INSTITUTIONAL DEVELOPMENT IN ETHIOPIA: CHALLENGES AND POLICY OPTIONS

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Abstract

Strong, vibrant and credible formal and informal institutions are critical for the harmonious existence and development of any society. Their multifaceted nature, as well as their multiplicity and variety of the functions they fulfill for society makes institutions the indispensable cornerstones of social structure. This is mainly because they serve as a building-block through which countries developmental goals and aspirations can be realized. Thus, the paper was intended at identifying the challenges affecting the development of transparent, accountable, effective and well-functioning institutions in Ethiopia through the
review of relevant scanty literature on the subject matter and data gained from CPIA. The review indicates organizational fragmentation, weak leadership, absence of continuity, lack of adequate resources, donor dependence and conflicting mandates, problem of governance, failure to integrate traditional values and norms, strong politicization during reforms as well as political instability are the major challenges affecting the development of capable institutions in Ethiopia. Hence, redirecting attention towards domestic norms and societal values, generating capacity for leadership through continuous and progressive training and education, and promoting institutional coherence through prioritizing, coordinating and integrating goals are suggested as appropriate policy options among others to ensure the development of adequate and capable institutions in Ethiopia.

**Keywords:** Institutions, institutional development, challenges, policy options, Ethiopia

**Introduction and Justification**

The renowned institutional economist states that institutions are the rule of the game in a society or, more formally, are the humanly devised constraints that shape human interaction (North, 1990). They involve laws, social norms, traditions, beliefs, and other established rules of human behaviour (Asefa, 2003). Institutions also shape all interactions, including in the family, community, and political and economic spheres, influencing how societies develop (UN, 2016). Institutional development, on the other hand, involves the process of improving the ability of institutions to make effective use of the available human and financial resources (Israel, 1987). Israel further asserted that characteristically, institutional development (or institutional analysis) is concerned with management systems (Ibid, 1987). Hence, Institutions and institutional development plays a decisive and irreplaceable role for the development of
societies, developed or developing. This is mainly because they serve as a building-block through which countries developmental goals and aspirations can be realized.

The long-run positive association between governance and institutional quality on one hand, and economic growth and income levels on the other, is strong both conceptually and empirically (Brooks, Hasa, Lee, & Zhuang, 2010). Institutions are, therefore, the backbone of an economy because they determine the incentives players face and as a result affect our behaviors and thus economic outcomes (Luiz, 2009). In general, it can be said that the existence or the lack of efficient democratic institutions explain why some nations are rich and others continue to be trapped in poverty (Asefà, 2003). Because weak institutions undermine growth and strong institutions support growth (Muhula, 2019).

Institutional development in Ethiopia so far was not a continuous process with steady progress, rather was subjected to strong politicization that led to failure of institutions together with respective regimes (Asfaw, 2019). Beginning from the period that marked the process of institutional building, the country is at its third government implying at least two fundamental changes of institutions in Ethiopia. Each successive regime has been abolishing the existing institutions established by the previous regime to install new and modified ones where there were gaps in the transition to the upcoming government. Majority of the current institutions in Ethiopia are established after the downfall of Derg and the coming to power of EPRDF.

Unless a country has institutions that can properly and effectively function, it is difficult to realize development. Yet, as rightly pointed out by Admassie, one of the critical limitations of Ethiopian society is its lack of institutions that are adequate for the accomplishment of its activities (Admassie, 2006). Further, according to (FAO, 2019) one reason for vulnerability of Ethiopia to hazards is weak institutions among others. Thus, the authors argue that one of the main stumbling blocks confronting all the efforts made to put the
country on the road to development and progress in the last 150 years was the lack of appropriate and capable institutions with the required quality and capacity that can function in a transparent and credible manner.

Though the country pursued multiple structural and institutional reform agendas in the last two decades to develop institutional capacity, most of them were not able to achieve their intended target. According to WB (2013), this is mainly because ‘political and technical reforms were not separately treated to avoid failure’. Further, the reform agenda was suffering from ‘strong politicization’. Another defining reason for institutional failure in Ethiopia is the historic problem of governance which has been characterized by the concentration of power among few elites, engaged in arbitrary use of power over the silent majority of the population (Asfaw, 2019). Therefore, it is with this in mind that this project on institutional development in Ethiopia will be conducted with the intention of understanding the trend and identifying gaps and. Auxiliary, as one can understand institutional development, particularly in Ethiopian context, is an ongoing process which calls for progressive empirical enquiry.

