

Institutional changes in traditional societies: an example from rural northwest Pakistan

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Abstract

This study was conducted with the aim to analyse institutional changes in agricultural support services (agricultural marketing and credit) in six selected villages in district Peshawar, Pakistan rural Northwest Pakistan. The study finds that the existence of social organizations and institutions has a strong impact on the socioeconomic life of the Pathans living in the area. However, the effects of modernization and the outer-orientation have changed the traditional social production and exchange relationships of people within themselves and with the outer societies. Consequently, the agricultural support institutions have also experienced changes to regulate to the new institutions. The new institutions of agricultural marketing and institutionalized credit are performing specialized functions in the area, thereby, reducing the functions of the unspecific and generalized regulating traditional system. However, it is pertinent to mention that the functional efficiency of the new institutions is not adequate enough to fully replace the former generalized regulating system. Hence, it is concluded that the personalized networks of relationships go parallel to and dominate the specialized functions of the newly emerged formal institutions.

Key words: institutional change, marketing, credit, traditional society.

1. Introduction

In past, the social, economic, and political life of people living in rural areas in the developing countries remained traditional and in symmetrical. The socio-cultural, economic and political interaction of people was characterized by a multi-stranded, and personalized system of relationships. The socio-economic factors contributing to the progress of a society remained, to a larger extent, undisturbed and balanced in the past. They were largely unspecified and more general-oriented regarding their functions and goals. However, the population pressure and the technological change with time led, against the background of the resource endowment, to permanent pressure to change the regulating institutions and the creation of new regulative institutions in the village (HAYAMI and RUTTAN, 1985). This change in the institutions affected on one hand, those areas that have to do with the relations of the people among themselves and to the resource endowment (land tenure, labor organization etc.). On the other hand, the existing institutional regulative instances could no longer adequately fulfill their functions as a result of the new conditions and, therefore, entirely new institutions were

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created by the government such as the development of agricultural supporting institutions.

The government policies for enforcing certain development policy concepts also created pressure to change the institutional regulative instances in the traditional villages. Furthermore, the extreme heterogeneity of the interests in the rural areas led to the introduction of new intensifying technologies. The reasons for this development are more likely to be found in the already previously existing inequalities in the distribution of resources and the resulting differences in the access to the new technologies (unbalanced social distribution modes). The large heterogeneity of interest and the distribution of power among people in a society influence changes in the regulative and supporting institutions. But these institutions do not often undergo sufficient necessary changes, which results inequalities among people within the villages (MANIG, 1992:9).

It has been the case that the already existing rural institutions¹ do not adequately compensate for the development that takes place. Hence they cannot optimally fulfill their functions as they are no longer suitable to the newly emerged situations. Therefore, it is required either to make adjustments in the already existing institutions or to create absolutely new one. Thus societal changes in the traditional systems are in a cyclic form. The long stable regulation of important processes in societies - institutions, affect socio-economic systems in the rural areas and their socio-economic life affects institutions.

Changes in the institutions imply adjustment and change of the old as well as establishment of the new institutions. This adaption, on the part of institutions can takes place from two sides. On one hand, it occurs as a result of the independently and subconsciously step by step changes in existing institutions themselves and on the other hand, the interventions of the state and other stakeholders as part of the development policy by the creation of new institutions. The institutional change itself leads to changes in the conditions which make new adjustments necessary by means of the external factors (permanent feedback processes) etc. Thus institutional change is a permanent transformation process as part of the development. The goal of this is to provide environment for better resource utilization so that to internalize the potentially greater productivity while simultaneously creating a new equilibrium in the social system (MANIG, 1992:9-10).

This study is an attempt to analyse the structural, organizational and specifically, institutional changes that have occurred in agricultural credit and marketing services, and the resulting adjustment strategies in the socio-political institutions in six villages in the Khyber Pakhtunkhwa (KPK) Province, Pakistan. The time for this whole institutional change process is forty years and the study has been conducted in three phases.

