

Investment Climate and Business Environment after 1991: Institutional
Development in the Post Liberalization Period in Ethiopia with Special
Reference to Health and Education sectors

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Research Report,
Unity University Consultative Project,

November 2007

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Citation: Gezahegn, A. and Wakeyo, M. B. (2007) Investment Climate and Business Environment after 1991: Institutional Development in the Post Liberalization Period in Ethiopia with Special Reference to Health and Education Sectors. Research Report, Consultative Project, Unity University, Addis Ababa, Ethiopia

Abstract

With the liberalization of the Ethiopian economy after 1991, even though encouraging results have been registered, institutional constraints are observed in the stagnant records in social development. Social sector development that started to engage the private sector requires careful assessment of the institutional set up of the education and health sectors. This study focuses on examining institutions having a supportive, control or regulatory, or coordinator roles in the private sector in the areas of health and education in Ethiopia and lay basis for further study. Qualitative analysis of the literature review consists of discussion on social and economic environment, the political policy, macroeconomic framework and the juridical bases, which will be used to assess the opportunities they had set out and to inform pointers to further enhance and deepen their effectiveness. The findings mainly indicate that as different from the other private sub-sectors associations such as manufacturing, the private health and education sector institutes have less active institutes to interact with the government, among themselves, and with the society, and the recently established institutes lack the experience to accomplish this, and pinpoints to more collaborative work with stakeholders.

*Key: Investment Climate, Private Investment, Institutions, Health, Education, Ethiopia
JEL: E22; I28; I15; I25; D02*

1. Introduction

During the post liberalization, private capital investment and privatisation in Ethiopian economy are extensive. This is after a continuous stagnation during the *derg* regime that some improvements in economic performances emerge. Despite the encouraging results, however, there is major institutional constraint that contributed to the stagnant records in development. Growth and development requires careful assessment of the past institutional setups and policy base, as it discerned by business, current and past policy makers, business associations, donors, and the academia and research institutions. This will have substantial contribution to form a social basis for the restructuring and formation of adaptable institutions that drive to growth and development. By implication reforms and policy and non-policy reforms will have inputs as the aim of economic reform is to provide a framework of laws and institutions that will further boost development outcomes. Thornton (1998) explained the role of institutions in supporting policy /reform objectives with respect to East Europe as follows. “Initial reform policies- liberalization, stabilization, and privatization- have set the East European transition economies well to integrate with Europe- but successful implementation of each of these

policies assumes the existence of supporting institutions and government administrative capacity. Where they are lacking -notably in former Soviet Union-the desired policy results have been harder to achieve.”

In this study, we will focus on examining institutions having a supportive, control or regulatory, or coordinator roles in the private sector in the areas of health and education in Ethiopia. One can list many of the past and present institutions, evaluate their effectiveness and efficiency in handling the required agenda, and compare them with the experiences of other developed and developing countries. This literature review consists of relevant themes such as discussion on social and economic environment; the political policy, macroeconomic framework and the juridical bases; which will be used to assess the opportunities they had set out and to inform pointers to further enhance and deepen their effectiveness. Finally this provides the bases for opinion survey by users of services, business and public institutions partitioning in the second phase of the research project. Given those objectives, first we highlight what institutions are and their importance.

In his classic work, Nobel Laureate Douglas North has defined institutions as sets of formal and informal rules that constrain behavior in society and they reduce uncertainty by providing a structure to everyday life (North, 1990); or, in a broader sense “the humanly devised constraints that structure human interaction.” Institutions provide a framework within which individuals seek to coordinate their separate activities; provide information and incentives and define terms of access to membership. "Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). The institutional framework of society includes both the formal and informal "rules of the game" as well as the resulting organizations that people create and within which they interact to reach their individual and collective goals. Markets sometimes fail and government intervention is needed. Hence, because the social rates of return on merit goods exceed private rates of return, there is a legitimate reason for public intervention. Intervention through institutions is essential to make them more effective in advancing the welfare of its citizens and in managing society in line with the mandated authority.

Thornton (1998) discussed institutions with respect to property rights and in its role of creating reliable business environment. Private owners who receive the gains from moving resources to higher value uses will have incentives to create institutional arrangements supporting such transactions; thus, resource owners have incentives to create market institutions. Moreover, differences in initial endowments and tastes for risk and incentives to enjoy specialization and economies of scale will lead individuals to establish institutional arrangements that allow them to partition property rights in a variety of different ways. Just as competitive markets force out inefficient producers, similarly, institutions that allow groups of individuals to enter into a wide variety of contractual arrangements will allow them to select among contractual forms (which reduce the sum of production and transactions costs). Property rights not only determine the individual's rights to control and benefit from use of physical assets, but also define the individual's ability to exercise ownership rights in one's own skills and abilities. In other words liberty implies the right to own and direct oneself and the fruits of one's effort. A good example on the importance of property rights to our exercise of freedom is demonstrated in the case of China, where in pre-reform China, political authorities held the right to direct individuals to a place of work and to define the conditions of their employment controlled their rights over labor were enforced by a rationing system that gave individuals access to rations of basic commodities while soon reforms, it became much easier for workers to move from place to place in search of better work opportunities, giving them greater *de facto* property rights over their own human capital (Trontom,1998). Transitional economies are characterized by rapid change in institutional rules of the game and constraints & opportunities that individuals face.

With respect to Ethiopia a recent report of the World Bank discussed that the underdevelopment factors of Ethiopia, which is the lack of institutions over the long period (World Bank, 2007b). In property right regime as defined clearly the Ethiopian government ensures that private capital plays a significant role in the economy. Elimination of discriminatory tax, credit and foreign trade treatment of the private sector, simplified administrative procedures and established a clear and consistent set of rules of regulating business are parts of this. In June 1996 the government issued a revised investment code, which inter alias, provides incentives for development related

investment, creates incentive in the education and health sectors, permits the duty free entry of capital, reduces the capital gains tax from 40% to 10% and give priority to investors in obtaining lease land. Also secured interests in private properties such as housing is protected and enforced by the government (MIPA-web).

Overall, whether the private sector has the necessary and active institutes to advance private investment and its effectiveness in education and health is a research question. The lack of institutions are reflected in both the health and education sectors and we would like to look into them in this study based on relevant country documents such as legislative regulations, reports, statistical data, previous studies, theoretical and empirical and literatures that are based on the experiences of developing countries. The literature review helps to frame sources of information that has to be identified for the main study. This includes the stakeholders that has to be involved as a source of data so that which will be inputs to assess the investment climate on health and education service rendering (finance, land, utilities, infrastructure, taxation, customs, etc), the role of the government (property rights, licensing and permits, certification, accreditation, etc), the role of the private sector, the citizens, and the donors.

2. Highlights to the service sector and attached institutions in Ethiopia

2.1 Background to the service sector in Ethiopia

The service sector in Ethiopia on average contributes about 40.7% to the gross domestic product for the period 2001/02-2005/06. This is composed of the distributive services, which contribute about 19.7%, and the non-distributive services contribute the rest 21%. The education and health services are part of the non-distributive services. The contribution of Education and Health sub-sectors over the period is 2.9% and 1.1% on average respectively (CSA 2007), which is very low by developing country standard.