So far, there is a scanty empirical study undertaken on the issue of institutional development in Ethiopia in spite of the existence of grave institutional challenges. Further, the available scanty literature are fragmented and isn’t entirely aimed at analyzing the challenges hindering the development of inclusive, capable, effective, transparent and well-functioning institutions that can contribute to the realization of the country’s vision of joining middle income countries by 2025. Henceforth, this paper is targeted at empirically identifying the challenges hindering institutional development in Ethiopia through review of relevant literature and data from CPIA, and thereby suggesting mitigating policy options.
Institutions and Institutional Development: Roles and Relevance

Whether or not institutions are needed to advance societies is not a matter of debate. A lot of evidence does exist about the importance of not only having institutions but also better and well developed ones through cross country and country specific studies.

The first and foremost role institutions play is to promote economic growth and development that North stated, institutions affect the performance of economies is hardly controversial (North, 1990). Even though the evidence for a casual relationship is not conclusive, having better institutions help achieve economic growth. Hence it is equally important to have better institutions as it is to have them at all. Pande & Udry argue, institutional quality is a significant determinant of a country’s growth performance (Pande & Udry, 2005). Further, they found countries with better institutions are richer while those countries that are poorer seem to have less developed institutions. The long-run positive association between governance and institutional quality on one hand, and economic growth and income levels on the other, is strong both conceptually and empirically (Brooks et al., 2010). Institutions are therefore the backbone of an economy because they determine the incentives players face and as a result affect our behaviors and thus economic outcomes (Luiz, 2009).

Having institutions with the right quality not only promotes economic growth and development, but also speeds up the pace of the same. According to the World Bank, by distributing rights to the most efficient agent, institutions can enhance productivity and growth (WB, 2019). In countries having better institutions, long-run growth is faster and, there is better law enforcement, increased protection of private property rights, improved central government bureaucracy, smoother operating formal sector financial markets, increased levels of democracy, and higher levels of trust (Pande & Udry, 2005). In general, it can be said that the existence or the lack of efficient democratic institutions explain why some nations are rich and others continue to be trapped in poverty (Asefa,
Because weak institutions undermine growth and strong institutions support growth (Muhula, 2019).

The existence of better quality institutions in a country ensures sustainable economic development as well. According to Bateman sustainable economic development is a complex process involving the interplay of institutions, governments and market processes (Bateman, 2010). A positive correlation between ‘good’ institutions and growth may reflect reverse causation; faster growing countries may have ‘better’ institutions because they can afford them (Pande & Udry, 2005; WB, 2019). Policies affect which institutions evolve, but institutions too affect which policies are adopted (WB, 2019). They maintain a sustainable rate of population growth and foster welfare-enhancing peace; the joint mobilization of resources; and beneficial policies, such as the provision of public goods (Greif, 2006).

Institutions are established by people to guide the pursuit of equitable and equal fulfilment of their human rights and needs (UN, 2016). Institutions, together with the standard constraints of economic theory, determine the opportunities in a society (North, 1990). Formal and informal institutions structure the distribution of opportunities, assets and resources in society (UN, 2016). Hence, having institutions that guarantee equitable distribution of resources ensures fairness in society. One form of resource that has gained momentum in this era is information; it has become a source of income and power. They can affect the production, collection, analysis, verification, and dissemination or the withholding of information and knowledge. They do this for participants in, and between, communities and markets (WB, 2019). To this end, when institutions are designed to provide resources to all citizens equitably, at times offer affirmative action to those in need, inequalities in access to resources and income can be reduced. Muhula concluded institutional arrangements determine how public functions are carried out, how resources are allocated, and the direction government interventions take (Muhula, 2019).
Behavior and actions of different actors can be shaped as a result of constraints put by institutions. North states institutions include any form of constraint that human beings devise to shape human interaction (North, 1990). He also articulated that the major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction. They can reduce the potential for disputes and help enforce contracts (WB, 2019; Bedasso, 2017). This is because the interactions among citizens, the state, and firms are mediated by institutions - the rules of the game - that determine how these relationships are manifested (Muhula, 2019). Strong institutions would also enhance trust in the state, especially at the local level. The effect would be a capable state whose institutions are dedicated solely to improving citizens’ well-being and supporting the transformation to a high-income economy (Muhula, 2019).