In 1967-68, the Institute of Rural Development (Formerly Institute of Foreign Agriculture), University of Goettingen, Germany, conducted an empirical study of

¹ Institutions in this context mean economic, social and political organizations, together with the societal rules that govern their interaction.

selected institutions with the aim to analyze the societal change processes in six selected villages of District Peshawar in KPK, Pakistan. The institutions studied included land tenure system, credit system and rural marketing system along with some institutional influencing factors such as capital formation process in agriculture, off-farm employment, and living conditions of the rural families (MANIG, 1992:5). After 20 years (1986-87), the study was followed-up by another German team from the same Institute together with the Institute of Development Studies (IDS), KPK Agricultural University Peshawar, Pakistan. Changes were analyzed in the previous institutions along with the new inclusions such as farming systems, agricultural extension services, irrigation system, and taxation system.

In 2005-06, three Pakistani scholars (including the principal author) from the Institute of Rural Development, University of Goettingen, conducted the study for the third time. The team was headed by Professor Dr. Dr. Winfried Manig. This study was actually a continuation of the previous studies, where institutional change processes and changes in the structures of the organizations were analysed for a period of almost four decades. In this particular paper, institutional change process is exemplified by changes in agricultural marketing, and agricultural credit systems in the area.

2. Theoretical and Conceptual Framework

2.1. The roots of approach to institutional analysis

Despite the predominance of the neoclassical theory in the twentieth century economics, some attention has been given to examining institutional issues and a substantial body of relevant theory has been developed. The concept of institutions in economics was developed in the early 20th century. The founder 'institutionalists' such as Thorstein Veblen and John R. Commons, and later John Kenneth Galbraith, tended to assume methods of research and writing that were descriptive, anti-formalist, holist, behaviourist, collectivist and fairly interventionist (KAY, 1997:18). As stated by WILLIAMSON (1993) "these old institutionalists employed case study methodologies very heavily but there was a little analytical rigor and no theoretical framework in this school of thought. The Old Institutionalism ultimately failed to develop as a school of thought, perhaps due to failure to develop a research strategy with a clear direction and methodology".

In the 1960s and 1970s a new approach to study the institutions developed, variously referred to as 'New Institutional Economics' (NIE). The contributors used research methodologies derived from neoclassical economics but gave particular attention to transaction costs (CHALLENGER, 2000:5-6). Like its older counterpart, NIE mainly focusses on social, economic, and political institutions that administer everyday life. However, the new institutional economics abjures the holistic approach of the older school. NIE follows strict methodological individualism, always couching its explanations in terms of goals, plans, and actions of individuals. Of course, NIE appreciates social phenomena like corporate culture, organizational memory, and so on (KLEIN, 1999:457).

New Institutional Economics focus on the human interaction at two levels in an economic activity. The first is the development and specification of Institutions. The second level of economic activity involves human interactions within the prevailing institutions, and within and between organizations. The former is about the rules of the game, while the later is about the game itself (PEJOVICH, 1995:30).

2.2. Theoretical background

Before going in details of the theory of institutions, it is worthwhile to delineate some of the concepts relevant to institutional changes that could provide us a clear understanding of the elements in institutional change process. Based on the guideline from this theoretical background, the analytical tools applied are expected to provide us a clear understanding of the organizational and institutional changes in support services to the farmers and the societal change processes in the rural areas in the study region.

2.2.1. Concept and definitions of institution

Different scholars have defined institutions differently according to the scope of their academic and professional fields. For example, NORTH defines institutions as the humanly devised constraints that structure political, economic, and social interaction. They consist of both informal constraints (sanction, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights) (NORTH, 1990:182). Rutherford defines institutions as regularity of behaviour or rule that is generally accepted by members of a social group, which specifies behaviour in specific situations, and which is either self-policed or policed by an external authority (RUTHERFORD, 1994:182).

2.2.2. Formal and informal rules

In societies without well-functioning contract enforcement institutions, individual and companies choose to be more self-sufficient and engage less frequently in complex, non-self-enforcing transactions. There are two types of enforcements that exist in society- formal and informal rules. Formal rules are produced and enforced by organizations such as the state and firm to solve problems of collective action through third-party sanctions, while informal norms arise out of networks and are reinforced by means of ongoing social relationships. (CLAGUE, et. al, 1997: 69). Norms are implicit or explicit rules of expected behavior that embody the interests and preferences of members of a close-knit group or a community (NEE, 1998:86-87).

