and influence of institutions on the economic development of the Uganda coffee sector.

**CHAPTER SIX**

**EXPLAINING INSTITUTIONS IN THE ECONOMIC  
DEVELOPMENT OF THE COFFEE SECTOR**

## **6 Explaining institutions in the economic development of the Uganda coffee sector**

### **6.1 Introduction**

The purpose of this chapter is to provide the concluding insights and explanation of the reasons why institutions changed and developed within the coffee sector in Uganda. It deals with how these institutional changes influenced economic change and development of the sector. To do this the chapter focuses on explaining the institutional transformation that followed critical junctures of change evident in the development of the sector.

Specifically it examines the creation and variation that occurred in the key institutions influencing the sectors development. It considers the impetus for change at these critical junctures, the role of endogenous and exogenous events, and the influence higher and lower-level institutions had on shaping institutional change in decisive ways. The role of deliberate actions of individuals, groups and the state as well as the non deliberate, non directed changes in institutions are also taken into account.

In doing this the chapter uses the insights from the analytical framework developed in Chapter 5 to draw attention to the additional influences that determined how changing institutions are constrained and shaped in specific ways by their socio-economic history and ongoing evolving context. The chapter concludes with comment on the change paths that the coffee sector has taken, and considers the implications (constraining and enabling) this may have for the sector's future development.

## **6.2 Key development effects in the sector**

The development of the Uganda coffee sector in the in its first 100 years can be characterised in a number of ways. In volume terms, production grew consistently in the colonial years initially reflecting the rapid growth of plantations<sup>95</sup> and then, after the collapse of the plantations, reflecting the gradual spread of smallholding acreage<sup>96</sup>. By the mid-sixties, sector volume had reached two million bags a year, and for the next forty years has fluctuated around the 2.7 million bag average with peaks as high as 4 million bags (in the mid nineties) and a low of less than 1.8 million bags (in the mid seventies).

Whilst the value of sector production has fluctuated widely reflecting fluctuations in world market pricing, the sector has nevertheless remained a lead contributor to GDP throughout the last forty years, with annual production values of coffee averaging around 250 million US dollars over the five year period to 2005<sup>97</sup>.

The patterns of growth in the sector are, however, difficult to map exactly because of lack of reliable data from the early colonial period. Nevertheless when indicative information available about development of acreage, plantations and labour movement is combined with later production data, the evidence suggests that after the initial growth impetus from plantations before the first world war, growth in output was driven by increasing

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<sup>95</sup> 1910 - 1914 - first commercial coffee cultivation in Uganda by Europeans - estimated 58,000 acres in 135 plantations mainly in Buganda (Zwanenberg and King, 1975) Sector sources and papers

<sup>96</sup> African Coffee acreage grew to 16970 acres by 1931 (Zwanenberg and King, 1975)

<sup>97</sup> Export value data compiled by East African Fine Coffees Association from industry data

allocation of land and labour to coffee growing through the activities of smallholding farmers. It is also evident that smallholding farmers were behind the steady growth in outputs from the post war period through to the early seventies when growth declined and production remained relatively low at a time when global demand and prices were high due to a frost in Brazil (Fitter and Kaplinsky 2001). It is apparent that low growth in the mid-to late seventies was associated with the effects of policy and institutional change, and growth was only restored after fundamental changes in the sector roles and regulations. Since this restructuring it has become apparent that, despite the deregulation, continuing growth cannot be sustained by merely attending to resource allocation and productivity. The sector's output is increasingly being affected by other longer-term internal and external considerations – including increasing competition for land and labour resources, competing export activities, greater openness to global price competitiveness, aging crops, declining soil fertility and impact of the coffee wilt disease.

However coffee sector development cannot be characterised by growth effects alone. Economic development is more than just an increase in output. Apart from growth in output, the sector experience has to be examined for other significant development effects. In addition the institutional involvement in these development effects also has to be further considered. Notable amongst such development effects would be evidence of improving allocation of resources; evidence of associated and enabling changes in socio-economic roles; resolution of sector level issues affecting perceived needs of sector participants; ability to adapt to minimise natural resource depletion and destructive environmental impacts; and changes in socio-political attitudes and policy responses

aimed at sustaining sector economic progression in the light of new external and internal demands. Whilst output and growth data are available from the mid-sixties onwards, sector specific information about the other development effects has not been systematically collected for the whole period under study. The evidence for these other effects has to be deduced from an examination of information and indicators gathered from various sources. Placed alongside the growth and output information available a fuller picture of the development effects in the sector over the period 1900 – 2004 can be assembled. Table 6.1 below summarises development effects examined and the associated information and indicators identified qualitatively:

**Table 6.1**  
**Sector development effects and associated indicators**

Sector development effects	Indicators
Growth in output	Acreage, production volumes, production value
Evidence of changing allocation of resources	Volume achievement versus acreage / population participation
Evidence for growth enabling changes in socio-economic roles Notable sector level structural and attitudinal changes	Production, processing and marketing roles and role changes
Changes in socio-political attitudes towards policy responses aimed at sustaining sector economic progression in the light of new external and internal demands Resolution of sector level issues affecting perceived needs of sector participants	Responses to issues affecting sector income, productivity, participation, and socio-environmental sustainability

### **6.2.1 Changing roles and allocation of resources**

Further consideration of the different development effects shows that growth in output has to be seen as linked to and part of the combination of other developments which are

simultaneously responsible for underpinning and enabling the growth as well as representing aspects of economic development in their own right. For example growth in output was supported throughout the period under study with changes in resource usage and allocation. Early output growth was associated with the greater allocation of land and labour to coffee growing as part of the growth of plantation farming. After the collapse of farms growth in smallholdings can be seen as the continuing allocation of labour and land to coffee growing *by other means*. Recent data suggests that allocation of resources to coffee is critical for sustaining growth in output. It has been reported that sector growth is under pressure, due to competing farming and other economic activities (Abdalla and Egesa, 2004) In addition there is evidence that resource productivity has not continued to grow, lagging behind that of other coffee-growing countries and evidently affected by the aging trees, poor agricultural inputs and plant disease.

It has to be emphasised that institutions and institutional changes played a vital role in creating and changing roles within the sector – as well as influencing the allocation of resources within the sector. The nation-level institutional changes during the colonial period enable the allocation of land first to plantations and subsequently to smallholdings. In addition colonial policy, inducements and compulsions were incorporated in institutional arrangements such as “kiboko” and the CIB, which in turn influenced roles and activities within the sector.

Associated with changes in resource allocation is also the development of new economic roles. New producer roles were created at the inception of the sector (plantation farmers

and small holder farmers). These roles were enabled and sustained by the creation of other supporting institutions within the sector (markets, organisations etc). Sector development was therefore marked by the further creation of roles carrying out value-adding and distributive activities essential for participation in the global market.

Institutional change provided the structures needed to support the new economic interactions. In particular the emergence of private and government participation in market activities, as well as the emergence and extension of regulatory roles, enabled change that extended or restricted participation in the sector and guided the development of sector value-adding and distributive activities. As a consequence, change in roles (deliberately designed as well as spontaneously emerging) was an important development effect that also influenced sector output and structural aspects of sector development.

Throughout the development of the coffee sector, changes in roles and resource allocation resulted from the changes in institutions. In terms of roles, institutional changes resulted in the creation of producers, buyers, processors, exporters and regulators. These roles persisted throughout the period under study, adjusting and adapting their activities – but persisting overall to form the organisational structures of the sector. By enabling the creation and adaptation of these new roles, institutional change enabled the sector to develop in sophistication, specialisation and productivity. Initially more people became involved in the industry. Eventually their involvement was encouraged or constrained by the institutional arrangements that followed. In summary institutions were critical to the creation of the sector, the development of roles within the

sector and the allocation of resources to activities in the sector. As institutions changed roles changed and resources were redeployed. In turn sector growth and development was affected. Institutions were shown time and again to matter in very critical ways to the development and growth of the Uganda coffee sector.

### **6.2.2 Sector-level structural and attitudinal changes**

Another aspect of sector development that is associated with the changes in roles was the creation and change of the sector “value chain” structure and associated attitudes amongst the sector participants. The creation of plantation farmers as producers was associated with colonial policy that favoured plantation development and led to a sector structure made up of large scale producers, private buyers and processors and merchant exporters (with greater or lesser links to external owners, financiers and customers). The collapse of the plantations in the nineteen twenties led to a structural as well as a number of attitudinal changes. Structurally the sector developed to be characterised by small scale production with semi-regulated private processing and exporting. The change in value chain structure was also associated with a shift in attitudes. Plantations were no longer the preferred “officially sponsored” mode of primary production; small holder farming became the norm; government intervention became acceptable and role differentiation by regulation was allowed.

At a more subtle level of development, enduring attitudes to farming were shaped and established. Today coffee is not viewed as a foreign crop; rather it is treated as an

indigenous crop. This affects underlying attitude of farmers in relation to cropping, replanting and care. Coffee growing practices experienced today became part of the socio-economic fabric that was passed on across generations. For many farmers (“most of the 500,000”) involvement in Coffee farming is “not an economic decision” and the farmers are “producers by default”<sup>98</sup>. As a result farmers continue to grow the crop many years after its initial commodification. That is coffee is grown for “habitual” and not just economic reasons. For example farmers note that coffee fits in well with other crops (inter-cropping), requires relatively little care in between seasons and is assumed to be a ready source of cash that is easily marketable (because of the structure of the sector).

Given these deeply ingrained attitude and associated habits, many smallholding farmers have since been content to yield small volumes using the small incomes generated to pay for school fees and other cash purchased household requirements. Few have seen their enterprise as forming the foundation of a major commercial venture<sup>99</sup>. The sector has thus developed as comprising a structure of non-specialist farmers and non-specialist middlemen (middlemen also trade in other agricultural commodities as the seasons change) with less attention to long term commercial and development decisions aimed at expansion, growth or productivity enhancement. With time this has meant that coffee

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<sup>98</sup> Focus group quotation from of a leading farmer – see Appendix 2 for field work approach and list of interviewees

<sup>99</sup> I am indebted to a number of farmers, sector workers, researchers and specialists, entrepreneurs and exporters who participated in focus groups and interviews in June 2005 and April 2006 for the valuable insights into the sector, sector roles and attitudes towards coffee and coffee farming. A list of some of the contributors to the discussions can be found in the field work Appendix 2.

growing was seen as a family affair, at times an older persons' responsibility<sup>100</sup> and very often with little overt commercial orientation and focus<sup>101</sup>.

However interviews and focus group discussions carried out during the course of this study, indicated that farmers attitudes towards coffee are mixed, and at times, apparently quite contradictory. On the one hand many farmers report a deeply ingrained attachment and even reliance on coffee. At the same time there is evidence of ambivalence and an apparent reluctance to commit to dedicating additional effort and resource to promoting and developing coffee within their portfolio of income generating activities. One farmer whilst stating "coffee grows within my veins" also noted that other farmers who felt the same were not dedicated to developing coffee as a revenue generating cash crop. The dedication to the crop clearly did not always translate into an ongoing strong commercial drive to generate revenue from it.

