

## **Comparative Studies of Formal and Informal Rural Institutions in Transforming Socio-Economic Development: The Case of Nunu Kumba District, Western Ethiopia**

<sup>1</sup>Misganu Gabayo\*

<sup>1</sup>*Center for studies of Environment and Society, Wollega University, Ethiopia*  
*Corresponding Author: Misganu Gabayo*

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**ABSTRACT:** The main purpose of this study was to compare formal and informal rural institutions in transforming socio-economic development in Nunu Kumba district, western Ethiopia. The study was employed both qualitative and quantitative research methods. Data were taken from 130 sample households (HH) by using sample size determination technique from 2096 households members both formal and informal institutions of five selected kebeles. Qualitative data were taken to support and substantiate data obtained through household survey and data were analyzed by qualitative and quantitative data analysis. The result of the study revealed that both formal and informal institutions are transforming socio-economic development at local level. However, comparatively formal institutions were more effective in promoting household income, developing infrastructure, proving well-being and capability and in facilitating marketing system were positive compared to informal institutions and both are not complement each other. Therefore, the informal institution should be supported by concerned stakeholders. Unless the contribution of informal institution in transform the socio economic of the rural livelihoods was declining.

**KEY WORDS:** institution, socio-economic development, rural, livelihoods.

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### **I. INTRODUCTION**

Since human beings live in uncertain world, they diverse institutions to control their environment so as to bring about some certainty, to maintenance of social system, bring order of social relation, reduce flexibility and variability of the behavior, to minimize transaction costs, this may be thought as the costs of doing business, or cost of relations between people and they have created different social, religious and political institutions that serve the interest of their community (Greif, 2006). Most people for most of their history have deployed various social institutions such as kinship systems, community organization, religions, norms, languages and networks as their primary instrumental resource of survival and mobility. They have also regarded these informal institutions as intrinsically central to their identities for shaping their values; aspirations and preference (Lock, 2017).

According to Bekalu (1992), institution is any social arrangement that is constituted regulated by a system of social rules; systems and social rules systems are shared and socially constructed rules regimes specifying to greater or lesser extent who may or should participate and who is excluded and who should do what, when and how in relation to whom. Institutions are categorized as formal and informal; Formal institutions include the written constitutions, laws, policies, rights and regulations enforced by official authorities. Informal institutions are the usually unwritten, social norms, customs or traditions that shape thought and behavior (Leftwich & Sen., 2010). Generally, formal institutions are enforced by official entities while informal institutions are largely self-enforcing through mechanisms of obligation. Commonly institutions are an important analytical category in understanding rural development (Roy & Tisdell, 1998; Scones).

In developing countries including Ethiopia, institutions are determinants of economic performance and exist both in the form of formal and informal institutions in urban and rural area. Formal institutions legally emerged by governments. These are Bank, Insurance, saving and credit institution (ISCI), service cooperative (SC) and so on. And these stimulate economic activities. According to Getaneh (2005a), these institutions stimulate economic activities and provide opportunities for the majority of poor to escape from poverty through availing more and appropriate financial services that the government has been refining the regulatory framework for micro finance operations.

Informal institution refers to the provision of service which is not generally or partly regulated by law but which relies on self-regulating mechanisms, and demonstrates the universal need of population, particularly the rural, financial services and the ability of the professional operates to provides some of these services under

different circumstances as a financially viable occupation and make service socially during emergencies such as death within these groups and their families in addition for activities such as weddings, building house and conflict resolution. There are various types of informal institution in Ethiopia (Worku, 2000). These include Iddir, Mahebers, Eqqub, Debo, elders' group, and women's association, important informal institutions. In general as mentioned above both formal and informal institutions services Ethiopian rural society in different ways by maintaining identity, history, norms, customs, moral understanding and values from generation to generation and play a critical role for sustainable economic and social development.

