Institutional capital: A new analytical framework on theory and actions for economic development

Paul, Bénédique

LASER - University of Montpellier 1

2 June 2009

Institutional capital:

A new analytical framework on theory and actions for economic development[1]

By

Bénédique PAUL,
benedique.paul@etu.univ-montp1.fr
PhD Student under Joint Supervisions scheme between:
University of Montpellier I, France
and
Haiti's State University

Summary:

Institutions are the first collective resources accumulated in any society. In this case, every society is instituted. These resources must be taken in account to ameliorate the socioeconomic conditions of the members of it. Not only for economic growth, but over all for a sustainable economic development, institutions are fundamental. Furthermore, some specific institutions present the shown properties of the capital. That is why we use the institutional capital approach to analyze the importance of such institutions in economic development theories and practices. The main conclusions of this paper are explained in the promises of this notion for future researches on implemented actions and theories on economic development, mainly in developing countries. Our work in progress shows that institutional capital is determinant for success and efficiency in microfinancial actions. The conclusions of this research are also useful to deepen theories on economic growth, organizations, and overall on Institutional Economics.

Keywords: institutions, institutional capital, sustainable economic development.

JEL Classification Codes: A13, B52, O17, Q01.

---

[1] This paper is prepared to be presented for the first time at the 7th Development Dialogue, at the International Institute of Social Studies (ISS). This conference will take place from June, 2-3, 2009, in The Hague, The Netherlands. More information is available at http://www.iss.nl/Conferences-Public-Debates/Development-Dialogue/7th-Development-Dialogue.

Introduction: Literature on institutions and development

The literature on economic development has recently addressed institutions. Nevertheless, practitioners and theorists are always agreeing with the fact that development is more than economic growth (Greenwood and Holt, 2008). Similarly, the institutionalism of Clarence Ayres, Gunnar Myrdal and John Kenneth Galbraith pioneered this idea (ibid., p. 446). Economic development occurs when there is a broadly base increase in the standard of living (or quality of life) (ibid.). Daphne T. Greenwood and Richard P. F. Holt go further and put it: "Development is related to the new 'states of mind' that come with changing knowledge and its implementation through technology" (ibid.). These "new states of mind" are expressed through what Veblen called "habits" or "mental habits". These are directly related to institutions. Because institutions become operational when they are "embedded in prevalent habits of though and behaviour" (Hodgson, p. 106, 2007).

In the continuation of Veblen's concept of "habit of thought" (1908 [1914], 1922), Greenwood and Holt argue "this describes the broadly accepted knowledge within a culture that Veblen terms an "intangible asset" belonging to the community and which serves as the basis for cumulative economic change" (ibid.). We assume that this description is the namely meaning of institutions. "Institutions matter both in generating technological change and in people's ability to realize the potential gains from such change", David Feeny says (1988). Where Kenneth Boulding, in *The Economics of the Coming Spaceship* (1966), stated that there are three main factors: matter, energy and knowledge; Feeny argues the existence of a fourth pillar that is institutions (Feeny, 1988, p. 159). That is why, "explanations of the factors accounting for growth and development that omit institutions and institutional change are incomplete and unsatisfactory" (Feeny, 1988, p. 160).

Having this in mind, and knowing that, as ecological economists argue, the true economic development needs to be sustainable (Greenwood and Holt, 2008, p. 446), we use the institutional change approach to develop the concept of "institutional capital". After a brief argumentation of the scientific validity of the concept, we address its usefulness for theories and strategies on economic development.

We state that development implies implementation of five forms of capital: natural capital, human capital, social capital and institutional capital. We know very few about this one. In this article, we argue some implications of this resource for economic agents (individuals and/or organizations). Then, we discuss the linking between the five forms of the capital, before concluding with the case study of microfinance, a new economic development strategy adopted in Haiti.

1. The primacy of institutions: a survey of the literature

The literature on development has until recently omitted the role of institutions. However, early in the twentieth century, an important aspect of institutionalism is its emphasis on the central role of people (Greenwood and Holt, 2008, p. 447). Those are the creators of institutions as Douglass Cecil North defines them: institutions are "the human devised constraints that shape human interaction" (North, 1990). North supports the constraining aspect of institutions. This is the idea he developed about ten years before: "institutions provide the framework within which human beings interact" (North, 1981, 201).

Actually, no economist can neglect the findings of institutionalism (Old and New Institutional Economics). At least, they can discuss them. And by doing this, better understandings could be found to explain economic growth and development process. Because, “human ingenuity and creativity is the foundation for economic development” (Greenwood and Holt, 2008, p. 449). This is implemented in instituted society within an institutional context.

Addressing the question of the development determinants, Dani Rodrik and Arvind Subramanian (2003) find that institutions are an endogenous determinant. The authors conclude on “the primacy of institutions” over geography, integration and income level, in their explanations on what cause economic development. They enumerate three functions of institutions that conciliate development with sustainability. The three kinds of institutions they underlined are market-creating ones: market regulating, market stabilizing, and legitimizing. Even though, Rodrik and Subramanian analysis was at a macrolevel, its conclusion is worth considering. It sets out that “...institutions are indeed the deep determinants of development...” (p. 34, 2003).

Despite all the recent development on institutional theory (recognition has been magnified by the Nobel committee), we can note that the broad institutional analysts consider institutions mainly as constraints. Indeed, they are. But, the definition of North has been taken in one way. In 1991, North wrote “Institutions are the humanly devised constraints that structure political, economic and social interactions” (North, 1991, p. 97). This constraining view has been extended. But for North, “institutions are the rules of the game” (...). He states: “institutions have been devised by human beings to create order and to reduce uncertainty in exchange” (1991, p. 97). This statement explicit the field of analysis that is exchange or intermediation. In the same article, named *Institutions,* North go further in precision to say: “institutions provide the incentive structure of an economy” (ibid.). This breaks the one-side view of institutions. We are going to mix North’s view with an original theoretical development provided by management theorists called Resourced-Based View (RBV).

