

Local Institutions and Local Economic Development in Guto Gidda District, Oromia Region, Ethiopia*

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Abstract: Local institutions can facilitate local economic development (LED) processes by reducing transaction costs, enhancing social capital, and creating enabling environments for business to flourish. However, factors such as the actors' preference to accept and practice one type of institutions over the other, and the nature of the functional linkages between the different kinds of institutions influence the role they play in development processes. This study empirically investigates the contributions of institutions to local economic development processes in the Guto Gidda district of the Oromia region, Ethiopia, using an institutional analysis of a case study. A qualitative research approach using in-depth interviews with local development actors was employed to collect the data. Results show that local development actors prefer to practice indigenous institutions over government institutions because they offer more accessible services and are less reliant on ruling party affiliation. There were weak functional linkages between the two types of

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institutions, which had a negative development impact on the locality. The paper recommends mutual and collaborative functional linkages between the local institutions to maximize the contributions of both to LED.

Keywords: Local institutions, Institutional relations, Local Economic development, Social capital, Oromia, Ethiopia

Local economic development (LED) refers to the processes in which local development actors (the public and private sector organisations and individuals) seek to grow local economies, increase local employment and reduce unemployment, attract investment, retain and expand existing industries, and connect them to extra-local value chains (Wekwete 2014). Institutions—the rules or norms that guide people’s actions within societies (North 1986)—make a well-documented contribution to these (LED) processes (Amin 1999; Farina & Zylbersztajn 2003; Dobler 2009; Rodríguez-Pose & Palavicini-Corona 2013; Abate 2014; Pike et al. 2015). They do this chiefly through playing a central role in mobilizing resources and regulating their uses for the benefit of the local economy (Uphoff 1992).

Institutions are typically categorized as either formal or informal. A formal institution is conceptualized as a “hard,” codified and written form of a system of government and governance. An informal institution refers to “soft,” tacit, and unwritten community institutions (Rodríguez-Pose 2013; Pike et al. 2015). According to this definition, formal institutions are often initiated and run by the government or state (government institutions). Acemoglu et al. (2005) make the point that government institutions are political institutions that determine not only the use of political power but also which groups hold the power in society. These government institutions are rules and procedures that are created, communicated, and enforced through channels widely accepted as official.

Informal institutions are often community initiated institutions and

are identified in this study as indigenous institutions. Indigenous institutions are based on socially shared rules that are created, communicated, and enforced outside of officially sanctioned channels (Helmke & Levitsky 2004). They are characterized by the use of self-enforcement mechanisms such as obligation, expectations of reciprocity, internalized norm adherence, boycotting, threats and the use of violence (Jutting et al. 2007). Indigenous institutions can be economic institutions with functions such as establishing property rights, facilitating transactions and allowing economic cooperation (Wiggins & Davis 2006). According to Acemoglu et al. (2005), economic institutions are important because they influence the structure of economic incentives in society.

This paper studies these different kinds of institutions in Ethiopia's Guto Gidda district, with reference to the perspectives and experiences of a range of local development actors. It aims to explore the roles the local institutions play in LED processes in the study area. Using institutional analysis of a case study, it addresses the question of what sort of local institutions are relevant to LED and why. The study also assesses how the indigenous institutions interact with the government institutions and the effects of these interactions on specific LED actors.

Empirical data from the field identified three different types of local institutions: a) local government institutions, b) indigenous institutions and c) the Farmers' Cooperative Union (FCU). Through in-depth interviews, the study also observed four different kinds of institutional relationships: a) complementary, b) accommodating, c) substitutive, and d) competing. The study also found that local development actors prefer indigenous institutions to the other types of institutions (particularly the government institutions) because of the more easily accessible services the indigenous institutions provide. The indigenous institutions are also less reliant on ruling party affiliation. Further, the indigenous institutions facilitate social capital, stimulating mutual collaborations in local livelihoods. The study also identified that complementing and accommodating institutional relationships foster

LED as the two types of institutions collaborate in LED processes. Substituting and competing institutional relationships weaken LED processes.

The rest of this article is organized as follows. The next section presents a brief review of local institutions and local economy. The third section describes the study area and methodology applied. The fourth section presents results and discussion, followed by a summary and conclusion in the final section.

Local Institutions and Local Economy

Both the government and indigenous institutions are crucial determinants of economic growth and development (Flachaire et al 2014). Each has a domain in which it performs best in LED processes and the two types of institutions also interact with one another in LED processes. Institutions in general play key roles in securing property rights, creating an investment friendly climate, enhancing social returns, and establishing incentive frameworks to encourage profit maximization and discourage rent-seeking (Khan & Javid 2015). They can also facilitate economic development by reducing transaction costs and advancing competitive processes to ensure efficiency (De Soysa & Jutting 2006; Jutting et al. 2007). The local government institutions create an opportunity for decentralization of powers, responsibilities and resources to a local agency (Wekwete 2014). They can diagnose LED circumstances and issues; prioritize developments; formulate LED strategies in line with the local realities; generate, pool, and align resources and investments; and evaluate the impacts of interventions. Further, the local government institutions play a channeling role both vertically to provide a local voice in dealing with super-local tiers and horizontally in coordinating and mobilizing other local actors in the public, private and civic sectors (Pike et al. 2015).

Indigenous institutions help LED processes in multiple ways. They strengthen social capital, “bonding” local actors into existing patterns of

behavior and relational social networks, connecting local actors to extra-local sources of growth and innovation (Pike et al. 2015). Social capital is the base for the establishment of indigenous institutions (Knowles 2006) and formations of groups in the institutions are based on mutual trust among the members. These institutions tend to group people with either a similar background to create “bonding” social capital or with a different background together to create “bridging” social capital (Woolcock & Narayan 2000; Beugelsdijk & Smulders 2003).

Indigenous institutions also play various important roles. They promote mutual help and family assistance. They also provide credit and saving, community-based insurance schemes, and funeral services. The moral authority of the village elders helps mediate and resolve disputes. The mutual trust among the actors in the indigenous institutions enhances anonymous market exchange and decreases the need for external enforcement. In high-trust societies, people tend to depend less on formal institutions than informal institutions to enforce agreements. For instance, informal credit markets dependent on strong interpersonal trust to facilitate business where there is a shortage of well-developed formal systems of financial intermediation or bank credit (Knack & Keefer 1997).