Generally, social institutions are used to satisfy the basic needs of society, dominant social values, establish permanent patterns of social behavior monogamy support other institutions and provide roles for individuals. Similarly, in the study area /Nunu Kumba district/ which is found in east Wollega zone and about 90% of the population live in rural area and their livelihood depend on agriculture and livestock activities (Nunu kumba district Agriculture office, 2011). According to the 2007 Ethiopian population census report, the total population of Nunu kumba district is 64,775, of whom 31,817 were men and 32,958 were women; 4,842 or 7.48% of its population are urban dwellers (CSA, 2007). These societies are getting service from both formal and informal institutions that are found near them. These formal and informal institutions up on which the communities were members are Oromia credit and saving Nunu branch, service cooperative and Iddir, Equb, Mahebers, Debo, elders' groups and women. These institutions make service financially and socially; supply agricultural input and basic needs, lend money, eliminate social conflict, promote cooperation relations that economize the resources and allow directing them towards useful, productive activities, food security and poverty reduction helping during emergency, funeral, building house and etc for kebele farmers association. Therefore, having the aforementioned explanations in mind, the researcher intended to conduct the study to compare the role of formal and informal rural institution that transforms socio-economic development rural communities in the study area.

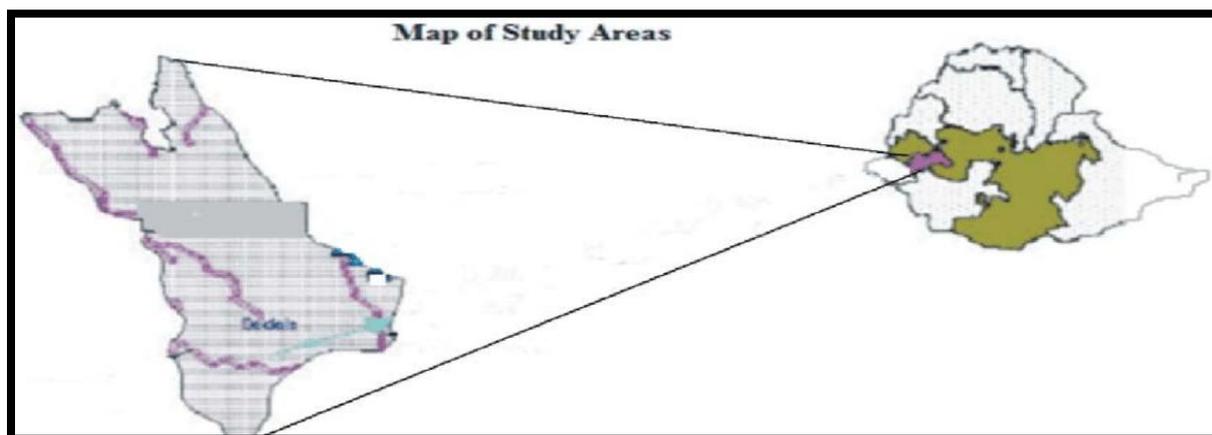
According to Soysa and Jutting (2006), people in both rich and poor countries rely on informal institutions to varying degrees to facilitate transactions but these institutions are relatively more important in poor countries due to getting service financially and socially. Countries in which prevail weak informal institutions are not able to induce constraints stimulating economic performance even if they have strong formal institutions (Boston and Raluca, 2016). On the other hand formal institutions have official rules and regulations but people in both rich and poor countries rely on informal institutions. So, the researcher wants to study and compare in analyzing the role that both formal and informal institution in transforming socioeconomic development and pushing factors that is behind people to be interested to be a member of formal or informal depending up on their contribution, effectiveness, preference of rural community with regarding to institutions and factors behind the people to be interested and the members for transforming socio-economic development in particular study area of Nunu kumba district.

In doing so, the researcher was initiated to comparatively examine the contribution of formal and informal institutions in transforming the socio-economic development in rural areas and assess what other gap was occurred from both institution in fulfilling interest of the community in comparatively examining the influences of formal and informal institutions in transforming the socio-economic development in the study area as protection.