The result of these mixed attitudes was noted by industry participants and commentators interviewed, to be threefold. Firstly it meant that there was increasingly a differentiation between farmer groupings. Some were dedicated to owning the crop but not to developing its commercialisation, whilst others sought the opportunity to develop the crops commercial potential. Secondly it meant that there were potentially opportunities for outsiders with different attitudes to the crop to enter the market and to apply their new

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<sup>100</sup> Coffee farming in Buganda (Robusta Coffee) is on the whole not seen as being a young person's affair. Coffee trade federation members report that in survey of an outgrowing scheme in three parishes in the Masaka area covering 460 farmers 70% of the farmers were over 60

<sup>101</sup> The attitude to coffee has led to a less, relatively low productivity, low reinvestment in replanting and tree and soil care and overall low inputs and investment. As a result Uganda has a productivity per ha of circa 475Kg compared with Vietnam at 2 – 4 tonnes a ha and Costa Rica 1 – 2 tonnes a ha

ideas, resources and commitments to exploiting the market<sup>102</sup>. Thirdly, it meant that when faced with unforeseen developments that affected the commercial prospects of coffee, farmers could take an opportunistic stance, judging each succeeding wave of influences on an ad hoc basis. The overall implication of these mixed attitudes is, however to emphasise the role institutions play in guiding, enabling and constraining activities. Faced with an a mix of commitment and ambivalence the role of institutions in shaping and guiding roles, activities and paths within the industry can be seen as being of vital importance.

Surveying the history of attitudes in the sector it is evident that structural changes that took place in the post-independence state-interventionist era and subsequently, in the liberalisation era – has contributed to this mix that exists in farmers’ attitudes to coffee. Indeed it may be argued that it was because of the underlying attitudes to coffee that the structural and role changes (introduced by the Obote government in the mid-to late sixties and further developed by the Amin administration) had such a negative effect. Faced with greater regulation, higher implicit taxation and lower (as well as late) producer payments, many farmers switched into other crops, leaving coffee plants unattended and effectively withdrawing resources (labour and land) from coffee production. This created the sector decline in output experienced in the period that followed.

Similarly structural changes in the liberalisation era, involving the re-emergence of private buying and processing / export roles not only offered opportunities to new

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<sup>102</sup> There is evidence from the latter liberalisation era that the market was gaining new foreign entrants.

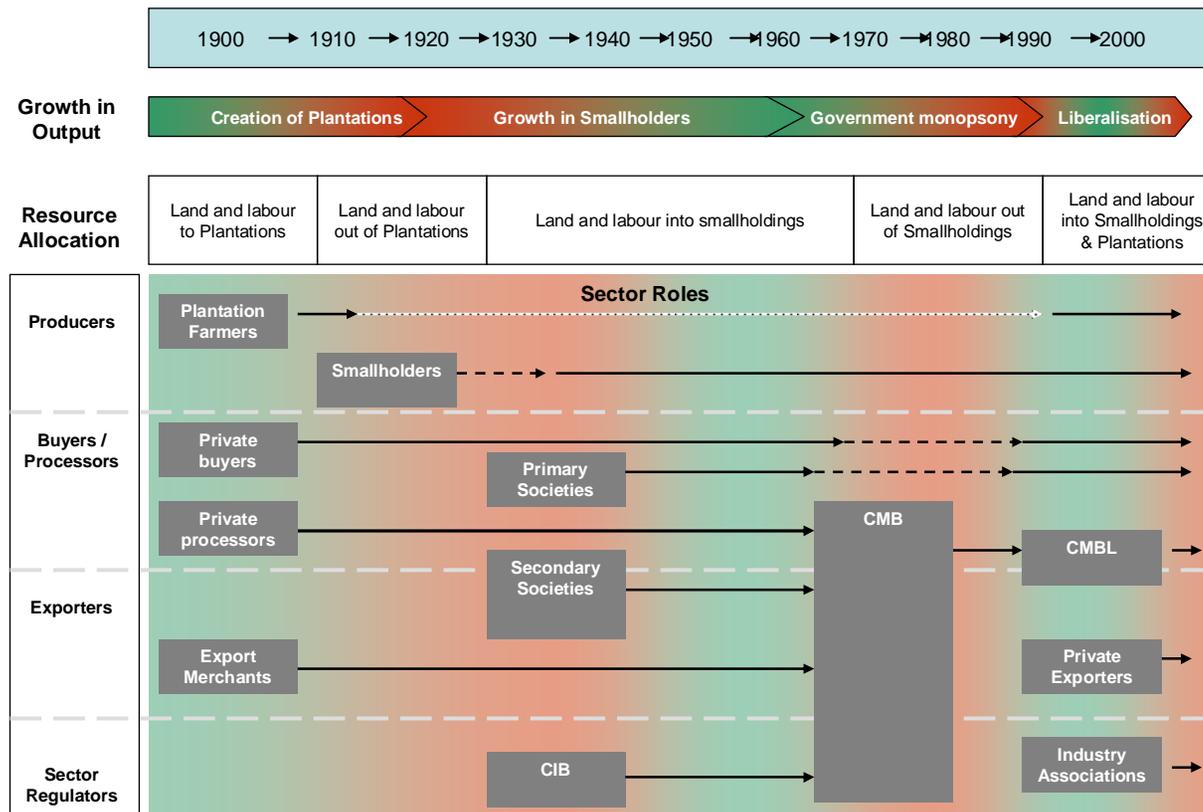
entrants but were also apparently quickly adapted to by the vast smallholding farmer population. Throughout the period under study farmers attitudes and motivations appear to be mixed and the influence of institutional change appears to have been influential on actors' roles and activities. Farmer adaptation is reported to have been local and spontaneous – often with voluntary or formal organisation amongst farmers (at least) emerging after rather than leading or being part of the initial changes<sup>103</sup>.

It should also be noted, however, that following the demise of plantations in the 1920s, succeeding state authorities have been keen to develop the commercialisation of coffee. The state, heavily reliant on coffee revenues, appears less ambivalent than farmers towards the need to commercialise and fully exploit the crop. Consequently, albeit for different reasons both farmers and state are developing a greater focus on diversification. New crops and products are emerging to compete with coffee as a source of export revenue and a target for farmers' resource allocation (Abdalla and Egesa, 2004).

Figure 6.1 below shows the key development effects over the period of study, mapping the trends in output growth against changes in resource allocation and changes in roles.

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<sup>103</sup> Farmers participated in local primary cooperative societies prior to liberalisation. During the interventionist era this participation was restricted in its sector activities. After liberalisation cooperatives have been revived and other local trade and farmer associations have emerged.



**Figure 6.1:**

**Coffee sector - Key development effects: trends in output growth, changes in resource allocation and changes in roles**

### **6.3 Critical events, junctures and institutional change**

As has been shown in the description of the development of the sector (chapter 4) a number of key external events are implicated in the major changes that took place in the sector and the sector institutions during the period under study. A mapping of these events against the changes in output growth, resource allocation and roles (attitudes) indicates that associated with each development effect is an event or collection of events at four critical junctures in the history of the sector. In addition each juncture is associated with internal and / or external events that were critical in initiating the changes that followed. Figure 6.2 below shows the key development junctures and the events that are associated with and can be mapped against the development effects in the sector. The mapping shows that:

- a) the critical development junctures took place in 1900-1910; 1920 – 1925; 1965-1975 and 1990 – 1995. The first juncture took place at the inception of the Uganda protectorate as the colonial administration and associated economic interests became formally established. The second juncture took place after the First World War. The third took place immediately after changes in the post independence administration and the fourth after the Uganda civil war in 1987. All the junctures are therefore associated with major social upheavals that involved the country and the sector but essentially emanating from outside the sector and in some cases outside the country; therefore
- b) each juncture was associated with internal sector specific developments or external events or both. The 1900 juncture was associated with the imposition of

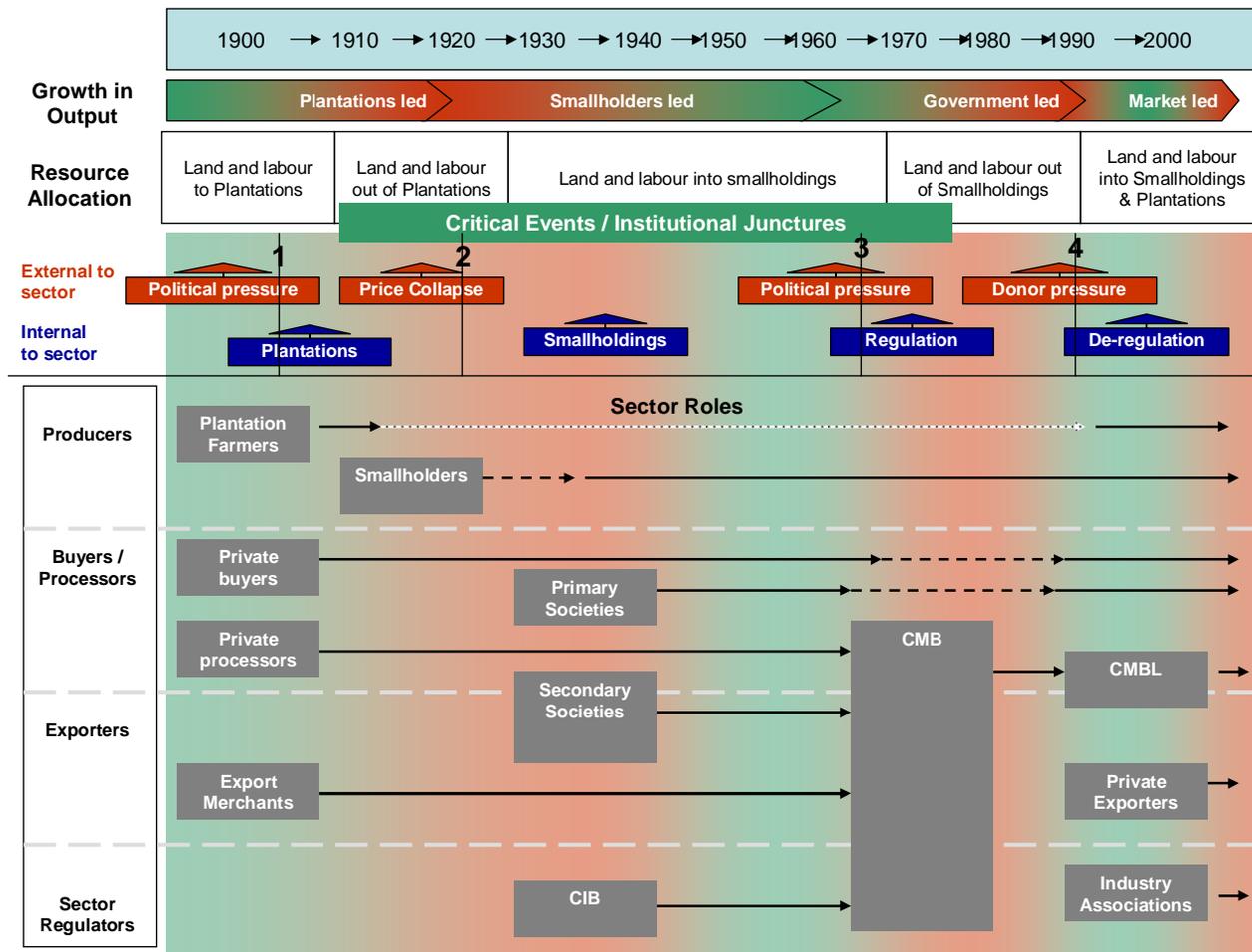
external authority, and demands of external actors seeking to create new producer roles for commercial advantage. As the sector did not itself exist in any substantive measure the critical event marking its inception was external and came in the form of overt political pressure on the colonial government to alienate land and offer Europeans property title that would enable plantations (an internal sector institution) to be created. The 1920 – 25 juncture was associated with another external event – the collapse of world coffee prices, which stimulated and enabled an internal sector event (the development of smallholdings) to take place. The 1965 - 75 juncture is unique in that the initiating event was internal to the country but not the sector and came in the form of political pressure for Africanisation and national control of economic resources (although influenced by external events)<sup>104</sup>. It was followed by developments internal to the sector which were in the form of regulatory developments that initiated the changes in roles and structure of the sector;

Figure 6.2 below maps the critical junctures as well as the internal and external events onto an overview of the key development effects over the period under study. The diagram illustrates how events at critical junctures were aligned and can be qualitatively associated with key phases in the development of the sector. The next section uses the taxonomic classification developed earlier to identify the level and type of significant institutions involved in the changes at each development juncture. It then goes on to

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<sup>104</sup> Notably the cold war, moves amongst African countries to align themselves with East and socialism or West and capitalism. In addition a strong post independence “nationalisation” ideology – expressed in part in the African socialism and indigenisation programmes. East African regional politics also had an influence as Uganda in the mid sixties was tending to align itself more with socialist Tanzania and away from capitalist Kenya.

explain (drawing on theory and framework introduced in chapter 5) why these essential institutions changed and or developed as they did.