The Human Development Index (HDI) published annually by UNDP combines macro-economic and socio-economic indicators to provide an estimate of the level of development in a country. Even though the HDI for Ethiopia has been gradually increasing from 1985 to 2004, the figure for 1999 reveals that Ethiopia ranks as the 172nd of 174 countries in 1999 (UNDP, 1999) and as the 170th of 177 countries in 2004 (UNDP, 2004). In this regard, the lack education and health services rendered are in

deficit. The policy document of both education and health characterize the services that there is insufficient resource allocation in those social sectors (e.g. MOE, 1996). Health and science and technology undertakings suffer from lack of adequate infrastructure, limited access to scientific and technological information and shortage of trained manpower. Particularly, resources in the hands of the government are limited and the involvement of the private sector is vital.

Basically, the private sector, in investment decision-making compares the marginal benefit with the marginal cost; in the real world, however there is market failure, and consequently there is a need for government intervention to control quality of education and health services. Similarly, there can be government failures where there is a need for institutions and dialogue between the private sector and the government and also Private-Public Partnership.

2.2 Social Sector Institutions and their Features in Ethiopia

In the post liberalization period, there is expansion of social services rendering health and education institutions. Education for all, as a motto of public sector policy, lead to the establishment of many public universities in different regions, licensing investments by private education and health centres at different levels, health extension programs. These are some of the major outcomes of the policy development in the provisions and delivery of social services. The 2005/06 reports show that at the end of the budget year, there are 16,629 public primary and secondary schools, and 1,063 non-public primary and secondary schools, where they add up to 17,692. There are a total of 194,459 teachers and 12.4 million students learning in those schools. There are also 126 public technical and vocational schools. The number of public universities and training institutions is 13, while there are 11 private higher institutions in 2004/05. In the public and private higher institutions, there are 129,388 and 20,436 students enrolled in 2004/05 (CSA, 2007). With regard to health centres, according to those report there are 3231 clinics, 723 health centres and 131 hospitals serving the population in 2006. The 1906 clinics, 25 health centres and 46 hospitals are non-government privately owned (CSA, 2007). As per the plan of the MoH with regard to the health extension, the target is to build one health post in each kebele (very local administration unit) and employ two health service providers.

Accordingly, since 2004/05, after a target plan of 15,000 until the 2007, about 9914 are accomplished (66%).

In an effort to assess and see the provisions and delivery of education and health including supporting institutions, which is a subject of our study, various available literatures were reviewed and consulted. Most of the literatures focus on important tasks such as evaluation of newly established health and education institutions, leadership, accreditation, certification, quality control, the customer service relationships, stakeholders involvements, etc (Rayner and Gunter, 2005). In relation to the education sector the available literature focused more on higher education. In this regard, the partnership between private Higher Education Institutions (HEIs), the government, and Private Higher Education (PHE from now onwards) at home and abroad is not that strong and effective. Similarly the partnership between private HEIs and employer companies is weak and this can hamper investment and education sector unless there emerge institutions filling this gap (Ayenew, 2005). Some studies refer and help to map out and assess the importance of the existing supporting institutes and the need for establishing appropriate institutions to support. The literature and supporting evidences would be reviewed including proclamations, publications and policy papers.

After the 2003 reform, two autonomous public institutions were established. They are Higher Education Relevance and Quality Control Agency (HERQA) & Higher Education Strategic Centre (HESC), which are expected to control quality. In the very recent, attempt Associations of Private Colleges and Association of Private Health Institutions are established with an objective of strengthening the role of private sector Education. There is no literature on what roles those institutions play in coordinating the private sector efforts for various purposes- policy dialogue for instance, unlike the case of other Private Sector coordinating Institutions- vis. Ethiopian Chamber of Commerce & Sectoral Associations.

However, except that the already existing public supporting institutions that facilitate service provisions and rendering by both public and private institutions, the emergence of new supporting institutions relatively was limited. The existing institutional facilities, whether it is regulatory or supporting role, are predominantly public. The public institution in Ministry of Education and Ministry of Health are structured in such a way

that to accommodate the roles expected of them in regulating and supporting both private and public service rendering institutions. The departments in the respective ministries in undertaking the activities expected of them. It can be hypothesized that, the departments in the MoE & MoH could have been too constrained by the constraints on other similar public institutions to undertake the required roles (staffs, incentives, management, constraints), (e.g. ESDP, 1998; PASDEP, 2005). In this line, the possibility that gaps can arise in handling the widely distributed and expanded education and health institutions by both private and public programs are not given sufficient attentions. Despite, the little number of literatures availed on this issue, existing literature indicates and supports the existing gaps in those forms of institutions.

2.3 Social and Economic Environment

Ethiopia is a low-income developing country with an average per capita income of only 120 USD. About 85% of its population exists in rural areas and earns its livelihood from agriculture. Agriculture, Industry and service sectors respectively contribute about 42%, 13% and 45% on average to the GDP, which is an economic structure of subsistence economy. In this subsistence economy, poverty is significantly affecting the lives of the population. For instance, some 35-40% of the population spends less than required to consume 2,200 calories of food per day; many people live in conditions substantially below the basic poverty line: about a fifth of the households do not have the resources even to achieve a daily intake of 1,650 calories. The levels of social and economic infrastructure are extremely low: roads, electricity, telecommunication coverage and radio access, schools at different levels, health centres at different levels, water (only 35% in rural areas in 2007) and sanitation (only 13%) are at a level of below the average of low income countries and the average of sub-Saharan Africa (World Bank, 2007a). Diarrheas, acute respiratory disease, Malaria (in lowlands), are major health problems and HIV/AIDs incidence is also growing in the country.

The level of science and technological development of the country is low due to its low level of education and human development index. The country has a high level of adult illiteracy rate of 41.5% (33.8% for women and 49.2% for men), (ESDP III, 2005). According to the SDPRP (2006), 70% of the adult population is illiterate (MOFED,

2005). About 25 million adults working in agriculture, by far the main sector of employment, are lacking basic education, skills and technical knowledge (Sisay, 2003). Due to the low level distribution of education and health, measured in terms of standard Human Development status of the population of the country is so poor: an average Ethiopian has one year of schooling; the secondary school system only has capacity for about 8% of high school aged children; net enrolment rate of 72% (primary); and 8% (secondary), effective health facility coverage of 62% (World Bank, 2003). In 2007, there are 635-health centre serving the 75 million populations (MoH, 2007). There is a huge expenditure requirement confronting Ethiopia; and this is exacerbated by high population growth (World Bank, 2004).

Inadequate funding and incentive as well as absence of career development structure in the health & education institutions augmented the problems mentioned above (Health Policy). Indeed there are differences on the provision of those services after the EPRDF government took over in 1991. After 1991, the private sector is also beginning to involve in the education and health sector, despite with insufficient involvement. For instance, it accounts for only 2.4% of the primary enrolments 5.3% of the secondary enrolments (World Bank 2004), and with better involvements in higher education service supplies. Government efforts to accelerate progress as rapidly as possible- including a big push on education, building institutions and devolving administration- are costly (PASDEP).