As mechanisms of overseeing resource flow, the presence of better institutions improves the outcomes of collective investments and interventions including aid. Sasaoka suggests developing a country’s own institutions increases aid effectiveness by strengthening the country’s sustainable capacity to implement and account for its policies to its citizens and parliament (Sasaoka, 2005). Whilst good institutions would certainly make these interventions more successful we need to realize that they are a means to an end rather than an end in itself (Luiz, 2009).

**Challenges of Institutional Development in Developing Countries**

The issue of institutional development, especially under the slogan of “good governance”, has recently come to occupy the central stage of development policy debate (Chang, 2017). During the last decade or so, the international financial institutions have come to recognize the limitations of their earlier emphasis on “getting the prices right” and have accepted the importance of the institutional development that underpins the price system.
One of the most critical problems facing policymakers and political scientists today is how developing countries acquire high-quality public and private sector institutions. Countries rarely succeed in the absence of state institutions that can establish and enforce rules, collect revenue, and provide public services (Buntaine, Parks, & Buch, 2017). Wealthy countries have responded to this challenge by focusing the efforts of bilateral aid agencies and multilateral development banks on building and reforming public sector institutions in developing countries. Nevertheless, most of these externally-sponsored programs fail during implementation or falter in the out-years, with their achievements often consisting of shallow, cosmetic changes to “institutional forms” i.e. how institutions are organized rather than improvements in “institutional function” i.e. the ability of public sector institutions to solve public problems (Buntaine, Parks, & Buch, 2017).

In most cases, developing countries pass legislation that criminalizes human trafficking but fails to properly investigate or prosecute the most serious violations of the law; establish courts and appoint judges that are nominally independent while tacitly endorsing interference in the affairs of the judiciary; and create anti-corruption commissions with no intention of identifying or recovering public funds that are stolen. Henceforth, we argue that Africa is caught in ‘institutional trap’ which significantly contributes to the existing level of poverty and backwardness in the continent.

Every political system, either developed or adopted, has an impact on the structure of society and the level of development. Bedasso argues that foreign intervention in the developing countries hinders the development of independent institutions, and protects the strategic interests of their former colonizers (Bedasso, 2017). Ha-Joon Chang also contends most of the structures of institutions in African states are adopted from European countries and USA, which in turn contributes to their low performance (Chang, 2017). Nevertheless, we argue that the challenges Africa faces in developing viable institutions are not
limited to the adoption of foreign institutions, but are also rooted in domestic norms that define society itself. Sometimes, these challenges have to do with the incompatibility between foreign and domestic institutions. The fundamental issue then is to understand the African societies, cultures, and other dynamics that have ensured stability in the past and that need to be recognized when adopting contemporary foreign institutions.

African countries are characterized by fragmentation of various aspects of their political economy, including their institutions of governance (Williams & Tremblay, 2016). Large segments of the rural populations, the overwhelming majority in most African countries, continue to adhere principally to traditional institutions. The post-colonial State, on the other hand, essentially emulates western institutions of governance, which are often at odds with traditional African cultural values and the region’s contemporary socio-economic realities. Fragmentation of the institutions of governance, along with economic and social fragmentation, has contributed to Africa’s crisis of state-building, governance, and economic development.

**Challenges of Institutional Development in Ethiopia**

Institution building is a lengthy and complex undertaking anywhere, yet in fragile and conflict affected settings the challenges that must be navigated are especially daunting (Barma, Huybens, & Viñuela, 2014; Asfaw, 2019). Ethiopia is one of the countries identified as fragile in not few literatures, hence not immune to having problems related to developing its institutions. Some of the major gaps in institutions and institutional development in Ethiopia are identified in this part of the paper.