Mutual collaborative work between local development actors is important in LED processes. Evidence shows that states, firms, and communities alone do not possess the resources needed to promote broad-based and sustainable local development, and hence, these different kinds of local institutions need to complement each other (Woolcock & Narayan 2000; Wynne 2007). Institutional functional linkages, such as common meeting schedules and forums, facilitate development by avoiding duplication and encouraging cooperative activities. The effectiveness of government institutions is highly influenced by the societal norms and attitudes, and existing levels of social capital of the indigenous institutions (De Soysa & Jutting 2006). Further, the performance of each type of institution may be improved when they work together (North 2003; Lekovic 2011). Thus, it is

important to observe the relationships between the different kinds of local institutions to better understand the role the institutions play in LED processes.

Scholars argue that a successful institutional framework for development involves the interaction of government and indigenous institutions, as well as the conditions to which the institutional framework applies. Playing a game in which the players know the rules by which the game is played, but the course of the game need not be explicitly identified only by formal rules, i.e. the government institutions (Marosevic & Jurkovic 2013). The results of these linkages could be positive (if they are compatible), which promote the practices of both the institutions; or negative (if they are incompatible) (Zenger, Lazzarini, & Poppo 2002).

For a strong LED, there needs to be a positive-sum interaction rather than a zero-sum relationship between the government and indigenous institutions (Uphoff & Krishna 2004). Local government institutions may facilitate, encourage, and engage productively with multiple independent actions initiated by organized local citizens. What the indigenous institutions do in a particular development context and what these actions are able to achieve has a lot to do with what government institutions allow, enable, facilitate, support and endow. Good government institutions make a path for growth-friendly indigenous institutions.

Furthermore, in countries where the central government is weak, the indigenous institutions have the capacity to execute core functions of government and mediate relations between local communities and the state. The incompatible relationship between the two, however, could result in undesirable consequences for LED. For example, McLoughlin (2012) argues that there are considerable challenges in addressing fragility when dominant social structures and local institutions perpetrate violence and vulnerability. Thus, understanding how and when local governments become inclusive and function effectively in LED processes requires understanding the interplay between the government

and indigenous institutions.

Four different types of institutional relationships are identified in the literature: complementary, accommodating, competing, and substitutive (Helmke & Levitsky 2004; Lekovic 2011; Vu, Zouikri & Deffains 2014). *Complementary* interaction is observed when indigenous institutions “fill in gaps” left by formal rules that do not explicitly deal with certain problems through their values, norms, and other routines. *Accommodating* interaction occurs when indigenous institutions create incentives to alter the effects of formal rules. They do not change the legal norm but violate the spirit of written rules by mitigating their effects. In this case, the interests of key actors are reconciled with the existing formal institutional arrangements. Indigenous and government institutions *compete* when the two institutions are incompatible with each other and actors are forced to follow one rule by violating the other. Lastly, a *substitutive* relationship occurs when indigenous institutions achieve that for which the government institutions were designed, but failed to achieve; for instance, when state structures are weak or lack authority. While complementary and accommodating indigenous institutions are characteristic of developed stable institutional settings, substitutive and competing indigenous institutions are features of weakness and unstable government institutions, which are found mainly in developing and transition economies.

Study Area and Methodology

About the study area

This study was conducted in the town of Nekemte and its hinterlands in Guto Gidda district. Guto Gidda district is located in the East Wollega Zone of Oromia region in Ethiopia lying between 08° 59' and 09° 06' N latitude and 37° 51' and 37° 09' E longitude. The district is bounded by Gidda Ayana and Limu districts in the north, Leka Dulecha district in the south, Wayu Tuka and Sibu Sire districts in the

east, and Digga and Sasigga districts in the west. According to the data from its administration, the total population of the town was estimated to be 95,088 in 2012. The central statistics of the country projects the population of Nekemte Town to be 115,741 by 2017 (FDRE 2013).

Sampling methods

This study applied the principle of data saturation and attainment of quality (Saunders, Lewis, & Thornhill, 2009) that a small sample size can achieve. A study by Curry et al. (2009) recommends a sample size between 20 and 30 research participants, while Kvale (1996) suggests fewer (between 5 and 25 respondents) for an interview study, especially when heterogeneity and saturation are the driving forces of the research. This study provides a basis to understand the roles played by various LED actors to triangulate and generate detailed and rich data.

The respondents were selected using the snowball sampling technique. I first approached the district agriculture office (DAO), where I described the study objectives. Study sites were selected after reaching consensus with local authorities. Uke and Negassa Farmers' Association (FAs) were purposively selected because they are associated with the cultivation of maize and niger seed. The respondents were also purposively identified based upon farm scale, gender, and business scale, followed by random selection. In the second stage, development agents (DAs) of the selected sites were contacted as key informants; they were also asked to identify potential respondents because they are local experts. Care was taken to include research participants with different backgrounds and attributes, such as farm scale (large, medium, and small scales¹), gender, and education. Accordingly, 30 agrarian households²

¹ According to the DAO classification, on average, large-scale, medium-scale and small-scale farmers are those who own 8 ha (19.8 acres), 3 ha (7.4 acres), and less than 0.5 ha (1.2 acres), respectively.

² Four of the females and all of the males were household heads.

(nineteen males and eleven females), nine traders (five males and four females), five millers (four males and one female), five edible oil processors (all males), and two agricultural extension workers (one from each sex) were interviewed. The names of all interviewees were coded for the purpose of gathering and presenting the data, which commenced with personal interviews (PIs), followed by economic activities and locations of the respondents.

Data collection methods

In this study, data pertaining to the relationships between government and indigenous local institutions and its implications for LED were gathered through desk reviews of secondary sources and in-depth interviews (UNDP 2012). The desk reviews were collected from official government documents, literature reviews and offices of Farmers' Cooperative Union (FCU). Primary data were collected from farmers, traders, processors, DAs, local government and FCU officials using semi-structured interviews from November 2013 to June 2014 in both Nekemte Town and its hinterlands. The data were related to the culture of doing things (farming, marketing and processing of the products); local rules and regulations; relationships between government and indigenous institutions; and perceptions, choices and level of community involvement in the institutions in the context of LED processes .