3. Assessing the Political Policy, Macroeconomic Framework and the Juridical Bases of the Emerging Institutions

3.1 Background

After regime change in 1991, the current government declared free market economy, contrary to the *dergue* regime. This is based on the capitalist system anti-state ideology that the most effective and efficient resource allocation and choices in the economy are made by individuals rather than the commanding heights. Development economics scholars argue and avail evidences to market effectiveness. However, without denying market efficiency and resource allocation, there is a need on government interventions in market failures, we observe in the today's developed countries varying level of

government intervention in the economy and there is a tendency to choose the level of government intervention. Some few literatures consolidate this fact. Kidane, (1997) suggested the appropriate question is not how to reduce the role of the state but rather how to transform it from inefficiency and self-serving to effective and committed to advancing broad social interests. The experience of Japan and South Korea in market creating and development suggests the generalization that the state cannot be relied on to promote social interests is not convincing. But taking the state out of the development process can be especially risky for the countries of sub-Saharan Africa, listing some points of argument¹. The counter arguments are the state inefficiency argument, the declining role of capital compared to that of labour in development, etc. In developing countries, where capital accumulation is very low and the private sector is too infant to fully handle the role of provision of social services like education and health, the role of both the state and the private sector is complementary.

With regard to Ethiopia, some recent literature tend to witness that the market led economy to bring economic growth and development, as compared to that of the command economic system after mid 70s and the whole 80s. The World Bank phrased the regime change and the economic opportunities it has brought as compared to the previous two regimes of Ethiopia as “...there is a case for seeing ... a regime change as making an institutional break towards a more developmental friendly state,” (World Bank, 2007a) The current government in this regard has declared free economy and focused on social sector and infrastructure investments. By and large, the private sector is also involving in providing services in the social sector such as health and education.

The government has issued proclamations encouraging the involvement of private sector in education and health service rendering to create a level ground for free market competition. The first investment is proclamation No.15/1992, which provides for the encouragement, expansion and Coordination of Investment. It lays a ground for private investment in agriculture, industry, and services. Particularly, In June 1996, the Ethiopian

¹“The new global order and its development ideology can: 1) further undermine their ability to control the process of accumulation & development, 2) intensify polarization between rich & poor and ethnicities; 3) expose the citizens of these countries to more overt external domination; 4) exacerbate the neglect of internal dynamics of development as emphasis is placed on the North's capital and markets as sources of growth. All this is likely to perpetuate the exiguity of their internal market and the fragmentation and stagnation of their economies,” (Kidane, 1997).

Government issued a revised Investment Code which provides incentives for development-related investments, reduces capital entry requirements for joint ventures and technical consultancy services, creates incentives in the education and health sectors, permits the duty-free entry of capital goods (except computers and vehicles), opens the real estate sector to expatriate investors, extends the losses carried forward provision, cuts the capital gains tax from 40% to 10%, and gives priority to investors in obtaining land for lease (FDRE, 2002)

There are subsequent amendments to this proclamation- proclamation No.31/1992, 7/1996, 9/1996, 37/1996, 35/1998, 36/1998, 116/1998, 168/1998, 270/2002, 84/2003 and 375/2003. The investment regulations were listed² there indicating the objectives. The basic proclamation and the amendments (re-enactments) allow private investments in health and education sectors. In this direction, the Investment Incentive proclamation No.7/1996 particularly issued to encourage the investors in selected and promoted investment sectors, administrative regions and expansion of previous enterprises. Accordingly, the health and education sectors investments are encouraged through the incentive of duty free imports of selected equipments³ and are also remarked as “*promoted investment activities.*” The education institutions contained in this incentive package vary from KG to HEIs of education service areas and from Clinics to Hospitals. The system also has clearly defined property rights. Consequently, there is a rise in the number of private health centres (hospitals, higher clinics, pharmacies, etc) and education institutes (from KG to Colleges) that cover wide regions of the country, including the remote ones (Gambella, Somale, Benishangul-Gumuz for instance).

In addition to those measures, there are private-public dialogue forums that helped to refine the ways forward in the education and health investments and service rendering activities. Some amendments are related to the permits and licensing of there MoE & MoH. Recently, there are specific institutions established with the objective of accreditation, quality control, etc. There is a need to review the proclamations of the

² To accelerate the countries economic development; to develop domestic market, productivity & services; to enhance the role of the private sector & accelerate economic development; etc (Proc. No 270/2002).

³ Equipments necessary for educational services including laboratory equipments as specified in directives issued by the MoE; and, Equipments necessary for health services including laboratory equipment, as specified in directives issued by the MoH in respect of Health Institutions at various levels.

establishment of these institutions. Moreover, there are some literatures appreciating the problems and the achievements of the institutions, which will be revised in Part III & IV.

In terms of the Judiciary and Civil Service Reform, Ethiopia has undertaken many of the economic policy reforms necessary ground for the establishment of a market economy and attainment of macro-economic stability. Far greater in importance is the second generation of reforms, such as judiciary and civil service reforms, which will make a qualitative change in governance, transparency and accountability within the public sector. Reforming the judiciary will strengthen enforcement of contracts and property rights, while civil service reform will reduce transaction costs and non-commercial risks. All these will play an important role in the development of the private sector, and also facilitate the development of social capital (PASDEP, 2005). That juridical basis of the institutions as we discussed holds both the investment proclamations and the directives (including licensing and permits) from the respective ministries. The PPP dialogues (next section), the investment incentives, the sectoral programs and strategies also play significant importance in shaping these institutions.

While growth in the last 16 years has been mixed, with recent positive trends, the macroeconomic management is sound (World Bank, 2007a). Stable real effective exchange rate, low domestic inflation surging during previous two years, can play role in sustaining economic growth through increasing exports, stabilizing wages and salaries for long time. The level of resource generation through tax revenue (16%), grants (5%) and loan aid (5%) has reached a quarter of the GDP, and investments of social sector – has increased. In the area of finance, the World Bank is remarking that there is no evidence of crowding out of the private sector by the government borrowing in the financial sector; due to low domestic public debt and 2% public debt payment, excess reserves in the banks, and low interest rate of up to -1.5% (World Bank, 2007a).

3.2 Socio-political and international Motivations

The level of illiteracy and health gaps in Ethiopia is quite large and there has to be sustained investments/both public and private to upgrade it. In Ethiopia, the level of illiteracy is high particularly in rural areas; again we find high differences among rural women and men and urban. The level of illiteracy over the period 1996-2004 is highest in

rural women (about 80%) and rural men (about 65%); the urban female illiteracy rate is also not easy (30-35%), with still high inter-household, inter-group and inter-regional variation, with high illiteracy figures in the relatively underdeveloped regions (World Bank, 2007). Similarly, the health coverage is below the required level. This matters in the development of the country.

In contemporary world, governments in democratic countries are expected to show their commitments to good socio-economic and political governance where providing social services is an essential element. This is the basis of the consecutive poverty reduction and ending strategies. “A failure to meet the many challenges presented by political governance can adversely impact the social contract that is necessary for both private investment and effective public action,” (World Bank, 2007a). Moreover, the current global relationship is integration and globalisation, where there are policy measures that are believed to advance integration with the global economy. The global economic process is within a paradigm shift as usual, from human capital to structural adjustment, and now to knowledge based economy (Damtew, 2005).