2. Institutions as resources for economic development : mixing North’s view and the RBV approach

Since Douglass North’s publications establishing institutions as constraints and/or incentives for human actions, the perception about institutions evolved. North himself recognizes the evolution of institutions (1991), that is why he talks more often about “institutional change”. The actual trend perceives less and less institutions as constraints. The analytical framework called “Resource-Based View” provided by the theorists of management appears very usefully. This approach makes it possible to apprehend institutions like resources for individuals, in organizations.

The theorists of the Resource-Bases View (RBV) propose to answer a basic question “how the organizations (firms) obtain and maintain comparative advantages?” They supports that the answer to this question is in the fact of the possession of certain key resources, like values, barriers to duplication and appropriability (Fahy and Alan, 1999). It is Christine Oliver who, in *Sustainable competitive advantage: Combining institutional and resource-based views* (1997), integrated explicitly the institutions in this vision. Her analysis has been continued by Bresser and Millonig (2003). But one fundamental question is “what is necessary to understand by resource?”

Caves[2] (1980) provided us an interesting definition of the concept of resource. His definition was been reproduced by Wernerfelt (1984). According to Caves, in the case of the organization, “a firm’s resources at a given time could be defined as those (tangible or intangible) assets which are tied semipermanently to the firm” (p. 172, 1984). Based on this conception, Wernerfelt admits that elements such as “trade contacts”, “efficient procedures”, “capital”, etc., are resources for the organization (ibid.). His observations, as developed after by the continuators of the RBV, enabled him to note that “in some cases, a holder of a resource is able to maintain a position relative *vis-a-vis* other holders and third persons, as long as these act rationally” (ibid p. 173). From there, Bresser and Millonig (2003) develop the idea of comparative advantages.

Generally, a resource is defined as “Something that can provide satisfaction to a need, what can improve a situation” (Le Robert, 1st edition, 1973). In the Dictionary of contemporary economics and the principal political and social facts, Lakehal (2002) puts this: “a resource is a means of subsistence for a person, a family or a group of people”. The concept of resource is related to a utilitarian approach of the institutions. Thus, institutions can make it possible to improve the production process, consumption, interactions, exchanges, etc. Consequently, we can consider its accumulation process (already presented by North (2005, p. 20). The institutional dis-accumulation carried out within the framework of the institutional change can also considered. This conception of institutions enables us to consider the economic utility of the resource.

In our case, we define a resource as a factor allowing an economic agent to satisfy a need or to achieve an objective. It is for this reason an institution can be regarded as a resource. And when this need or this objective is of economic order (like consumption, production, investment, exchange or trade…), the institution in question can be considered as an economic resource. It is in this order of idea that we will take institutions as economic resources, with characteristics of capital.

It stays to demonstrate and illustrate this statement. Indeed, as announced by Loury (1977, 1987) and quoted by James Coleman (1990, p. 300), the factors making it possible for the actors obtain their objectives are a resource for them. They are for example the institutions making it possible to reduce the costs of transaction within the context of the economic exchanges. Indeed, by shaping the institutions structuring their interactions, the actors - under the assumption of their rationality - seek the order, unit, simplify their relations. The demonstration of Michael Lounsbury and Mary Ann Glynn (2001) for the contractors also fits in this line. On a broader level, North (1990) showed that the institutions have a particular importance in the economic development of the nations. It is for this reason that the institutions were arranged among the assets that are required for a nation’s economic development. What justifies the name of “institutional capital”, this concept deserves to be defined and demonstrated.

3. Institutions as form of capital : Underlining the properties of economic institutions

In this paper, we are addressing the capital in its economic definition. For it is logical to clarify the way we are using the term “economic institutions”.

3.1. Economic institutions

[2] Cited by Birger Wernerfelt (p. 172, 1984).

Dawood Mamoon (2007), when he was analyzing the relations between "good institutions" and inequality, called economic institutions those that "include state effectiveness at collecting taxes or other forms of government revenue, states ability to create, deliver and maintain vital national infrastructure, states ability to respond effectively to domestic economic problems, independence of government economic policies from pressure from special interest groups, trade and foreign exchange system, competition policy, privatisation, banking reform and interest rate liberalisation, securities market and non bank financial institutions, etc." (ibid., p. 9-10). This acception, despite it is functional for Mamoon studies on trade, doesn't take in account the institutional arrangements drawn by non-governmental organizations.

In the New Institutional Economics, economic institutions relate to market institutions. Sometimes, they are taken in confusion with some kinds of organizations. But, they are considered as instruments to reduce transaction costs.

As we are using it here, economic institutions relate directly to institutional capital. They are institutions that structure economic relations (production and exchanges). They contribute to reduce transaction costs (including information searching costs, time need to make exchanges). Now, it is necessary to explain what "institutional capital" stands for, before analyzing its usefulness in development process.

3.2. What is institutional capital?

One of the first efforts to connect this notion to the NIE was recently initiated by Rudi K.F. Bresser and Klemens Millonig (2003). They propose a very general definition of the institutional capital. For the two theorists of management, the institutional capital is defined as "the specific conditions in an organization's internal and external institutional context that allow the formation of competitive advantage" (ibid., p. 229). For these authors, the institution can be defined as "behavioral expectations that can be sanctioned if violated" (ibid., p. 221). Knowing that, for them, the institution has three components in interaction: cognitive, normative and regulative (ibid., p. 226). They govern economic agents' interactions. This point of view is acceptable, but we consider that it is too restricted (to competitive advantage) and it is only functional. We will show that institutional capital allows status (thus specific or competitive advantage) to its holder. But it is more than this.

Michel Garrabé (2007) proposed a more descriptive definition of the concept, in a contribution to MED-TEMPUS training program implemented by the International Centre of the High Mediterranean Agronomic Studies. In this contribution, the term institutional capital is understood as "the whole of the formal and abstract institutions which constitute the inciting structure organizing the relations between individuals or organizations, within the process of economic and social production" (Garrabé, p. 127, 2007). This definition is closer to the term of our apprehension because it seems to be useful within a framework of an empirical study. Despite of that, Garrabé's definition is larger than the precedent, even if he presented the institutional capital as a kind of equipment the production of which would be largely generated by the organizations of the social economy.