**Figure 6.2:**

**Coffee sector - Key development effects: Critical junctures, internal and external events and key development effects**

### **6.3.1 Essential institutions and explanations of institutional change**

Each of the development junctures identified above preceded a period when development outcomes (effects) were distinctively different from the period that immediately preceded it. In each of the cases, (as shown in chapters four and five), a number of identifiable distinctive institutions were involved in the overall change process in a variety of ways. However whilst all played a role in shaping the particular path the change process took, not all of the institutions were evidently critical in enabling the changes to take place in the first place.

At each juncture it is therefore possible to identify the *significant institutions* that were *essential* for the particular phase of development that followed. Whilst they on their own did not shape the entire development journey, they were necessary and critical in launching the journey in the particular direction along a particular path. Using the taxonomy classification it is evident that essential, explicit and implicit, institutions identifiable for each juncture, were of different types. The development effects identified at each juncture were primarily dependent on significant institutions at sector level.

#### **6.3.1.1 Essential sector-level institutions**

In 1900 – 1910 the essential sector level institution was the plantation. This was because this institution was the critical enabling institution that led to the development effects that followed. That is the growth in output, reallocation of resources, and creation of

supplementary roles – were all dependent on the creation of plantations. Simply put, plantations produced coffee as a tradable output and provided the rationale for the creation of the other roles that together created the sector.

Similarly after 1921 the recovery of the sector and the more positive development effects that eventually followed the collapse of the world prices and the demise of plantations (creation of smallholdings, land and labour re-entry into coffee production) were primarily dependent at sector level on the existence of a coffee sector market – a legacy of the earlier boom in plantations and associated trade. The coffee market provided both the impetus for the creation of smallholdings, as well as the trade outlet (and therefore means of survival) for the new farmers.

As smallholdings became established as the preferred mode of production, associated farmer norms and attitudes developed creating the essential institutions that were needed at the next critical juncture (from 1975 onwards), when sector output declined and land and labour exited coffee production. At this juncture, paradoxically smallholding farmers and their farming norms were essential to these effects because they responded to the increased intervention and income decline in the way they did: that is, their norms and practices allowed them to absent themselves from production for a season or more without concern for the kind of commercial collapse experienced by plantations. Farmers were neither completely dependent on coffee for their livelihood nor did they have the commercial option of completely abandoning the farms. Coffee was socially part of the business of living but was not constructed as the essential reason for occupying the land.

The other essential institution at sector-level in the interventionist period was the special institution of the CMB, which was the expression of government control and intervention in the market. Unsurprisingly therefore, the essential institution in the liberalisation period at the sector level was the smallholdings again, but this time alongside them the de-regulated sector market played a critical role. Having replaced the interventionist policies represented by the CMB, the de-regulation and the smallholdings were essential to the development effects that followed. The increases in sector output were a direct result of smallholdings reallocating resources to coffee production. Subsequently the higher output of tradable commodity created the conditions for buyers, processors and exporters to thrive. In addition and in turn, government deregulation of the sector permitted such participation. This further underlined the critical nature of the interaction between the two essential institutions in the development of the sector in this period.

### **6.3.1.2 Significant nation level institutions**

However it is important to note that significant institutions at the sector-level were always enabled and even shaped by essential institutions at the nation-level and implicit communal institutions at the sector-level. Plantations in the early nineteen hundreds would not have been established without the enabling institutional effects of the 1900 land legislation and the colonial orders in council. Local administrations used pre-existing unwritten institutionalised authority to provide labour for plantations.

The sector market created after the collapse of the plantations was dependent on the creation of a colonial administration at the nation-level. It also needed the co-opting of local administrators to enforce the rudimentary frameworks and regulations that enabled new roles to emerge and farming and husbandry practices to spread. Smallholding was dependent in its evolution and establishment on the spread of implicit understanding of the norms and requirement of agricultural farming.

Sector-level regulation in the interventionist period and subsequent deregulation in the liberalisation period were both dependent on state-level regulation – in the form of the coffee act (1962) and the creation of marketing boards subsequently and the coffee statute (1991) and subsequent amendments that admitted more private participation and opened the market fully to external competition.

Table 6.2 shows the essential sector-level and nation-level institutions that were associated with each of the critical junctures and events and the development effects that followed them.

**Table 6.2**  
**Significant institutions at nation and sector-level and associated critical events and development effects**

Critical juncture	Events	Significant institutions: sector - level	Significant institutions: nation - level	Development effects
1900 – 1910	<b>Colonial sovereignty and Political pressure</b>	Plantations	1900 Land Legislation (Buganda Agreement) Orders in Council	Sector creation & output growth Land and labour resources reallocated to sector <b>Sector market</b> Sector role creation: <ul style="list-style-type: none"> <li>• Farmers</li> <li>• Buyers / processors</li> <li>• Merchants</li> </ul>
1920 – 1925	<b>Collapse of world price of coffee</b>	Sector market	Local administration	Sector role creation: <ul style="list-style-type: none"> <li>• <b>Smallholdings</b></li> <li>• <b>State regulator</b></li> </ul> Sector output collapse and subsequent growth recovery Land and labour resources exit and subsequent re-entry
1965: 1975	<b>Nationalist political pressure</b>	Smallholdings Sector farmer norms CMB	State regulation: Coffee Act 1962	Sector output decline Land and labour resources exit from production
1987 – 1995	<b>External donor and political pressure</b>	Smallholdings De-regulated sector market	NRM administration State regulation: UCDA Statute 1991	Sector output growth Sector export development Land and labour resources reallocated to sector <b>Sector market</b> Sector role entrants: <ul style="list-style-type: none"> <li>• Buyers / processors</li> <li>• Exporters</li> </ul>

## **6.4 Change path analysis and implications**

Chapter five examined why and how institutional change may be explained. In doing it was recognised that the significant institutions created or changing need to be identified; that timings of key events and periods of change have to be acknowledged; exogenous and endogenous stimuli for change need to be admitted; and that groups, interests and institutionalised roles in change play a key role. In addition the influence of past influences, learning, beliefs and expectations, pre-existing societal rules at different levels and institutional inertia – all have to be taken into account. This section draws on earlier discussion of theory and uses it to establish some key observations deriving from the analysis of the change paths that the coffee sector has taken. The change analysis framework discussed is therefore used to offer explanations of the changes paths taken. The section ends by considering the implications (constraining and enabling) the institutional and change history may have on sector's future development.

### **6.4.1 Insights from the analysis**

Applying this analytical framework to explain the changes in the Uganda sector provides a revealing integrated perspective of the significant changes that have shaped the development of the sector. A number of important insights can be drawn from this. Table 6.3 below summarises the key points arising from the use of the institutional change analysis framework to explain institutional change in the coffee sector. This summary

allows us to make some overall observations about the changes that have shaped the sector. These are:

- a) *critical events external to the sector always tended to precede significant developments and changes internal to the sector.* That is external political pressure preceded plantation creation (1900 – 1910); price collapse preceded the extensive adoption of small holding as the preferred mode of production (1921 onwards); political pressure preceded interventionist regulation (1965 onwards); and external donor political pressure preceded liberalising de-regulation (1990 onwards). Whilst the sector clearly continued to evolve and change in between key development junctures, the changes that have most evidently shaped the growth, resource allocation and roles in the sector, followed punctuating and significant events that were external to the sector; Hence it can be seen that
- b) *changes in development effects always followed significant “external” events leading to an interaction between external events and internal adaptive developments.* While the impetus for institutional creation or change appears to be more assuredly attributable to initial stimuli followed by interaction between external and internal events, it is clear that external factors were particularly significant in initiating change in the sector. Explanations of change and development in the sector need to admit both exogenous and endogenous considerations. Particular emphasis has to be given to the “disruptive” role external factors played and how they influenced and interacted with internal developments to create the circumstances associated with the development that then occurred in the sector.

- c) *direct deliberate action by the state is conspicuous by its presence.* It is observed that state intervention, rather than being merely a feature of the interventionist period, was notably a key feature at each critical juncture and had a material influence on the institutional changes that followed. Paradoxically, direct and indirect state intervention was central and essential for the de-regulation that characterised the liberalisation phase. Significant institutional change in the modern coffee sector in Uganda appears to be assumptive, of and dependent on, state institutional direction.
- d) *there is apparent lock-in to small holdings as the means of production.* Sector interventions and developments apparently have to take into this account this reality. Sector development appears constrained to progress along paths that accommodate the largely unchanged productive role of smallholdings. Recent declines in productivity, the shocks and impacts of coffee wilt disease, the re-emergence of external entrepreneurs and large plantation like farms, provide new hints of institutional variation the implications of which are yet to unfold.

**Table 6.3**  
**Summary of institutional change analysis of the Uganda coffee sector**

<b>WHAT</b> → <b>WHY</b> → <b>HOW</b> →				
<b>Significant Institutions</b>	<b>Critical Junctures</b>	<b>Impetus for creations / change</b>	<b>Pre-eminent Groups and interests involved</b>	<b>Other influencing factors</b>
Plantations	1900 – 1910 and 1920 - 1925	External – Directed colonial Policy External – non – directed price collapse	Colonial farmers Colonial state	Import of colonial plantation model Experience and lessons of economic collapse Readjustment of expectations / payoffs from plantation agriculture Changes in colonial rules supporting plantations
Smallholdings	1920 - 1925	Internal – non directed development of indigenous coffee growing Internal – directed colonial policy	Local farmers Colonial state Local administrators	Experience and lessons of economic collapse Experience of new opportunity offered by smallholding Changes in husbandry habits (inc. learning from working on plantations) New production and distribution regulations
Regulatory organisations and Regulations	1965 - 1975	External – directed government nationalisation policies Internal – directed state intervention in distribution / state monopsony	State Bureaucrats in state parastatals Local farmers	Import of state planning policies Experience of colonial state regulation of sector Nation level laws regarding state involvement and ownership Existing lock in to smallholdings as prime production means in sector Sector development / structure dependent on smallholdings
Deregulation	1990 - 1995	External – directed government re construction policies External – directed donor direction and influence / funding Internal – directed state intervention to de-regulate	State Local and foreign entrepreneurs Local framers	Import of liberalisation policies Learning / expectations influenced by experience of state interventionist policies Nation level and sector legal changes Existing lock in to smallholdings as prime production means in sector Sector development / structure dependent on smallholdings

## **6.4.2 Change paths and implications**

At a critical stage early in its inception the Uganda coffee sector took a path that led away from large scale plantation agriculture and created a large dispersed commodity sector built on smallholdings. Subsequent development of the sector has evolved around this essential development. Development of the sector has been enabled and constrained by this single essential institution, in that significant changes in growth, allocation of resources or development of other sector level rules and ways of interacting have only been possible in so far as they have allowed for, or been accommodated by, the smallholdings.

