

# Black Market Politics: The Importance of Parallel Governance

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## ABSTRACT

This paper applies the concept of “parallel governance” to the reduction or mitigation of “poverty.” Definitions of poverty vary between those that emphasize quantifiable, tangible poverty indicators and those that emphasize qualitative differences among the heterogeneous “poor.” Parallel governance is analogous to parallel economies or black markets. It exists whenever legally recognized governments do not perform expected governance functions. Where and when they do not, other informal organizations will perform them. Top-down attempts by formal governments to reduce poverty must be compatible with existing local parallel governance systems that focus primarily on mitigation. Informal parallel governance systems can be a continuation of former regime remnants (including multiple, localized, and culturally diverse locations) when official governments fail to take root within newly established states. Alternatively, they can occur when at least one political group emerges to perform essential governance functions absent effective official Government performance or as informal competition to it.

*I used to think I was poor. Then they told me I wasn't poor, I was needy. Then they told me it was self-defeating to think of myself as needy, I was deprived. Then they told me deprived was a bad image, I was underprivileged. Then they told me underprivileged was overused, I was disadvantaged. I still don't have a dime. But I sure have a great vocabulary.*

(Jules Feifer 1965, 442)

This paper focuses primarily on governance issues affecting attempts to reduce or alleviate poverty, much of which occurs in the informal sector. But what exactly constitutes “poverty?” I have addressed that question in greater detail in a previous publication (Silverman 2005: 25-28). Suffice it to say here that the notion of “Poverty” has both tangible “*objective*” and intangible “*subjective*” dimensions. Tangible poverty indicators are observable and can be measured; therefore, they apply to all “poor” people worldwide. However, above that absolute threshold, subjective dimensions of poverty are rooted in shared norms and values and, therefore, are perceived differently by policymakers and those who do or do not consider themselves “poor” (Silverman 2004: 228, 231, 243, 245). Unfortunately, governments and international development agencies rely primarily on tangible, measurable indicators to identify their financial or technical poverty reduction or alleviation support programs, most often without substantive consultation with the targeted end-users (*personal experience*).<sup>1</sup>

According to a wide-ranging World Bank study, based on interviews of over 60,000 poor women and men from 60 countries worldwide, costing several million U.S. dollars, and published in three volumes between 2000 and 2002 (Narayan 2000, 2000, 2002), many people – especially people experiencing poverty – residing in “*low*” and “*lower middle income*” countries view “*community-based organizations*” (CBOs) created and managed by themselves as more accountable, trustworthy, and participatory than formal sector government institutions and, perhaps surprisingly, non-governmental organizations (NGOs) in several countries (Narayan, et al 2000b, 16; 2000c, 149, 203); although that varies substantially by location.

As might be expected, there is a general perception among the “poor” that the structure of authority disadvantages them in almost all formal and informal systems.

The logic of conflicts of interest among people experiencing poverty takes us beyond existing assumptions about the need for simply mediating conflicts between the poor and the “*non-poor*.” Thus, to fashion effective anti-poverty programs, it will be necessary to 1 acknowledge the need for crafting poverty alleviation programs that differentiate among different types of

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<sup>1</sup>I have actively engaged in poverty-alleviation programs and projects financed primarily by the official bi-lateral non-military “foreign-aid” entities of the United States (USAID) and the multi-lateral World Bank’s original core “International Bank for Reconstruction and Development” (IBRD) and “International Development Association (IDA) between 1967-2000; in addition to lesser or sporadic involvements in similar programs of the International Fund for Agricultural Development (IFAD, 1982-1983); UK’s Department for International Development (DfID, 2003-2004); The German and Spanish Embassies in Honduras (2005); and the Asian Development Bank (2005-2006, 2007). Those engagements included ten long-term residential assignments in seven countries (i.e., Bolivia, Egypt, Ethiopia, Indonesia, Peru, Thailand, and Vietnam; multiple long-term programs or projects requiring intermittent visits in 27 countries distributed among four different regions (i.e., Sub-Saharan Africa (13), Asia (9), Latin America (3), and Middle East (2); and other professional engagements in twelve countries outside of the longer-term residential assignments or intermittent longer-term engagements across three continents (i.e., Sub-Saharan Africa (6), Asia (4), and Central America (2).

poor people, 2 adapt such programs to the subjective perceptions of the poor themselves, and 3 utilize pre-existing legitimate decision-making processes where they exist to mediate the resolution of conflicts among the poor themselves and between them and other segments of society (*i.e.*, utilize parallel governance arrangements when possible and appropriate).<sup>2</sup>

At least one of the keys to poverty reduction is the mutual leveraging of the limited but different resources available in the *formal* and *informal* sectors. Formal sovereign-state governments are necessary and important partners for reducing poverty within their countries' borders. However, the reality remains that a broader range of informal organizations perform governance functions than those within the formal public sector alone.