More recently, Joost Platje (2008) define institutional capital as "institutions, institutional governance and governance structures that reduce uncertainty, stimulate adaptative efficiency (i.e. the ability of a system to adapt to changing conditions) and stimulates the functioning of the allocation system and sustainable production and consumption patterns" (Platje, p 145, 2008). But we denote confusion in this definition. Because Platje's conception of "institutional governance" concerns the judge of the game. He states that "institutional governance" concerns "organizations that interpret and enforce the rules of the game such as the judiciary, police, government and government agencies" (ibid.). This conception of institutional capital is in opposition to our statement. It is outside the *Northian* perspective of institutions. For institutional and organizational structure (Ahrens and Jünemann, 2009) are obviously different.

The institutional capital, as we conceive it, is in the prolongation of the neo-institutionalism. We define institutional capital as the asset composed by the written and unwritten institutions that affect economic activities. It concerns the institutions that are directly or indirectly productive. Ahrens and Jünemann (2009) talk about these productive institutions in their work on "adaptive efficiency" of institutions. It can usefully provide agents (individuals or organizations) with economic advantages. Generally, its role is to structure economic relations between individuals or organizations through its inciting or constraining influences. Functionally, it is a potential for economic development. It is considered as a resource whose detention provides economic advantages. Those are called "competitive advantages" (Bresser and Millonig, 2003), "position barriers" (Wernerfelt, 1984). This gives it an important implication in economics and organizational theory. We are agreeing with Garrabé (opus cit.) when he says "the institutional capital represents the essence of the inciting equipment making possible the accumulation of other forms of capital". We illustrate in the table 1 the main partition of the institutional environment highlighting the components of the institutional capital.

Table n° 1 : Components and et delimitations of institutional capital

<table>
<tr><td colspan="4">Institutional Environnement</td></tr>
<tr><td colspan="2">Other institutional resources[3]</td><td colspan="2">institutional Capital</td></tr>
<tr><td>Written Institutions</td><td>Unwritten Institutions</td><td>Written Institutions</td><td>Unwritten Institutions</td></tr>
<tr><td colspan="2">Rules or institutions with
any direct relation economic interactions</td><td colspan="2">Rules or institutions
with direct relation economic interactions</td></tr>
</table>

Source: the Author.

The restrictions expressed in table n°1 will allow us to better determine the properties of the institutional capital. For example, the rules or social norms defining the hierarchical system compared to the age within the families in certain societies are thus excluded to our definition of institutional capital. These restrictions permit us to go beyond the duality formal/informal usually taken as basic in the institutions analysis while remaining within framework of the economic assets. According to the table 1, one can consider that the institutional capital is an element of the environment or institutional framework. But overall, this new concept must be analysed in the light of the properties of any types of capital.

3.3. Theoretical justification of the scientific validity of institutional capital

What characteristics do confer to a resource the properties of a capital? This is to such basic but fundamental question we intend to carry an answer for the institutional capital. To answer this question, we adopt the approach used by James Coleman (1988), to show that the social capital was a particular form of capital. In Coleman's approach, a resource that presents the

[3] This category may include all of those institutions that are not taken in account in the definition of institutional capital, like familial institutions, morals, morals, deontology in some professions not having any directly relation to the economic exchanges, etc.

properties of any stock of capital is capital. These properties are mainly: properties of profitability, accumulation, fungibility and depreciation. We will analyze these properties for the case of institutional capital, since they had never been refuted.

Methodologically, to be capital, only the properties of profitability, accumulation and durability could be regarded as necessary and sufficient conditions. With these last, we can add the fact of being a factor of production. The properties like obsolescence, fungibility, productivity, the capacity to confer a social status to the holder, are necessary only for the economic analysis carried out under a very specific view. As for properties like the transferability, tangibility or intangibility, they could only be additional. The whole of the current properties of the capital could be summarized in this table n° 2.

Table n° 2: Capital properties by authors and by degree of importance

Authors/ Properties	**Leon WALRAS**	**James COLEMAN**	**Adam SMITH**	**Other**
necessary and sufficient properties	Durability	Accumulation	Capital = what permit to gain profit.	
	Profitability	Profitability		
	Factor of Production	—		Factor of Production[4]
Sufficient properties	Richness (social)	Depreciation		Productivity
		Fungibility		Social relation[5]
Neither necessary nor sufficient properties	Materiality	Intangibility		Transferability
				Divisibility

Source: the Author.

We will analyze here only the most important properties for the demonstration. These are the necessary and sufficient properties quoted in table 2.

1) Factor of production

The economic institutions can be considered as factors of production, by assimilation. Let's take by example the case for the institutions that concern the production of exchangeable goods. We position in a context where the demand determines the supply and not the reverse, and where consumers benefit perfect information and have the capacity to check the authenticity of the good put on the market. In other words, the production will be regarded as such and will have a commercial value if and only if it is carried out according to rules/institutions defined and known in advance. Ceteris paribus, if the producer of the goods in question (a very good example is the case of the organic products) does not take account of the whole of the institutions that concern his production process, the output of its activity could not be regarded as an exchangeable production.

[4] This conception of the capital as factor of production is in conformity with the neo-classic view of capital. We can find the same view in publications of Walras, J.-B. Clark, Solow, etc. (Beitone et al., 2007, p. 42-43).

[5] Marx's view of the capital. For Marx, in the Capital (1867), "instead of being a thing, the capital is a social relationship between the people" (the capital, op.cit, chapter XXXII, volume 3, p. 207).

Then institutions form part of the production process. Their absence or the fact that they are not taken into account cancels all the production's value. The production while being material arises then as being an incorporation of specific institutions. These last can then be assimilated as factors of production, and consequently as capital. Moreover, they are not substitutable by any other factor, which authorizes to regard them as a form of differentiated capital. Their taking in account implies some costs and justifies a higher price for de products.

