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ETHIOPIA IN 1991

**A report from mission to Addis Ababa
(Nov 19 to Dec 1, 1991)**

M-P. VERLAETEN

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DIAL - 14, bd. Saint-Martin 75010 PARIS - Tél. (1) 42 08 33 88 - Fax (1) 42 08 81 60
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INTRODUCTION

1. In this paper a few personal comments on the present state of the Ethiopian Economy are presented on the basis of discussions held during a stay in Addis Ababa (from Nov 19 to Dec 1, 1991). The list of the gentlemen I met is given in annex 1. I want to express my gratitude to all of these gentlemen. To fix my appointments I benefitted from M. J-C. Boidin's help. He also gave me the opportunity to meet my colleagues from the World Bank on mission to Addis Ababa. I want to thank this gentleman who is the EEC's Economic adviser for all the things done to me. Comments are also the fruit of the "Conference on the state of the Ethiopian Economy" organised by the A.A. University (from Nov 22 to 26 at Nazareth) to which I attended. Abstracts are shown in annex 2. In this respect I want to thank pf. Taye Mengistae, chairman, Dept. of Economics who gave me the opportunity to meet some of the best economists of the country who were challenging various problems "Under the Ethiopian skies" (to quote a well known book). One of the aims of the conference was to issue a detailed analysis of the growth facets in Ethiopia from 1974 to 90 i.e. under the late political regime (also referred to as the Derg one in the rest of this paper). It was also to compare the macro performances of that period to the pre-1974 ones. As such an attempt to appreciate the costs and gains of the command economy was made. This led to policy recommendations as how to improve growth in Ethiopia in the near future. So, the conference revealed a capacity of economic expertise from outside the government's circle, a concern strongly emphasized by the World Bank. For DIAL's staff members the conference issued documents permitted a better understanding of the Ethiopian long run major trends (1968-91) presented in one of DIAL's working paper (1). And as such a better deal (it is hoped) with the question adressed to DIAL by the E.E.C. : "How to pass from a war to a peace economy" ?

I - BAD WHICH MIGHT GET WORSE

2. Ethiopia is embarked upon a process of transition to peace and market-based economy. That covers not only economic processes but maybe more fundamentally institutional ones to secure and strengthen peace. The preceding indicates that within a period of 2 years i.e. till the free elections the government will have to work on two fronts : the institutional and economic ones.

1 A view on Ethiopia or the Ethiopian verses by M-P. Verlaeten, DIAL, june 1991, 39 p.

Therefore, it may be likely to assume it will not be able to work symmetrically on both fronts. **Given the needs to strengthen peace government could not have enough time to very much look at the economy during the transition period. More precisely, it would not have enough time to decide for political commitments for the announced reforms to be implemented. Then, E.E.C. as the international community have to stay aware that not much improvement of the economic situation, social needs, and so on and so forth has to be expected during the transition period.** In this respect, it is worth indicating that emergency help is needed for about 9m people according to UN's reckoning (6.5m of people in districts where drought has again killed the crops, the rest mostly victims of the late civil war). They need food at once, and transport to shift it. Sending lorries is not enough. The ports need refitting ; roads and bridges must be rebuilt. If the people are to plant for the next harvest, they must have seeds and water-tanks and medical care. Their survival depends on **speedy charity** because public bodies such as the producers' co-operatives and Agricultural Marketing Corporations aiming also at dealing with such issues have been dismantled or abolished. This was a follow-up of the March 5, 1990 announced and implemented reforms (2).

II - THE NEED FOR APPLIED REFORMS

3. The government which has "overthrown" the DERG regime is aware of the need to apply economic reforms (but not only) such as to rehabilitate and reconstruct a devastated economy and lay down the foundation for long-term development. But it is a consensus government of which global popular support is not very strong and not homogeneously distributed all over the country. Therefore, it seems to aim first of all at increasing its popular basis everywhere by acting along lines of ethnicity, faith and language. So, risks of disintegrated Ethiopian identity increase. Indeed, although remaining an open question there seems really to exist an Ethiopian identity. Risks express through the Eritrean question i.e. the expected cession of Eritrea but not only. Within a very short period of time they could also express through an Oromo question, or the creation of a **muslim land** where Amharic (3) would not be the used language and an Ogaden on related to Somali's interests. These Ethiopian evolutions accounted for with these of Sudan and Somalia (i.e. increased instability) might increase the instability in the all

2 The abolition of the producers' co-operatives was accepted if this was the democratic will of the members. The Agricultural Marketing Corporations were abolished.