## Parallel Governance

*If we aren't organized and don't unite, we can't ask for anything* – an anonymous “poor man” from Argentina

(Narayan 2000a: 21)

For the purposes of this paper, “parallel governance” is defined as “*the effective performance of public sector governance functions by non-state actors within organized socio-political and economic groups.*”<sup>3</sup> With that definition in mind, this paper also argues that there is *No Such Thing as an Ungoverned Populated Space!* If officially recognized governments do not perform essential governance functions or do so in substantially ineffective ways – despite retaining a legally sanctioned monopoly of force to coerce compliance – other non-official groups will do so in their stead. While officially recognized central governments are expected to perform governance functions within their own states, pockets of populated groups are governed entirely or partially outside the ambit of formal government in almost every country.

Non-state parallel governance systems can consist of remnants of former regimes (including multiple, localized, and culturally diverse locations) when official governments fail to take root within newly established states. Alternatively, they can occur when at least one political group emerges to perform essential governance functions absent effective official Government performance or as informal competition to it. When formal governments do not perform legitimate governance functions among a significant part of the informal sector population – and where informal governance systems exist – there is a fundamental disconnect between official governments and a critical mass of their country's total population.

Before the establishment of sovereign states, most people lived and worked in a legally unregulated fashion. That did not mean that states did not exist or were not governed, but rather that comprehensive, legally defined authority had not yet been introduced. As James Scott has argued, sovereign state governments are inherently driven to make societies “*legible*” because tax collection, military conscription, and prevention of rebellion require the ability to count its citizens (Scott 1999, 2), as does the more “modern” post-World War II expectation that official governments deliver some level and types of *public goods*.<sup>4</sup>

Elinor Ostrom, Larry Schroeder, and Susan Wynne point out that “*extensive empirical evidence exists...that the self-organizing capabilities of people can survive and occasionally even flourish under repressive regimes*” (Elinor Ostrom et al. 1993, 190). Thus, the assumption that formal governments are the exclusive instrument for the performance of the governance function has proven to be much too limiting; it contributes to the distorted lenses through which we too often look at political systems in studies of comparative and inter-state politics. That is the case because where governments do not perform some or most governance functions, other “informal sector” groups do address them.<sup>5</sup> Thus, parallel governance exists whenever all of

<sup>2</sup>It is essential that legitimate unofficial organizations serve as a channel – even if only one channel – for citizen participation. Where the structure of authority within pre-existing unpublished organizations inhibits equitable participation and access to benefits (e.g., where they discriminate against women or the poor), new alternative organizational channels should also be provided as an opportunity for disadvantaged persons to use. Such an approach is based on an expanded conception of who should be included as relevant stakeholders. Nevertheless, totally ignoring established informal structures of authority is also perilous, as some have argued was the case with India's changes in the panchayat system of village government.

<sup>3</sup>This is my definition of the prime concept promoted in these pages. I originally referred to essentially the same phenomena as “parallel government” in a 1992 World Bank publication. However, I updated that label to “parallel governance” in 1997; see my *Public Sector Decentralization: Economic Policy and Sector Investment Programs* (Washington, DC: World Bank, 1992, p. 10-11, and *Analyzing the Role of the Public Sector in Africa: Implications for Civil Service Reform Policies*, in Derick Brinkerhoff (ed), *Policy Analysis Concepts and Methods: An Institutional and Implementation Focus* (Greenwich, Connecticut: JAI Press Inc., 1997), 159-185; respectively.

<sup>4</sup>Neither the economics nor public finance literature are consistent in specifying the attributes that differentiate “public” and “private” services. Nevertheless, most academic or practicing economists also agree that where the following characteristics are present, the good or service is public: (1) goods or services characterized by inability to exclude large numbers of people from receiving the benefit, whether they pay for it or not, should be considered public goods because there is no incentive for the private sector to provide them; (2) where the goods or services are consumed jointly and simultaneously by many people and the quantity and quality of such goods are relatively difficult to measure, then such goods are appropriately considered public goods; (3) when people have no choice in the consumption of a good or service because exposure to it is the equivalent of consuming it, the good or service should be considered a public good; and (4) when, within the normal operation of market mechanisms, economies of scale in the production of goods or services can be expected to lead to “natural monopolies,” the good or service is essentially a public good even if the other criteria do not apply; quoted directly from Jerry Silverman, *Public Sector Decentralization: Economic Policy and Sector Investment Programs*, (Washington, DC: World Bank, 1992), 8.