Data analysis methods

Because of the multiple perspectives of institutional actors and lack of practical tools, there is no widely accepted framework for the analysis of institutions. Numerous tools exist for stakeholders, problem and power analysis (Woodhill 2010). Others include institutional mapping, perception mapping, and mobility mapping (Holland 2007).

Nonetheless, an Institutional Analysis and Development (IAD) framework is commonly used in development contexts. For example, an IAD has been applied to an ecosystem-based management program (Imperial 1999), natural resource management (Andersson 2006; Rahman et al. 2014), and planning and use of resources (Smajgl, Leitch & Lynam 2009). Woodhill (2010) developed rather a comprehensive framework for IA covering wide areas of development: value chain, education, health and environment. This framework incorporates four main functions of institutions: institutions as ways of making meaning of our lives and the social and natural world we inhabit; institutions as the associations we make to work together to achieve certain objectives; institutions as the basis for control over what actor(s) should or can do; and institutions as reoccurring action carried out by actor(s) in social-economic and political life. Under each function, there are sub-domains: beliefs, norms and values, and frameworks for understanding are under meaning; organization and networks, and relationships are under association. Mandates, policies and strategies, and rules are under control. Functions, products and services, and regular practices and behaviors are under action. These domains connect to structure social interaction (Woodhill 2010).

Using this framework, it is possible to study the different kinds of local institutions and how they function and interact in LED processes. It allows the research and analysis of, and generation of understanding about, institutions (Pritchard 2014). It is grounded in a consideration of both government and indigenous rules (Holland 2007; Crase & Gandhi 2009). Further, the approach helps to understand not only the structures and capacities of institutions but also the relationships among them.

This study employs Institutional Analysis (IA) to a particular case study (Ostrom 2007) The case study method is one of the four prominent empirical methods used in contemporary New Institutional Economics (NIE) to analyze the development and performance of institutions. NIE is an interdisciplinary enterprise combining social science disciplines to explain what institutions are, how they arise, what purposes they serve,

how they change, and how they should be performed (Klein 1998). NIE seeks to explain the great variability in economic and political performances across countries at macro and micro levels by emphasizing the role of institutions as the fundamental determinant of economic and political development through IA (Alston, Mueller, & Nonnenmacher 2015). IA has come a long way in building on the innovative work of NIE (Ostrom 2007). The case study research method is chosen for this study because it is relevant to answer the *how* and *why* research questions that require an extensive and in-depth description of a social phenomenon or cases such as individuals, organizations, processes, programs, neighborhoods, institutions and events (Yin 2013). They are particularly important for NIE as they enable the analyses of both the determinants and consequences of institutions and institutional change (Alston 2008).

Results and Discussion

Typology and functions of local institutions in the study area

Local level institutions can be classified based upon their origin (community or state initiated), the degree of formality (formal or informal), and the services they provide. This study classifies institutions based on their origin. Institutions set up, funded and monitored by the government are grouped as government-initiated and those institutions the people voluntarily initiated and control as indigenous institutions. The farmers' Cooperative Union (FCU) is categorized as a hybrid institution as it shares characteristics of both government and indigenous institutions in its activities. The groups of people in the FCU are organized willingly, but the management is under the strong influence of the government.

Table 1 below shows the different kinds of local institutions in Guto Gidda district and their major functions in the LED processes.

Table 1.
Local Institutions in Guto Gidda District

S/N	Type	Origin	Functions
1	District government, FA governments, development brigades, <i>Tokko-Shanee</i>	State	Implementing government principles and laws
2	FCU	State	Providing services including agricultural inputs, marketing of outputs, consumer goods and storage services.
3	<i>Afooshaa, Daboo (Jigii), Daadoo, Quuqubee, etc.</i>	Community	Socio-economic mutual assistance among the community such as labor sharing, welfare services, financial services, and other social welfare.

Source: Author’s assessment from field data collected 2014.

Government initiated local institutions and LED

The local government is part of the federal administrative hierarchy (Figure 1) performing government activities at the local level including the provision of frameworks for LED processes through fiscal, legal and political decentralization. These institutions guide services, and execute laws, regulations and principles. They also perform financing and managing local development projects and environmental protection. A *Garee* (brigade) has 20-30 household members with a chairman, deputy, and secretary, who is a member of a higher order institution called *Gooxi* (local zones). There are five to six *Tokko-Shanee* (one-to-five groups) in a *Garee*. The chair, deputy and secretary are elected by the leaders of *Tokko-Shanee* groups. The *Garees* have written codes of conduct listing activities every member has to perform including, but not limited to, environmental protection, local security and looking after small-scale irrigation sites. Regular reports on the activities of the community in line with the principles of the government institutions are made to the next higher level of the institution. For instance in Negassa FA, there are three *Gooxis* (local zones)—*Bikilti, Galatake* and *Negassa*. Under these *Gooxis*, there are eight *Garees* and 40 to 48 *Tokko-Shanee* groups. The activities of individual household heads in the *Tokko-Shanee* groups are

monitored and reported to the *Garees*, *Gooxi*, FA and then to the district level institution.

According to the government, the objectives of the local institutions are twofold: economic development and security. An interview with an official in the district explains this as follows:

In the institutions [*Gooxii*, *Garee*, and *Tokko-shanee*], the farmers exchange ideas on how to increase production. They share experiences. They also discuss their local security issues.³

Members of the institution are expected to work together in areas of environmental rehabilitation such as reforestation, building terraces to reduce soil erosion, and sharing good experiences with their fellow farmers. Because the farmers are different in their wealth, knowledge, and experience, local government institutions are supposed to bring together these heterogeneous households so that the better-off could help others in any way they can. This is mostly organized by the local government through an initiative named “expanding good experiences” in which “model” farmers, traders and other local development practitioners are selected to teach their fellows. In the field of agriculture, in particular, farmers are encouraged to visit the farm field of the “model” farmers to share experiences on how to produce more. DAs are responsible for following up this “expanding good experiences” initiative. Most of the farmers are benefitting from experience-sharing because it has improved their productivity although some farmers still question the extent to which the choice of the “model” farmers is free from political bias, claiming that even if they perform well in any development sector, they are unlikely to be chosen if they are not active supporters of the ruling party. On the other hand, the households are responsible for reporting any security threat such as theft, robbery, and other misbehavior in their neighborhoods to the leaders of the small groups, who in turn, report to the local government officer.