Policy measures that are believed to advance integration with the global economy, including promotion of exports, attraction of foreign investments, correction of macroeconomic imbalances and decontrols of prices, exchange rates and imports are almost universally promoted in these countries. There has to be competency of countries in human resource development to attain competencies and meet the objective of global integration. The IMF, the World Bank, powerful multinational enterprises and the developed countries states are the primary advocates and endorsers of those policies. The Bank has shifted from its former position in favour of higher education, in recognition to development. The IMF, World Bank, powerful multinational enterprises and the states in the North that dominate the global system are the primary promoters of such policies.

4. Institutional Reforms to support the new economic policy

4.1 Political, Administrative, Juridical, Civil service Reforms

The policy direction at a political level follows decentralization. The decentralization process devolves both legitimate power and fiscal decentralization at regional level; and down to woreda level. In this context both the health and education sector services are

decentralized. The policy measures on institutional reforms are outlined in the programs of SDPRPI and PASDEP. During SDPRP I, various consultation processes of the parliament with stakeholders in preparation of new laws was put in place are some of the progresses. A Parliament and political institutions, Human Rights Commission, National and Regional elections normally help to increase transparency and judicial independence. Moreover, National Action Plan (NAP) on gender, Citizens' charters (are expected to be developed and publicized by all federal institutions during 2006-07), minimum service standards [at the sub-district (woreda) level, defining indicators, norms and standards] (PASDEP, 2005), strengthen the above efforts. With respect to the Judicial and Legal Reform, we find "New laws will be drafted and enacted in a number of key domains during the PASDEP program, including revisions to civil and commercial law. In addition, National Justice Information Centre will be established to provide better access and information on the justice system. During SDPRP I a consolidated Baseline Study Report was produced covering all pertinent institutions of the justice system (federal and regional law making bodies, courts and police, prosecution service, higher education institutions providing legal training, and civil society organizations). The targets on Governance, Human Rights, Openness and Consultation and juridical and legal reforms in these programs show a political will.

In the education sector, PASDEP evaluates SDPRP I and planned new targets to increase primary school coverage, and to upgrade quality (PASDEP, 200: Section 2.3), including upgrading teacher training, revising the curriculum and textbooks, and improving English language teaching. The challenges are most notably overcrowding of classrooms and rising student-teacher ratios, with strains on the quality of education. The focus in the coming is making adjustments to improve quality, and continuing expansion and reduce dropouts. Challenges in TEVT include ensuring the supply of teachers and reducing turnover, finding ways of reducing the unit costs, and ensuring the relevance of TVET. Major expansion of the university system to create 85,000 new university places; doubling the annual intake; accreditation of 10 new private institutions; and measures to strengthen university management; and introduction of a cost-sharing.

Similarly, "in the health sector the government's health strategy has targeted the most common poverty-related diseases: malaria, TB, childhood illnesses, and HIV/AIDS,

and measures to improve the health of mothers and children. It has also been shifting services more to address the health needs of rural people” The health sector achievements in SPDRP “the health situation of many Ethiopians remains very poor, and the system is not yet able to meet demand. Over the 5 years government plans include an accelerated expansion, to make sure all rural people have access to basic health care by 2010, making available the necessary drugs and supplies; improving training, deployment, and retention of staff, and strengthening drug management,” (PASDE, 2005). There is a need to see the role of the complementarities of the private sector in both education and health.

In Civil Service Reform, the PASDEP (2005) document discusses two major elements of the civil service reform process. They are strengthening staffing and incentives, and setting service standards for responsiveness to the public. The document shows that “the need for medium-term *remuneration policy* at both Federal government and the Regions, *performance Planning and management system, human resource management policy and supporting rules, and regulation* are being finalized, including job evaluation and grading, terms of service, and a civil-service-wide *HR management information system, Gender-responsive recruitment mechanisms* are expected to be instituted and measures taken to make the working environment more women-friendly. To strengthen top management, a program of *annual management training* and bulk training of civil servants are targeted in the PASDEP. In case of the private sector, items of service rendering capacities & customer relationships require further study.

In the PASDEP, there is a service delivery improvement: “To improve service delivery, in addition to the Business Process Reform and Public Service Delivery Improvement Policy already completed during SDPRP I, *performance and service-delivery baselines* are expected to be established for (a) core government functions, and (b) key services; and these will be publicized at the national, regional, and local levels. A *Public Servants’ Code of Conduct* and supporting systems are currently under development. The Public Service Delivery Improvement Policy (PSIP) was adopted by the Council of Ministers in 2001. Most federal civil service reform offices have established Customer Services and Complaints Handling units and prepared service standards. Five key federal ministries (the MoFED, MOTI, the Ministry of Revenue, Ministry of Infrastructure, and MoARD) together with their affiliated agencies have

already undertaken service improvement measures resulting in the much reduced service times for licensing & customs clearances. The improvements are well observed in Ethiopian Investment Agency for instance.

In terms of cost, the private sector has to have roles in involving in the social service delivery, among others financial institutions have to provide support. For instance, “The MDG Needs Assessment, for example, estimated that Ethiopia would need to spend 40 to 60 Billion Birr (US\$ 5-7 billion) per annum on average over the next 10 years to reach the MDG targets set for 2015. Even assuming that significant additional foreign aid can be mobilized, the government will still need a massive increases in tax revenue to scale up to meet the MDGs, implying the need for economic growth of about 6 to 8% per annum during the period of the PASDEP and beyond.” Development and poverty reduction can be achieved in Ethiopia through increasing the involvement of the private sector. In PASDEP, it is remarked that “The poverty trap in Ethiopia is explained as population pressures with the productive resource base, The Low-Risk/Low Return Trap, and low investment in human capital, Low levels of infrastructure, The Early-Childhood Trap.” The document depicted that high push on growth is essential in order to reduce and end poverty, as well as to finance the necessary social investments for human development (See PASDEP 2005).

4.2 Public private Partnership and Business Government Dialogue

There are various attempts in Ethiopia’s, which embraces occasion in dialogue between the government and the civil society. “Initiative for Policy Dialogue (IPD), an institute based in Colombia University, has had a long relationship with Ethiopia dating back to Joseph Stiglitz's and Akbar Noman's work in the country with the World Bank, has held two Country Dialogues to identify and discuss economic policies that will help the country attain its development goals.” Consequently, “At IPD’s Ethiopia Targeted Country Visit in March 2001, IPD staff met with stakeholders in Addis Ababa to help participants identify obstacles to growth and development, and alternative methods for overcoming them. The visit served as a preparatory meeting for IPD's 2004 Country Dialogue.” The IDP-web document discussed that “Following its 2001 event, IPD held a public forum in August 2004.” The IPD team met with government officials, senior

policy makers, academics, donor agencies, and civil society representatives. It “convened a public dialogue attended by a diverse audience of some 400-500 private sector and civil society representatives and government officials. Private industry and government used the event to explore new avenues of cooperation, while IPD brought fresh perspectives to debates on privatisation, property rights, rural development policy and weather & changes in its terms of trade shocks. The dialogue served to open lines of communication among the varied groups in attendance, and broadened the debate on the appropriate strategic role of the state; industrial policy; export promotions role in facilitating an efficient, competitive industry; the financial sector role in development; agricultural price policy,” (IDP’s Website).