## **II. MATERIAL AND METHODS**

### **2.1 The study area**

Nunu Kumba (Figure 1) is one of the districts of East Wollega Zone. The administrative center of this woreda is Nunu. According to the 2007 National census reported a total population for this woreda of 64,775, of whom 31,817 were men and 32,958 were women; 4,842 or 7.48% of its population are urban dwellers. Agro-ecologically, Nunu Kumba District is sub divided in to Temperate (badda) which constitute 32%, of the total area, while Sub-Tropical (badda-Dare) and Tropical (Gammoggi) constitute 42% and 26% of the total area respectively.



**Figure.1** Map of the study area/Nunu kumba District of western Ethiopia.

A survey of the land in this woreda shows that 75.9% is arable or cultivable (32.4% under annual crops), 10.9% pasture, 4.9% forest, and the remaining 8.3% is considered swampy, mountainous or otherwise unusable. Since the area was covered by forest, the nearby highland Oromo were using the forest as sources of honey production, big animal games, and traditional medicinal plants as part of their livelihood. Furthermore, cotton and pepper cultivation was part of their livelihood.

## 2.2 Methodology

This study employed both quantitative and qualitative /mixed/ research approach and descriptive research design. This was aimed for triangulation way, assuring that the validity of research results through the use of different research methods and approaches. In addition it has the additional advantage of allowing the researcher to cover different aspects of her/his research objectives or research questions by employing different sources, data, and research methods (Yeraswork, 2010:54). The target population of this study were all the 2096 households whose members both formal and informal institutions in Nunu kumba district which were found in 4 kebele farmers associations from 18 kebele farmers associations namely Abdi ummeta, Korbu seka, Wama dirre, Guddina walini and Bachu were selected using simple random sampling technique.

The total numbers of households who were members of the study variables collected from five kebeles were identified by the researcher using the following sample size determination to fill the questionnaire.

$S = \frac{X^2 NP (1-P)}{e^2 (N-1) + X^2 p (1-p)}$  where

S =sample size required

X<sup>2</sup> =the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841 or confidence level

N =House hold size (2096).

P =population variability (let use 0.1 since population geographical the same, similar social party and economic activity).

e = sample error (0.05).then to find the sample size the respondent

Total household Abdi ummeta (AH) = 332

Total household Korbu seka (KH) =231

Total house hold Guddina walini (GH) =358

Total household Wama dirre (WH) =365 and

Total household Bachu (BH) =810

$S = \frac{3.841 * 2096 * 0.1 (1-0.1)}{0.05^2 (2096-1) + 3.841 * 0.1 (1-0.1)}$

$S = \frac{3.841 * 2096 * 0.1 * 0.9}{0.05^2 * 2095 + 3.841 * 0.1 * 0.9}$

$S = 724.566 / 5.583$  S= 130

So that 130 study participants were sample size of this study. And to determine the proportion number sample of five kebeles: Abdi ummeta (A), Korbu seka (K), Wama dirre (W), Guddina walini(G) and Bachu(B) the researcher use the following formula.

$A = S (AH/N) = 130(332/2096) = 21$

$K = S (KH/N) = 130(231/2096) = 14$

$W = S (WH/N) = 130(358/2096) = 22$

$G = S (GH/N) = 130(365/2096) = 23$

$B = S (BH/N) = 130(810/2096) = 50$

**Table 1: Sample Size of the study**

Kebeles	Total household	Sample size	
		Number	%
Abdi ummeta	332	21	16
Korbu seka	231	14	11
Wama dirre	358	22	17
Guddina walini	365	23	18
Bachu	810	50	38
Total	2096	130	100

The researcher was used purposive sampling techniques to select the key informants to participate in interview.

### III. RESULTS

#### 3.1 Complementarities of Formal and Informal Institutions

Informal institutions are complementary to formal ones when they converge and the formal institutions are effective (Helmke and Levitsky 2004). So that in the following table it was assumed that to interpret the mismatch between formal and informal institution's in transforming socioeconomic development among the society.