<sup>5</sup>Keith Hart, a British anthropologist, introduced the term “informal sector” in 1971 while conducting research on rural migrants to Accra, the Capital City of Ghana, see *Informal Income Opportunities and Urban Employment in Ghana*, *The Journal of Modern African Studies*, March 1973, 68-76. Since then, the study of informal sectors has increased substantially. Nonetheless, although Hart was an anthropologist, in this early article, his focus was limited

the following criteria are met when and where informal groups: 1 can mobilize resources to provide public goods and services, 2 are endowed by its members with the authority to apply sanctions to those who do not comply with their decisions, and 3 the members attach primary loyalty to those informal organizations (with, perhaps the exception of loyalty to their immediate family).

Why is this important? From an economic perspective, informal sector employment increased substantially during and after the global recession from December 2007 to June 2009 (Horn 2009, 2-3). According to the International Labour Office, the informal sector was estimated at 61.2 percent of total employment *worldwide* by 2018; such shares increased to ~67 percent in “middle-income” states and ~90 percent in “lower-income” countries (Bonnet, Leung, Chacaltana 2018, 24-25). Those economic considerations are important, but interest in the equally important study of how those people are *governed* within their communities, workplaces, and social environments has lagged much further behind.

Nonetheless, the behavior of people who work, try to improve their lives, and raise and educate their children within the informal sector, directly and indirectly, impacts those who pursue the same goals within the formal sector. That is as important as the more obvious positive or negative impact of the formal sector on the “marginalized” lives of those existing in the informal sector – e.g., persons whose survival depends on public health and medical care services, transportation to work, childcare, public security, and so forth. Nonetheless, the issues that trap many people in lower-income, illegal informal neighborhoods while providing domestic or other less attractive services are mainly invisible to “their” official governments and the international external support agencies (ESAs) that partially finance them (Ostrom et al. 1993, 185, 187).

However, providing services alone does not by itself constitute “*governance*.” Instead, the legitimate levying of “taxes” – monetary, in-kind, user fees, or other forms of required participation – and the ability to legitimately apply sanctions to those who do not comply qualifies such informal arrangements as *parallel governance*. It is clear from simple observations that such mechanisms exist and are in play. To the degree that this is the case in a particular time and place, effective linkages between official and parallel governance systems are necessary for efficient, effective, and sustainable poverty reduction or alleviation programs. Top-down attempts by formal governments to reduce poverty must be compatible with existing local parallel governance systems that focus primarily on mitigation.

Although parallel governance is most visible when countries are engaged in, or just emerging from, external wars or domestic “insurgencies,” its importance is not limited to such circumstances alone. Thus, there are other types of parallel governance systems, including “*primordial*,” “*adaptive*,” “*reactive*,” and “*intermediative*.” (Picard et al. 2006, 17)

Primordial. In many parts of the world, primary affiliations accrue to stable communities or groups: tribes, clans, religions, and so forth. Persistent systems have evolved naturally from governance patterns that have organically developed from fundamental socio-political behavioral patterns existing before the introduction of macro-sovereign state superstructures (Geertz 1973, 255-310; Shils 1957, *passim*). As with other social science concepts, *primordialism* is used in various and not always consistent ways. Nonetheless, many scholars favorably disposed toward consideration of such “*primary sentiments*” would agree with Harold F. Schiffman that without some combination of “*first-order*” cultural elements, a society “*could not imagine themselves to exist*” (Schiffman 1999, 25).” For people who live according to the well-understood rules of their own communities, these systems are simply “*ordinary*.” Within broad parameters, such systems transcend the life cycles of those who live, work, and die within them.

In some places, parallel governance systems pre-date the colonial era. That is a good rather than a bad thing. Without non-state actors in many parts of the world, there would be even more illness, premature death, and physical destruction than what exists today – which is bad enough as it is (*cf* Ostrom, Schroeder, Wynne 1993, 185-192). As only one example, people often pay “untrained” or officially unregistered traditional “medical” practitioners for diagnoses and prescriptions (Donkoh