An important step in the history of institutional support of the Private Sector Development in Ethiopia is the business climate assessments by the World Bank, with the objective of drawing on the experience of local firms to pinpoint the areas where reform is most needed to improve the private sector’s productivity and competitiveness. In this regard, the World Bank conducted surveys in 2002 and 2006 the outcome of which are worth mentioning. The 2002 Investment climate survey is based on 427 manufacturing sector firms taken from 6 urban centres in six regions including Addis Ababa and Dire Dawa. It doesn’t cover the service sector. As far as, the objective of the study is to assess the investment climate, it can reflect the overall condition that is relevant to the service sector. The 2002 survey outcome shows that labour productivity in Ethiopian firms is lower than that of its competitors, i.e. the short fall in labour productivity in Ethiopia outweighs the shortfall of wages: China’s wage is three times that of Ethiopia, whereas China’s the labour productivity is nine times higher than that of Ethiopia’s; Similarly, on average Kenyan, Zambian, and Ugandan firms’ labour productivity is seven times, six times and twice the labour productivity of Ethiopian firms’. The investment climate constraint contributes 16% of the low level of productivity while the workers’ lower level of education, structural factors (market size, geography, etc), difference due to Total Factor Productivity, capital per worker and age & industry distribution of firms contribute 21%, 27%, 59%, 9% and 16% respectively, for the short fall of China’s firms labour productivity (World Bank, 2007b). The 2002 Ethiopian Investment Climate Survey also shows tax rate, tax administration, access to land, electricity, corruption and

regulatory policy uncertainty (in decreasing order) are the first five major constraints (World bank, 2004). A similar survey of 2006, which covers 600 firms⁴, shows that there is improvement in investment climate in Ethiopia, compared to what it was in 2002 (World Bank, 2007b). The study confirmed that improved conditions prevail in business registration and licensing, customs clearance, telecommunication services and labour regulations. The update also signalled concerns in areas such as access to land, the firms' perceptions of the overall tax regime, access to credit; and utilities. The two surveys were discussed with the stakeholders from both the public and private institutions in the respective periods after the survey.

An important point to raise is that despite the 2006 World Bank Investment Climate Survey covers 125 the service sector firms, the private health (clinics, health centres and hospitals) and education institutions (private colleges and institutes) are not included in the sample. This has to get consideration as the nature of investment in the social sector has its own specific nature as different from the manufacturing and other service sector firms. There are limited studies in the social sector in relation to the investment climate in general. A small study conducted at EDRI, Wakeyo (2004), taking sample-licensed projects from manufacturing, construction and service sectors for instance found that the average license approval time of the sample projects over the period 1994-2003 showing a falling trend in licensing time. The average number of days it took to get investment license in 1995 and 1997 were 41 and 22.8 respectively, whereas this time dropped to a respective average number of days of 13.7 and 3.8 in 2002 to 2003, which shows that the Ethiopian Investment Commission has improved the time and efficiency of offering licenses. Moreover, delays in availability of land, loan and procurement or imports, and some other firm specific problems elongated the length of operational times of 76% of the sample projects/business. The finding of this study also shows that if we ignore the extremely small sample size sectors (those with less than 5 sample size), in terms of average operational time the longest is that of licensed health (22.4 months with sample size of 5), followed by manufacturing, construction, and construction equipment and machinery leasing sub-sectors. The least time period before

⁴ It includes 360 manufacturing, 125 services and 115 informal sector firms taken from six major urban centres in six regions of Ethiopia, including AA and DD.

being operational is that of the education investments, which is dependent on the ease of starting the service in rented building. In addition to rental costs, the problems of new education institutes, as the finding from the interview showed, there are problems of getting access to apprenticeship facilities in government hospitals and other businesses.

The government set out the need and the means for supporting the private sector in the PASDEP: “As in agriculture, much of the response in the private sector is beyond government’s direct control, however, the government promised to accelerate private sector growth. The main elements of the strategy include: (i) Continued simplification of business processes & licensing requirements. (ii) Strengthening of the regulatory framework and establishment of a level playing field– through judicial strengthening, implementation of the competition policy, and enforcement of contracts. (iii) Financial sector reform, to increase the availability of capital and working finance; (iv) progressive withdrawal of state entities, through privatisation program and increased competition; (v) continued reforms to establish the land tenure security; (vi) maintaining macroeconomic stability; etc. Where appropriate the government will provide support to private sector in a partnership and that in some instances a catalyst is needed to overcome initial barriers.

The opportunities for dialogue between government and the private sector have expanded substantially in the recent past. Even though there is limited document on it, some civil society such as the Inter African Group has been promoting the Public-Private Dialogue (Inter African Group, 2000). The establishment of the Public-Private Consultative Forum, of Chambers of Commerce, and of sector associations as well as the participation of the private sector in reviewing and commenting on the government’s strategy somehow helped to shape the private sector. The Consultative Forum involves owners from *health and education sector*. It provides an opportunity for them to interact with Government & with each other. As an input for such public private partnership, the formation of Chambers of Commerce and Sectoral Associations at all levels is an important forward looking strategies. The Ethiopia Chamber of Commerce identified Sectoral Associations organized at National, Regional and Woreda levels. There is no document on the PPP forum of the *education and health* private sector dialogues, whereas it is known that there is one. Private businesses need an institutional structure that allows them to collectively voice views on policy, programs and institutional reform.

The challenge is where institutions are weak, nonexistent, or not oriented towards economic reform (Stone, 2003). The institutions facilitating this can be the MoE and MoH, whereas a body coordinating the Private Health and Education Institutions must be in place.

As a contribution to the dialogue, a consultative research forum (e.g. by Saint Mary College accommodates studies related to the features and the environments of the private education institutions) are important. The studies presented in 2006 & 2007 focus on quality of higher education, the role of PPP in promoting quality, the need for research in Private Higher Education Institutes, country laws on PHEs, Government Incentive structure, government policies and Institutional responsibilities, PHEI & Industry relationship, etc which are relevant to enhance institutional information and capacities. With respect to PPP, however, a study shows that there is no effective and meaningful partnership among the stakeholders in tertiary education and the PHEIs are not satisfied with the government investment schemes and accreditation policies (Ayenew, 2005). According to this study, also there is no established viable partnership with sister colleges at home as well as with the business enterprises and the local community, recommending the need for partnership among stakeholders to solve quality problems and institutional Association of Private Higher Educations risks of PHEIs. However, it is established recently (Ashcroft, 2007), and Association of Private Health Institutions are positive developments. The experience of the manufacturing and other service sector shows, the role of associations is significant to attain the PPP objectives.

4.3 Operation, Contribution and other Lines of Communication between the Government and the Private Sector

There are other lines of communication between the private sector and the government. One way is through annual consultation workshop between the respective ministries and the private sector. The Ethiopian Chamber of Commerce and the Ministry of Trade and Industry meet a formal meeting after the end of the fiscal year. Also, there are similar forms of consultation in MOE and MoH, focusing on issues like quality and accreditation for improving the development of the private sector.