Local people, however, have a different opinion from the local

³ PI with an official in Nagassa FA.

officials concerning the government institutions. Some of the research participants in Negassa FA reported that the political motive of the local government institution seems to outweigh its economic motives. The practices of the institutions are highly influenced by the local political elites and mostly for the interests of the ruling party rather than for the people. There is a strong influence of politicians as a means to monitor the movement of opposition parties in urban and rural areas because the government fears the loss of its members to opposition parties. Its assumption is that the opposition parties may communicate with the people to promise better opportunities than what the government is offering. This is particularly serious during election times. As one farmer in Nagassa FA put it:

The local government institutions are more interested in politics than economic development. They usually want to hear what the public thinks about party politics rather than about production increasing.⁴

This indicates the local government's failure to balance between political and economic development agendas, negatively impacting on LED. Those with a different political ideology from the ruling party have low participation in LED processes as the system is less encouraging to them. They have little or no interest to contribute their labor when called by the local government. They are reluctant to participate in government meetings to discuss the socio-economic issues of the locality. In comparing the level of community involvement in these two institutions, a farmer and leader of a *Tokko-shanee* put it as follows:

The One-to-five grouping [*Tokko-shanee*] is quite important for the local development, but the people couldn't understand its objectives and thus it is not fully institutionalized. When we call upon them for a contribution of labor, they are reluctant to get involved. They prefer indigenous to government institutions.⁵

⁴ PI with a farmer in Nagassa FA.

⁵ IP with a local government group leader in Uke FA

The local authorities associate the poor performance of the sub-district government institutions with a lack of understanding of the institutions' local development objectives among the people. Data from the farmers, however, indicates that the reason for the government institutions' poor performance arises from the fact that the local government institutions emphasize more on governance and security than on production and productivity. An interview with a farmer in one of the FAs yielded the following:

I am a member of government institutions at all levels, but I rarely attend meetings because the discussion is mostly political ... my current priority is to feed my family. That is why we prefer to engage in our groups [indigenous institutions] which help us to co-operate with each other in production and other social affairs.⁶

This shows that local development actors have no problem understanding the goal of the government institutions in the LED processes. They share the objectives of the institutions, but the problem lies in the priority given to development plans/projects. The government is more concerned with governance so as to sustain its rule over the country and maintaining peace and security. The peoples' priority, on the other hand, is food security and this is the reason why the people tend to get involved in *Daboo* and *Daadoo* rather than in *hojii misoomaa*⁷. A similar study conducted in the southern part of the country also shows that local government institutions have not yet been able to fully involve the community at the grass roots level (Abebe 2014).

Further discussions with the local development actors reveal they receive some services from government institutions, but not to the extent they do from indigenous institutions. In the indigenous institutions, they socialize more than they do in the government institutions because

⁶ IP with a farmer in Negassa FA

⁷ Government initiated projects for the common benefits of the society. These may include afforestation, terracing, rural road construction and village school building.

indigenous institutions are based on mutual trust, kinship and clan networks where they can interact comfortably. This creates stronger social bonding. In the indigenous institutions, members are assets to one another to be called upon in a crisis (Woolcock & Narayan, 2000). A farmer in Uke FA said:

...this group (indigenous institution) is formed from people with similar backgrounds. We socialize, share ideas, and help each other in any difficult situation. *Tokko-Shanee, Gooxi, and Garee* (government institutions) are not helping in those areas.⁸

The local government claims it provides farmers, traders, and small-scale manufacturers with extension and credit facilities besides carrying out certain central government activities including maintaining peace and security, and legal and regulatory functions. However, the majority of the households reported that the services are not in place. On the other hand, the indigenous institutions provide those services such as labor sharing, finance and other social services leading to the preference for the indigenous institutions over the government institutions. Again, a similar result was reported in another study conducted in different areas in the southern part of the country showing that the community members prefer the indigenous institutions to the government institutions because the former are based on the self-expressed needs of the community (Nigatu, Eden, & Ansha 2013).

Though independent of the formal government hierarchy, the FCUs, another type of local institution in Guto Gidda district, are closely linked with government institutions. The structure of FCU is quite similar to the structure of government institutions with a hierarchy from the federal to local levels (Figure 1). At the federal level, the government established the Federal Cooperative Agency (FCA) that facilitates the organization of cooperatives by providing support and capacity building services to regional cooperative institutions. The mandates of the FCA include overseeing the implementation of legislation for cooperatives,

⁸ IP with a farmer in Uke FA.

designing policies and legal procedures consistent with the international conventions on cooperatives, and ensuring policy coherence between cooperative policy and the broader policy environment. The regional cooperative promotion institutions, with cooperative promotion offices in each zone, are organized as bureaus/agencies/commissions to monitor, regulate, conduct capacity building, register unions and federations, and provide technical and other support to the cooperatives. The district offices organize, register and support local cooperatives at the FA level (Emana 2009).