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primarily to the same list of concerns held by economists whose understanding of the informal sector (i.e., parallel economies) is most often limited to the size and composition of the parallel economy, what drives or causes it, the impact of an informal economy on “welfare or productivity,” economic linkages between the informal and formal sectors, and problems of dramatic rural to urban migration, existing tensions between macro-economic growth (GDP) versus the tenacity of poverty within the informal sector at local levels, and inequality. However, a number of social scientists have increasingly become interested in related governmental aspects of those issues. Examples of such recent studies include the following. First, for a comparative overview, see Veronique Dupont, David Jordhus-Lier, Catherine Sutherland, and Einar Braathen (eds), *The Politics of Slums in the Global South: Urban Informality in Brazil, India, South Africa and Peru* (New York, NY: Routledge, 2017), 230 pages; a discussion of politics within poor settlements in the global “south” emphasizing, among several other characteristics, residents’ coping strategies and collective action. Second, for Kenya, see Kenneth King, *Jua Kali Kenya: Change and Development in an Informal Economy, 1970–1995* (Athens, OH: Ohio University Press, 1996), 256 pages; and for an early study of the estimated 25,000 hawkers who were “always at war with the city authorities,” see Winnie Mitullah, *Hawking as a Survival Strategy For The Urban Poor in Nairobi: The Case of Women, Environment and Urbanization*, 3 (1991), p. 16, cited in Richard Stren, *African Urban Research Since The Late 1980s: Responses to Poverty and Urban Growth*, *Urban Studies Review* (1992). Third, for illustrations of life within Brazil’s urban favelas, the performance of governance performance by “narco-terrorist” and civilian “militias” embedded within them, how the complex web of violence impact residents’ lives, and the importance of economic and socio-political interactions between the formal and informal sectors, see Robert J. Bunker and John P. Sullivan (eds), *Competition in Order and Progress: Criminal Insurgencies and Governance in Brazil* (Bloomington, IN: Xlibris for Small Wars Foundation/, 2022), 606 pages, especially p. 133-154, Misha Glenny, *Nemesis: One Man and the Battle for Rio* (New York, NY: Alfred A. Knopf, 2016), 320 pages (for a summary, see this author’s book review, *Nemesis: One Man and the Battle for Rio*, in the *New York Journal of Books* [February 12, 2016]), Erika M. R. Larkins, *The Spectacular Favela: Violence in Modern Brazil* (Oakland, CA: University of California Press, 2015), 256 pages; respectively.

2005, 7). They will use so-called “traditional medicine” rather than governments’ health programs – even when those services are provided free of charge. In such cases, culturally accepted informal parallel governance systems might be in place that “certify” the qualifications of those traditional medical practitioners (Jeugmann 2006, 32).

From a state-centric perspective, parallel governance systems negatively impact the effectiveness of official government medical programs. However, from the perspective of those living and working within the informal sector, traditional approaches to prescribing and providing care are often more effective or, if not more, accessible and better than nothing. Alternatively, governments could respond to such traditional practitioners by offering opportunities to learn how to respond to dehydration, take blood pressure readings, administer vaccinations, and supply them with sufficient amounts of rehydration pills and other non-toxic medicines. Approaches that do not attempt to eliminate traditional practices can contribute to the relative effectiveness of both modern and traditional systems and do so in ways that are not threatening to either (Jeugmann 2006, 25, 32-34, 35).

Adaptive. Meeting the need for defensive security or organized self-help – especially among people in informal urban neighborhoods – is the essence of “adaptive” parallel governance. The informal settlements of Lima, Peru, described by Hernando de Soto, are well-known examples (de Soto 1989). However, another variant includes broader criminal syndicates that displace formal government entities by providing “security” and minimal social services in exchange for acquiescence among local residents. Whereas persistent systems survive largely separate from the state, adaptive systems involve symbiotic interactions between those within and outside the formal state system (Picard et al. 2006, 57), often in mutually beneficial corruption or occasionally engaging criminal groups in mutually acceptable development activities.

Reactive. Non-state actors also include those who do not want to achieve sovereign-state power but are reacting to the absence of official channels for political competition. At one extreme are active insurgencies or criminal networks that govern openly in some areas within a state. At the other extreme, sanctuary is sought within domestic havens beyond the effective political reach of formal governments. Examples of such protected arenas can include religious organizations within which people can operate politically – including criticizing the Government – without suffering unacceptable consequences. Examples include Iraq and the United States. However, that option is less available in theocratic states such as Iran or in which religious minorities are not protected by their central governments, as in Myanmar. Other examples include “no-go areas” dominated by drug cartels – e.g., Favelas in Rio de Janeiro and northern areas of Mexico, neighborhood youth gangs in many large urban cities worldwide at one extreme, and at the other, camps for cross-border “refugees” and internally “displaced persons” (UNHCR. 2024 Geneva, CH: United Nations High Commissioner for Refugees: 15, 25).

Intermediative. Although many new sovereign states were established without reference to the distribution of “nations” within or between them, “modernizing” elites are often alienated from many of their fellow citizens. That is not necessarily because those elites are corrupt or are not committed to the best interests of their citizens as they understand them. Nonetheless, the formal sector puts substantially less emphasis on the specific priority interests of people experiencing poverty or others living and working in the informal sector.

Governments cannot control the process; they can only influence it (Silverman 1992b, 16-17). Where governments desire to legitimize entrenched informal governance systems, they must enable effective intermediation between themselves and those systems. Therefore, they should identify effective mechanisms to adapt to, rather than displace, existing informal safety nets. Finally, incentives that motivate government decision-making must be restructured to support supply-side responses rather than supply-driven decisions about policies and their implementation (Silverman 2004, 244).