**Table: 2 Frequency and percentage distribution of formal and informal institutions complement**

No	Items	Answers	Frequency	Percent (%)
1	Formal and informal institution complement each other	Yes	112	86.2
		No	18	13.8
		Total	130	100.00
		Answers	Frequency	Percent

As indicated on above Table, both formal and informal institutions did not oppose each other. That means both serves the community where they are in need but those informal rural institutions were not fulfilling their intended goal as they were organized which need attention of shaping the institution from those formal institution.

#### 3.2 The contribution of formal and informal rural institution for rural communities

Institutions are highly relevant and important in realizations of the proposed sustainable development goals.

**Table: 3 contribution of formal and informal rural institution in transforming the socio economic development**

	Statement	Types of institution	V	H	M	LO	V	VH	H	M	LO	VL
			H	%	F	%	F	F	%	F	%	F
1	Institutions in generating trust	Formal	42	32.3	31	23.8	23	42	32.3	31	23.8	23
		Informal	25	19.2	19	14.6	11	25	19.2	19	14.6	11
2	Institutions in creating work opportunity for the local community	Formal	51	39.2	20	15.4	17	51	39.2	20	15.4	17
		Informal	11	8.5	12	9.2	21	11	8.5	12	9.2	21
3	Institution favor for conflict resolution in socio-economic development	Formal	11	8.5	32	24.6	13	11	8.5	32	24.6	13
		Informal	42	32.3	32	24.6	21	42	32.3	32	24.6	21
4	Institutions favor for encourage collective and individual freedom	Formal	42	32.3	34	26.2	14	42	32.3	34	26.2	14
		Informal	23	17.7	27	20.8	9	23	17.7	27	20.8	9
5	Institutions favoring adaption to change socio-economic development	Formal	33	25.4	49	37.7	10	33	25.4	49	37.7	10
		Informal	21	16.2	13	10.0	23	21	16.2	13	10.0	23

6	Institutions favor for assimilating new innovation socio-economic	Formal	21	16.2	62	47.7	7	21	16.2	62	47.7	7
		Informal	11	8.5	24	18.5	21	11	8.5	24	18.5	21
7	Institutions favor for extending the common knowledge socio-economic development	Formal	56	43.1	22	16.9	13	56	43.1	22	16.9	13
		Informal	13	10.0	35	26.9	14	13	10.0	35	26.9	14
8	Institutions favor for accumulating social capital socio-economic development	Formal	38	29.2	32	24.6	10	38	29.2	32	24.6	10
		Informal	23	17.7	25	19.2	14	23	17.7	25	19.2	14
9	Institutions favor for promoting cultural interaction in socio-economic development	Formal	21	16.2	9	6.9	17	21	16.2	9	6.9	17
		Informal	52	40.0	20	15.4	32	52	40.0	20	15.4	32
10	Institutions favor for high degree of cooperation and flexibility socio-economic development	Formal	44	33.8	32	24.6	21	44	33.8	32	24.6	21
		Informal	18	13.8	21	16.2	19	18	13.8	21	16.2	19

Where VH =Very High, H= High, M = Medium, LO = Low and VL= Very Low

The above table indicates that formal institutions' generating trust than informal institutions. In case of creating job opportunities formal institutions were creating more job opportunity for the local community than the informal institutions. With regard to conflict resolution, informal institution's participation in conflict management institutions favor for conflict resolutions in rural communities than formal rural institutions. However, in encouraging collective and individual freedom, informal institutions were not encouraging collective and individual freedoms than formal rural institutions. Furthermore, informal institutions were favor for promoting cultural interaction in socio-economic development than formal institutions in local community's cultural interactions

Also formal institution's contribution in assimilating new innovation for rural communities in economic development is high than that of informal. In case of high degree of cooperation and flexibilities in socio economic development formal institutions favor for high degree of cooperation and flexibility in socio economic development than those of informal institutions. Similarly, the data obtained by interviews made with the expertise of cooperative and promotion office and saving and credit enterprise elaborated that:

... From Formal and informal institutions the contribution of formal and informal institutions in transforming socio-economic development as trust generating creating work opportunity, encouraging collective and individual freedom, assimilating new innovation , extending the common knowledge, accumulating social capital and cooperation and flexibility in socio-economic development formal institutions were high whereas informal institutions high in conflict resolutions and promoting cultural interactions. The informal institutions in the societies were not having such broad objective scope of contributing vast activities that can transform societies all rounded development. They were organized only on the base of ground rule that direct the only what to do what not to do that might indirect hamper them to contribute as an institution for their community (Interview conducted with Labor and Social Affairs expertise on April, 2019).