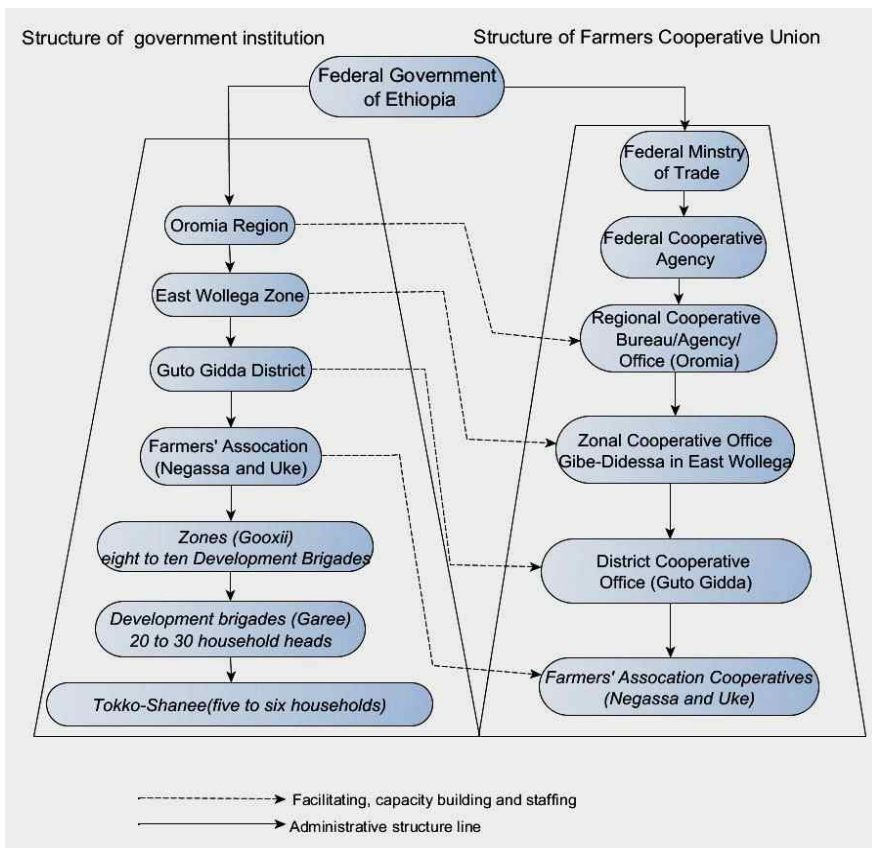


Figure 1. Relationships between government institutions and farmers' cooperative institutions. Source: Author's compilation from data collected 2014.

The major objectives of the FCU include: providing agricultural inputs; marketing of outputs (collection, assembly and sale or export of agricultural commodities); enhancing income (through price stabilization or dividends); supporting economic growth (through, for instance, value chain development); provision of consumer goods; and provision of storage services (Emana 2012). According to an interview with a manager of Gibe-Didessa FCU (the Cooperative Union of East Wollega Zone), the core value of the union is to solve the farmers' problems in an "organised manner." The Union has currently more than 62,583 members and is working hard towards achieving the government's development objectives of increasing production through using modern technologies in the agriculture sector. This shows that there is a strong connection between FCU and government institutions. The leadership of the FCUs is mostly government representatives recruited and assigned by their political affiliation rather than skills, knowledge and academic merit. Therefore, FCUs are highly influenced by the government.

Community-initiated local institutions and LED

Of the indigenous institutions in Guto Gidda district, *Afooshaa* and *Quuqubee* are common in both urban and rural areas. Others like *Daadoo* and *Daboo* are mostly confined to rural areas as they are a means of working together in farm fields such as preparing a field, farming, weeding, and harvesting. There are also land-based institutions such as *Qixxee* (a share-crop institution) in which the landless get farmland from fellow farmers to cultivate and later share the yield with the landowners after harvesting. The members in *Qixxee* are usually two or three farmers.

Data from the field shows that all local residents are members in local government institutions because every household in the locality is obliged to be involved in the government institutions as a citizen. Looking at the membership in indigenous local institutions, 75 percent of

urban households and 87 percent of rural households are reported as members in *Afooshaa*. This is a clear indication of the popularity of the institution in both urban and rural areas followed by the indigenous financial institution *Quuqubee*, with percentages of 70 in rural and 68 in urban areas respectively. Membership of *Daboo* in the rural areas is significantly higher than that of *Daadoo* (77 percent and 17 percent respectively). These institutions are described in detail below.

Afooshaa is an institution where the members contribute (in kind and cash) for their mutual benefit. It is a well-organized institution with its own administration and schedule of meetings implying these institutions are independent of the government institutions with their own structure. *Afooshaa* has written guidelines to run the institutions which contradicts the assumption that indigenous institutions are informal and unwritten. Members of this institution share common interests such as residence in the same neighborhood and religion. The leaders and committee are democratically elected by the members who also determine the term of leadership. This institution is crucial in the socio-economic development of the people because it is used as an alternative to bank and insurance companies since it serves as sources of insurance and saving. The main objective of the institution is to meet the needs of the members in emergency situations. It helps members during times of financial difficulties such as paying hospital bills and “compensation” for loss of property by natural calamities, i.e. traditional insurance. It also provides loans for its members free of interest to help the poor to buy agricultural inputs and to cover other household expenses.

Afooshaa also provides material and social and psychological support for its members, particularly during hard times such as deaths and sicknesses. During harvest times, the members are asked to contribute in kind (such as coffee and niger seed) and cash which the institution later uses to make payments to the members. The amount of the contributions is determined by the leaders of the institutions. During mourning, the members gather in the mourning house, and take turns to

bring food and encourage the deceased's family for up to nine consecutive days. Sometimes, they also collect extra money for such particular events from the members to cover burial and other expenses.

Quuqubee is also a widely practiced indigenous financial institution in both urban and rural areas. It is a rotating financial institution whereby members meet regularly to collect contributions of an equal amount from every member and allocate the amount based on a lottery method. Members of the institution are groups of people who can make regular contributions regardless of gender, religion, age and other socio-demographic characteristics. The members draft codes of conduct to guide their unity in case a member, after winning a lottery and collecting the money, should leave the group without completing his/her contribution. In such cases, this document is used to force the members to repay the money, even to the extent of taking the member to court. The money collected through this institution can be used in times of financial need for purchases of agricultural inputs, foodstuffs, and even to start small businesses in urban areas.

Daboo is an on-demand indigenous institution in which the people help the needy particularly in agricultural production (land preparation, weeding, and harvesting) and building houses. Because *Daboo* is a voluntary and unpaid labor sharing institution, anyone of working age (more than 18 years) can join. While men mostly engage in outdoor activities demanding physical strength, women carry out indoor activities such as preparing food for the men in the field. *Daboo* plays a significant role in LED processes particularly in the agricultural production processes because the pooled labor share performs better than the individual's independent performance. Above all, the needy, for instance, the poor and elderly, and those who are unable to produce by themselves if not supported, benefit from the *Daboo* institution.