The advancement of any society can stand on a firm ground if and when it is found up on the ingredients the society owns. The same goes for institutions that they tend to be better quality when established based on indigenous institutions. Especially in countries where there is frequent change in governments such indigenous institutions can survive transition and continuity
can be maintained. Inability of Ethiopian governments to include such indigenous institutions into formal ones is the first and foremost gap of institutional development in Ethiopia so far. The United Nations annual report augments this challenge as ‘most of the Ethiopian institutions are copied’ (UN, 2018, p. 17). Indigenous institutions may not be available in every aspect of life but wherever they are it would have been better to include them.

As pointed out by Admassie, one of the crucial limitations of Ethiopian society is its lack of institutions that are adequate and capable for the accomplishment of its activities (Admassie, 2006). Most of the institutions in Ethiopia are suffering from capacity deficits i.e. human, material and financial (UN, 2018; FAO, 2019; Asfaw, 2019). The existence of limited resources is in turn resulting in the disruption of infrastructure and public service delivery (UN, 2018). Contrary to this reality, Assefa argues institutions should provide individuals to work hard, to save and invest, and for entrepreneurs to take risks and to actively pursue economic opportunities, for firms to improve their production methods, for governments to use public revenue efficiently (Assefa, 2001). Unless a country has institutions that can do so, it is difficult to achieve development. Admassie further stressed one of the main stumbling blocks confronting all the efforts made to put the country on the road to development and progress in the last 150 years was the lack of appropriate institutions that are able to operate impartially (Admassie, 2006).

Institutional quality is now recognized as a key driver of development (Wick & Bulte, 2009). This implies that it is equally important to have quality institutions that are capable of facilitating a proper functioning society as much as it is important to just have them at all. Such concepts of quality in institutions may imply such parameters identified by scholars that associate institutional quality with strength, transparency and credibility. Unfortunately, African countries are often plagued by underdeveloped institutions which makes doing business in Africa costly (Luiz, 2009). When institutions are bad (“grabber-
friendly economies”), the rent seekers are able to grab a large share of the national resource pie for their private benefit (Wick & Bulte, 2009). According to FAO, one of the reasons for vulnerability of Ethiopia to hazards is weak institutions among others (FAO, 2019). Moyo argues another explanation put forward for Africa’s poor economic showing is the absence of strong, transparent and credible public institutions - civil service, police, judiciary, etc. (Moyo, 2009). This is also the case in Ethiopia as there is institutional fragmentation coupled with lack of credible, transparent, accountable and well-functioning institutional setup through which organizations can operate in a proper manner.

In order to ensure continuous improvement in institutional quality, reforming institutions is a widely accepted approach. In the last two decades, Ethiopia has pursued multiple structural and institutional reforms to build a developmental state (WB, 2013). But, among the drawbacks of such reforms was strong politicization and political instability. After assessment of Ethiopia’s public sector reform, The World Bank further added, political and technical reforms were not separately treated to avoid failures. One of the lessons is that political commitment of the government, leaders, and the balance given to political and technical considerations are the determinant factors for the success of public service reform (Ibid, 2013).

Given institutional setting can provide a rich variety of incentives to different individuals, depending upon their economic, social or political position (Pande & Udry, 2005). In other words, institutions may well have a laudable stated public purpose, but their real reason for existing, changing or not changing can most often be put down to the ‘distributional advantages’ that accrue to key individuals and groups associated with these institutions (Bateman, 2010). Poor countries (which Ethiopia is one of) are often riddled with non-existent property rights for the majority of the people, the erratic enforcement of the law, elites which have unlimited political and economic power and use it for extractive purposes, and high levels of inequality (Luiz, 2009). At times when the
distribution of such incentives is distorted and is distributed inequitably, it creates more problems than the good it does. As is stated by Wick & Bulte, once in place, institutions based on unequal distribution of power and income are beneficial for (domestic) elites and are therefore perpetuated and reproduced over time (Wick & Bulte, 2009). Rulers devised property rights in their own interests and transaction costs resulted in typically inefficient property rights prevailing. As a result it was possible to account for the widespread existence of property rights throughout history and in the present that did not produce economic growth. (North, 1990). Such gaps can significantly affect long run sustainable development in the country.