2) The profitability

Profitability is the relationship between a result obtained and the means in capital implemented to obtain it. We are using this term here to signify possibility to generate a surplus or an advantage. We take the case of two organizations, located in a fluid context of circulation of information at low costs, maintaining between them important economic exchanges. They have the choice to define in advance the rules of the exchange or on the contrary to engage there without preliminary negotiation fixing the rights and the duties of each one. In the last case, the possible costs being able to be caused by litigations can be very high. However a few hours of negotiation would be enough to establish and be appropriate of the institutions governing the exchanges. If one considers the opportunity cost of the development of the institutional framework of exchange, the option consisting in negotiating beforehand is more profitable. It is it more than one possible recourse to progressive negotiations or a third in case with litigation. The difference in costs with the first case is due to the institutions.

Even when its production is regarded as intentional and is justified by a certain interest (that related to the application of the norms/sanctions), the comparison between the investment costs and the advantages provided make it possible to consider a profit. The existence of the institutional capital in the interaction context justifies the superiority of the economic advantages provided by this one over the implementation costs (Kaji, 1998). The advantages provided by the institutional capital accumulated in the preceding framework will largely exceed the effort agreed [cost in time and the value of this one] to constitute it and put it in action. It is this hopeful profitability which justifies the creation of institutions within a framework of interactions in a democratic atmosphere.

The institutional capital thus makes it possible to reduce the costs of information and uncertainty. Thus, it brings profit to the economic agents in interaction. It also allows more effective economic exchanges (except possibly from the point of view of the opportunist actor). With this property, the institutional capital is presented in the form of an input reducing the production costs. In this case, the profitability of capital institutional seems to be the least refutable condition. For example, like in the case of the legislative rules analyzed by Michel Garrabé (2007), one can show that the installation costs of certain rules are quite lower than the costs associated with the risks of errors or litigations which can involve of the obsolete rules.

When we return to the economic activity leading to the biological production, the incorporation of specific institutions defined in advance allows and justifies a higher selling price for the products put on the market. This profitability seems to be one of the elements (being added to the awakening of the climatic risks) which justify the expansion of the current organic production sector.

3) The durability

The concept of durability, in the case of an economic asset, can be understood as its aptitude to persist in time. It is used here to mean the capacity of a factor of production to survive the production process. It doesn't disappear or consumed during the production process. This is the nature of institutions. They are created to be durable while ensuring a time-saver and procedures. Of course, as we will see it thereafter, they are called to evolve/move. From here comes the idea of North's "path-dependency", identifying institutional permanence inside the change, consequently institutional capital accumulation is possible because this accumulation will continue as long as a social crisis did not come to oblige to change actual institutions.

If we restrain our context at the dimension of the production process or exchanges, the institutional capital preserves its durability. Indeed, all things being equal, the institutions defined in advance to govern the process are not modified at the exit of this. In the case of the biological production, it is the stability of the preliminary institutions which ensure the authenticity and consequently the quality of the products to be exchanged.

4) The accumulation

The accumulation of the capital, as stated by Marx in 1867, is the permanent reintroduction of the added-value in the circuit of production in order to form new capital. But the reproduction of the system requires its widening, and the accumulative tendency makes possible the overproduction crises. It is not different for the production process of the institutional capital, which involves an accumulation in time. In their interactions, the economic actors devise new institutions. If the new institutions do not enter in contradiction with the old ones, there is accumulation. Garrabé (2007) analyzed the accumulation of the legislative rules and arrived at the census of four forms of accumulation: institutional imitation, convergence or institutional harmonization, institutional innovation, and transformation of informal into formal. This last form, usually progressive, is what we describe as "progressive institutions codification". It represents a very important form of accumulation of institutional capital. In much the same way, a good institutional reform participates in institutional accumulation.

The institutionalization process can sometimes contain the dis-institutionalization side whose most radical forms, according to Hodgson (2006), can be observed during invasions and occupations of a society. Accumulation or the dis-accumulation can come from an individual as well as an institutional convergence. It can be voluntary or negotiated (for example within the space of interactions) or imposed (it is the case in a dictatorship). Even in period of stability, accelerate institutional capital accumulation can turn into institutional inflation. In such case, too many institutions without operational link between them can become contradictory.

Institutionalization as process which can be heard as the accumulation of the institutional capital is discussed by several sociologists. Their contributions make it possible to distinguish some in several phases. Rene Loureau, in a publication in 1970 on the Institutional Analysis, distinguished three moments or three phases which we can use to study the institutional capital. Initially, it distinguishes the "instituted" who is pre-established institution integrated by the people finally seem normal to them. The "instituted" becomes "unconscious" and model what Pierre Bourdieu (1972) will call the "habitus" or "habit" for Geoffrey Hodgson (2006). With the appearance of social strains, or crisis in other words, a social change is announced and with time, the individuals can manage to create new institutions, then comes the moment for "instituting". Therefore during this challenge, if the instituting movement manages to win the bet, it will have there a certain stabilization of new norms, rules, in manner of acting and of thinking which, while crystallizing, makes it possible to reach a new stage of stability. This last moment is "institutionalization" process itself.

Institutionalization in general is thus a periodic process with more or less long run. For this reason the speed of accumulation can appear stronger in short-term. The process contains change and continuity; one does not set out again to zero. The present system is the result of a past. The institutional capital accumulates slowly in time, except in institutional crisis situation. The evolution of institutional stock is done by successive contributions (incrementally) North (1991). Whereas, the evolution even of the institutions supposes a mobilization of a surplus generated by their mobilization.

One could also approach accumulation under stock point of view. This means an increase in the number of the institutions that would correspond to an accumulation of institutional capital. This moment, through a process of organisational training, the actors work out more and more institutions to govern their interactions without necessarily giving up the former institutions.