Daadoo is a similar but slightly different traditional cooperative institution from *Daboo*. As opposed to *Daboo* where there is no limit on the number of members, this particular institution is established by members, usually between five and ten people. It is a seasonal group

which is formed mainly during production seasons. Group members in this institution share some common background such as age, physical fitness, and gender, and are grouped based on their interests to work together, as illuminated by a female farmer in an interview:

During production seasons, we form *daadoo* with a group of five or six women and work together. If members want money they are free to sell their chance and wait for another round of labor.⁹

Females form groups with whom they share some common grounds like age, religion, and geographic proximity. The men also form their own groups in the same fashion and with similar objectives. Once it is formed, the group works together on farm fields on a rotation system. The members believe that working together is far more efficient than working individually on their own fields. Sometimes, they also generate money by selling their turn or their places in the *Daadoo* to a member or other people who need labor for their production. Even though it is also practiced among the men, *Daadoo* is more common among women and the poor.

Indigenous institutions play central roles, particularly in areas of working together among the farmers. Cooperative farm work helps the farmers to produce more and to harvest in a timely manner reducing waste. The money the non-farm society gets from the indigenous financial institutions helps them to run their small businesses. Apart from the economic benefits, the indigenous institutions contribute to the development of social capital wherein the people socialize together regardless of their different backgrounds such as economic, political and other demographic elements. As such they transcend the wealth, gender, religion and other differences in the society and thus they can be used as a means of uniting heterogeneous people.

From this data, we can understand that there are different kinds of social capital in different kinds of indigenous institutions. For instance, *Daadoo* groups similar people together and generates *bonding* social

⁹ IP with a farmer in Negassa FA.

capital, while *Daboo* brings people of different backgrounds together to create *bridging* social capital. The indigenous institutions are free from formal party politics that the government institutions are under and this particular feature attracts the local people to become involved.

According to an interview with traders in Uke FA, indigenous institutions can also transcend the rural–urban divide that is artificially created by the government institutions for the sake of administration. Rather than encouraging, the local government institutions seem to inhibit rural–urban linkages. For instance, Nekemte Town resident traders need to get permission from the finance and economic development department of the FAs to trade maize and niger seed grains in the villages. Similar conditions where the village traders seek permission from the Nekemte Town to trade in town also apply.

Through trust, these indigenous institutions are able to bring people from different economic sectors (such as farmers and traders) together apart from their marketing business relationships which are important in LED processes. One trader described it thus:

Due to the trading business, I have a strong social relationship with the farmers and other people around me. We have different groups organized under Quuqubee, Afooshaa, and others where we freely and gladly get involved. Through these groups, I can even make many friends in this Town (Uke district town) and the surrounding rural area.¹⁰

Large-scale and medium-scale farmers have a relatively similar capacity as small-scale and medium-scale traders to contribute the regular payment required by indigenous financial institutions. In other areas such as religious institutions, the people from both urban and rural areas meet and worship together. This relationship often extends to the business sector where trust plays a vital role in the trading business. They prefer to trade with someone whom they are familiar with than strangers.

Even though price is the primary consideration in the majority of

¹⁰ IP with a trader in Uke FA.

the farmers' grain sales, the influence of trust built through indigenous institutions in facilitating the trade relationship is not negligible. This is particularly true for most of the large-scale and medium-scale farmers when they store their harvested maize grains in their friends' (traders) warehouses and wait for better prices. Once they are satisfied with the price, they ask the traders to buy the grain in their warehouse according to the day's market price. The quantity of weekly or fortnightly grain sales of the small-scale farmers is too small (mostly less than 20 kgs) to have permanent *maamila* (customers) and thus they prefer to look for any trader offering a better price. This shows the role of indigenous institutions to link the farm and non-farm households together that builds/strengthens rural-urban linkages.

The relationship between formal and informal institutions in the study area

Institutional functional linkages are critical in LED processes. Data from the field indicates that the relationship among the local institutions in Guto Gidda district displays features of *complementary*, *accommodating*, *substituting*, and *competing* relationships. The first two types of institutional relationships are more effective for the LED processes. In areas such as local dispute resolutions, the indigenous institutions *complement* the government institutions showing strong linkages between the two institutions. Similarly, FCU *complements* the government institutions in providing agricultural inputs to the farmers. Indigenous institutions play a *substituting* role when the local officials use the indigenous institutions to communicate with the people.

In most cases, the interaction between government and indigenous institutions is too complex to accommodate a unique pattern (Zenger, Lazzarini & Poppo 2002). In the district, this relationship is not smooth where it is strong in some aspects and weak in the other. For instance, in local conflict resolution, the community has a tradition called *Jaarsummaa* in which the elders hear cases and resolve problems before

they go to court. The court also recognizes the positive influence of the *Jaarsolii* (elders) and sometimes refers such cases like disputes on farmland and grazing land back to the elders. According to Lekovic (2011), this institutional relationship can be called complementary as the indigenous institution is complementing the activities of the government institutions.

Local government institutions in Guto Gidda district are not primarily (economic) development institutions. Neither are indigenous institutions solely established with economic development objectives in mind. Acemoglu et al. (2005) posit that government institutions are political institutions with a primary objective of regime security in a particular territory. However, they also engage directly and indirectly in economic development processes. The local government institutions organise the people to contribute in areas of soil conservation and production (clearing fields, cultivating, and harvesting) through an institution called *hojii misoomaa* (development work). Not violating the spirit of the *hojii misoomaa*, the indigenous institutions (*Daboo* and *Daadoo*) work in groups to help one another and increase production. This indicates that the indigenous institutions *accommodate* the government institutions in which indigenous institutions co-exist with the government institutions and aim for an outcome that is not entirely intended by the government institutions. As such, the principle of the government institutions is achieved (group work), but the spirit of the government institutions is violated because the people use their indigenous institutions to work together.

Following Woolcock and Narayan's (2000) terminologies, local authorities sometimes use the indigenous institutions (example, *Afooshaa*) as a channel to reach the public ("substituting") in which case the institutions (through social capital) play a "mediating" role between the state and the society. This helps to negotiate and mobilise the community to cooperate in development projects such as building rural feeder roads, constructing bridges on rural rivers, and contributing in kind (such as chairs and tables) particularly for village schools. The local

government also provides a conducive environment for such institutions including the provision of land for free where the *Afooshaas* build their offices and cultivate to generate income. Such kinds of institutional relationships stimulate the LED processes as they collaborate with each other.