As the sector is unprotected and deregulated and its fortunes left more open to the vagaries of world demand, supply and pricing, the experience of the last 100 years would suggest that development and change within the sector will continue to offer smallholdings a preferred and essential role. However the role is unlikely to remain unchanged. The theory and the evidence suggest that even well established and stable institutions are not impervious to change. Change though lacking in drama, can be seen as an inevitable outcome of external and unforeseen internal events. It is the result of the dynamics of groups, individuals needs and the effects (intended and unintended) and institutional arrangements that are deliberately designed or inadvertently and unintentionally evolving.

That being said, the path of change having been established, *in the absence of major external disruption* (for example plant disease, dramatic climatic impacts, war causing collapse in resource allocation or major changes in technology) it is likely that the ongoing path of institutional change and associated development effects may be gradual, and a product of experimentation, adoption and adaptation rather than dramatic fundamental and rapid change. Experience also suggests that changes most likely to be experienced along this gradualist path are ones that affect market sector roles and norms rather than those that represent explicit, official and written changes in laws, or the sponsorship and creation of new complex types of institutions (for example new market forms, new organisations or new modes of production).

The evidence gathered from this study suggests nevertheless that external unforeseen events can significantly, disrupt gradual change and render existing institutions ineffectual or inadequate. When this occurs, the role of the state and the nature of its involvement in directing aspects of institutional change have been shown to be critical to the development outcomes. In the past in Uganda, such dramatic change events have been associated with aftermath of local or global crises. In the Uganda coffee sector such events have occurred thrice over a period of one hundred years and the first two occurrences were at the inception of the sector and within twenty years of each other. Therefore it has to be considered that *in the absence of the influence of significant external events*, it appears unlikely that the sector path will change dramatically on to a completely new developmental path in the near future.

However this contention has to set against the fact that the sector is more open, exposed and vulnerable to influence, particularly given the recent institutional, role and participative changes. Indeed given continuing globalisation of commodity markets and players, it would appear inconceivable that external factors and considerations would not impinge on the nature of the institutions. Calamitous “acts” of god as well as deliberate acts of external economic actors – cannot be ruled out. Indeed it may be argued that the history of the sector suggests that they have to be viewed as likely to be the influences most capable of inducing rapid and significant change in the sector.

However external events when and if they occur will be acting on a coffee sector that is quite different from the one that existed even at its inception. Whether external events are likely to have similarly dramatic effects on the sector development and the institutions that result as they did in the past is a debatable point and unsettled matter. The sector is today more formed, larger, more established and interests, norms and practices more deeply embedded than it was in the early twentieth century. Institutional adaptation, institutional friction and so-called “returns to institutional efficiency” may in the absence of far reaching changes in environment, tend to favour stability and gradual change of the existing institutions, rather than dramatic discontinuous switch to a different change path configured around fundamentally different institutions. External events today may therefore need to be even more disruptive and significant to initiate fundamental institutional change in the sector.

Taking the experience of the most recent fundamental changes (the deregulation of the sector following the civil war and collapse of the economy) it is notable that the ubiquitous and resilient smallholding (the essential persistent institution) remained. It was however forced to adapt its role. In addition there were other direct effects on the structure and roles of the market which in turn forced changes on the activities of smallholders. With that experience in mind it has to be judged that the continuing changes in the role of the smallholder – even within a broadly recognisable and slowly evolving institutional context – have to be admitted as a likely outcome.

## **6.5 In conclusion**

Regardless of the source of change or the subsequent change paths taken however, a key insight that can be drawn from this study is that not only do external events matter but also that higher-level rules play a key role in shaping sector-level changes during periods of change and particularly in relation to periods of dramatic rapid change.

The Uganda coffee sector experience suggests that, by creating rules for making rules, nation-level rules have a key role in shaping sector-level institutional paths and development outcomes. Specifically higher-level rules matter because they prescribe what is allowed and what is preferred. Sector-level rules (explicit and implicit) then adapt accordingly. In event of dramatic and rapid change, particularly following an external disruptive event, it appears that higher-level rules are particularly necessary and effective. The uncertainty associated with major disruption appears to create the conditions and the demand for higher-level rules to enable and shape sector-level developments. Therefore

an important and significant observation to be made is that at times of major, dramatic and externally initiated change, even greater attention has to be directed at understanding pre-existing essential institutions. In particular it is necessary to understand and how pre-existing institutions actually structure and enable societal activities and are therefore likely to be involved and affected by the external events and emerging changes in higher level rules.

## **CHAPTER SEVEN**

### **INSTITUTIONS AND DEVELOPMENT: CONCLUSIONS AND IMPLICATIONS**

## **7 Institutions and development: Conclusions and implications**

This final chapter summarises the issues raised, presents the main insights of the study and points to the key conclusions that may be drawn from it. In particular it highlights the implications the study might have for developmental policy, particularly in relation to institutional design and development considerations. The chapter also points to questions raised by the study that remain to be addressed and that warrant further attention.

### ***7.1 Overview of issues addressed***

This study has been concerned with understanding better the problem of development and the role institutions play in it. It recognises that after many years of scholarly attention, policy prescription and empirical study, the question of how to encourage and to sustain the economic development of many poorer countries remains an ongoing concern. While acknowledging the ongoing debates about this question, this study takes as its starting point the growing awareness of institutions and institutional thinking that is being more widely accepted as offering insights into, and explanations for, differences in countries developmental experiences (Chapter 1). This starting point provides the backdrop for the focus of the study, which has been to a) address key theoretical issues relating to institutions; and then b) examine a real country development experience, to draw from it insights into the role and influence of institutions. Overall the study's aim has been to use

the case study's experience to shed light on, and gain insight for, the ongoing development challenges facing many poorer developing countries today.

The study raises theoretical issues and corresponding practical implications. The study asserts that it is not useful to move directly to examining the role of institutions without first dealing with some definitional issues. Institutions, even while being more widely acknowledged have not, to date, been clearly or unanimously defined and categorised. In reviewing the scholarship in this area, the study discusses the problems of definition and categorisation; examines the nature of the definitional challenge and addresses the question of overall definition as well as the closely associated question of categorisation (Chapter 2 and Chapter 3). The study raises and addresses the challenge of definition to help clear the way to dealing with the detail of classification. The study consequently proposes a taxonomy of institutions that suggests how specific *types* of institutions can be identified and categorised in a meaningful way. Taken together chapters 2 and 3 reaffirm and take the definitional endeavour a step further than existing literature has done to date.

The study then turns to the other central questions of the research. Using the taxonomy as a framework for analysis informing the desk and field-based case work, the research focuses on understanding how institutions have been implicated and influential in shaping the Uganda coffee sector, its economic development path and the resulting development experiences and outcomes. Specifically in this regard, the case work reveals what the sector experience suggests mattered most in explaining the role and significance of institutions and the nature and importance of institutional change in economic

development. This case work (informed by the taxonomy framework) and additional consideration of theories of institutional change, together provide the information and insights that enable us to consider implications applicable to other sectors and to other country experiences (Chapters 4 – 6).

In closing, this chapter brings together the insights that may be drawn. The first part of the chapter summarises the main conclusions and insights of the study. The second part of the chapter considers the implications that these conclusions may have for other developing sectors and countries, as well as for policy makers involved in developmental interventions that evoke institutional change or institutional design considerations. The chapter finishes by pointing to questions raised by the study and remain still to be addressed and, or further examined.

## ***7.2 Main conclusions and insights of the study***

The study's conclusions and insights relate to three broad areas: First, there are conclusions that confirm and clarify our understanding of institutions and the related issues that needed to be addressed in order to advance our understanding of how institutions influence economic development. Secondly, the study draws conclusions that underline, confirm and, or extend our understanding of how institutions matter in economic development. Finally, the study draws attention to specific considerations that have been influential in the Uganda coffee example, providing insights into how

institutions influence economic development and, in so doing, may lead us to consider afresh how we view institutions in development.

### **7.2.1 Conclusions about the definition of institutions**

The study of institutions draws together a vast body of scholarship encompassing different disciplines within the social sciences, a variety of interests and a large number of overlapping and associated ideas and themes. Consequently, on casual observation institutionalists ideas and their contribution to understanding economic behaviour are not coherently organised or immediately evident. Understanding the scope of ideas and the interconnections that make them valuable in a study of this kind require engaging with the different disciplines and perspectives that have a claim to institutionalist thinking.

The study has shown that, when carefully navigated, and if the perspectives of different disciplines and schools of thought are acknowledged, it is evident that progress is being made. The evidence is that institutions are better defined, their role better understood, and theory and empirical work on which further study can be built, steadily expanding. As a result this study has been able to show that while there are many institutional forms, it is possible to differentiate between them. This is important because without sufficient theoretical differentiation it is difficult to apply our understanding of the scope of institutional influence to the task of examining real world experience.

Starting by briefly reviewing key limitations faced when attempting classifications, it has been possible to focus on dealing with the challenge of classification. Chapters 2 and 3, together, deal with the definition and classification of institutions:

- a) offering a workable overall definition for what is and what is not an institution;
- b) clarifying the category boundaries between different types of institutions;
- c) describing and differentiating different categories of institutions;
- d) dealing with the problem of admitting a wide variety of institutional forms which cross definitional boundaries;
- e) defining terms used to describe institutions; and
- f) providing the basic theoretical framework that is developed and used to inform and guide the empirical analysis required to carry out the case work aimed at understanding institutions in the coffee sector in Uganda.

Most importantly, the study navigates existing considerations and definitions of institutions; and, having done so, takes a further step towards providing a clearer statement of what does and does not qualify as an institution, and how the multiplicity of institutional forms can be usefully categorised. It does this by first by identifying the essential qualifying criteria as being the rule like nature of institutions. It then re-asserts that institutions can be simply defined as being rule like in nature and as rules or systems of rules that structure social interactions (North, 1990), (Hodgson, 2001). Following this a taxonomy is offered that goes further still: specifically addressing the need for categories that can be related to real life encounters of institutions and can therefore be used in empirical study of institutions.

This progress in definition and classification based on a review of a large number of rich sources, not only allows methodical review of existing definitions, it also challenges persisting, and now arguably increasingly ill-informed preconceptions that limit the relevance of institutions because of poor definition. This study suggests that it is now possible to offer a workable taxonomy for the purpose of empirical investigation, as well as to address the issues that have hitherto encumbered the development of a taxonomy of institutions beyond general definition. It is shown that it is possible to settle on a definition of institutions, and also to go further and use the clarity achieved to proceed to dealing with classification and taxonomy.

An important conclusion from this study is possibly therefore that sufficient consensus on what institutions are and are not is now emerging. It is suggested that whilst particular schools of thought and disciplines may pay greater attention to some types of institutions, the overall broad definition is more or less ready to be settled. This study would suggest that attention should now focus primarily on the other important intricacies and debates relating to the nature of the influence of types of institutions, some of which intricacies are the subjects of this study<sup>105</sup>. In relation to the case work, the value of definition and the detailed taxonomy is that together they facilitate analysis of institutional development and associated issues such as:

- a) the institutional presence across categories;

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<sup>105</sup> I do recognise however that the definitional task once settled also has to be kept alive. One revelation that this study has had for the author has been how “easily” valuable scholarly and research insights are lost, discarded or simply missed by subsequent studies and works. A common lament today appears to be that economic history and history of economic thought should be of greater concern to economists.