Lastly, if we conceive the accumulation of institutional capital in terms of effectiveness, a useful criterion would be the value of stock. Consequently, an accumulation would not correspond inevitably to a modification constitutive of the stock of the institutions. The adaptation and the improvement of the institutions with the needs for the exchange contribute also to institutional capital accumulation. If we refer to the biological production in a general way, since the appearance of this sector, the institutional elements regularly accumulated, without notable contradiction.

These four conditions or properties are satisfied and are enough to show that the institutions structuring economic relations between agents or providing advantages to them can be called capital institutional. The previous justification joined perfectly the definition of Lakehal (2006) in the dictionary of contemporary economics remembering that the capital is "an economic asset having at least three characteristics: it survives a cycle of production, it provides a regular flow of incomes to its holder, and enables him to sit a social status through the economic capacity which it represents" (ibid, p. 43).

Other properties could be discussed, like the obsolescence of the institutional capital caused by development of new more relevant institutions. We could consider its localization in the space and the time i.e. it is the product of the social innovation of the individuals actors of social space considered and is not irremovable from where limitations of the institutional imitation (Bajenaru, 2004). The institutions are worked out for the needs for the current economic processes and nothing guarantees their presence in the future, because certain new rules make disappear from others. Through their appropriation by individuals who integrate them in their habit of though and their habit of behaviour[6], institutional capital is more or less fungible in human capital. Furthermore, institutional capital has its proper characteristics.

Characteristics of Institutional capital

As we come to discuss it, institutional capital presents some main characteristics that allow it to be called capital. Certain determining characteristics of the nature of the institutional capital are summarized in following:

[6] For more explanations on « habit of though » and « habit of behavior », see Hodgson's article *Reclaiming habit for institutional economics* (2004).

Table n° 3: Properties of institutional capital

Properties typology	Institutional capital
Essential properties	Resource collective
	Confer a status to its holder
	Factor of Production/of Development
	Is productive and durable
	Space-time localization
Other properties	Limited appropriability by individuals
	Slow and long process of accumulation
	Have perverse effects related to its excessive accumulation: "too many rules kill the rule"
	It is linked with the other forms of the capital, and improves and facilitates their accumulation

Source: the Author.

4. Institutional capital as an asset to implement development actions

Development implies utilization of several forms of the capital. Garrabé (2008) coined this pertinent idea in his paper on institutional capital and its relation with the development process. Garrabé's statement is to be taken in accordance with Ashby and Carney (1999) considerations. Ashby and Carney differentiate six forms of the capital that are: physical capital, natural capital, financial capital, human capital, social capital and institutional capital. Except for institutional capital, a great use has been made for these forms of the capital. Nevertheless, we are in agreement with Ashby and Carney's enumeration under some precisions. We are using physical capital to refer to technical capital (tools, equipments, etc.). Then, physical and natural capital could considered as the most tangible form of the capital. We use the concept "financial capital" in its Keynesian meaning i.e. stocks of money. The concept "social capital" has been use largely in "catch-all" expression. We adopt the Zenou's definition of social capital. Social capital is an "interactional cooperative potential" (Zenou, 2009). Taking social capital as relations, we can go further to develop institutional capital as the set of institutions that give forms and repeatability to theses relations. And all these assets are required for economic development.

In order to develop the relation between institutional capital and development strategies, we are going to present first the linking between these capitals that generate development.

4.1. Relations between institutional and the others forms of the capital

As development process imply a linked use of several resources or capital, relations between these are important for the analyst. We consider here six forms of the capital, as fundamental for economic development and economic theory. In his 1998 publication, Carney reported by Katherine Warner in a FAO's publication coined five forms of capital. When he was analyzing the forms of capital required for sustainable livelihoods, Carney retained theses forms of capital: natural, physical, financial, human and social. He didn't recognize institutional form. Although one year later, in *Lessons from early experience*, a publication with Ashby, we can read: "Sustainability of livelihoods rests on several dimensions - environmental, economic, social and institutional" (Ashby & Carney, 1999). We then are in agreement with the authors addressing capital in its six forms: physical capital, natural capital, financial capital, human capital, social capital and institutional capital. But we underline rapidly some main links between them. In order to simplify our standings, we consider together physical capital and natural capital, for they are both the most tangible forms of the capital. It may refer to technical capital.

Institutional capital is a basis for social capital accumulation. It structures relations in which individuals work out their social capital. Institutional capital participates in limitations of what Portes and Landolt call « the downside of social capital » (Portes and Landolt, 1996). It provides conditions for repeatability in exchanges and social relations. Conversely, social capital makes possible institutional capital accumulation, by providing a social framework for this. Social capital is ingredient to create organizations. Thus, institutional and organizational structure are close concept.

There are strong links between human and institutional capital. Ahrens and Jünemann (2009) put it "For it the incentives resulting from the overall institutional structure that guide learning processes and the emergence of tacit knowledge". Institutions pass in the individual's habits and make part of human knowledge. That is why individuals are "instituted". "But, human capital does not stand alone either" declare Fedderke & Luiz (2008). Mutual relations exist between human and institutional capital. Ahrens and Jünemann (2009) argue "the underlying process of acquiring knowledge will direct individuals and organizations gradually to create new institutional arrangements". It involves institutional capital accumulation. It determines quality of institutions. In the other hand, institutional reform and institutional change are driven by people (Acemoglu and Robinson, 2008; Ahrens and Jünemann, 2009).

Institutional capital is important for financial capital stocks and flows. Globally, institutional capital is basic for economic capital (financial and physical or natural) transaction and creation. It is a key to access financial resources. Market institutions, like price, are determinant for transactions. Likewise, financial capital is needed for investment in institutional capital drawing. In this time of financial crisis, more strong links are called up between financial capital and institutional capital.

Either for Marx (1867) or Hilferding (1981), financial or not, capital comports an abstract dimension. For whatever other form of the capital, institutions are important because capital is relation. And relations imply rules. That is why institutional and organizational structures are so closed variable to understand economic growth and development (Ahrens and Jünemann, 2009).