Similarly, *Quuqubee* “*substitutes*” the lack of effectiveness of the local government financial institutions to provide credit facilities and insurances to the people. *Afooshaa* also *substitutes* for the inability of the government to provide insurance. The *substitutive* nature of some indigenous institutions in their relations with the government institutions led to another incompatible institutional relationship, which Lekovic (2011) calls “competing.” For instance, when the people gather in churches for worship, and the local government officials want to have a meeting after the service, the majority of the people (especially the young) in both urban and rural areas do not want to attend the meeting. An interview with a processor in Nekemte Town explains this condition as follows:

...the local officials most of the times want to use our church for their own agendas. But the congregation refuses when the officials need to hold a meeting with them. Because of this, they sometimes accuse our church leaders of not collaborating with the government.¹¹

Similar *competing* relationships between indigenous and government institutions were observed in rural areas. In Negassa FA, a small-scale farmer reported in an interview that local government officials are hindering the performances of indigenous institutions’ cooperative working groups. In the interview, he said, “Sometimes, the local militias come to the farm field where we are working together and tell us to stop and go for *hojii misoomaa*.” This competing institutional relationship can even further deteriorate the already weak functional linkages between the local institutions.

¹¹ PI with a processor in Nekemte Town.

The roles of the local institutions in LED processes in the district can be well explained through the lens of the four functions of institutions that Woodhill (2010) proposes (Figure 3): meaning, association, control, and action. The aims of both the institutions in this regard are similar, that is, working towards a strong local economy (*meaning*). However, their approaches and plans to achieve (*action*) the objectives differ from one another. Often, the people are more interested in per capita production increase (which satisfies their immediate food demands) than in common development projects for the benefit of the community. That is why they prefer to work together in each other's farm field turn by turn.

The local government institutions, focus goes beyond short-term food security to include sustainable LED processes such as environmental protection and provision of infrastructure (schools, roads, and health facilities) which are indirectly related to LED. The presence of a similar objective, but different approaches to achieving it, therefore, calls for the significance of institutional functional relationships (*association*) in which both types of the institutions complement each other (Woolcock & Narayan 2000). This collaborative work between the two kinds of institutions needs commonly-set principles (*control*) to guide their activities. This can be done through techniques such as outsourcing and delegation. For instance, the indigenous institutions can effectively and efficiently perform in areas such as common property resource management. They can also mobilize the community to support and cooperate with the local government development programs. These techniques can enhance collaborative action between local institutions which has a positive impact on fostering sustainable and strong LED.

The presence of the different kinds of local institutions does not necessarily stimulate the LED processes if they operate independently (*substituting* and *competing*) because they do not possess all the necessary resources by themselves to promote LED. For instance, the government institutions facilitate development through the provision of resources and enforcing the rule of law, but are poor in social capital that

is the key in mobilizing resources for development. The mere availability of indigenous institutions also does not necessarily lead to economic prosperity (Woolcock & Narayan, 2000). The synergy between government and indigenous institutions is important for LED as institutions are functionally interrelated (*complementing* and *accommodating*). The function of each institution is to govern behavior not governed by other institutions, which indicates the *complementarity* of institutions to one another if there is a good fit between them (Skoog 2005).

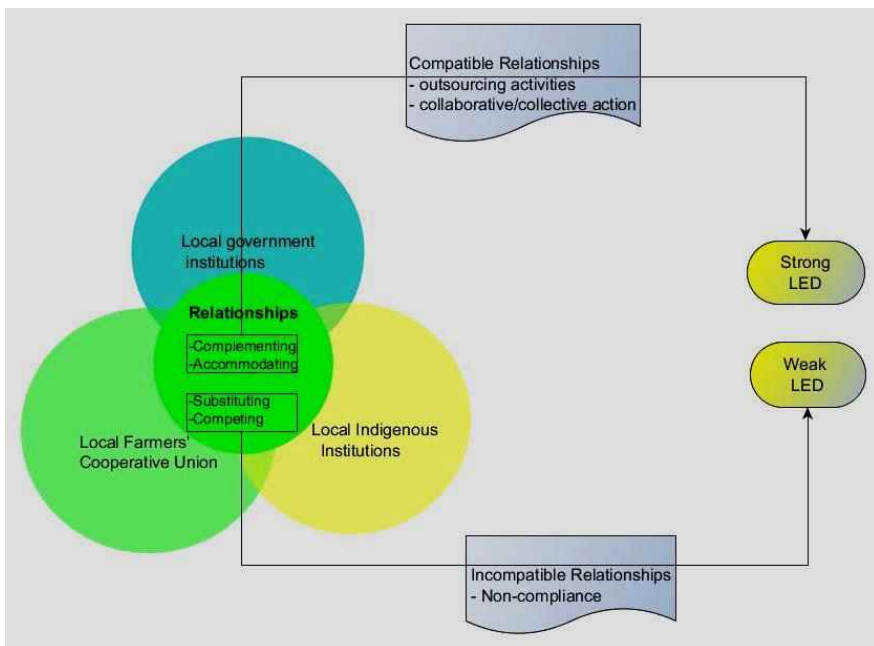


Figure 2. The relationship between local institutions in the study area.

Source: Author's compilation from data collected in 2014.

The local government, through its institutions, plans and coordinates LED processes. The indigenous institutions have strong social capital and are backed by the public as they are solely owned and run by the community members themselves. FCU *complements* the

government institutions through channeling the government services to the people at local level. By this role, cooperatives necessarily interact with the DAs. Whenever there are compatible (*complementing* and *accommodating*) relationships between these influential local institutions, this has strong positive impact on the performance of the development of the locality. In the same manner, non-compliance relationships between the local government rules and indigenous institutions' social and moral norms can cause incompatible (*substituting* and *competing*) relationships leading to the weak performance of LED (Figure 4).

These institutional linkage data show that collective (cooperative) action of the institutions in LED processes is critical in mobilizing local resources for common objectives. This collective action also assists sustainability of LED and improves the local government's overall performances.

A strong local economy can better be achieved when the local development actors explicitly understand the local institutions operating in the LED processes. A clear understanding of the institutions paves a way to accept and practice the institutions (*meaning*). Accepting and practicing the institutions requires abiding by some rules, principles, and social norms (*control*) that guide their activities (*action*) such as farming, trading, and small-scale manufacturing. These activities need collaborative work (*association*) for more successful in LED processes (Woodhill 2010). The different kinds of local institutions and their performances in the LED processes in Guto Gidda district can be summarized as follows using this IA framework (Figure 3). Increase in production and individual income, better job opportunities, access to basic services, and expansion of industries at the locality are among the major indicators of a vibrant LED (*meaning*). These indicators are influenced by the local government and indigenous institutions.