- b) the institutional influence at different levels of the socio-economy; and
- c) the multifaceted manifestation of institutions in different spheres.

It is shown in the study, that such analysis enables a much fuller understanding and assessment of the development experience as a whole.

### **7.2.2 Conclusions about how institutions matter**

This study has also been concerned to examine how institutions matter. Accepting the growing acknowledgement and body of evidence for this (chapter 2), the focus has then been on drawing insights that address the key questions of how and why institutions matter in economic development. While empirical research has pointed to the fact that institutions are implicated, the study has provided qualitative support, informed by theory, necessary to contribute to this ongoing research question. The study's conclusions serve to test and explain how and why institutions matter, and do so by drawing qualitatively from case experience of a sector's development.

The conclusions drawn from case work are significant. Institutions are shown to be central to development. The Uganda coffee sector experience shows how institutions are intricately involved in processes of development that have shaped the sector. Indeed the experience from 1894 to 2004 graphically illustrates that it would be nonsensical to even suggest the possibility of economic growth and economic development without admitting the existence and central role of institutions. Far from being a cultural backdrop to be acknowledged but avoided in serious economic research, it is shown that the changes that created the coffee sector within the nascent Ugandan economy, and all the subsequent

changes that developed it into a multi-million dollar agribusiness sector capable of underpinning the country's overall economy, were institutional in essential and significant aspects. Economic change and development without institutional involvement and change is simply a misnomer.

However this broad conclusion needs elaborating by pointing to the specific conclusions that are evident from the study. Firstly, it is notable that specific institutions have critical roles in development. At particular points in the sector's development, and at particular important junctures, certain very specific and identifiable institutions were *essential* to enabling and sustaining the development of the coffee sector in the direction it took. In other words institutions matter, but significantly: at particular critical developmental junctures, *specific institutions* play essential and critical roles in influencing development. Secondly, these same institutions can play critical roles on subsequent occasions, but the *role* they play will be different and *specific* to the circumstances at that next juncture. These two conclusions suggest that in the Uganda coffee sector (and arguably in other sectors and other development experiences) awareness of what are the essential institutions, the notable changes in the institutions' roles, as well as the institutions' effects on economic outcomes are important prerequisites for understanding the ongoing process of economic development as well as the way an economic sector behaves at critical junctures.

The research also clearly re-affirms that the institutions that matter are not simply the ones that are explicitly and, or officially codified in writing or some other way. While it

is shown that explicit official institutions such as the statutes and the regulatory organisations were important, it shows that these official institutions only form part of the development story. Explicit and implicit institutions appear always to matter *together*. In all stages of the sector's development it is the mix of implicit and explicit institutions that are at play in shaping the economic roles and activities. There is no sense in which it is possible simply to isolate institutional significance on the basis of how explicit they are. This is clearly illustrated by the research. The strongest and most significant institution underpinning the development of the sector throughout the period in question is the smallholding. Yet despite the smallholding's resilience and salience it is inconceivable that it could play the significant productive role it did without the associated development of husbandry norms, local and external the markets, and explicit regulatory mechanisms governing trading and exporting procedures.

It is also shown that the institutions that matter (implicit and explicit) are prevalent at different levels and manifest in different social spheres. Locally the smallholding and the husbandry and exchange norms matter. These are associated with markets and organisations at district and national levels; enabling aggregation, processing and access to wider markets. Beyond this intermediary level, other institutions come into play, involving the regulatory as well as intermediary organisations that provide access to even wider markets. Institutional influences are manifest in private (family) spheres as well as public (commercial and administrative) spheres. The influence that institutions have in any one sphere, or at any one level, is related to and influenced by institutions, institutional influences and activities and outcomes in other levels. Throughout the period

studied, institutions at different levels and across different spheres interact to influence the shape and influence of each other. However, notably, at particular critical junctures, some *essential* institutions are significant in their influence and the other institutions are eventually reconfigured and reorganised in response to the role and influence of these important essential institutions.

Understanding the role of institutions in economic development therefore becomes a twofold task. The first involves paying careful attention to the institutional “snapshot”. It involves understanding institutions prevailing at a particular point in time and that are enabling and constraining economic activities and consequently leading to particular outcomes at that particular point in time. The second involves detailed study of the institutional and societal antecedents, interactions and outcomes over time. It requires being acutely aware of the inherent stability (and instability) of any current institutional environment and in so doing examining and understanding the fluidity, intensity and sagacity of the inevitably ongoing process of institutional change. In short, in order to understand and explain a particular institutional setting and its effects on economic outcomes it is necessary to carry out institutional analysis that admits insights from *current* institutionally informed economic analysis **as well as** from *institutionally aware* economic history.

This study has shown that addressing this twofold task in the Uganda case example showed that in arriving at the latest incarnation of the sector, the institutional change path taken and the institutional change processes involved mattered a great deal. The path

determined what sector incarnations (and therefore growth and developmental possibilities) were practicable. The change processes involved influenced the mutational ways and means that were viable. The role and essential nature of particular institutions in the development of the sector therefore takes shape and is best understood with reference to the established change paths and the existing institutional dynamics. The combinations of the two determine institutions' stability, fragility or change, and ultimately play a critical role in determining developmental outcomes.

This study also emphasises however, that there is no sense in which change paths create pre-determined outcomes. In each phase of development examined in the case example, it was evident that institutional change paths were themselves subject to initiating and influencing factors. The evidence from this study is that significant influential factors flow from unexpected events. Influencing factors may be one-off or ongoing, and may be exogenous or endogenous. In addition it is evident from this study that influences that are brought to bear may be a result of deliberate or non deliberate actions. These influences may initially affect a particular level. However, eventually, they have spreading effects across different institutional levels and different spheres of influence. In addition they inevitably lead to other deliberate or non deliberate changes in economic activities.

In addition to providing evidence and explanations that re-affirm these insights and help shed light on how and why institutions matter in economic development, this study has also pointed to some additional insights that have been influential in the Uganda coffee

sector development that may lead us to consider afresh some perspectives on how we view the role of institutions in development.

### **7.2.3 Conclusions suggesting additional insights**

The state has been recognised as having an important, if at times controversial role, in economic development. This study suggests that at particular critical junctures and periods of change, the state plays a key role in influencing the nature of the institutional development that effects and is essential for economic development. The evidence from this study suggests that in relation to the development of a particular sector, such as the Uganda coffee sector, there are specific times when initiating or sustaining economic development, demands the rapid creation of new economic relationships and roles that that engage in and sustain productive economic activities. It is suggested that at these critical junctures, the state as an institution plays a particularly important role in enabling or constraining roles and relationships in ways that that significantly influence the immediate outcome (i.e. the immediate pattern of activities and their results) as well as materially influence (reinforce or undermine) the subsequent change path.

In the Uganda coffee example, sector development was possible because of the rapid development in the early years of more complex and differentiated economic roles and activities. While some initial productive and processing / distributive roles emerged spontaneously, it is clear that their further establishment (growth in numbers and clarification of role boundaries) depended on the direct or indirect involvement of state apparatus which was directed specifically at the activities of the sector. The evidence here

suggests that a sector in its early stages of development appears to be more open (vulnerable) to enabling or constraining the institutional changes. It is these changes in institutions that in turn initiate and may significantly affect the creation of new economic roles and the rapidity of economic development<sup>106</sup>.

Given this vital role, the question that is raised in relation to state intervention is not whether the state should intervene but rather when and how best to intervene. The case example suggests that this is the pertinent question for two reasons. Firstly there is an inevitable threshold of intervention that the state cannot avoid. In the Uganda coffee sector it is evident throughout the period under study, that given the state's interest in raising income and overseeing the participation in certain roles within the sector, a certain level of intervention (licensing, taxation regime etc) was inevitable. Having assumed that kind of minimal responsibility, the subsequent question is therefore what institutional mechanisms should the state choose to apply to enforce that responsibility. In Uganda at each critical juncture the state choice was not whether it should intervene. By virtue of the existing minimal responsibility it was already implicated.

Secondly the evidence from this study suggests that any state act of institutional design leads to unexpected responses and outcomes which the state then has to respond to. State intervention is not a one off, once and for all measure. The state cannot ignore the immediate consequences of the institutional changes it initiates. Follow-on action is

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<sup>106</sup> This study would also support the acknowledging that the changing role of institutions may be critical to shaping the prospects of a sector at other later stages of the sector's development.

needed, and that action often takes the form of supplementary institutional change.

Consequently the questions facing state policy makers relate to:

- a) how at a specific juncture to express the responsibility for institutional change;
- b) whether that responsibility should be extended and if so in which direction; and
- c) how to deal with further institutional change requirements.

In the Uganda coffee sector during the “commodification phase” the state introduced the CIB as a regulator and then introduced additional regulations for commodities. In the “post independence – interventionist phase”; the state chose to introduce the CMB and associated regulatory mechanisms; and in the “liberalisation phase” the state introduced the UCDA and associated (less restrictive) regulatory arrangements. The distinguishing feature between phases was not whether there was state intervention. It was the type and direction of state intervention that distinguished the phases. The evidence here would therefore calls for a reassessment of the generalised assumption that state intervention is: a) a choice; and b) one that developing countries in search of growth and development should eschew. A more sophisticated approach to state intervention is therefore suggested.

Another important additional insight is that new development outcomes are associated with changes in institutions which in essence epitomise changes in attitudes and preferences expressed. It is suggested that these institutional changes are the practical means by which changes in attitudes and preferences are expressed in relationships and interactions within a socio-economy. This insight is significant because it underlines that economic development, far from being simply about national product and productivity, is

most significantly about groups and societies (and individuals within them) changing activities, habits, and ways of seeing and relating to each other (and the world around them). It is perhaps worth noting that there is no suggestion here of necessarily converging preferences across countries into one single homogenised commodity culture. What the evidence here points to is that the development of a sector like the Uganda coffee sector has, over the last one hundred years, required and resulted in profound changes in attitudes. More importantly, it is evident that these changes have been by and large integrated into a way of being and living that is up to the challenge of producing large quantities of coffee for the world market, while at the same time continues to “make sense” within the local socio-economies and ecologies.

As most of the coffee produced in Uganda is for export, the coffee sector as it has developed, has relied heavily on being able effectively to direct local productive and distributive activities towards the global coffee markets. Uganda has, over the last hundred years, experienced dramatically how the vagaries of global markets can lead to local sector slowdowns and even to collapse. This draws attention to the insight that the probability and effects of such collapse may be greater if the local sector economic activities and ways of being that are created locally are primarily, or specifically, designed to serve the global markets.

The evidence from this case study would suggest that economic activities working in service of global markets appear more resilient to the vagaries of external changes if they are integrated into other aspects of local life rather than being solely directed at the

purposes of external directed global markets. Hence in the Uganda coffee sector, historically coffee growing has been part of, rather than the reason for, many small holders existence. When the local / global markets hit hard times (or government policies make times hard) small holdings adjust their activities (painfully) but are somewhat cushioned from complete obliteration. However, what remains unclear from the study is the extent to which the smallholding can remain resilient as the global markets change, external competitors themselves develop and the social setting and competing sectors evolve.