An important premise underlying classical and neo-liberal macro-economic policy liberalization is that a relatively free market always exists to maintain optimally stable financial performance and economic stability, both domestically and internationally. When formal governments intervene in economic activities, “distortions” are created in the operation of the market. Those distortions are often dismissed as “externalities” – including “parallel economies.”<sup>6</sup>

Or, in the general vernacular, “black markets.”<sup>7</sup>

More than five decades ago, Albert Hirschman (1970) argued that people “exit” from participation in government programs if their “voice” is ignored. But “exit” to where? Sometimes, to other local government jurisdictions or into the informal sector and its systems of parallel governance (*cf* Pierre and Peters 2021, 29). Nonetheless, while it might be possible for people to

<sup>6</sup>As summarized in WIEGO, History, Debate Policies: Historical Perspectives; Recent History. Women in Informal Employment: Globalization and Organizing, the study of informal sectors has evolved into at least five dominant schools of thought: (1) the “Dualist School” describes informal economy activities as marginal to and independent of the formal sector economy; (2) the “Structuralist School” focuses on how informal economy activity is linked to and supportive of the formal economy, reducing costs for formal firms; (3) the “Legalist School” focuses on how the informal economy allows entrepreneurs to operate independent of the onerous legal registration requirements of the formal economy; (4) the “Voluntarist School” focuses on how the informal economy allows entrepreneurs to avoid not only legal registration requirements but also other fees, regulations, and taxes; and (5) the “Rule of Law School” focuses on the illegal nature of the activities of the informal economy. Notably missing, however, is consideration of socio-political parallel governance issues within the informal sector.

<sup>7</sup>The definition of “Black Markets” varies. For many economists, it’s defined as “illicit trade in goods or services in violation of official regulations” (compare to Merriam-Webster, Black-Market). This paper expands the concern for illicit economic activity to focus on governance issues within the black market, especially regarding conflicts. See Owen Griffiths, “Need, Greed, and Protest in Japan’s Black Market, 1938-1949,” *Journal of Social History*, 35/4 (Summer, 2002), p. 825-858.



“*escape*” the reach of formal sovereign-state *Governments*, they cannot opt out of a society’s system of *governance* (except by moving within the ambit of another society’s system of *governance*).

When and where significant numbers of people or groups have never entered the formal governance system, or others “exit” from it to organized informal governance systems, the costs to official governments of enforcing their legal requirements are sometimes perceived as ultimately self-defeating. Indeed, the existence of non-state governance systems can also function as a “safety valve” for governments under more demand pressures than they can reduce on their own. With that reasoning in mind, there is a need to distinguish between “*government*” and “*governance*.”

Distinguishing Government from Governance. Government is best understood here as a formal legal organization that embodies the legal authority of a sovereign state; *i.e.*, government denotes an organization. Any government’s minimum responsibility is the provision of physical security to the population at large and the peaceful allocation of *public*” goods. It is also generally understood that it is for that purpose that governments are endowed with a monopoly of coercive force within society, *i.e.*, the power to make laws and enforce those laws with guns (*cf* Almond and Powell 1996, p. 22).

On the other hand, governance is defined here as “*the processes by which authority, whether codified in law or simply recognized de facto in society is exercised in the management of a country’s economic and social resources*” (*i.e.*, governance is a social function).<sup>8</sup> By these definitions, the performance of the governance function is necessary in any ordered society (*cf* Kaufmann and Kraay 2023; World Bank n.d.),<sup>9</sup> and as a social function, governance – whether legitimate or not – can be provided by both (or either) formal and non-state entities. Nevertheless, specific governments might or might not effectively perform the governance function in a particular place or time. Therefore, where governments do not effectively perform some or most governance functions for a critical mass of their population, other non-state groups will perform them.

That does not mean that one or another parallel governance system is necessarily “*legitimate*.” The basis of support for parallel governance systems is not uniform. Like any political system, parallel governance reflects actual distributions of power. It can be exercised through coercion or voluntary compliance. Some non-state actors provide more scope for individual freedom and stability than the governments they displace; others are dogmatic and repressive (Picard et al. 2006, 56).

Legitimate Governance. Governance is “*legitimate*” if it conforms with shared social norms and values that define appropriate structures of authority, the behavior of those persons exercising such authority, and the appropriate outcome of intra-societal conflict. As such, some conception of legitimacy influences behavior within both governments and non-state governing entities, at whatever level. Such attitudes include notions of appropriate structures of authority and the conduct of public officials. Thus, support for investment decisions depends, to some extent, on 1 the degree of agreement about the legitimate structure of authority among the population of a country, 2 the extent to which political and procedural norms and values are shared among the general population and their purported political leaders, or 3 the degree of congruence between shared norms concerning the structure of authority and the actual structure of such authority.