In the Guto Gidda district, the local government institutions are expected to provide agricultural inputs (through FCUs) and credit facilities to the farm and non-farm households to increase production and

encourage the flourishing of local businesses. Unfortunately, the priorities of the government institutions are maintaining peace and security rather than production increase. Rules and laws of the government institutions are in place to maintain peace and security (*control*). Instead, the culturally embedded and universally accepted practices among the local development actors in the indigenous institutions provide these services not provided by the government, particularly in relation to finance (example, *quuqubee*), labor sharing (example, *daboo* and *daadoo*) and other socio-economic and psychological services (example, *afooshaa*). These institutions are free from formal party politics.

Because of the importance of the indigenous institutions over the local government institutions (particularly for the poor as they get the support they need in times of crisis), the local development actors prefer to accept and practice the indigenous institutions rather than government institutions (*meaning*) where they work together (particularly the farmers) to increase their productivity (*action*). The influence of social capital (mutual trust among the development actors) in the indigenous institutions, however, is remarkable. The social norms and values are the standards by which the people collaborate with each other in the indigenous institutions (*control*). In this institution, the people help each other by working in their respective farm fields, contributing cash and encouraging one another during hard times (*action*). This actor preference for the indigenous institutions over the local government institutions in turn negatively affect LED (*meaning*) as the actors show less willingness to contribute to local government-initiated development projects. In theory, LED is a process in which actors seeks to grow local economies through production increase, employment generation and attracting investment, among others (*meaning*), which may require the contribution of each local stakeholder.

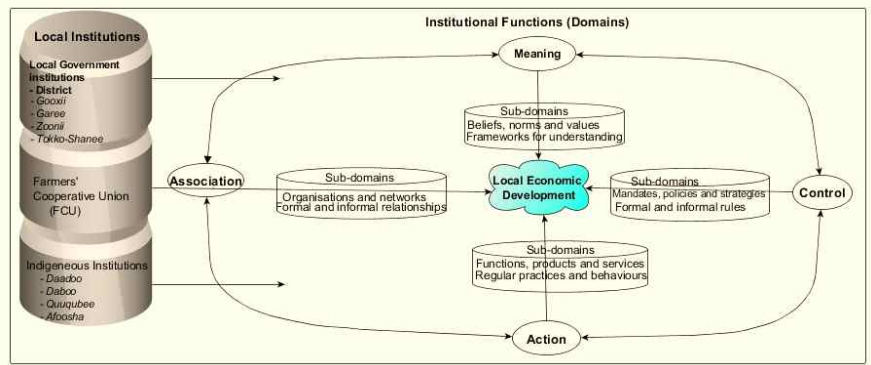


Figure 3. A typical institutional analysis framework for local institutions and LED. Source: modified from Woodhill (2010: 51).

Functional linkages between the local government institutions and indigenous institutions (*association*), nonetheless, are generally weak which negatively impacted LED processes in Guto Gidda district.

Summary and Conclusion

The study revealed that both government and indigenous institutions contribute to LED processes in Guto Gidda district. They pool and allocate resources for production, create an environment where the people generate income and strengthen social capital among other benefits. The indigenous institutions are more appealing to the local development actors than the government institutions in Guto Gidda district because of the more accessible services they provide and because they are not related to ruling party affiliation. They also facilitate social capital which, in turn, stimulates mutual collaboration and reduces transaction costs. The “bridging” and “bonding” effects of social capital in the indigenous institutions encourages the people to help each other during times of crisis, constituting their final safety net. Indigenous institutions are important for the poor who use them to mutually support each other and these kinds of services are missing in the local government institutions. The government has no social welfare system in

place to help the needy apart from an occasional safety net program.

When the institutions operate in LED processes independently or when the development actors tend to practice one type of institution over the other, they fail to fully contribute to the local development endeavor because neither of the institutions is complete by itself. Because of the weak relationship the government institutions have with the local people, government institutions lack the capacity to make use of the local culture and practices that are widely accepted and shared among the development actors, which is important for resource mobilization. It also hinders the local people's ability to understand what the government institutions are doing and why they may fail to meet their service delivery expectations. Indigenous institutions have limitations in funding development projects, maintaining security, and representing the people at higher government levels.

Data from the field also illustrated some major threats to the indigenous institutions. Indigenous institutions are not well protected, insured and sustained by the local government institutions despite their irreplaceable roles in the LED processes. Further, indigenous institutions do not have a clear line of communication and regular networks with the government institutions. The local government only uses them in the case of matters of urgency such as conveying its message to the people and conflict resolutions. This shows that the success of the indigenous institutions is partly a function of the support of local government institutions.

Even though they may have other priorities, local development policy-makers should strengthen the linkages and mutual collaboration between indigenous and government institutions. Indigenous institutions are culturally embedded and universally accepted practices. Local government institutions are part of the national state structure, and are, therefore, structurally top-down institutions. By systematically integrating these two kinds of local institutions through adopting an institutionally diverse approach that avoids or reduces competition and duplication and encourages synergic collaboration, a strong LED can be

achieved.

One technique can be through outsourcing activities that are better performed by indigenous institutions. The outsourcing the provision of agricultural inputs to FCU is a good start. Government and indigenous institutions are important in LED processes, but they need to have their own arena to play their roles. Freeing the people from party politics, which pushes the people aside from full and interest-based participation in LED processes, will strengthen the institutional relationships.

Functional linkages between the local institutions not only encourage the actors' participation in LED processes but also develop their sense of ownership and confidence in local development programs. When the two kinds of institutions are compatible (*complementing* and *accommodating*) with each other, indigenous institutions' law-abiding behavior would be fostered which accelerates development of the locality. This happens because the local people will have a strong interest to get involved in LED processes for the benefit of the locality and such collective action has the capacity to mobilize local resources and support the local government's overall performances. Incompatible institutional relationships (*substituting* and *competing*) result in weak LED. Breaching the local government laws and failure to adapt the laws to the traditional norms, customs and culture would lead to conflict between the two institutions, retarding LED.

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