2.2.3. Institutions and organizations

There has been an interaction between institutions and organizations in the writings of the New Institutional Economics (NIE) that makes the NIE approach relevant for the students of long-run development.

However, it is pertinent to note that there is a clear distinction between organizations and institutions. Institutions may be termed as the rules of the game of the society. In other words, they humanly devised constraints that structure human interaction and composed of formal rules (statute law, common law, regulations), informal constraints

(conventions, norms of behaviour and self-imposed codes of conduct), and enforcement characteristics of both. Contrarily, organizations mean the players. It can be defined as the groups of individuals who work for a common purpose to achieve some specific objectives. They comprise of political bodies, economic bodies, social bodies, and educational bodies (HARRISS, et al. (ed.) 1995:23). There exist some rules and regulations within the organizations as well, which keep different actors bound for their inter-personal as well as professional interactions.

In this project, institutions are defined in comprehensive term which includes prevalent behaviour patterns as well as socio-technical organizations for enforcing those rules. Hence, MANIG (1992:2) defines institutions as “the stable regulatory and organizational principles and rules which govern interaction processes between the people themselves and, to the environment, and which are recognized and sanctioned by the societies in which they are found”.

2.2.4. Institutional change process

Institutions are evolved in two ways; they may be consciously created, or they simply come into existence over-time through societal transformations (NORTH, 1990:4). Nonetheless, the changes in institutions may occur very gradually and smoothly so that one needs to stand back as a historian in order to perceive such adjustments.

Institutional change is an incessant transformation process in societies. In societies, institutional change means change in the principles of regulation and organizations, behavior and interaction patterns. The change usually takes place in the direction of differentiation in the already existing general and unspecific regulations and patterns in specialized modern institutions. At the same time there is an increasing necessity for integration in traditional social systems. Differentiation and integration are, thus, complementary processes (MANIG, 1991:17). The institutional change by itself pushes change in the circumstances, resulting new adjustments obligatory by means of the external factors (MANIG, 1992:5).

Institutional changes could be a major influencing factor for structural change in a certain social system, no matter the speed or the sources of change. If the norms that govern social interactions are changed, then the whole pattern of social interrelationships and social-networks already established by members of the community may change predictably. Changes in informal constraints (norms, conventions, or personal standard honesty, for example) could give the same impact as do changes in the formal rules (laws for example) of society. The changes may occur slowly and sometimes absolutely subconsciously as people's behaviour patterns change with time (economic and social actions) responding to the newly perceived valuation of costs and benefits (NORTH, 1993; DHARMAWAN, 2001:31-32).

Institutional change can arise from either a change in the demands of constituents or a change in the power of the suppliers of institutions –that is, government actors. The demands of constituents could change for a variety of reasons. For example, if the technological change leads to an increase in the value of land we would expect greater pressure on politicians from land claimants to define the rights to land more precisely in

order to prevent dissipation of rents. Alternatively, institutional change could arise from changes in the supply side. As a result of a new election, existing politicians could lose political power to another group, inducing changes in the institutional structure; or existing politicians who represent some constituency could face different incentives as a result of changes in the demands of their constituents (ALSTON and FERRIE, 1996:304-305).

Anyway, institutional change is, in any case, the result of the struggle between various groups that want a better share in the utilization of the resources and income distribution (just to mention one important societal area) and those who try to hinder just that. Such changes takes place over long time and are subject to social costs, and the change occurs over time. A change may takes place only, if the benefits are greater than the disadvantages for the entire group or, as is the rule, if certain groups (in particular, outer-oriented groups) succeed in achieving their objective in the political process. In the long run, this leads to conflicts within the social groups which consequently lead to institutional changes (see MANIG, 1992:5).²

2.2.5. Institutional structures and change processes in KPK

The social framework for activities and life in the rural regions in Pakistan is based on two systems i.e., the organization of social farm household and the traditional village. In the traditional village system, a strong multi-strand personalized network of relation exists that controls the socio-economic as well as political life of the people. The organization of social farm household and the village system influence and control the interaction of people within themselves. Both these system present a large degree of inter-relations between the people where they are inter-dependent on each other. At both system levels, there is a large degree of mutual interdependency between the people. The inter-dependency is however, asymmetrical due to existence of various socio-economic strata in the villages (MANIG, 1992:14-15).