### 3.3. Preference of institutions for transforming socio-economic development

Institutions are fundamental organization for transforming socio economic development in terms of economic, social and political ways .especially Formal institutions, where the goal, the objectives, the procedures, the organization and the roles are established and regulated precisely and Informal institutions, where the activities and the roles are vaguely regulated allowing for their personalization.

**Table 4: Preference of institution**

More Preference of institution	Respondents	%
Formal institution	113	89.9
Informal institution	17	10.1
Total	130	100

As table 16 indicates that, 113 (89.9%) of respondents were responded that formal institution were more Preferred institution for transforming socio-economic development than informal institutions in which only 16 (10.1%) of respondents were replied that, informal institution is more Preferred institution for transforming socio-economic development This shows that, formal institution are more Preferable institution for transforming socio-economic development.

Additionally, open-ended question results show that from kinds of institution, formal institution are more preferable for transforming socio-economic development in terms of economic, social and political ways. Because, formal institution have accountability for poverty reduction, increasing social relation, provide insurance, promote cultural interaction, have efficiency for decision making have fairness participating the community and equal perception for their members and fairness of giving considerations service for community of the study area. Regarding the researcher has conducted interview with Idir committees, Cooperative and promotion office expertise, saving and credit expertise, social and labor office expertise and supplemented as follows.

..., the communities preferred the formal rural institutions than that of informal institution due to many reason. For example even though it lacks sustainability there was training up on the essence of those formal institution from the community that makes formal institutions more preferable among the community. And every activity and service delivered by formal institutions are well planned and implemented in time and that in turn the community gets immediate rate of return from formal institutions. So that, these and many pulling factors made the society to prefer the formal institution than informal institution... Interview conducted with saving and credit expert on April, 2019)

As a result of the study revealed that formal institutions are more preferable for community development in terms of raising peoples' living standards/levels, i.e. incomes and consumption, levels of food, medical services, education through relevant growth processes, Creating conditions conducive to the growth of peoples' self-esteem through the establishment of social, political and economic systems and institutions which promote human dignity and respect, Increasing peoples' freedom to choose by enlarging the range of their choice variables, e.g. varieties of goods and services.

**5. Factors that influence people to be membership of institutions**

When looking at the impact of institutions on development outcomes, first of all we have to acknowledge that this impact is in turn influenced by external factors. In particular, we distinguish between meta-institutions and contextual variables. Meta-institutions, such as identity and culture, change very slowly. Obviously they have an impact on other types of institutions, both formal and informal. Contextual variables such as history and geography also help shape social norms that in term impact on human behavior. For example, some scholars in the social capital tradition see the operation of formal institutions as moderated by available civic traditions that are in turn shaped by trajectories begun way back in a society's history (Putnam, 1993).

**Table 5:** Frequency and percentage distribution of respondents has the factors that enforce peoples to be members of formal and informal institutions.

<b>1</b>	<b>Economic factors</b>	Institution	Frequency	Percent
1.1	To have loan	Formal	61	46.9
		Informal	69	53.1
1.2	For increasing income	Formal	72	55.4
		Informal	58	44.6
1.3	To get agricultural inputs	Formal	87	66.9
		Informal	43	33.1
1.4	To have access to basic commodities	Formal	92	70.8
		Informal	38	29.2
<b>2</b>	<b>Social factors</b>			
2.1	To develop partnership	Formal	51	39.2
		Informal	79	60.8
2.2	To develop social security	Formal	62	47.7

		Informal	67	52.3
<b>3</b>	<b>Political factors</b>	Formal	123	94.6
		Informal	7	5.4