At the centre of the institutional failure in Ethiopia is the historic problem of governance, which has been characterized by a concentration of power among a few elite, engaged in arbitrary use of power over the silent majority of the population (Assefa, 2001; Asfaw, 2019; UN, 2018). A large part of the blame regarding Africa’s marginalization is a result of poor governance (Luiz, 2009; UN, 2018). But, the involvement of citizens in the process of development, including institutions, is proven to promote a sense of ownership. This can guarantee development of institutions on a continuous and uninterrupted manner. But, Asfaw summarized the approach adopted in the process of institutional building efforts by the last three consecutive governments in Ethiopia as one that didn’t involve local people i.e. low ownership and participation. In their institutional-building schemes, what they have followed in differing degrees is a top-down approach (Asfaw, 2019). In many cases copied from the experience of other countries. But institutions that work well in one country may be unsuitable in another location lacking the supporting norms and corresponding institutions (Luiz, 2009). In addition to this, CIDA and WB identified decreasing democratic space and an increasingly constrained role for actors other than the public sector in the development of Ethiopia as one of the challenges for sustainable institutional development (CIDA, 2010; WB, 2013).
Mengesha and Common identified poor capacity even for strategic and cabinet level decision making as one of the problems of public management systems in Ethiopia (Mengesha & Common, 2006). In addition to this, addressing the problem of lack of capacity has been on the government’s agenda for intervention as well. But CIDA argued a rather limited view of capacity development approaches and over reliance on training as a sole means of developing that capacity (CIDA, 2010). According to the United Nations, institutional development in most developing countries including Ethiopia is affected by weak leadership (UN, 2018).

Institutional development is a slow process; it certainly takes longer than for the implementation of a more traditional investment (Israel, 1987). So enough time lapse between building institutions and the realization of expected outcomes, whether in the form of level of development in the institution or otherwise, need to be given unlike the frequent restructuring approach the government seems to be implementing right now.

**Building Inclusive, Effective and Transparent Institutions in Ethiopia: Policy Options**

On the basis of reviewed theoretical and empirical literature as well as data consulted on the subject, the resulting policy options are suggested by the authors aimed at mitigate the existing institutional development challenges and thereby build inclusive, effective, transparent and well-functioning institutions in Ethiopia.

- Whenever reforming institutions, political and technical reforms have to be treated separately as the failure to do so resulted in a spectacular failure as our experience of the last three decades manifests. Also, all the concerned stakeholders including government, private sector, civil society organizations and community leaders have to engage in the
process starting from the early stage to build a strong sense of ownership and participation.

- In the process of building and developing efficient, effective, transparent, strong and credible institutions, consideration for domestic norms and societal realities is relevant to make the process sustainable.

- Generating the capacity for leadership through continuous and progressive practical training and education programs are essential. This is a relevant policy option given the existence of capacity deficit in most institutions operating throughout the nation.

- Promoting organizational coherence by prioritizing, coordinating and integrating goals is appropriate towards alleviating the challenge of organizational fragmentation.

- Institutions have to be transparent and professional, such as ensuring an independent judiciary, law enforcement agencies, and bureaucracy in order to attract inflows of foreign capital, facilitate economic development and domestic transformation of the society in general. This will in turn curtail corruption and malpractice. Such policy measures will promote equity and the fair distribution of the fruits of economic growth, as happened in the recent past in the East Asian economies, where the state has played an important role in successfully building institutions.

- Political commitment is required on the part of political leadership. In the absence of political assurance from leadership, developing institutions is absurd.

The authors believe for the smooth functioning of institutions, the executive branch of government must distance itself from any business enterprise and adopt a neutral position. It must limit itself to creating a favorable condition for the legislative and judiciary branches to be able to play their designated roles, refrain from any form of interference in their functions, and simply shoulder its executive responsibilities. Hence, we believe through the appropriate
consideration and effective application of the suggested policy options, institutional development challenges of Ethiopia can be minimized, if not totally eradicated. We also recommend further empirical and review studies to widen the content and coverage of the issue i.e. institutional development.

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