Once the theoretical and scientific validity of the notion of institutional capital is demonstrated, it is important to analyze of what it's theoretical and empirical fruitfulness. The next part is dedicated to some core implications of this notion and asset. Then, institutional capital is presented as heuristic for future research in several branches of economic theories.

4.2. Institutional capital a tool to improve development

Development actors recognized the importance of institutions in efficacy of implemented strategies after several years of deception in development projects (…). Then international organizations were financing institutional reform in order to get success in development actions. But, as Acemoglu and Robinson (2008) are showing it, institutional reform is a good strategy. Even though, it can be drew in a bad direction (Acemoglu and Robinson, 2008). We will discuss this below.

As we have underlined the linking between institutional capital and other forms of the capital for implementing development, we can state this main idea: **there is no efficient productive system without institutional capital**.

A. Institutional development: a fundament for economic development

Institutional reform is a particular way to generate institutional capital. Institutional reform would provide good quality of institutions. We mean institutions adapted to solve socioeconomic problems. This is why; we agree with authors' statement that is "institutional capital is a fundament for development".

Platje says: "institutional capital is a fundament of sustainable development, and the lack of such a capital is likely to cause of a unsustainable development" (Platje, 2008). Indeed, the institutional capital represents the essential component of the social and economic order necessary to sustainable development (ibid). And, high levels of institutional capacity are conditions to sustainable development policy achievements (Evans et al., 2006). According to the writings of Michael Trebilcock (1996), Kaji (1998) and Ahsan (2003), inter alia, Nations would benefit better understanding on institutional capital. The authors underline well the determining role of the institutional capital in the economic development and the reduction of poverty. For this reason, the politicians of the developing countries could draw advantage from more a great attention paid to this asset, particularly by its definition and its public management. Recent publications show institutions as determinants for Foreign Direct Investment attraction (Bénassy-Quéré, Coupet & Mayer, 2005). More especially, efforts are being done in order to establish "institutional country profile" (Berthelier, Desdoigts & Ould Aoudia, 2004). It may correspond to the quantity and the quality of institutional capital the stock and the flows.

B. The case of Microfinance

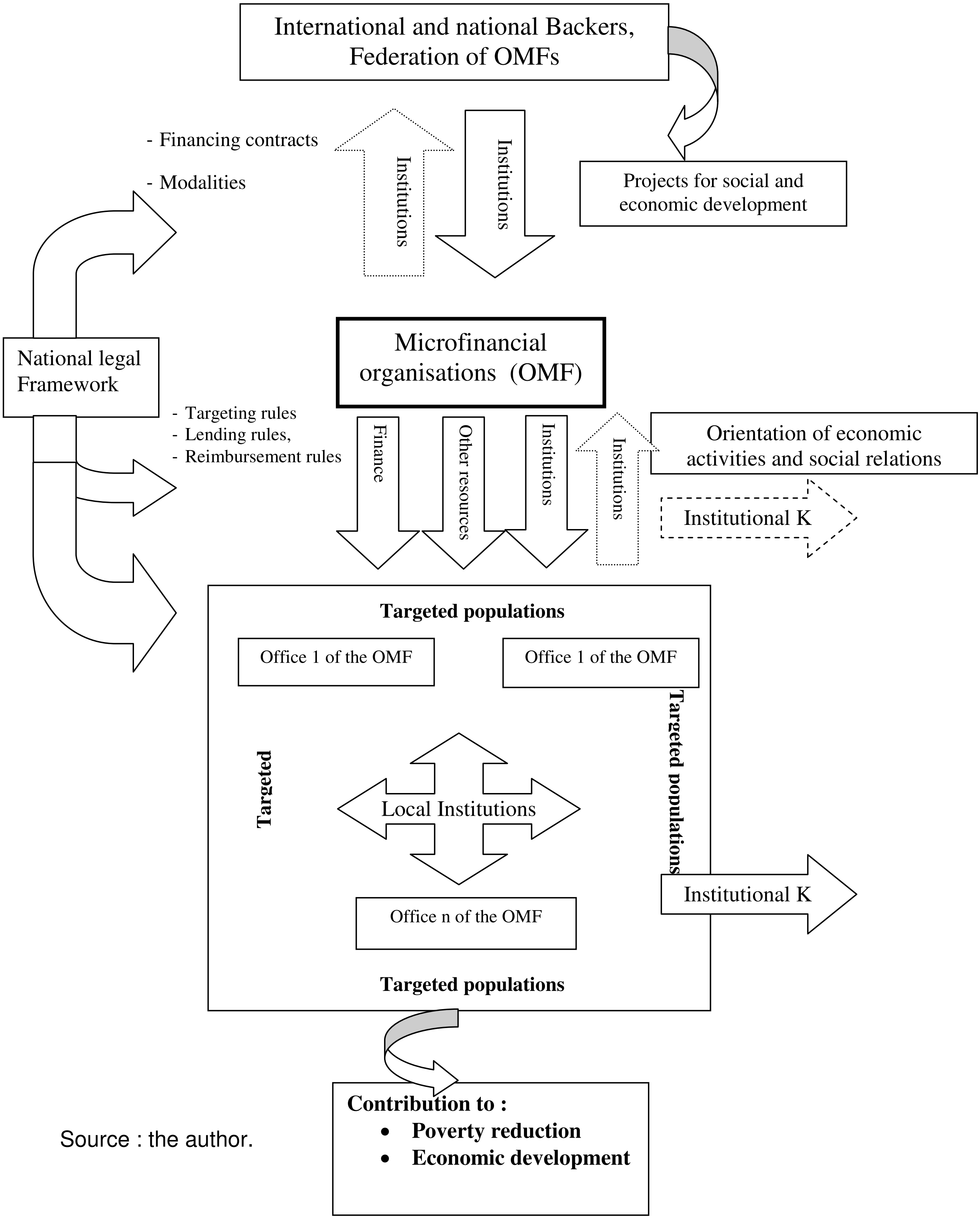
Microfinance is finance. And, several considerations made for financial capital are also possible for it. At least, that is what is shown through the institutional insertion and production of Microfinancial Organizations[7] (OMF). We take the case of OMF in Haiti. Until about 1990, they were using very little rules. A great institutional lack was planned on them. Since they rededicated the constitution of a named sector. They produced progressively an institutional framework within which they act. They reduced institutional risk (Randriamanampisoa, et al., 2009) by some specific institutions. Since, commercial banks were interesting to microfinancial activities. Now at least five commercial banks are offering microfinancial services in Haiti.