Accordingly 61(46.9%) replied that membership for formal institution was due to the search for getting loan and contrary to this majority of the respondent meaning 69(53.1%) were replied that being membership of informal institution was for the sake of getting loan. Other economic factor is to increase their income. So that, 72(55.4%) of the respondent has replied that the main factor to be membership of formal rural institutions was for the search of increasing income. The pulling factors were forcing local communities a member of formal and informal institutions have access to the basic commodities for consumption. Accordingly, majority number of the respondents meaning 92(70.8) replied that community members were interested to be members of formal rural institution for the sake of getting basic commodities for consumption, whereas little number of respondents meaning 38(29.2%) responded that they were members of informal rural institution for the sake of having access to basic commodities. The other pulling economic factor is search of agricultural inputs as a pulling factor to be membership of those institutions. Hence 83(66.9%) of the respondent replied that the communities were forced to be members of formal rural institution to get different agricultural inputs, whereas only 43(33.1%) of the respondents replied that communities were members of informal rural institutions so that they will get something to buy agricultural inputs.

Item two in the same table was about social factor that might pull the community to be members of those rural institutions which has also two items under it to be interpreted. Hence, for developing partnership that necessitated the community to be membership of rural institutions. Accordingly, 79 (60.8) of the respondents replied that communities were being members of informal rural institutions to develop partnership than formal rural institution, whereas only 51(39.2) reacted that communities were being members of formal rural institutions to develop partnership among each other. Another reason as a pulling factor of the community to be members of those rural institutions which inquires that developing social security as a pulling factor for being members. Hence 67(52.3%) and 62(47.7%) of them replied that the sake of developing social security energized the community to be members of informal and formal institutions respectively. Political factor is another pulling factor for local community to be a member of formal than informal institutions.

#### **IV. CONCLUSION AND RECOMMENDATIONS**

##### **4.1 CONCLUSION**

The general objective of this study was to compare role of formal and informal rural institutions in transforming socio-economic development in east Wollega zone; the case of Nunu Kumba district. attempts have been made to analysis the effectiveness and role of formal and formal institution in transforming socio-economic development, identify the contribution of formal and informal institutions in transforming socio-economic development, analyze the preference of rural community with regard to formal or informal institution and identify the motivational factors behind the people interest to be the members formal and informal institution in study area. To do this Descriptive research design and mixed research approach was employed. The result of this study show that, in case of its effectiveness and role formal and informal rural institution play a great role in transforming socio-economic development by satisfying the needs of society in promoting household income, institution satisfying the needs of society in developing infrastructure, institution satisfying the needs of society in improving well-being and capability, institution satisfying the needs of society in natural resource management, institution satisfying the needs of society to get loan in time, environment protection and facilitating marketing system were concluded. Both institutions were not complementing each other.

As the result of the study revealed that in all areas the preference of formal rural institutions were greater than those informal rural institutions among the community except in the areas of increasing social relation that the result show on the side of informal rural institutions. Regards to motivational factors like get loan, to increase income, to get agricultural inputs and to get basic commodities hence local communities were being the members of those formal institutions than being members of informal institutions. However, socially, communities were motivated to the members of informal institutions to develop their partnership and to have social security. In case of political pressure most of the communities were being the members of those formal institutions than informal.

##### **4.2 RECOMMENDATIONS**

Based on the finding of the research the following issues are addressed as recommendations: Informal institutions were extremely weak with saving. So formal institutions should have to support and share experience for informal institutions and the autonomy and independence of institution membership should be free from governmental sectors intervention. Both institutions should have trust and encourage enacting rule of

law among its members. Autonomy and independence of institution membership should be free from intervention politics in farmers associations and cooperative so that institutions committee should according to the principle of cooperative its. Both institutions play a great role in transforming the socio economic of the societies then concerning stakeholder should be focus on organizing and promoting local community to be a member of both formal and informal institutions to create unity and survive from any socio-economic pressure. Therefore, the informal institution should be supported by concerned stakeholders. Unless, the contribution of informal institution in transform the socio economic of the rural livelihoods was declining.

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