Legitimate governance is critical for achieving poverty reduction or mitigation. The normative aspect of legitimacy requires accountability of decision-makers to those affected by their decisions. A wide variety of mechanisms can contribute to accountability. Such tools can be divided into two broad categories: 1 those which operate internally within the public sector itself (*e.g.*, managerial supervision and evaluation of individual staff and effective performance of accounting and auditing functions) and those which are a function of “*balances of power*” among public sector institutions on the one hand and stakeholders outside of government on the other hand. Transparency of decisions and how they are implemented facilitates accountability. Central Governments in many countries and ESAs have often relied primarily on internal bureaucratic mechanisms to ensure accountability. More recent approaches increasingly stress external accountability by establishing markets and representative institutions for decision-making.

Thus, any effective approach to poverty alleviation among the heterogeneous poor must move from an essentially uniform focus on *what* specific investments to finance on the one hand to an increasing emphasis on *how* such decisions are made on the other hand; in other words, to a focus on *legitimate governance* that resolves conflict and achieves voluntary compliance by most parties with the outcome. Because both poverty and legitimate governance are subjective, the relationship between them is location and time-specific.

Life at rural village and urban neighborhood levels is institutionally complex. People experiencing poverty understand that complexity and consciously employ tactics to achieve benefits from the institutional hand they have been dealt. People living or working in the informal sector are fully aware of the much broader range of institutions within which they live than the limited number of organizations within and between which formal sector governments and external support agencies (ESAs) interact.

<sup>8</sup>The definition of “governance” provided by Webster’s Unabridged Dictionary—*i.e.*, the “exercise of [the] authority, control, management, [and] power of government” – is rejected here because it limits the performance of the “governance” function to “governments.” Compare with Jon Pierre and B. Guy Peters, *Advanced Introduction to Governance* (Cheltenham, UK: Edward Elgar Publishing, 2021), p. 1-6 of 168 pages. Also see World Bank, *Managing Development: The Governance Dimension* (A Discussion Paper) (Washington, D.C.: The World Bank, August 29, 1991), p. 1. For a criticism of the World Bank’s World Governance Indicators, among others, see Jon Pierre and B. Guy Peters, *Advanced Introduction to Governance* (Cheltenham, UK: Edward Elgar Publishing, 2021), p. 112-113, 123-133 of 168 pages.

<sup>9</sup>See Worldwide Governance Indicators: Interactive Data Access for the complete data set.

Data provided by the previously cited World Bank study is suggestive – although admittedly not definitive. That evidence includes, as examples, 1 informal institutional arrangements for the provision of credit (through, for example, rotating credit societies); 2 voluntary security teams in large housing areas (i.e., in effect, unofficial police); and 3 financing of flood relief, orphanages, medical services, schools, access to water, sanitation, and power, and so forth. First, we look at some generic disadvantages experienced by people experiencing poverty from that World Bank study.

Participation. People experiencing poverty emphasized that participation involves a direct role in actual decision-making or at least having some influence on decisions that affect them. The ability to express and seriously consider those opinions in meetings or less formal discussions was an indicator of participation. Holding institutions accountable for their actual behaviors was also identified as important. Overall, informal institutions created and managed by people with low incomes themselves “scored high on participation.” while formal sector government institutions and, perhaps surprisingly, NGOs scored substantially lower – except for programs directed toward supporting women and “other excluded groups” (Narayan 2000b, 16; 2000c, 149, 203).

However, a positive desire to actively participate in community or neighborhood activities should not be assumed! Few persons place a high priority on participation for its own sake. For example, most people want water delivered to their homes without making any effort beyond turning the tap. Interest in participating in activities related to water service delivery develops only to the extent that people believe that becoming involved improves the efficiency and effectiveness of their water supply above the opportunity cost of that involvement.

Thus, in Kawangu, Indonesia, older women thought participation was “unimportant.” Instead, “they placed ‘fairness/justice and equitability’ at the top of their list.” In Baan Ta Pak Chee, Thailand, some of the *poor* thought that if a decision by others in authority had been based on “thorough consideration” of the assistance being provided to them, then the degree of their participation would not be considered necessary; while in Kaoseng, Thailand, the *poor* characterized participation as “discussion, meeting, and news announcements.” In Chau Than, Viet Nam, a villager said, “They talk a lot, so I cannot remember what they said in the meeting.” (Narayan et al. 2000c, 184) The issue, however, is, in most cases, more complex than these examples suggest.

Incentives for citizens to participate are deeply rooted in the particular physical, economic, political, and cultural context within which they find themselves (Techiman North District Assembly 2017). Identifying the variety and distribution of such location-specific incentives is not possible within the scope of this paper. Nevertheless, at least two incentives, besides the net economic benefit derived from participation, are generic: 1 the outcome of previous experiences with participation in government-sponsored activities and 2 conformity of the institutions for channeling participation with legitimate community organizations already in place.