But the greatest institutional innovation of haitian OMFs is their inclusion in the economic development process. As economic development requires institutional development, OMFs by institutional production and change are being considered as the better development strategy in Haiti's economic development process.
In order to better illustrate our argument, we resume in the following schema the Haiti's OMFs institutional inclusion.

---

[7] We reject the use of Microfinancial Institutions, knowing the meaning of institutions and considering the distinction made by North (1990).

Illustration 1: Institutional insertion of microfinancial acitivities



Source : the author.

5. Institutional capital as a key concept to analyze development process

The case of Haitian OMF could not be sufficient to support a new theory. But several great economists point out the role of institutions in development process. The present statements constitute a way to better structure previous theories on the linking between institutions and development.

Theorists of economic development are addressing more and more institutions in their analytical and explanatory framework. Early in the twentieth century, economists have recognized that development is more than growth. “A great deal of economic research in recent years suggest that institutions are vital for economic development and growth” (Rodrik and Subramanian, 2003; Edison, 2003; Acemoglu, 2003; Acemoglu and Robinson, 2008). The accumulation of physical assets is not enough to durably feed the growth, the socio-economic context matters.

David Feeny argued in 1988 that “The traditional three pillars of economic theory – endowments, technologies, and preferences – are incomplete. The fourth and implicit pillar is institutions” (ibid., p. 159). He argued, and we’re in agreement with him, “that explanations of the factors accounting for growth and development that omit institutions and institutional change are incomplete and unsatisfactory” (ibid., p. 160). As development implies use of several assets or capitals, institutions accumulated during institutional reform or more widely during the institutional change, and analyzed as “institutional capital, are required for development.

Some specific institutions analyzed through the institutional capital conceptual framework have reducing effect on equalities. Mamoon (2007) in his work on “good institutions and fair trade” found and confirmed that “good quality institutions lead to decrease in inequality” (ibid., p. 21).

Conclusions

Institutional capital matters. Here is the main idea this paper aimed to state. According to North (1991), neoclassical economic theory has overlooked the importance of institutions, although institutions and cognition two crucial engines for economic change. As human capital is viewed as determinant for economic development, institutional capital must be considered as well as important as human capital. Even more so these two factors are interdependent either for their accumulation or their evolution.

As resources for economic agents, institutions constitute a category of capital that is fundamental for economic development theories and practices. In this paper, we strongly state the existence of five forms of capital within which the institutional one is a key analytical framework. Institutional capital is the asset composed by the written and unwritten institutions that affect economic activities. It concerns the institutions that are directly or indirectly productive. It can usefully provide agents (individuals or organizations) with economic advantages. Politicians, development actors, citizens, or economists or sociologists can get good information from research on this concept.

Main bibliography

Acemoglu, D., Robinson, J. (2008), The Role of Institutions in Growth and Development, *Working Paper, N° 10,* Washington: The International Bank for Reconstruction and Development/World Bank, Working Paper Series, 30 pages.

Acemoglu, D., Robinson, J. A., (2000), "Political Losers as a Barrier to Economic Development," American Economic Review, Vol. 90, p p. 126–44.

Acemoglu, D. (2003), Root causes: A historical approach to assessing the role of institutions in economic development, *Finance & Development,* vol. 40, n° 2, pp. 26-30.

Ahrens, J. and Jünemann, P. (2009), "Adaptive efficiency and pragmatic flexibility: characteristics of institutional change in capitalism, Chinese-style", *Unpublished Paper,* [online], available at http://www.centralasiaproject.de/index.php?option=com_docman&task=doc_download&gid=32&&Itemid=7, 19 p.

Ashby, C. & Carney, D. 1999. *Sustainable livelihoods:* lessons *from early experience*. London, UK, Department for International Development. Cited by Warner 2000.

Bauder, H. (2005), Institutional Capital and Labour Devaluation: The Non-Recognition of Foreign Credentials in Germany, *INTERVENTION: Journal of Economics*, vol. 2, N° 1, pp. 75-93.

Bénassy-Quéré, A., Coupet, M., Mayer, T. (2005), Institutional Determinants of Foreign Direct Investment, *Centre d'Etudes Prospectives et d'Informations Internationales* (*CEPII),* Working Paper*,* n° 2005-05, 29 p.

Berthelier, P., Desdoigts, A., Ould Aoudia, J. (2004), Profils Institutionnels : Une base de données sur les caractéristiques institutionnelles de pays en développement, en transition et développés, *Revue Française d'Économie*, vol. 19, n° 1, pp. 121-196.

Bourdieu, P. (1972), *Esquisse d'une théorie de la pratique,* Genève : Droz, (new edition in Paris : Seuil, coll. Points Essais, 2000, 429 pages).

Bresser, R. K. F. & Millonig, K. (2003), Institutional Capital : Competitive Advantage in light of the New Institutionalism in Organization Theory, *Schmalenbach Business Review,* vol. 55, pp. 220-241.

Coleman, J. S. (1990), *Foundations of social theory,* Cambridge, Massachussets: The Belknap Press of Harvard University Press, 993 pages.

Edison, H. (2003), Testing the Links: How strong are the links between institutional quality and economic performance? *Finance & Development,* vol. 40, n° 2, pp. 35 – 37.