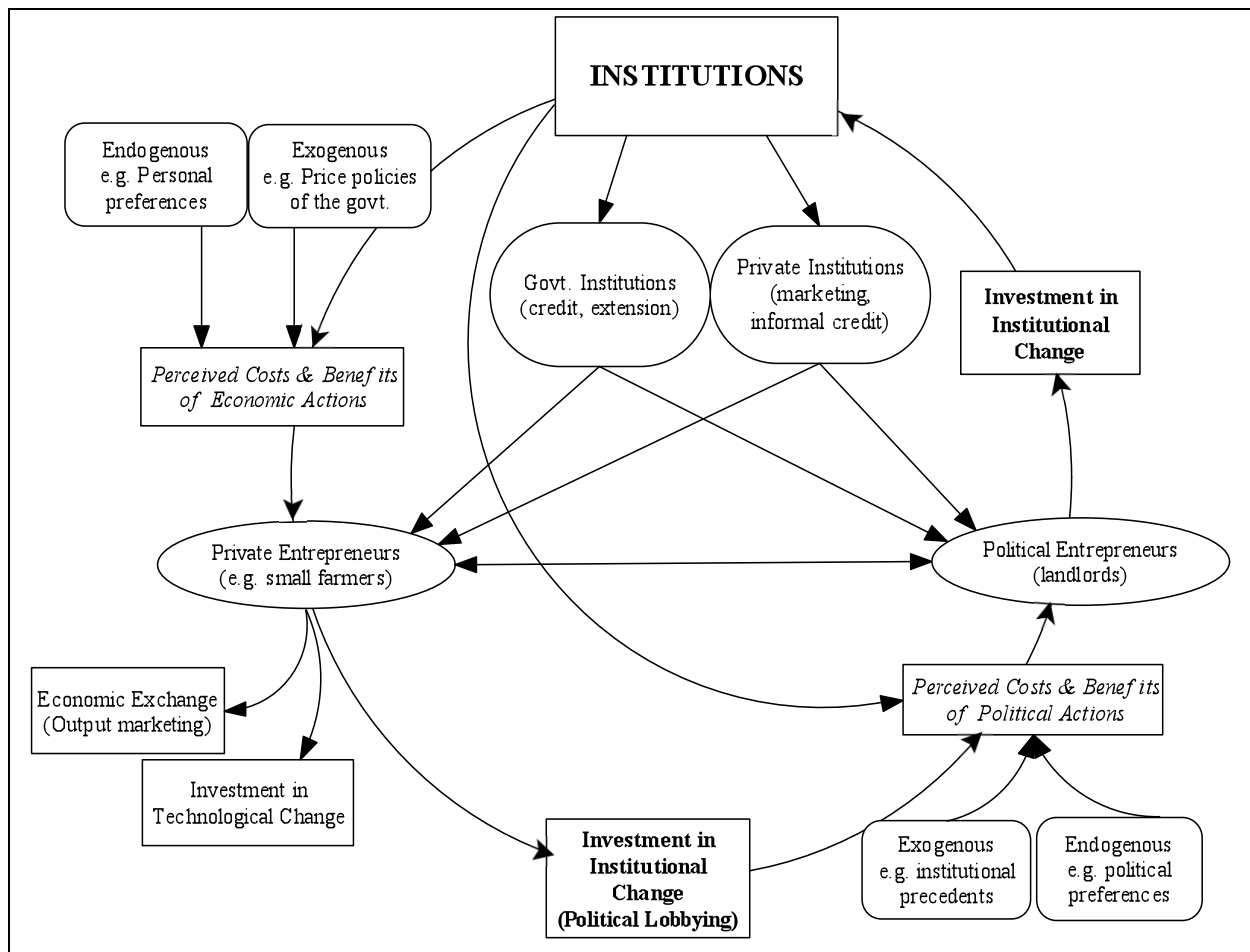
These traditional village systems and their institutional structures in Pathan society were relatively balanced in the past with respect to resource endowment, population growth and the utilized technology etc. Their interaction has been confined in Pukhtoonwali moral code of honour. But this equilibrium has been drastically disrupted in the past decades as a result of external modernization influences and increase in endogenous tensions. It necessitated changes in the social production, distribution and exchange systems and other institutions as a reaction to the changed conditions. Consequently organizations associated with the rural production and exchange system have also changed their mode of services supply to the farmers.