3 It is the language spoken by about 70 per cent of the Ethiopian people.

Horn of Africa. That could even affect Djibouti. Indeed, the new Eritrean authorities could create an Haffarland along their coasts to strengthen their political basis. That could create increased pressure on Djibouti's government. All these evolutions are very relevant for the E.E.C. and the international community. Indeed, 8.8m people are at risk of famine in Sudan, 4.5m people in Somalia, 100,000 people in Djibouti and 60,000 people over the border in Kenya. These amounts have to be added to the Ethiopian figure (9m).

III - THE ECONOMIC POLICY OF ETHIOPIA FOR THE TRANSITION PERIOD

A) Preliminary remark

4. The new government has shown its will to undertake economic reforms by issuing documents related to the economic policy of Ethiopia for the transition period. The new orientations are detailed into two documents, one dating from august 1991 intituled The Economic Policy of Ethiopia for the Transition Period (EPTP) (A draft submitted for discussion) by TAMRAT LAYNE (Prime Minister) and a most recent one appearing mid-november. The second one has not yet been translated into english. The amharic version is thus the only available one. Further, it has not already been approved. The second document includes results of discussion of the EPTP in the framework of a wide bargaining process. During the Conference on the State of the Ethiopian Economic (to which I attended at Nazareth from Nov 22 to 26) sketches of the EPTP presented in the document dated from mid-november have been given to the audience. I shall refer to the speaker's presentation and two interviews given to me by the Vice-Minister for Planning to present the guide lines of the **intended** new economic policy. The basis differences between the transition economic policy and March 5, 1990 announced reforms (shown in annex 3) are the following :

(i) the EPTP clearly indicates that the State will have a **limited** role in the economy as an direct investor, owner and monitor at the opposite of its regulating, managerial and supervising functions ;

- (ii) the EPTP tends to **articulate** the growth facets ;
- (iii) the EPTP tends to give rise to **increased popular participation** ;
- (iv) the EPTP **benefits from peace** as a chance for implementation ;
- (v) the EPTP no more refers to **socialism** as the **basis** direction of the country's development.

B) Background (4)

5. The guide lines are introduced by a short but pertinent analysis of the state of the Ethiopian economy. The analysis is quiet convergent with that proposed during the Addis Ababa University Conference on the State of the Ethiopian Economy. I shall not come back in **details** on the analysis given DIAL's staff produced two background papers which fit rather closely to the depicted situation. Nevertheless one has to keep in mind that the Ethiopian economy may be featured as follows : it has become a **shortage economy**. **Indeed, at long run (1974-90) the agriculture output could not supply enough food and goods, the industry one could not supply enough goods and the services one could not supply enough services.** Even if shortage increased at the end of the 80s because of the civil war, it is not only the result of that war. More fundamentally, it is due to a sample of facts. A combination of war, policy distortions, environmental degradation, an unfavorable demographic dynamics, adverse external factors and a host of structural problems has been responsible for the disappointing performance of the economy over the long run. **As a result between 1974 and 1990 per capita income declined by about 0.8% per annum revealing declining living standard of a population already wallowing in extreme poverty.**

6. The dismal record of the Ethiopian Economy was essentially due to the disappointing performance of the commodity producing sectors (i.e. agriculture plus industry : 1.2% per annum on average) especially agriculture, which grew by merely 0.7% or 2% below the rate of growth of population. The performance of the industrial sector was more respectable (2.5%) but only within limits imposed by a stagnating agriculture. The services performed better (3.5%) but largely on

4 I benefitted from notes written by teachers from A.A.U. to write this paragraph.

account of rising military expenditures and a vastly expanded government bureaucracy (public administration and defense : 5.7%). As a global outcome saving deteriorated strongly. On account of a steadily declining saving rate and generally rising tendency of investment (mainly due to war), the country's resource balance has been declining, reaching (-) 10% of GDP during 1988-90. This has meant increasing reliance on external resources to finance the country's limited investment effort, which is one of the lowest in the world. Consequently, Ethiopia's debt position has been deteriorating at an alarming rate. In 1990-91, for example, debt service payments represented almost 99% of the value of merchandise exports.