In addition to the formal dialogues, in the PASDEP consultations with urban and rural citizens on agriculture and rural development, the private sector, education, health, in 2005, private sector and industrial development citizens participants raised the need for expanding domestic markets, and improving competitiveness of exportable products in the international markets (especially with respect to transport costs and connections); and increased backward and forward linkages between industries (for example in handicrafts and small and micro enterprises; and between agricultural and industry, with a special emphasis from many participants on the importance of agro-processing (PASDEP, 2005).

Part of establishing a level-playing field is the passing of the Trade Practices Act, and adoption of competition laws and regulations. The focus now is on implementing these regulations, with the establishment of a Competition Commission, and training of officials and judiciary to enforce the competition framework. An important supporting activity is sustaining the rule of law- strengthening the legal framework and contract enforcement so that businesses can have confidence in their dealings with other businesses, and in the safety of their investments. This is ongoing as part of the judicial reform and strengthening activities under the capacity-building initiative. The PASDEP period include continuing the development of *industrial estates* and provide the necessary locations for medium-scale industrial development. Finally, the government will continue to provide *business development training and extension services*. Other measures include establishing a natural resources database including agro-climate, land use/cover, land suitability, etc. to facilitate preparation of development and investment plans.

The World Bank Ethiopia country Office- Private Sector Development in collaboration with the Ministry of Trade and Industry, Chamber of Commerce, has created many forums that strengthen the private sector in the Past. Particularly, there are three series of conferences were prepared December 2005, May 2006 and June 2007, focusing on the principles “A shared vision for Private-led Growth in Ethiopia”, “Shared Vision to Shared Action: Private Sector Led Growth in Ethiopia”, and “Accelerating Private Sector Led Growth in Ethiopia: Investment Climate and Competitiveness” respectively, created an interesting forum. Public private partnership forums, dialogues with the government, interactions with respective ministries, follow the respective conferences.

The fact that the *Journal of Higher Education in Ethiopia* is launched also creates an important avenue to communicate scientific research outputs with policy makers. It supports debates and dialogues surrounding higher education in Ethiopia, notably the Getachew Bolodia Foundation and the Forum for social Studies play substantial role in creating communication forum (Damtew, 2005).

5. Emerging Institutions

5.1 The dynamics of emerging institutions in response to business climate:

The initial business climate change in Ethiopia occurred in Ethiopia after the investment proclamation No. 15/1992, which encourages investment and lays a ground for private property. Particularly after amendments in Proc. No. 7/1996 investments on private higher education and private health institutions have increased. Literatures show that there are more than 70 private colleges in 2005 (Damtew, 2005), which includes both accredited and non-accredited ones; and the number of Private Hospitals grew to 46, with a big rise in the number of private clinics and health centres (MoH, 2007). The number of privately held KGs, primary and secondary schools are also enormous but difficult to tell the exact number. There are private investment-projects on medical equipment, pharmaceuticals (seven non-government pharmaceutical manufacturing, glucose producing factories, etc.) established newly. The way of training health professionals side by side with the health service rendering activities are underway most of the health institutions today.

In most of the cases the private school owners raise and aired their major issues is land constraint. The advantage of this kind of investment is that initially one can start the business in rented buildings. Many of them raise rental cost high and hence they increase the tuition fees to cover the rental cost (Damtew, 2005).

5.1. Internal set ups and external relationships with the government, clients, health services customers, civil society, others

There is insufficient literature to discuss on this issue. The upcoming study on education and health institutions will have good implications for this. Most probably, the internal set ups of both the education and health institutions are based on their own independent

organizational structure. In the government institutions, the PASDEP remarked that recently the education institutions are autonomous to decide based on the policy and the programs established.

A good private sector government experience is the case of seven developing countries. In 1997, a study was conducted on health sector experience and lessons of government capacity to contract health services.⁵ It examines the capacities required for successful contracting and the main constraints which developing country governments face in developing and implementing contractual arrangements. The findings shows required capacities differ according to the type of service being contracted and the nature of the contractor; contracting for clinical as opposed to ancillary services poses considerably greater challenges in terms of the information required for monitoring and contract design. Yet, in some of the case-studies examined, problems arose owing to government's limited capacity to perform even very basic functions; the external environment within which contracting takes place is also critical; contracts embedded in slow-moving, rule-ridden bureaucracies will face substantial constraints to successful implementation. The study suggested that governments need to assess required capacities on a service-by-service basis and for any successful contracting, basic administrative systems must be functioning; the need to develop guidelines for contracting, clear lines of communication between all agents involved in the contracting process, and regular evaluations of contractual arrangements; in cases where government has weak capacity, direct service provision may be a lower risk delivery strategy (Bennett et al 1997). External and internal constraints of health institutions in this case are Human resources, Management and information systems, Structure of incentives, Financing, Communications between task network while the external one includes Public sector institutional context (governments with ability to innovate and respond quickly to consumers), Economic factor (the level of private sector developments), Political and social factors (accountability & transparency) have to be considered (Bennett, 1998).

A related study is another source of experience on intervention of the government. A paper analyses constraints to scaling-up successful health interventions and opportunities for relaxing such constraints in Tamil Nadu and Karnataka states (Seshadri,

⁵ Bombay, Mexico, Papua New Guinea, South Africa, Thailand and Zimbabwe

2003). The analytical framework used in the paper categorizes constraints by the level at which they operate. A comparison of the implementation of selected health programmes in Karnataka and Tamil Nadu is appropriate since there are good chances of replicating each others' successes. The case study indicates that in order to scale-up interventions, a combination of actions is required, including: adequate community involvement; clear focusing of objectives and information systems for measuring achievements against them; good technical design; and specific measures to address constraints at the policy and strategic management level. There is a need to examine the case of Ethiopia if contractual frameworks of such kind works and the conditions (based on the experience) are manageable.

The relationship with the government seems two ways; in case of dialogues through the respective associations and the case when the government examines implementation and processes (inputs and outputs) of the institutions. The departments from the respective ministries are responsible to control and inspect the private institutions based on the regulations. Important relationships include accreditation by the government, licensing professionals that graduate from the private institutes (e.g. health professionals), are important. We need to conduct in-depth studies, as there is limited literature, on issues like relationship with the clients and with the civil society. .