### ***7.3 Development implications raised by the study***

Given the points raised above, the development implications from this study relate primarily to the policy issues and practicalities facing countries that may seek to take into account the role of institutions, when designing policy and managing economies.

A first implication is that there is strong case for re-visiting and even challenging some prevailing assumptions about the appropriate role of the state in development. This study would support the contention that generalising state intervention as being completely negative or positive is simplistic and misses the point. It would also suggest that the simplistic construction of the policy dichotomy facing developing countries as being simply about “more” or “less” state intervention, also clearly fails to address the important issues. This study would support the need for policy to advocate that only the state can initiate certain official acts of critical institutional design. Far from being an

argument for “more” or “less” state intervention, it is an argument for effective institutional support for economic development. In addition policy focus should be on deciding what kind of state intervention is appropriate, at what juncture and for what purpose and in what way? A supplementary implication may be that policy may need to consider the case for varying the nature of state intervention in relation to the strength of the sector, its internal institutional strengths and the critical events that it is facing. Arguably external shocks and critical events underline the need for state action to support or initiate the development of essential institutions needed to overcome the adverse effects that may have resulted. This clearly raises the important question of political will, state technical competence in intervention and institutional design. It also emphasises the need for administrative and political arrangements that enable the state apparatus to be well enough connected with the socio-economic realities facing the people whose work and livelihood are dependent on specific sectors.

More conscious attention to the role of institutions would also require more forthright affirmation and acceptance of the need for mechanisms that can engage with and mediate between interests. Whilst not all institutional change is deliberate and foreseeable, the pressure for change from powerful interests often are. Policy and economic management cannot eschew the need to understand the interests and implications involved, and to consider the losses and gains involved, including the political – economic implications and the policy and economic management imperatives.

A further developmental policy implication relates to how countries take on the challenge of effective institutional design. This study would suggest that a pre-requisite for deliberate institutional design as part of development policy, is better appreciation of a country's economic history and history of economic policy. It is proposed that institutional design has to involve broader institutionally aware analysis that establishes an understanding of the broader context and legacy, as well as narrow and specific institutional analysis, that engages with the current realities, critical events and ongoing developments. Such analysis needs to be cogniscent not just of internal endogenous developments but also the unfolding effects of external influences such as new technologies, market and socio-civil shocks and critical eco-environmental developments and changes. While it is not suggested that institutional design is the panacea, it is advocated that more attentive design is likely to be beneficial – particularly for sectors in early stages of development and facing specific challenges representative of a critical juncture in its ongoing development.

#### ***7.4 Outstanding questions and suggestions for further research***

As might be expected a study of this kind inevitably raises further questions that warrant further work, research and more dedicated and detailed investigation. A central question raised in this vein is how to develop strong and contextually appropriate institutions.

While accepting the importance of institutions and recognising the need for more effective institutions in development, it still remains the case that not all institutions are official and directly accessible for design. Implicit institutions play a significant role and

are by definition not available to policy makers to design<sup>107</sup>. Further work in relation to understanding in some detail the role and nature of implicit institutions in a modern economic sector, and the effects of deliberate institutional design on these institutions and their economic effects, would be valuable. This is because much of what economic management has to contend with on an ongoing basis is the unexpected consequences of deliberate policy actions.

The purpose of further work in this area would probably need to be very clearly aimed at gaining insights in relation to a specific country and sector(s) and therefore its cross country applicability would need assessing. Nevertheless given the continuing challenge of development facing a number of specific countries, achieving some country specific insights would be valuable in their own right. Connected to this investigation might be questions of political will and organisation, social engagement processes, government and technical competence and the role and influence of external factors and economic players.

Another area for further research consideration would be examining the effects of institutional change on poverty and income distribution. In this study it was not possible to pay specific attention to who lost and gained as a result of the development achievements and setbacks and the associated institutional changes. In broad terms it has been possible to infer that changes favoured some interest groups to greater or lesser

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<sup>107</sup> Implicit institutions are defined in chapter 3 as unwritten rules that are held commonly within a social grouping. They are not available to policy makers to design because they are often embedded in social practice and accessible to, and maintained amongst, members of the group through social interaction, different forms of social sanction and socialisation.

extents. However, we did not analyse the extent to which the changes affected the livelihoods and wellbeing of poorer groups within the sector and whether the changes were leading to divergence in incomes as a result. Further research would be valuable to determine the extent to which specific types of institutional developments or interventions tend to favour the interests of particular groups within a sector or value chain.

Finally in relation to Uganda, further work may usefully focus on extending this research within the sector as well as examining other sectors that are going through, or about to go through, significant change and institutional transformation. Firstly it would be useful to continue to monitor the latest developments in the sector. In particular, it may be helpful to note the unfolding effects of the deregulation taking place against a background of falling smallholding productivity, the coffee wilt disease and the involvement of more foreign players in distributive and even productive activities. In addition it would be valuable to establish the extent to which changes in the sector have antecedents, parallels or equivalents in other sectors. Can lessons be learnt from other sectors? Can this sector offer direct insights to others?

### ***7.5 Insights for other sectors***

The findings from this study suggest that some tentative insights may be advanced for further study in relation to other sectors. The relevance and importance of these insights will obviously vary from sector to sector, nevertheless it appears likely given the critical

nature of institutions demonstrated here that, at least some of these insights would be worthy of further research.

An important cross-sector insight is the need to understand and institutional landscape within a sector. Policy makers and agents are necessarily affected by the way pre-existing institutions are manifest. It is important they understand how and why these institutions developed in the first place, the role they play in the current context and the issues that would be raised by their absence, deliberate change or ossification.

A further cross-sector insight is the need for policy makers to pay attention to the resilience of a sector. This has to be addressed in view of the inevitable external shocks and challenges of being part of a global / commodity market. It also has to be addressed in relation to the evident design and dedication of roles within the sector and the extent to which they are effective, adaptable, responsive or flexible in the face of external and internal pressure for change.

In addition to sector resilience, an additional consideration may be the need for national economic diversity and avoidance of overdependence on a single export commodity. This raises policy questions relating to resource allocation, as well as trade and industrial policy. In addition it raises questions in relation to the role of the state in guiding and enabling sector-level and national economic investment strategies. The evidence from this study appears to suggest that such questions are too important to be ignored and / or left hostage to the good or bad fortunes of unpredictable external effects alone.

Engaging with the insights raised here ultimately calls for institutional design and policy to be taken more seriously by countries. It calls for more sophisticated engagement in discussions about the role of the state in sector policy and sector development. Clearly further work and more detailed investigation on what countries have already done or are experimenting with in relation to institutional innovation, monitoring and evaluation, is a research agenda item that this study suggests needs to be taken more seriously.

In doing this kind of more detailed investigation of institutions, institutional policy and the role of institutions, it is also suggested that the influence of implicit institutions and cross-sector norms could be more closely examined. In addition lessons and insights into state orientation and specific policy choices and their varying influences (if any) could be more carefully assessed. This kind of work in relation to Uganda would draw more attention to overall lessons of value to Uganda's development policy and economic management and place the experiences and insights of the Uganda coffee sector into an even wider country and developmental perspective.

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## **APPENDICES**

**APPENDIX 1**  
**UGANDA 1894 – 2005 – A CHRONOLOGY OF EVENTS**

<b>Year / Period</b>	<b>Political / Historical Events</b>
1800	Buganda Kingdom established extending across area of southern Uganda – from the river Nile to the river Kagera
1849	First Arab Traders reach Buganda from the east coast – in search of slaves and ivory <sup>108</sup>
1862	Captain JH Speke resolves European quest for source of Nile when reaches Jinja in Busoga
1874	Colonel Chaille Long visits Buganda as an envoy of Colonel Gordon - Governor of Equatorial province under suzerainty of Egypt.
1875	H.M. Stanley visits court of Mutesa I (1856 - 1884) the 35th Kabaka of Buganda. He is followed by Ernest Linant de Bellefonds, a French Calvinist in Gordon's service. Mutesa thought that they may be the answer to Muslim threat and encouraged chiefs to accept Christianity when preached to them. There develops in the Kabaka's court two versions of Christianity in contrast to the "pagans" - Abafaransa, Abangereza and Abakaafiri
1877	1877 first protestant missionaries arrive at Mutesa's invitation - following Stanley's appeal in the Daily Telegraph 15/11/1875
1879	White Fathers arrive from France.
1884	Carl Peters (German East Africa Company) contracts with local rulers Kabaka Mwanga orders killing of Bishop Hannington - First Anglican Bishop of Eastern Equatorial Africa.
1886	Mwanga murders Christian readers - 32 protestants and 13 Catholics martyred in June 1886 at Namugongo. Circa 200 killed in religious persecutions that follow
1885 - 1890	Christians and Muslims rebel against Mwanga and installed Prince Kiwewa. Kiwewa also turns against Christianity and Islam and is killed by his brother Kalema with the support of Muslims. Kalema adopts Islam – and is circumcised and named Nuha but is overthrown within a year and Christians reinstall Mwanga
1890	Lugard signs treaty with Mwanga and Chiefs and Buganda is brought under administration of IBEA Company. Religious wars follow in which the Protestant factions emerge as victors Berlin Conference is held and identifies Uganda as a British colonial sphere of influence
1894	Uganda annexed as a protectorate
1900	Signing of the Buganda agreement. Buganda a province of the protectorate of Uganda Kabaka recognised as the native ruler and surrenders all military power to the British Land agreement leads to half of the Buganda lands being distributed amongst 1000 nobles (chiefs) - under private ownership (Square mile plots "Mailo lands"). Remainder of land left to the British Crown Kingdom of Buganda recognized as a separate entity - with its own parliament - Lukiiko - set apart from rest of Uganda. Certain parts of Bubyorro ceded to Buganda - as a reward for subjugating Bunyoro. Buganda enjoys a privileged position within the protectorate Introduction of tenant farm rents – Busulu and encouragement of marketed products (Nujjo)
1921	Uganda Legislative Council created – No African Representatives until 1945
1928	Use of Baganda administrators to extend colonial control in other parts of Uganda Land Act - Rents fixed and cultivated crop owners not removable from land

<sup>108</sup> See Senteza-Kajubi (1987) Wiebe, P.D.; Dodge, C.P. Beyond Crisis. Development Issues in Uganda; Makerere Institute of Social Research: Kampala, 1987