²Therefore, institutional change is not instantaneous, but a complex process, although formal rules may change instantly as the result of political or judicial pronouncements. But change in the informal constraints embodied in customs, traditions, and codes of conduct is much more resistant to deliberate policies (NORTH, 1990). Some trade-off may exist between the costs and the timing of institutional transformation. (ZHANG, 2000:289).

2.2.6. Conceptual framework

The model of institutional change illustrates transformation resulting from the performance of various groups in the society. According to the model, institutional change is a process of interface between two entities; private entrepreneurs and political entrepreneurs. Private entrepreneurs comprise of groups which are subject to institutional change. This group includes small farmers, tenants and less influential strata. The political entrepreneurs are the influential groups having decision making power and include landlords, socio-politically dominant groups and top management of formal lending institutions. In this model, the demand for institutional change may arise from either private or political entrepreneurs when any of these agents perceives a potential for net benefits from investment in institutional change. Such changes in agricultural credit institutions in the research area were analyzed through this study.

Figure 1: The Conceptual Model of Institutional Change



Source: (modified from CHALLEN: 2000: 111; NORTH, 1990)

3. Methodology and research design

The research was carried out in 2005-06 in six selected villages - Dalazak, Kukar, Gulbela, Kochian, Mushtarzai, and Yousafkhel - of district Peshawar in Pakistan. These villages are characterized by diverse socio-economic, agro-ecological and infrastructural situation. Hence, a variety of response was anticipated from the communities in different villages. The research method used for data collection was intensively interview based. A semi-structured questionnaire was used to collect both qualitative and quantitative data. The primary data was collected from the villages, whereas secondary data came from the business-oriented credit institutions. SPSS and STATA were used to analyze the field data.

4. Discussion of Findings

4.1. Change process in traditional societies

This study primarily deals with the structural changes in the traditional societies in the course of four decades. In this study, the process of rural socio-economic structural change may be understood as the increasing effect of modernization and urbanization on the traditional village society and the alteration of the supporting structures that allow the existence of the rural agricultural based socio-economic system. In broader sense, the rural socio-economical change refers to the process of changing shape of the traditional agricultural based rural life from one to another type that is more adapted to the modern world. However, analyzing the overall socio-economic system of an area and the resultant structural changes in the rural institutions is far beyond the scope of this study. This has been a purposive study where only selected socio-economic sectors of the rural economy in the study region have been analyzed. This study provides a bird eye-view of the structural changes and the adjustment processes of selected rural institutions in the area such as agricultural marketing and credit institutions.

4.2. Changes in the marketing relationships

In the process of institutional change as a part of the development process, the characteristics and conditions of the market on the basis of which exchange of farm produces and information takes place is of central importance. On one hand, the societal changes that take place with time which have influence on marketing relations are reflected in the marketing system. On the other hand, marketing system itself has a direct influence on the societal changes that was caused by the marketing ties (ABBOTT, 1986:3). This theoretical background was as launching pad to analyse changes in the marketing system in the research area. Based on the empirical findings of the study, the following depictions are made.

4.2.1. Changes in the marketing scenario

- The number of households involved in marketing at least one or more products in six selected villages increased from 47% in 1986-87 to 57% in 2004-05. An overview of the overall situation during the course of study, it was found that development has taken place in the marketing scenario. The situation has improved and the number of producers has increased in all villages individually

and as a whole. The development in the marketing situation can be linked with the constantly changing economic preferences of the people with time. The farmers' production strategies are changing with time and thus the subsistence based agricultural production system is replaced by the cash cropping system. This behaviour of the farmers comes in the light of the assumption underlined by the rational theory of economic action, which states that economic actions are taken for survival based on the needs (WEBER, 1978) of the people. Another factor for increased number of producers is the recurrent land fragmentation which takes place in the wake of the Islamic law of inheritance. Thus the increase in the number of farms and the cash cropping system by the farmers has led to increase in the overall number of producers in the area.