Eigen-Zucchi, C. & Eskeland, G. S. & Shalizi, Z. (2003), Institutions needed for more than growth: by facilitating the management of environmental and social assets, institutions underpin sustainable development, *Finance & Development,* vol. 40, n° 2, pp. 42 – 43.

Evans, B. et al. (2006), Governing local sustainability, *Journal of Environmental Planning and Management,* Abingdon: Nov 2006, vol. 49, n° 6, pp. 849-867.

Fahy, J. & Alan, S. (1999), Strategic Marketing and the Resource Based View of the Firm, *Academy of Marketing Science Review*, Vol. 3, n°4, [online], available at http://www.amsreview.org/articles/fahy10-1999.pdf.

Fedderke, J. W. & Luiz, J. M. (2008), Does human capital generate social and institutional capital? Exploring evidence from South African time series data, *Oxford Economic Papers*, vol. 60, n° 4, pp. 649-682.

Feeny, D. (1988) "The Demand for and Supply of Institutionnal Arrangements", in Vincent Ostrom, David Feeny, and Hartmut Picht, eds., *Rethinking Institutional Analysis and Development.* San Francisco: Institute for Contemporary Studies Press.

Garrabé, M. (2008), Note sur l'existence du capital institutionnel, Unpublished Paper, Workshop University of Montpellier 1 and Sherbrook University, June, 23-24, 2008, 24 p. http://www.michel-garrabe.com.

Garrabé, M. (2007), *Economie sociale et développement*, Programme MED-TEMPUS, 220 pages, http://www.formder.iamm.fr.

Greenwood, D. T., Holt, (2008), Institutional and Ecological Economics: The Role of Technology and Institutions in Economic Development, *Journal of Economic Issues*, Vol. 42, n° 2, pp. 445-452.

Hilferding, R. (1981), *Finance Capital, A Study of the Latest Phase of Capitalist Development,* Tom Bottomore (Ed.), London: Routledge, (first published in 1910: *Das Finanzkapital. Eine Studie über die jüngste Entwicklung des Kapitalismus*, Vienna, Wiener Volksbuchhandlung). http://www.marxists.org/archive/hilferding/1910/finkap/index.htm.

Hodgson, G. M. (2007), Institutions and Individuals: Interactions and Evolution, *Organizations Studies,* vol. 28, n°1, pp. 95-116.

Hodgson, G. M. (2006), What are institutions? *Journal of Economic Issues,* vol. 40, n° 1, March 2006. pp. 1-25.

Kaji, G. S. (1998). Institutions in Development: the Country, Research, and Operational Challenges. In R. Picciotto and E. Weisner (eds.), *Evaluation and Development: The Institutional Dimension.* World Bank, Washington, D.C., pp. 3-6.

Khakee, A. (2002), Assessing Institutional Capital Building in a Local Agenda 21 Process in Göteborg, *Planning Theory and Practice*, vol. 3, n° 1, pp. 53-68.

Lakehal, M. (2002), *Dictionnaire d'économie contemporaine et principaux faits politiques et sociaux,* Paris : Vuibert, (coll. Dictionnaire).

Lounsbury, M. & Glynn, M. A. (2001), Cultural entrepreneurship: Stories, legitimacy, and the acquisitions of resource, *Strategic Management Journal,* vol. 22, n° 6/7, pp. 545 – 564.

Loureau, R. (1972), *L'Analyse Institutionnelle***,** Paris, Les Editions de Minuit, (Arguments), 298 pages.

Mamoon, D. (2007), Good Institutions and Fair Trade : A Road Map to Local and Global Social Harmony, *Working Paper,* n° 450, Institute of Social Studies, The Netherlands.

Marx, K. (1867), *The Capital, The process of production of capital*, volume one, English edition, 1887, (first edition in German, 1867), Moscow: Progress Publishers. Full text available at http://www.marxists.org/archive/marx/works/1867-c1/.

North, D. (1990), *Institutions, Institutional Change and Economic Performance,* Cambridge University Press, 159 pages.

North, D. (1991), « Institutions », *Journal of Economic Perspectives*, Vol. 5, n° 1, pp. 97-112.

North, D. (2005), *Le processus du développement économique,* Paris, Editions d'Organisations, (Traduction de *Understanding the Process of Economic Change,* Princeton University Press [2005] par Michel Le Séac'h), 237 pages.

Oliver, **C. (1997**), Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, Vol. 18, pp. 697-713.

Paul, B. (2009), Reclaiming Institutions as a Form of Capital, *Unpublished Paper*, Communication at the Annual Conference of the Pennsylvania Economic Association (PEA), June, 4-6, 2009, at West Chester University, PA, USA.

Paul, B. (2006), *Des organisations aux institutions : une introduction au concept de « capital institutionnel »,* Mémoire de Master 2 Recherche : Université Paul Valéry – Université Montpellier III, sous la direction de Conus M.-F., 86 pages.

Platje, J. (2008), "Institutional Capital" as a factor of sustainable development, The importance of institutional equilibrium, *Baltic Journal on Sustainability,* vol. 14, n° 2, pp. 144-150.

Portes, A., & Landolt, P. (1996). The downside of social capital. *The American Prospect Online*, *7* Retrieved , from www.prospect.org/print-friendly/print/v7/26/26-cnt2.html.

Randriamanampisoa, H., Garrabé, M. and Michel, S. (2009), Institutional risk containment and bank microcredit development in Madagascar, *Unpublished Paper,* communication to the First European Research Conference on Microfinance, June, 2-4, Brussels, Belgium.

Rodrik, D. & Subramanian, A. (2003), The primacy of institutions (and what this does and does not mean), *Finance and Development,* vol. 40, n° 2, pp. 31 – 34.

Trebilcock, M. (1996), What Makes Poor Countries Poor? The Role of Institutional Capital in Economic Development, *Berkeley Olin Program in Law & Economics*, Working Paper Series, http://ideas.repec.org/p/cdl/oplwec/1149.html.

Wernerfelt, B. (1984), A resource-based view of the firm, *Strategic Management Journal*, vol. 5, pp. 171-180.