For many community groups and individuals, experience with government in general has been negative. For example, 1 views solicited but then ignored, 2 data collected locally but analysis not subsequently shared, or 3 promises made but not kept. That is particularly true when superficially participatory methods are employed by governments to mobilize grass-roots political support. The result of such manipulative practices is most often local cynicism concerning the motives and consequences of government-sponsored participatory efforts.

## Intermediation

An essential institutional policy implication for poverty reduction is the need to link mutually supportive activities performed within the informal and formal sectors. That, in turn, will require intermediation between culturally rooted *governance* practices and the governments of the internationally sanctioned formal sector.

Intermediation does not mean the wholesale co-optation of informal governance systems into *formal* systems. That approach – which involves creating parallel formal government *structures* at local community levels – has already been tried in most countries. Rather, *intermediation* implies legitimating pre-existing parallel governance arrangements and focusing on processes that provide mutually supportive links between those unpublished and formal governance systems.

What does that mean in practice? There are two key elements to establishing effective intermediation between formal and unpublished governance systems: 1 focusing on effective interaction rather than uniform organizational arrangements (i.e., focus on the intermediation *function* rather than organizational *structures*) and 2 identifying appropriate agents of effective *intermediation*.

Intermediation Function. Joseph Stiglitz’s argument that the IMF and World Bank went wrong when they confused the *function* of the market with the *structural* prescription of *privatization* is a direct corollary of the argument presented here (Stiglitz 1999). Thus, the notion that “unorganized” civil society participation in development decisions and implementation would require some form of the intermediation *function* was almost immediately transformed into the *structural* prescription of relying on self-proclaimed NGOs.

The difference between a formal sector *co-optation* approach and the *intermediation* approach advocated here is illustrated by the conventionally widespread assumption that effective “*participation*” requires “*community development*.” That approach

assumes that people at the community level – or consumers of specific services – do not have the “*capacity*” to manage their own involvement in development assistance projects. People with low incomes, in particular, are often viewed as “*unorganized*” and lacking the skills required to plan and manage effective project implementation. However, that often means that the ways poor people organize themselves are not “*legible*” to the formal sector (and to ESA staff in particular) and that the *poor*’s *governance* behaviors do not conform to formal sector practices.

Thus, in real terms, the problem most often arises from the fact that 1 by virtue of being informal, the organized poor do not have formal sector legal status and, thus, cannot enter into legal contracts with *formal* sector agencies or 2 they do not include persons who know how to conform to the specific administrative procedures required by the formal sector (e.g., carry-out procurement according to formal government or ESA requirements). Thus, the normal response to those perceived deficiencies is two-fold: 1 “*community development*,” which involves “*mobilizing*” and “*organizing*” people to enable them to participate effectively *as a group within* and in *conformity with* formal sector norms, values, organizational arrangements, and behaviors and 2 “*capacity-building*,” which involves training local leadership and other individuals in those specific skills required to perform tasks according to the rules established by the formal sector.

*Intermediation* implies a substantially different approach than that required by the “*community-development*” and “*capacity-building*” approach. It begins from the assumption that the “*poor*” do, in fact, live within pre-existing organized societies within which some form of effective – if not always optimally efficient – “*governance*” is operative. The problem is, therefore, not a lack of organization and capacity but rather that the norms, values, organizational arrangements, and behaviors are different. Such differences make connections at the interface between the formal and informal systems difficult; ignoring the existence of parallel governance systems makes mutually supportive relationships impossible. Thus, *intermediation* does not require changes in the norms, values, organizational structures, or behaviors in either formal or informal governance. Instead, it focuses on how effective connections can be made between those distinct systems without any substantial changes in either of them.

Transactions between the *formal* and *informal* sectors can be *direct* or *indirect*, *sequential* or *concurrent*. The concern here is limited to direct, indirect, or concurrent transactions. Examples of *direct* transactions are the reliance of many formal sector enterprises on informal sector provision of raw materials and other products or services for their own production processes and *vice versa*. *Sequential* transactions are movements of individuals between *formal* and *informal* sector employment (e.g., migrant workers).

Intermediation Agents. “*Middlemen*” are an example of *concurrent* transactions that enable exchanges of goods and services between *formal* and *informal* sectors by translating the “*contracting*” mechanisms in one sector into the “*contracting*” mechanisms of the other (it should also be noted that such “*middlemen*” are often individual formal sector civil servants who maintain close connections to their home communities and families) (Silverman 2004, 241).