4.2.2. *Changes in the importance of products:*

- The findings of all studies suggest that the most important products offered for marketing in the area have been gur (brown sugar), sugarcane, and vegetables. The frequency of the producers, however, differs among each village and varied with the time. Gur, which is now marketed mainly from Gulbela and Kochian, has been the most important product in the previous surveys. In 1986-87, 20% of the households supplied gur to the market. The second most important product was vegetable, followed by sugarcane. Milk was important product for marketing only in the village Kukar (MANIG, 1991:112-113). In the present survey, however vegetable producers exceeded in number from the gur producers. 43% of the households reported to supply vegetables to the market. Gur remained the third important product marketed (30%) which was left behind by sugarcane suppliers (42%). It is important to mention here that the percentage only show the frequency of suppliers for each product. It has been observed that gur is still the important marketing product than vegetable by quantity. The most important reason for decrease in gur producers compared with vegetable is high transaction costs involved in gur marketing coupled with the delayed payments by the gur commission agents. However, the owner-operator household categories are freely shifting from one cropping system to another compared to the tenants whose cropping pattern is often controlled³ by the landowners. Therefore, due to more laborious gur making procedure, high transaction costs, the controlled behaviour of the landlords which sometimes cause tenants to get less output from their produce, turned gur producers to preferably sell sugarcane directly to the sugar mill (not controlled by landlords as in the case of gur).

³ In case of the landlords –tenants shared cropping system which is based on 50% share of the crop either in cash or kind, the past surveys reveal that the landlords used to market the entire product (gur) in large quantity with the aim to reduce the transaction costs and get good prices for the larger volume of gur. The traditional, social personal relations were the main driving force for maintaining business relation of the suppliers (landlords in this case) and the commission agents. In the present study, however, the situation was different and the tenants used to market gur by themselves. However it is important to mention that the selection of the commission agents is entirely on the discretion of the landlords and the tenants had to business only with the commission agents specified by the landlords. Nevertheless, this controlled business relation is still highly influenced by the social ties of the commission agents with the tenants as well, as the agents normally visit the tenants in social events like marriages, death ceremonies etc. However, the final cash output of the turnover is not directly paid to the tenants but to the landlords, who, give 50% share to the tenants after deducting all the production and exchange costs from the gross amount.

4.2.3. Changes in marketing channels

- The results of all studies show that the most important channel for marketing agricultural products in the research villages has been commission agent. In 1986-87, 50% of the products were sold through commission agents (MANIG, 1992:113) whereas 53% of the products were sold in this study were through commission agents.
- The second most important channel was direct sale to the consumers in the previous studies but the present study provided a different picture. Sugarcane sale to the sugar factory was the second after commission agents. Nearly 25% of the total products were sold to sugar factories. The products sold to small traders or directly to the consumers counted for a small percentage as did in the previous studies.

4.2.4. Changes in producer markets in Peshawar

- In 1967-68, there existed three wholesale markets in the area, one each for vegetable, gur and fruits. Due to the small, unhygienic situation of the fruit market, a new fruit market was established in the area between the study period of 1967-68 and 1986-87. Thus there were four wholesale markets in Peshawar during 1986-87. But the conditions of the vegetable markets were so poor, unhygienic and insufficient place for a large number of producers, therefore the government established a new vegetable market in 1990s in Peshawar.
- The marketing contracts for vegetable, gur and fruits take place through commission agents. The number of commission agents in all markets is fluctuating with time; however, there are few commission agents who have a permanent hold on every market. The main difference in the dealership of the gur commission agents with commission agents for other products is that the former mostly rely on personal contacts. So the basis for gur commission agents is the strong social relations with the producers (both land owners and tenants). On the other hands, personal and social ties do not seem to have much influence the vegetable sale which is largely influenced by the financial ties.