Year / Period	Events
1945	3 African Representatives to Legislative Council. Official membership increased to ensure that no possibility of a “fundamental change” to the constitution
1945 / 49	Influenced by the “BATAKA” public Strikes and violent demonstrations in Buganda aimed at Asian business men & enterprises and at chiefs Recognition of cooperatives and manufacturing by Africans Lukiiko becomes mainly elected and representative with parliamentary functions 1947 - Worthington Plan – encourages development of Uganda – Focus on Textiles and Food Increasing economic activity – Indians playing a key role in processing and distribution.
1952	Increasing focus on local industry and manufacturing development
1953	Sir Andrew Cohen ushers in a new era – preparation for self government accelerated
1955	Better employment conditions for African Civil Service
1958	Internal Self – Government is introduced
1955	Low interest loans for African middle peasantry retailers and buyer coops
1961 – 1965	First Five Year Plan Capital influx leads to less dependence on British government. Indians local capital increasingly important (NB: Madhvani and Mheta Groups interests in Brewing, textiles, sugar etc) Growth of Trade Unionism FUTU (Federation of Uganda Trades Unions) formed Growth 1962 – 1966 4.5%
1964	Uganda Army established
1966 – 1970 Second Five Year Plan	Government control over unions. Uganda Trades Unions Congress forced to Form the Uganda labour Congress – Government has veto over union appointments Growth 1966 – 1970 4% Growth in Civil Service and Parastatals. Civil servants appointed on basis of political action and patronage as well as qualifications
1967	Increasing government intervention in produce marketing and processing. National Trading Board set up – responsible for export crop trade. Asian wholesalers respond by hoarding.
1962	October 9 <sup>th</sup> Independence Buganda a Kingdom under Kabaka within Uganda a centralised state under a prime minister 3 parties: Catholic DP; Protestants outside Uganda – UPC and KY DP defeated in elections to parliament (32 UPC 24 DP 21 KY) KY / UPC Government coalition Prime Minister Obote and President Sir Edward Mutesa – also Kabaka of Buganda
1964	Return of lost counties of Buyaga and Bugangazi to Bunyoro UPC got 2/3 majority and coalition obsolete Buganda / Uganda Constitutional crisis over taxation of emergency
1966	End of Buganda’s special federal status. Semi feudal constitution and declaration of presidential state republic
1967	New Centralised Constitution – Obote President
1969	Attempt to Ban all Political Parties Government “Move to the Left” and “Common Man’s Charter” Assassination attempt on President Obote Aim is to reduce social inequality, work with a mixed economy and suppression of lucrative private earnings All Crown Land vested in the State Capital flight out of the country

Year / Period	Events
1968	Produce Marketing Board – set up Central Marketing of foodstuffs – entire wholesale under state control
1969	Obote Government introduction of Socialist Policies – “Move to the Left” and “Common Man’s Charter”  Creation of Land Commission  Balance of payments crisis – falling exports
1970	85 Private enterprises nationalised
1971	Decline in tax revenues Growth of military budget – Increase in military to 22,000 strong Army – military taking 20% of national budget
1972 - 73	
1970	Industrial action / strikes banned
1971	Military Coup – topples Obote – Idi Amin in power. Recognised by International community
1972 - 73	Idi Amin starts to lose international support – increasing repression and dictatorship. Expulsion of British Asians on Aug 9th giving them only 3 Month Notice – expulsion of Asians affecting 5655 businesses and real estate. Looting and atrocities follow. Confiscation of Metha and Madhvani Group Assets 73% fall in industrial production and 48% fall in trade Military encroachment on private property Growth of “MAGENDO ECONOMY and MAFUTA MINGI” – Theft and Corruption Nationalisation of British enterprises Low producer prices and collapse of export crops. Farmers begin to switch to subsistence farming Militarisation of society – set up of SRB, PSU an MP – Increasingly military becoming a mercenary force
1975	Land Reform Decree. All land under state authority – impossible to register private property right Buganda peasants lose protection gained in 1928 Military district administrators acquiring land Continuing decline in public safety and economic security Supply shortages Insufficient salaries Continuing capital flight Growth 1973 – 1975 –2%
1978	Uganda Army invasion of Tanzania – Kagera Region. Tanzania support of exiles – Moshi Conference leading to set up of UNLF
1979	Tanzanian Army invasion of Uganda – backing Uganda National Liberation Front. April 11 <sup>th</sup> – Idi Amin defeated <sup>109</sup> – Prof Yusuf Lule President – dismissed in June – Successor – Godfrey Binaisa

<sup>109</sup> Under Idi Amin large numbers of Ugandans were murdered – Estimates vary – Two reputable sources Minority Rights Group Report - US Committee of Refugees 1985 and Amnesty International 1985 estimated between 100,000 to 500,000 loosing their lives. [Weibe and Dodge 1987].

Year / Period	Events
1980	National organisation of Trades Unions created (1980 – 84) Black economy 50% GDP and 2/3 of monetary economy
1981	IMF stabilisation programme State price controls abolished Higher producer prices Limitation of public debt More efficient tax system 90% devaluation of Ug. Shilling Loans to rehabilitate transport system, import spare parts for agriculture and industry
1980	May – Binaisa dismissed – replaced Paulo Muwanga – election December. Head of State declared above the Law. Chief Justice Wambuzi dismissed by Muwanga and replaced by Justice Masika – Detentions without trials – against court rulings Elections - Obote back to power after brief interim government of Yusuf Lule, Godfrey Binaisa and UNLA backed military commission Elections widely disputed - repressive military activity - leading to disorder 200,000 killed in Luwero Triangle between 1983 and 1985. In 1984 400,00 displaced within the country Elections Contested by DP, CP, UPC, UPM. 1967 constitution revalidated. UPC wins 72 seats DP 51 UPM 1 Opposition disputes results and forms resistance (UNRF, UFM , NRM)
1981	<ul style="list-style-type: none"> <li>• Obote UPC Government Policy: <ul style="list-style-type: none"> <li>○ Depreciation</li> <li>○ Dismantling price controls</li> <li>○ Rationalise input procurement system</li> <li>○ Create producer price incentives</li> <li>○ Introduce budgetary controls</li> <li>○ Encourage foreign and private investment</li> <li>○ Introduce progressive interest rates</li> </ul> </li> </ul>
1982 - 1984	Growing internal Conflict and civil war. Country divided with south & west under NRM and elsewhere under control of Okello military government Sector specific priority projects for development Smuggling reduced. Improved agriculture production. However external factors – induce growth in debt and lead to high inflation Government policy collapses due to inadequate foreign finance, over dependence on interest rate, Guerrilla warfare and associated expenditure, gradual abandonment of reform and stabilisation Growth 1981 – 1985 5 %
1985	UNLF Coup – July – Basilio Okello in power. Replaced by Tito Okello heading up a military commission. UFM and DP Join government – NRM resists. Civil war

Year / Period	Events
1986	NRM Government installed – with 10 point programme but no immediate consensus on economic policy – Economy stagnant.
1986	<p>NRM victory – Yoweri Museveni installed as President</p> <p>10 Point Programme encompassing:</p> <ul style="list-style-type: none"> <li>○ Democracy</li> <li>○ Guarantee of Security</li> <li>○ Consolidation of National Unity elimination of sectarianism</li> <li>○ Defense &amp; consolidation of national independence</li> <li>○ Construction of self sustaining economy</li> <li>○ Restoration and improvement of Social services in war ravaged areas</li> <li>○ Elimination of corruption and abuse of power</li> <li>○ Redress of errors that have resulted in Unequal regional economic development</li> <li>○ Cooperation with other African countries in the defense of human and democratic rights</li> </ul>
1987	<p>NRM government initial reluctance to accept IMF conditions. Eventually agree. Conditions include:</p> <ul style="list-style-type: none"> <li>● Trade liberalisation – no price controls or import restrictions / forex restrictions</li> <li>● Anti inflation policy – deficit control – no subsidies</li> <li>● Anti inflationary wage policy – no controls</li> <li>● Open foreign investment</li> <li>● Control specific areas of public spending – e.g. defence</li> <li>● Fixed exchange rate</li> <li>● Economic Reform Programme ERP – launched May 1987</li> </ul> <p>Economic Reform Programme ERP – launched May 1987 – IMF Supported SAF (Structural Adjustment Facility)</p> <p>IDA economic Recovery Credit - SDR \$50.9m 1987 and African Facility SDR \$18.8m</p>
1990	<p>Economic Reform Programme extended – ESAF – Supported by IMF and IDA</p> <p>Additional IMF support SDR \$98.1</p> <p>Further far reaching programme of reform:</p> <p>Devaluation, Forex liberalisation, export &amp; import licensing abolished, Price controls abolished, return of Asian properties, Privatisation, Abolition of export &amp; distribution monopolies, Civil Service Overhaul, Tax System &amp; Administration Restructuring, Reduction of size of Army and rehabilitation of socio-economic infrastructure</p>
1993	<p>Traditional rulers – Kings of Bunyoro, Toro, Ankole, Busoga and Buganda restored – but with no official government role or prescribed political power.</p> <p>Draft Constitution proposed – and debated by 284 member constituent assembly</p>
1995	<p>New constitution – Political parties legalised but banned from organised political activity. Constitution based on English Common Law and Customary Law</p>
1996	<p>NRM Umbrella elections. First popular elections since 1962 – NRM Government and movement endorsed</p>
1997	<p>Ugandan troops supporting Congolese rebels to depose Mobutu</p>

Year / Period	Events
1998	Uganda intervenes to support President Kabila in the Congo – threatened to be deposed
2001	<p>Presidential Elections June 26 2001 – Museveni returned with 69.3% of vote – Next Opponent – Kizza Byesigye 27.8% - Next elections 2006</p> <p>Unicameral National Assembly – 303 members – 214 directly elected by popular vote – 81 nominated – Women, Military, Youth and Labour) January</p> <p>East African Community with Tanzania and Kenya revived March</p> <p>Conflict with Rwanda</p> <p>Ongoing conflict in Northern Uganda – Sudan and against LRA</p> <p>Agreement with Sudan signed to curb support for LRA</p>
2002	<p>Intensification of Uganda military operations in Northern Uganda in response to LRA raids on villages. Mass evacuation of villagers to protected areas</p> <p>Peace deal with UNRF signed in December</p>
2003	<p>March - Government recommendation to lift 17 year ban on political party activity – subject to referendum</p> <p>May – Uganda pulls out last troops from DR Congo – tens of thousands of refugees seek asylum in Uganda</p> <p>August – Idi Amin dies in Saudi Arabia</p> <p>International Criminal Court issues international arrest warrant for Kony – leader of the LRA</p>
2005	<p>Presidential limits to third term lifted by parliament clearing the way for Museveni to stand for a third term</p> <p>International Court in Hague rules Uganda should compensate DR. Congo for appropriating wealth from the country</p>
2006	<p>President Museveni elected as president for third term in the first multi-party elections held in the country for over 25 years – taking 59% of vote compared to Besigye’s 37%</p> <p>LRA and government sign truce to end conflict in Northern Uganda</p>
2007	Ugandan troops deployed as part of African Union peacekeeping mission in Somalia
2008	Talks with LRA lead to peace agreement being signed in Juba

## APPENDIX 2

### FIELDWORK TIMETABLE

<b>Research Step</b>	<b>Work done</b>	<b>Implications</b>
Iteration 1: <b>Preparation</b>  (April 2003 – May 2005)	Initial literature review and definitional work  Initial theoretical framework	Leading to: initial field work design
Iteration 2: <b>Initial Field Work and            Further Framework            Development</b>  (June 2005 – March 2006)	Interviews correspondence and set up  Field work involving one to one interviews  Interpretive work	Leading to: further development of theoretical framework decision to carry out second field work trip design of field work
Iteration 3: <b>Secondary Field Work</b>  (March - April 2006)	Focus groups correspondence and set up  Field work focus groups Field work corroborative interviews and correspondence Interpretive work	Leading to: further work theory and implications of institutional dynamics interpretive work
Iteration 4: <b>Thesis Development            Work</b>  (May – December 2006)	Preparation and initial drafting of thesis  Review and testing of insights and issues raised and conclusions being drawn	Leading to: thesis drafting and finalisation