Persons concurrently participating in *formal* and *informal* sector activities can be viewed as “*Commuters*.” *Commuters* include those employed in both the formal and informal sectors of the economy simultaneously (King 1990, *passim*) or who facilitate transactions between them. Thus, “*although the financial markets in the two sectors are highly segmented, demand for credit in one sector is not entirely exclusive of the other sector*” (Silverman 1992a, 22-23). For example, money produced within the informal sector is often used to purchase goods – and to a more limited extent – services available in the formal sector.

Both formal and informal sector organizations have limited discretion over what they can and cannot do. As an example from the finance sector, central banks in most countries attempt to monitor – with more or less effect – commercial banks to ensure prudent lending practices. However, those regulations are not the only disincentive for formal-sector commercial banks’ disinclination to provide small-volume non-collateralized loans to a myriad number of potential borrowers. Other factors include the need to 1 establish multiple branch offices, 2 conduct due diligence on potential small-scale borrowers lacking “*real property*” assets (Silverman 2005a, 33-34; de Soto 2000, *passim*), and 3 train both headquarters and branch employees to provide a welcoming environment for such borrowers (personal experience). That latter change is especially important to offset the intimidating effect of the often ostentatious physical structures favored by established commercial banks and resentments resulting from the dismissive or explicitly insulting treatment received from formal banking personnel.

Although sometimes subject to exploitation, the intermediation role is not inherently exploitive. Transaction costs incurred by non-state lenders often reflect the economic value of services provided (Silverman 1992a, 23). Nonetheless, *ad hoc* mechanisms currently employed for maintaining effective links between the *formal* and *informal* sectors minimize the potential positive contribution that activities within the latter could make to economic development and the improved efficiency derived from mutually supportive links between *informal* and *formal governance* arrangements. The fact that the “*community development*,” “*capacity-building*,” and “*intermediation*” approaches are different does not mean that they are necessarily mutually exclusive. Nevertheless, a primary emphasis on crafting effective means for efficient intermediation should receive increased attention.

## Formalizing the Informal Sector?

Viewed from the conventional formal sector perspective on economic development, the informal sector, as an illegal and effectively unregulated segment of the economy, is a problem. But that problem is compounded substantially by the existence of parallel governance. The solution to the problem of parallel economies offered by many free-market economists is to recognize the reality of the market-oriented informal (*i.e.*, parallel) economy and integrate it into the formal and officially sanctioned economic system. By so doing, it is believed that mutually supportive relationships can be established between the interests of both the public and private sectors. As only one example of this reasoning, if a Government can legitimate and regularize economic activities currently undertaken in the informal sector, it should be able to increase its tax revenues while reducing the cost of operations for the private sector.

Unfortunately, any attempt to integrate formal and informal governance systems will likely be complicated (Ostrom et al. 1993, 183-184). Thus, many governments have relied on structural co-optation instead of attempting functional integration. For example, some observers have argued that the formal establishment of the *panchayat* system by the Indian Federal Government in the late 1950s was an attempt to transfer effective authority over “*common property resources*” (CPR) at the village level from traditional local leaders to more cooperative, supposedly development-oriented, persons (Chandaka 2021, 43-44). However, the *new panchayat* leadership lacked the ability to provide the positive incentives that had previously motivated the users of CPRs to contribute toward their upkeep. Thus, the new *panchayat* system established a substitute form of governance involving custodians and managers whose primary motivation was to exploit them to secure subsidies from the Federal and State governments (Datta and Sodhi 2021, 9-24).

## Conclusion

This paper has outlined a path toward greater clarity in the study of “poverty” by emphasizing the utility of a multi-disciplinary approach, the core of which relies on the concept of parallel governance. It has argued that we should expand the parameters of our research, study, and teaching about poverty and domestic and external attempts to reduce it to include “*parallel governance*.”<sup>10</sup> Top-down attempts by formal governments to reduce poverty must be compatible with existing local parallel governance systems that focus primarily on mitigating different manifestations of poverty among the heterogeneous “poor.” However, under conditions where *formal* and *informal* governance systems exist largely apart, the transaction costs for effective interactions between them are unnecessarily high.

It is becoming increasingly clear that the structures within which we currently organize ourselves to *do* poverty reduction are founded on a view of both domestic and external political systems that do not conform to current or likely future political realities. Any new paradigm will need to acknowledge the importance of crafting poverty alleviation programs that differentiate among different types of poor people, adapt poverty alleviation programs to their own subjective perceptions, and utilize *pre-existing legitimate* decision-making processes where they exist that mediate the resolution of conflicts among people living and working within the informal sectors themselves, and between them and those more visible segments of a society’s social, economic, and political life.

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<sup>10</sup>In my current book project, tentatively titled “Parallel Governance: Institutional Change in Vietnamese History,” I argue that parallel governance is only one of several related concepts that, in combination, are key to a more inclusive understanding of political activities in countries worldwide. Nonetheless, addressing all three of those core concepts in this one paper would require more space than available here.



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