7. A corollary of the widening resource gap has been a large and steadily widening budget deficit, triggered to a large extent by mounting military expenditure and spending on the government bureaucracy. Almost two-thirds of this deficit was financed by external sources, the rest being covered by borrowing from the banking system. This has meant a dramatic expansion in money supply, with obvious inflationary consequences. The state of the balance of payments was also unhealthy, and the import cover of the country by the end of the 1980s was less than ten days. Not surprisingly, there has been a worsening of unemployment and a general erosion in living standards.

8. Although the military government attempted to introduce policy reforms in its last days (see annex 3), these came too late to make any appreciable difference. When it collapsed, **it left behind it an economy in ruins and a society in extreme destitution.** Here it is worth indicating that this is true when one focuses on the monetary sectors of the Ethiopian Economy and recorded trade. But in Ethiopia there exists also a **barter economy** and big amount of **unrecorded monetary trade. They have permitted Ethiopians to survive.** Information given to me when visiting the mercato i.e. the biggest market in Ethiopia which is also the biggest one in Africa lead me to conclude that **the Ethiopian Monetary Economy is about to be fully black marketed.** This is the result of the reforms announced in the March 5, 1990 government's programme (although not fully implemented) and new government's intentions shaped in the EPTP. Since march 5, 1990 it has been made clear for private agents that something irreversible has occurred. This was particularly true as far as the government's capability to command the economy was concerned. As a result unrecorded (monetary) trade increased. Its importance may be as follows : the daily turn-over of mercato is birr 5m compared to a yearly GDP figure of birr 10

billion. The barter economy is that of agriculture i.e. the dominant sector of the economy, the labour force and the export receipts (40 and 90% respectively). Agriculture is an Ethiopian key issue. **Increased black market and barter economy accounted for in a framework of closed factories mean a gradual process of reduced fiscal receipts i.e. a loss of economic power to the government in search of its legitimacy.**

C) The Economic Policy of Ethiopia for the transition period (EPTP)

9. It is introduced by strongly assessing that the lack of a democratic system was the principal cause of the country's economic decline (5). In this respect none definition of **a democracy within an Ethiopian context** was nevertheless given. That is also true as far the definition of **a market-based economy** is concerned. The latter point worth to be remembered given that the main direction of the EPTP is to lead the economy to a more market orientated one. Having said that does not mean to put prejudice on the new policy or efforts deployed so as to increase popular participation during the transition period. Indeed, one should be aware that even in our societies and economies where people are accustomed to enjoy democracy and market they may be unable to define these ones properly. So, the lack of definitions may be the result of ignorance or incapability rather than the reflection either of a lack of will or bad will. In this respect, it is worth indicating that the economic policy of the transition period is designed to pave the way towards the establishment of a permanent democratic order (6). Further, it is written that as such it should not be expected to bring about substantial growth in the economy. The consolidation of stability in the economy should be considered as satisfactory accomplishment of the transition period consistent with expectations in the political field.

10. Although the EPTP is shaped as a list of intentions expected to give rise to political commitments for the announced reforms to be implemented in such a way as to avoid Ethiopia to collapse, it is worth indicating that it is first of all a **consensus policy. It aims at assuring peace i.e. political continuity after the expected elections.** Therefore its internal consistency as how the various intentions articulate or do not articulate reflect both its political nature. That may

5 That is the only difference between the government's analysis of the Ethiopian background and that presented during the Conference on the State of the Ethiopian Economy.