### **APPENDIX 3**

#### **INTERVIEWEES AND FOCUS GROUP PARTICIPANTS**

##### **2005 - Initial interviewees**

Professor DJ Bakibinga	Vice Chancellor Makerere University	Legal System, Capabilities Building
Professor John Ddumba-Ssentamu	Makerere University Economic Policy Research Unit	Economics, Micro financing, Institutional Development
Mr Michael Opagi	Uganda Investment Authority	Investment – Private Sector
Mr Robert Waggwa Nsibirwa	Producers and Processors Representative - Eastern African Fine Coffees Association	Farming, Processing, Trading
Mr Boniface Ngarachu	Chief Financial Officer - Uganda Telecom	Corporate Investment, Management and Skill Building
Mr George Nyeko	Bank of Uganda	Economy
Mr David Kabiswa	Senior Manager - NGO	Non – Governmental, Health, Capability Building
Dr Kato Ssebuale	Owner Medical Services Clinic	Health, Local Entrepreneurship
Honourable Mrs Sarah Kiyingi Kyama	MP – Rakai District	Local interests, Women, Agriculture, Poverty and Development

**APPENDIX 3 (CONTINUED)**

**INTERVIEWEES AND FOCUS GROUP PARTICIPANTS**

**2005 - Initial interviewees**

Honourable Mr Martin Wandera	MP – Workers Representative	Local Interests, Poverty, Leadership, Legislation, Decentralisation
Mr Samson Oboro and Mr JP Erongot	Business Partners (The latter former MD Uganda Commercial Bank)	Private Sector, Investment, Banking, Credit and Saving
Mr Bukenya Seguya	Teacher and Lecturer	Skills Development, Public Sector and Management Education

### APPENDIX 3 (CONTINUED)

#### INTERVIEWEES AND FOCUS GROUP PARTICIPANTS

##### 2006 - Focus group participants

<b>Name</b>	<b>Title</b>	<b>Role</b>	<b>Organisation</b>
Ishak Kasule- Lukenge	Managing Director President of the Uganda Coffee Federation	Farmer Exporter Roaster & Processor – Star Café	Kampala Domestic Store Ltd
Frederick Kawuma	Manager / CEO	Manager Farmer / Roaster	Aclaim Africa Limited
Robert Waggwa Nsibirwa	Executive Director	Trade Association	Eastern African Fine Coffees Association <a href="http://www.worldswildestcoffee.com">www.worldswildestcoffee.com</a> <a href="http://www.eafc.org">www.eafc.org</a>
Jack Bigirwa	Chairman	Farmer	National Union of Coffee Agribusiness and Farm Enterprises
Joseph Nkandu	Executive Director	Policy and Regulation	National Union of Coffee Agribusiness and Farm Enterprises
Ezra F Munyambonera	Principle Research Officer	Policy and Regulation	Uganda Coffee Development Authority <a href="http://www.ugandacoffee.org">www.ugandacoffee.org</a>

## **APPENDIX 3 (CONTINUED)**

### **INTERVIEWEES**

#### **2006 - Focus group participants**

<b>Name</b>	<b>Title</b>	<b>Role</b>	<b>Organisation</b>
Julius Madira	Principal Monitoring and Evaluation Officer	Policy and Regulation	Uganda Coffee Development Authority <a href="http://www.ugandacoffee.org">www.ugandacoffee.org</a>
I David Kiwanuka	Manager Quality and Information	Policy and Regulation	Uganda Coffee Development Authority <a href="http://www.ugandacoffee.org">www.ugandacoffee.org</a>
James Kizito Mayanja	Principal Market Analyst	Policy and Regulation	Uganda Coffee Development Authority <a href="http://www.ugandacoffee.org">www.ugandacoffee.org</a>
Paul Mugambwa Sempa	Chairman UCDA Board Chairman Managing Director Victoria Coffees (U) Ltd Honorary Consul of the Federative Republic of Brazil in Uganda	Farmer Policy and Regulation Exporter	Uganda Coffee Development Authority <a href="http://www.ugandacoffee.org">www.ugandacoffee.org</a>  Brazilian Consulate Plot 6 3 <sup>rd</sup> Street Industrial Area P.O. Box 2569 Kampala Uganda

## **APPENDIX 4**

### **INTERVIEW SCHEDULES**

#### **Initial Fieldwork - Interview framework**

##### **1. Interview set up steps:**

- a) Present credentials / introduce self and express thanks for interview.
- b) Confirm purpose and how information is to be used.
- c) Get permission to use recording
- d) Introduce and start interview: “I am studying the history of Uganda's economic development. Uganda has experienced rapid economic growth in recent years - I would like you to tell me about how you have seen and experienced the impact of this growth and change:
  - in the economy and development of the country
  - in the economy and development of the sector in which you work or are primarily economically active
  - in your day to day activities as a citizen and member of the community”

## **2. Interview structure and key question areas:**

### **A. Country development outcomes**

**1. What particular economic and development benefits has the country enjoyed?**

**2. What particular economic and development shortcomings has the country had to face?**

Discussion Prompts - Growth:

- income / poverty,
- investment / lack of investment
- savings / lack of savings,
- expenditure / lack of expenditure,
- imports, exports
- Discussion Prompts - Development:
- employment
- life expectancy
- health and welfare
- education
- equity
- access to services
- civic participation

**3. How does this compare with the past?**

Discussion Prompts - Historical developments:

- Before Independence
- In the 60's 70's
- 80's and 90's

#### **4. What have you noticed as new, different or changing (and how?)**

Discussion Prompts – Evidence and causes of growth and development

- capital available / allocated
- efficient allocation of capital
- efficiency of work
- returns on investment
- costs of doing business
- work force skill and knowledge
- technology
- equity across the country and sectors
- resilience to external shocks
- balance of spending and income
- export and imports
- prices, wages and inflation
- policy responsiveness

#### **5. What factors have led to these changes or differences?**

Discussion Prompts – Influencing factors

- government policies
- decisive implementation of policies
- understanding of the issues - better diagnosis
- aid
- inward investment
- laws and regulations
- the constitution
- civilian security
- norms and customs
- firms -(explore)
- organisations - government and non- government
- markets

- ideas and ideologies
- cultural beliefs and practices

**6. Why has it been possible for these factors to begin to lead to new developments and changes - for example - why have government policies led to a difference today when they may not have in the past?**

Discussion Prompts – Hypotheses discovery / testing

- less of a drag effect on policy making from previous eras and ways of thinking / working
- more effective policy - more effectively enacted
- leadership forced into decisive action
- other policies failed
- consensus and support from public for radical policy
- new organisations laws and regulations supporting and enabling policies and new economic activities
- selecting sound policies and sticking to them
- public influence - directly and indirectly

**7. What has changed within peoples beliefs, habits, expectations or practices over the last few years that may have had an influence on the overall outcomes?**

## **B. Sector development outcomes**

**1. What particular economic and development benefits has the sector you work in enjoyed?**

**2. What particular economic and development shortcomings has the sector you work in had to face?**

Discussion Prompts - Growth:

- income / poverty,
- investment / lack of investment
- savings / lack of savings,
- expenditure / lack of expenditure,
- imports, exports

Discussion Prompts - Development:

- employment
- life expectancy
- health and welfare
- education
- equity
- access to services
- civic participation

**3. How does this compare with the past?**

Discussion Prompts - Historical developments:

- Before Independence
- In the 60's 70's
- 80's and 90's

#### **4. What have you noticed as new, different or changing (and how?)**

Discussion Prompts – Evidence and causes of growth and development

- capital available / allocated
- efficient allocation of capital
- efficiency of work
- returns on investment
- costs of doing business
- work force skill and knowledge
- technology
- equity across the country and sectors
- resilience to external shocks
- balance of spending and income
- export and imports
- prices, wages and inflation
- policy responsiveness

#### **5. What factors have led to these changes or differences?**

Discussion Prompts – Influencing factors

- government policies
- decisive implementation of policies
- understanding of the issues - better diagnosis
- aid
- inward investment
- laws and regulations
- the constitution
- civilian security
- norms and customs
- firms -(explore)

- organisations - government and non- government
- markets
- ideas and ideologies
- cultural beliefs and practices

**6. Why has it been possible for these factors to begin to lead to new developments and changes - for example - why have government policies led to a difference today when they may not have in the past?**

Discussion Prompts – Hypotheses discovery / testing

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- leadership forced into decisive action
- other policies failed
- consensus and support from public for radical policy
- new organisations laws and regulations supporting and enabling policies and new economic activities
- selecting sound policies and sticking to them
- public influence - directly and indirectly

**7. What has changed within peoples beliefs, habits, expectations or practices over the last few years that may have had an influence on the overall outcomes?**

## **APPENDIX 4 (CONTINUED)**

### **INTERVIEW SCHEDULES**

#### **Secondary Field Work: Focus Group Framework**

##### **The Overall Requirement from the Focus Groups**

The specific requirement from the proposed focus groups was to obtain a greater understanding of how the coffee industry has developed directly from those who are involved in it and have links to and relationships with a large number of industry participants at all levels. In particular I was keen to understand the different perspectives of how they viewed and experienced the industry now as well as the changes that have occurred to lead to the current reality. In doing so I was keen to hear from people who had different roles within the industry as well as people with a historical perspective of how things have changed.

##### **Focus Groups Specific Objectives**

- (1) To gain a good understanding of how people in the industry experience the coffee industry today
- (2) To collect some case examples of incidents and episodes that illustrate developments and experiences that have been critical in influencing the path that the industry has developed along
- (3) To understand how people in the industry assess the industry's history as a story (e.g. Do they see it as a success story or not and why?)
- (4) To understand what people see as being the challenge / opportunity for the future and what would help / hinder the industry's ability to respond to the challenges or exploit the opportunities?
- (5) To understand the specific influences that have mattered most in shaping the development of the industry and why (I am particularly interested in hearing individuals stories and experiences which are illustrative of the wider trends and circumstances)

## **Work Done**

Two focus groups and one validation interview as follows:

- An industry participant group - a 3 - 3.5 hour session with a focus group composed of up to 5 individuals who are involved in the industry from the perspective of producers, middlemen, processors or exporters.
- An industry policy makers group – a 3 - 3.5 hour session with a focus group composed of up to 5 individuals who are involved in the industry from the perspective of regulators, cooperative organisers, trade federation members or policy makers
- An expert validation session – a 2 - 3 hour interview with two people who know the industry well - to review and comment on some of the conclusions and comments that are emerging and to fill in and comment on areas they think are missing or were left out

## **Secondary Field Work - Focus Group Facilitated Discussion Areas**

**To gain a good understanding of how people in the industry experience the coffee industry today**

- Significant facts about the industry
- Size
- Participation
- Trends
- Significance
- Development Role

**To understand how people view and feel about the industry**

- Views about the industry
- Positive
- Negative
- Different Perspectives

**To understand the history – what has led to the industry looking like it has today**

- Participants
- Structure
- Institutional Framework
- Attitudes and Beliefs

**To collect some case examples of incidents and episodes that illustrate developments and experiences that have been critical in influencing the path that the industry has developed along**

Examples of critical incidents

**To understand how people in the industry assess their own experience and the industry's history as a story (e.g. Do they see it as a success story or not and why?)**

- Stages of development
- Pre-colonial
- Colonial
- Independence
- Recent

**To understand what people see as being the challenge / opportunity for the future and what would help / hinder the industry's ability to respond to the challenges or exploit the opportunities?**

**To understand how people behave in the industry**

- Behaviour in the industry and what influences it.

**To understand how good is the coffee industry as an example of institutional development and change influencing economic development?**

- Assessment of the coffee experience as a development and growth story

**To understand the specific influences that have mattered most in shaping the development of the industry and why**

- Assessment of the institutional and development challenges

**What has been the role and influence of different types of institutions?**

- Implications – Insights re: Uganda's broader economic development
- Conclusions: Role of institutions in development