4.3. Changes in the Structure of Credit System

4.3.1. Volume and distribution of credit

- Granting credits understood as the act of making purchasing power available from one person (the lender) to another person (the borrower), or between groups of people, for a limited period of time. The credit can be granted free of charge, or for interest, or at the cost of other obligations (BERGER, 1986:13 in MANIG, 1991:115). Comparing the current credit situation with the past, it is found that a considerable decrease has occurred in the distribution of credit in the survey region. The results show that 41% of the households attained credit in all villages compared to 60% in 1986-87. There was, however, a higher increase in the volume of credit procured. The average credit sum procured in all villages

was Rs⁴. 47,700 compared to Rs. 11,926 per household in 1986-87. The village-wise distribution of credit exhibited tremendous changes with time. Looking at the overall credit situations in the region, it is found that the distribution of credit among villages has shown some remarkable changes (decrease) with time. The reasons for which, most probably, are the changes in the cropping and marketing preferences of the households within these villages. In the household categories, however, the changes are not that much significantly differentiated. Changes have been observed only in the percentage of tenants' household procuring credit. This also has a significant influence on institutional change. The personalized network of relations, where people dependencies on each other were high in the past has shown slight changes (decrease) with time, as shown by the decrease in the distribution of credit in the research area.

4.3.2. Changes in the utilization of credit

- In the traditional rural areas, it has been observed that the households need credit to finance different on and off-farm activities. The present study reveals that most demand for credit in the villages has been for financing off farm activities like social festivals, household consumption, medical treatment, and off farm investment. Out of the total borrowing households, 23% have used the amount for social festivals (weddings, death ceremonies etc.). The results from the previous studies reveal the same situation (see for example, FIEGE 1995 and MANIG 1991). The pressure from the social system and Pukhtoon code of honour, which prevails specifically in the area, binds the people to perform different festivals in accordance with the social obligations of their society. For this very purpose, a household, whether rich or poor, has to celebrate the social activities at nominal social standards at the least. In case of no money available for such festivals, they take up credit from friends and relatives to finance such activities to keep up their social status. These findings suggest that the effectiveness of informal credits, especially from friends and relatives are still high. The prevailing social ties are the basis for this effectiveness. As the social festivities are frequently celebrated, therefore, large number of transactions comes for financing such activities. Most transactions occur in the small or medium range of amount. Thus social festivities maintain the existence of the informal credit institution in the area through frequent transactions of smaller amounts. In contrarily, large amount of the informal credit is used for financing the off-farm activities which are in turn the income generating sources for the household. This shows that informal credit, on one hand maintains the traditional and social heritage of the society and on the other hand, provides them a platform to settle new livelihood strategies which changes the social and production relations among the people in the long run (ZUBERI, 1983:167-184). The amount borrowed from formal institutions is, to large extent used for farm purposes to finance inputs and machinery.

4.3.3. Changes in the credit sources

⁴ Means Pakistani Rupees. 1 Euro is equal to 121 Rupees (September, 2011 exchange rate).

- It has been observed; from all studies that large proportion of credit procurement comes from the informal credit sources. In the six villages, 96% of the credit transactions are procured from the informal sources. Almost the same percentage was recorded in the previous study (95%). Then in the informal sources, the most important sub-categories are friends and relatives; these two categories constitute 77% of the total credit transactions in the area. The second most important source of credit is private acquaintances. 27% of the credit came from this source in the past survey where in the present survey, it accounted for only 17%. Formal credit source, like the previous studies, contributed only 4% to the total credit borrowing.

5. Conclusions

Based on the findings of the study in the selected villages, it is generally concluded that in all Pathan dominated villages of KPK, institutions have constantly incurred changes to adjust to the changing conditions or the changes induced in the structures of the agricultural support institutions. It is important to note that no considerable qualitative institutional changes took place in the fundamental societal regulative mechanisms. However, considerable changes have taken place in the quantitative significance of the specific institutions. The entire institutional framework in the study region, however, changed slowly as a result of the permanent adjustment and adaption processes.

In addition to the traditional regulative system in the Pathan society, the development of the specialized institutions such as farmer's supported institutions also took place in the area. As a result of the development of the new institutions, the independence of the traditional Pathan villages decreased by increased integration into outer societies/economies. The new institutions of agricultural marketing and formal credit are performing their specific functions in the area, thereby, reducing the functions of the unspecific regulating system. However, it is important to mention that the functional efficiency of these new institutions is not adequate enough to fully replace the former general regulating system. Therefore, it is concluded on the basis of the findings of this study, that the personalized networks of relations go parallel to and dominate the specialized functions of the newly emerged formal institutions.

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