5.2. Customer Satisfaction, Efficiency, Effectiveness, Transparency and Implications on Business Environment

We see this section from both public service (education and health) rendering aspect and from the point of view of investment licensing and permit, which is relevant to this study. The welfare monitoring surveys conducted every four years by CSA & MoFED, are one source of input. The findings of Welfare Monitoring Surveys are summarized in PASDEP (2005). It shows that in terms of literacy, at all levels, irrespective of the sex, the proportion of literate population is increasing over the survey years, where in rural areas, the literacy rate increased from 18% in 1995/96 to 31% in 2004/05. Though narrowing over time, gaps between rural and urban areas and males and females is still significant. In school enrolment, the four surveys undertaken so far confirm the rise in enrolment rates over time. At country level, gross enrollment ratio at primary school level

has increased from 37.4% in 1996 to 74.2% in 2004). At the secondary level, note that net enrollment rates are much lower- reflecting the large number of over-aged and under-aged children; where it is remarked in PASDEP that this is a common phenomenon when there has been a sudden increase in school attendance in a country. The most common concerns were related to quality, including reducing overcrowding, increasing the supply and skills of teachers, and supply of textbooks. A second set of issues revolved around the participation of girls, and the need to overcome cultural barriers and attitudes. A third related to the need for informal education, and special programs for adults and the illiterate. Finally, concerns were raised about the quality of TVET. Earlier, ESDP suggests that the education system is inefficient, attributing it to high dropout rates, repetition rates, and only about half of those who enroll complete primary education. It takes almost nine years for the average child to complete six years of primary school. These outcomes are associated with the low quality of education (ESDP, 1998). But in recent years, the enrollment rate has increased at all levels, and the university enrollment has doubled at the end of SDPRP I.

With respect to *health*, the main concerns were the need to address issues of adequate supply and staffing of health services, including to improve drug supply, and to retain health personnel. Second, set of comments related to strengthening the outreach health services, the Health Extension Worker program, and to make preventative health policies more effective. In addition, they raised the desirability of better coordination between the public and private and NGO services; the importance of equipping newly-constructed facilities; and concerns that the focus on HIV/AIDS was diverting resources from other health concerns such as malaria and TB. With regard to health, prevalence of illness- based on a two months reference period, and refers to an episode of any health problem (self-reported) by members of the households. Of the total population covered in the survey, 23.8 percent reported that they had health problems at least once over the two months period prior to the date of interview. According to the survey result the most prevalent illness is malaria and diarrhea. While the data are indicative, and need to be treated with caution, the declining trend is encouraging.

The survey that is based on the types of Problems observed in Health Institutions visited indicated that close to one-fifth of the total population (18.1 %) who had health

problem and consulted for medical assistance reported that the service is too expensive to consult. Problem of long waiting time is reported by 17.5% of the consulted population followed by about 15.8 percent that reported unavailability of drugs, and 14.1 percent who reported lack of laboratory facilities in the health institutions. Among the survey population, 22% reported shortage of personnel & medical equipment. As per the welfare monitoring surveys report, access to Health Services (which refers to proximity to health institutions) over half of the rural population is now less than 10 km from either a health post or clinic (2004); although to get to a hospital 77% of rural families still need to travel more than 20 kms. With respect to *Status of Utilization of the Nearest Health Service Institution*, 49% of the households reported that they have not used any one of the nearest health services at all due to one or more reasons⁶.

Literatures highly criticized the industry & higher education institutions. Many higher education institutions and industries are working in isolation and their efforts fail to result in improved tools, equipment and services reaching the community in volumes, which would make a real impact on productivity; a critical misalignment exists between the research output from research institute, the type of curricula and skill endowments of graduates from universities against the immediate skill needs of industry immediate skill needs of industry. Important remedy would be the introduction of triple helix: the linkage between government, university and industry. In the triple helix “technological facilitators” are identified.

Ethiopian Investment Agency shoulders the responsibility of service rendering activities of investment licensing and registration the mandated and responsible institution is the. Based on comments and findings of different studies in the past, the agency has incurred remarkable reputation in this regard. One of the measures taken by the agency was to study customer demands, customer satisfaction, efficiency, effectiveness, transparency and their implications. A study conducted in 2003 by the agency interviewed 41 projects⁷ (customers/investors or service takers) represented from all sectors. The finding of the study shows that the status of the service the Agency is

⁶ On average, nearly 40% of the hhs reported that they were unable to use the service because of its distance. This is followed by 29% of the hhs who reported that they "have no need of the nearest" health institutions and 14.5% of the hhs who reported that the service charges are " too expensive"(PASDEP).

encouraging, indicating good hospitability to customers. Some of the customers mentioned constraints facing such as the problems in other government institutions is influencing it; the lack of coordination to overcome it; all experts must be given authority to make relevant decision pertaining to individual setting using their discretions within a positive motive; the agency is good at the level of the paperwork (probably licensing, registration), but practically there are many constraints to remove; the need for post-investment follow up; regulations interpretation differences between the Federal and the regions are observed; etc, while others appreciate the services, which are showing customer satisfaction at the level of the services rendered by the agency.

In 95% of the cases, the customers found that the services rendered by the agency are efficient, of good quality, and punctual. In depth analysis, however shows that the efficiency is still in gap (51% highest, 33% medium and 16% lowest). In the study, to the question asked if investment licensing is accomplished within the time specified in the proclamation, at that time only 5% of the projects get license within the specified period, while 20.5% of the sample projects took them 11- 30 days, 42.5% up to 3 months, 12.5% from 3-6 months, 15% from 6-9months and 2.5% of them up to 2 years (EIA, 2002). In the years after the end of 2002, there are measures taken by the agency and efficiency must have increased, but requires further study.

5.3. Restructuring Growth & Development (The Inertia for Institutional Dynamics & Innovation)

5.3.1 Emerging Issues, Opportunities and Constraints

We need to define the emerging issues and opportunities with respect to the institutional development of the health and education sectors before further discussion. The following are emerging issues- the role of tertiary education in development and end poverty; the issues of quality, the cost of higher education; globalization and the need to consider it in the ways, processes and outputs of education; the need to transfer technology to Ethiopia; and others. Within the education sphere, increasing coverage, constraint on teaching staff, brain drain, etc are important. ICT is also part of the endeavor where wereda plays an

⁷Agriculture, Industry, Mining, Real Estates, Social Services, Hotel & Tourism, Construction Equipment

important role. Similarly, in the health sector we find adequate supply and staffing of health services, improve drug supply, and retain health professionals, and strengthening the outreach health services.

What are the available opportunities in this line? In developing countries like Ethiopia, tertiary education contributes a lot to expand a country's capacity for participation technology/knowledge based economy (World Bank, 2002; King, 2002). Under this urgent demand, responding to the question of education for all is difficult for LDCs governments. The government alone cannot be able to provide quality standard education sustainably. This triggers education and investment policy of governments to consider, encourage and support the private sector in providing tertiary education. This has resulted from the neo-liberal economic change in the post-communist period (Ayenew, 2005). Given the alarming high demand for tertiary education the sector is expanding at high speed in Ethiopia for instance- covers 24% of the tertiary education demand. The quality problem is also prevalent in public ones at that standard level (PASDEP, 2005).

Moreover, in the long and medium terms there are opportunities in policy support to the private from the government. Moreover, at the level of Africa in general and Ethiopia in particular, there is an encouraging economic growth trends. As Ethiopia is relatively a populous country, there is high demand for health and education services, where the private sector can play roles. In this connection, the government has launched infrastructure projects of rural electrification, telecommunication, road networking, irrigation projects, etc. This creates huge opportunities for new private sector investments and expansion of commerce (manufacturing, construction, banking and financial institutions, etc). The role of supporting institutions of education and health comes here- intervention of government in encouraging investment, quality control of education and health, human resource development, etc. For instance, the pharmaceutical associations demand incentives to invest more, suggesting that due to high population number in Ethiopia, citizen investors have to use this opportunity for establishing and expanding pharmaceuticals rather than helplessly importing from other countries (discussion at MOFED on new tariffs).

Renting, & Construction have respectively 10, 17, 3,2,4,1,1 & 3 sample projects.

What institutional setups are there to attain the goals? From the government side, in ESDP, a plan for institutional development was developed as follows. ESDP realized that greater institutional capacity is needed at all levels both for the regions and Federal level. The concentration of capacity building in the initial period of ESDP was especially in the areas of educational administration, procurement, finance management, and monitoring and evaluation. Measuring the success of the ESDP through National Organization for Examinations; expanding the activities of the Education Media Agency; Curriculum reforms (to improve in quality, enhancing the relevance of education, increasing gender sensitivity, and improvement of curriculum implementation in the classroom). This includes establishment of The Institute of Curriculum Development and Research. One of the major bottlenecks for the timely utilization of the resources is the lack of organizational and human capacity. Though much has been done during ESDP-I and ESDP-II, still more efforts need to be exerted to harmonize procedures, provide appropriate technical systems for timely flow of information, strengthen managerial leadership, etc. In Looking Forward - PASDEP and ESDP III, Studies have indicated weaknesses in supervision, management and implementation capacity, especially at the level of the woredas and schools. Programs will be launched to strengthen school leadership, and Regional Education Bureaus will be supported to produce strategy documents to develop supervision capacity in their regions (PASDEP, 2005). PASDEP evaluated that the contribution of the *private sector and non-government* organizations in the provision of education is encouraging, but is not yet up to the level expected. Furthermore, there is a need to have a higher level of parental and community non-governmental organizations and that of the private sector will be strengthened in increasing access to education. As an incentive, the private sector shall have a privilege to secure land free of charges and import educational equipments duty free (PASDEP, 2005).

Moreover, after the 2003 reform, two autonomous public institutions are established. They are Higher Education Relevance and Quality Control Agency (HERQA) and Higher Education Strategic Centre (HESC), which are expected to control quality through external audit, guide and oversee both public and private institutions. There are different views in the literature regarding these institutions. International

institutions including bi-lateral and multi-lateral institutions like UNESCO, WHO, the World Bank, GTZ, JICA, etc focus more importantly on financing and supporting the provisions of social services mainly in public sector. Indeed, their role is very much coined with the policy and broader agenda of the government with the poverty alleviation and development requirements both in PRSP I & PASDEP II (the government agenda).

In the health sector, the government continued HSDP III from HSDP I and II, with a clear focus on poverty-related health conditions – communicable diseases, and health problems that affect mothers and children. In general, concentrating efforts on rural areas and on extending services outwards from static facilities to reach villages and households, gender mainstreaming at all levels. The national policy framework that guides programming in the health sector includes the National Child Survival Strategy that has set the overall objective of reducing under-five mortality. Related elements of the framework, discussed elsewhere in this document, include the National Reproductive Health Strategy, the National Population Policy, the strategic response for Prevention and Control of HIV/AIDS, and the National Policy on Women. Main implementation modalities include: (i) the *Health Services Extension Program*, which involves use of female workers to deliver 16 packages in four main areas i.e. hygiene and environmental sanitation, disease prevention and control, family health services, and health education and communication on an outreach basis. (ii) The *Accelerated Expansion of Primary Health Care Coverage*; (iii) A *Health Care Financing Strategy*; (iv) *The Health Sector Human Resource Development Plan*: The Ministry of Health is finalizing the Human Resource Development Plan aimed at overcoming problems of shortage, maldistribution and productivity of the workforce.

The extent to which a health system is constrained by demand, health regulations, and broader contextual factors will have implications for a number of key choices in strategies to improve the health of the poor (Ranson, 2003). We conclude that expanding access to priority health services requires the concerted use of both modes of delivery, according to the capacity of health systems as it changes over time; a key issue in the expansion of access to priority health services is how best to implement scaling up efforts (Oliveira-Cruz, 2003). Furthermore the health system is built on a decentralized model, with a formal organizational structure that addresses key interventions at all levels. An

autonomous institution exists to regulate drugs, and a department to administer and procure drugs and medical supplies. The capacity of health professionals training institutions has been increased, and a Human Resource Development Plan adopted; while the civil service reform program has begun to be implemented to improve service delivery in the health sector. *Particularly, The Health Sector Extension Program, a program strengthening the quality of and demand for clinical care particularly treatment; Accelerated Expansion of Primary Health Care Coverage, The Health Care Financing Strategy, Implementing The Health Human Resource Development Plan, Strengthening Health Management, Management Information Systems and Monitoring and Evaluation* are the details of the strategies (PASDEP). The government recognized the need for strengthening monitoring and evaluation of PASDEP and MDGs implementation, and planned the "Strengthening SDPRP and Ethiopian MDGs Monitoring and Evaluation Action Plan" (PASDEP, 2005). What is the role of the private sector here is important question to ask and discuss.

Conclusion

In this literature review, we discussed the role of institutions in the post liberalization period focusing on education and Health. The review mainly shows that as different from other private sector engagement sub-sectors such as manufacturing, the Private Health and education Sector Institute have less active to interact with the government, among themselves, with the society etc. The recently established institutes lack the experience to accomplish this.

We observed that except that the already existing public supporting institutions that facilitate service provisions and rendering by both public and private institutions, the emergence of new supporting institutions was relatively limited. The existing institutional facilities, weather it is regulatory or supporting role, are predominantly public. The public instituting in MoE and MoH are structured in such a way that they accommodate the roles expected of them in regulating and supporting both private and public service rendering institutions. The departments in the MoE and MoH could have been too constrained by constraints of other public institutions to undertake the required roles. In this line, acknowledging the possibility that gaps can arise in handling the widely

distributed and expanded education and health institutions by both private and public programs are not given sufficient attentions.

In relation to the education sector the available literature more of a focus on higher education. In this regard, the partnership between private HEIs, the government, and PHEs at home and abroad is not effective and meaningful. On the same virtue, the partnership between private HEIs and employer companies is weak and this can hamper investment in the education sector unless there are institutions filling this gap. The area requires further studies.

On the part of the government, despite many institutions single out the incentives in investment are insufficient, there are little evidences on the gaps that has to be shown to the policy makers. However, the political and legal grounds, the civil service reform, the investment procedures, etc, put by the government are encouraging. The land issue, the investment incentive questions, etc., still remain outstanding issues for expansion and growth of the private sector. The review shows that with the rise in rental costs, it is the society that bears the costs and this can hamper the level of contribution of the private education and health services in the over all service delivery. Further studies are required to see the issues related o the health and the education sectors particularly the constraints facing them in relation to the policies, legal framework, regulations, on the one hand, and the institutional demands that has to be available to support the private sectors activities (e.g. quality control) and future goals, on the other hand.

Notes that four inputs to the Survey Instruments to Major Study include: (1) The role of the Education and Health Sector Associations in communicating the policy makers; (2) The capacities of the institutions at different tuition fee scenarios; (3) The impact of expansion of government institutions on the growth of the private education and health institutes; and the trend in private investment under this condition; (4) Relating Employment with the outputs/graduates of the private sector.

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