6 That is absolutely consistent with the lack of democracy which was strongly asserted to be the main cause of the country's economic decline.

be one of the reasons for which it does not define either a democracy or market-based economy in an Ethiopian context. Apart from that, conversations I got with Ethiopian economists lead me to conclude they were not all very aware of the dependency between **market functioning** and **political order**. Economists from the public bodies were more aware of the articulating process or interface and furthermore the existence of various ways to articulate growth and political order as was the case within European societies.

11. The main intentions of the Economic Policy of Ethiopia for the transition period are the following :

a) to set up Ethiopia with a mixed economy. This leads :

1°) to redefine the role of the State and the private sector in the economy so as to increase their relative efficiency. As a result the role of the State in the economy as an investor, monitor and owner should be limited at the opposite of its managerial functions (through macro economic planning such as fiscal and monetary policy for instance) or that as a supplier of incentives to encourage the private sector or that as a supplier of appropriate rules for both economic agents, markets and needed articulating schemes. As an outcome of this first main intention, the State participation in sectors would reduce being concentrated in sectors which are crucial for the economy and/or cannot easily attract private capital because of a rather long period to get activities profitable or imply large-scale units ;

2°) On the basis of the preceding the State participation would be concentrated : in the **agriculture large-scale units** ; in the following **industrial sectors** : mining and energy, large engineering and metallurgical plants, principal production plants in the chemical industry such as fertilisers and pharmaceuticals or plants which supply raw materials to the chemical industry ; in the dominant export and import sector i.e. the **coffee export** and **oil import** ones ; in the **transport (Airlines, Railroads, Sea) and communication sectors, the financial (banks and insurance) and social (health, education) ones**. Further, the State will remain the land owner. It is worth indicating that State concentration would not mean private sector exclusion from the sectors where State dominates ;

3°) Analogously to the State, the private sector would be concentrated : **in agriculture, retail and wholesale trade, roadtransport, housing and the informal sectors.** In the case of wholesale trade the document indicates that the government may find it necessary to exercise direct control over trade of essential commodities and will in any event closely guide and monitor such trade.

b) to lead the mixed economy into a more market orientated one ;

This means precisely to create a climate favorable to entrepreneurship i.e. to value private initiative through the society values system ; to supply appropriate rules and incentives ; to eliminate state controls on the operation of the private sectors (capital ceilings, area of operation, etc...) ; to submit **both** the state and the private sector to the market rules i.e. **the profitability, management autonomy and fair competition ones** so as not to prejudice the private sector.

c) to recognise market rights ;

They include not only rights to create a farm or factory, to manage it with autonomy, to use freely what has been supplied, to get a free access to relevant input, but also to sell the farm or the factory including the ground on which it was located. The late right remains restricted in the case of agriculture. A peasant cannot sell his ground for commercial purposes. **The State remains the rural land owner** at least during the transition period. Nevertheless, peasants are given **tenure security. Market functioning implies also the right to move i.e. to settle and resettle.** Here the document indicates that resettlement **ordered** by the State must be halted. Resettlement have to be absolutely voluntary on the part of the settlers and acceptable to the expressed wish of the people already living in areas designated for such programmes. In this respect, nevertheless resettled farmers will be gently discouraged from moving back to their places of origin. The right is also restricted in the case of urban land. The State will distribute urban land to promoters, staying **the urban land owner** (at least during the transition period). As far as **buildings** are concerned, the main initiative is **to return to their original owners** those ones that had been nationalized in 1975, subject to certain conditions.

d) to restructure state farms and enterprises and close down those ones when this is no more possible ;

e) to favor domestic private capital through expected market functioning ;

f) to increase popular participation at any level in the society ;

That leads the government to propose to give workers' representatives one third of the voting rights on state enterprises boards. And also to balance profitability and employment before deciding to close down state farms and factories when necessary.

g) to secure foreign aid and utilize it in coordinated ways for productive purposes in the economy ;

12. Intentions are also revealed as far as the stance of the applied macro policy is concerned. Indeed, the document mentions :

a) a fiscal policy which would more balanced receipts and expenditure i.e. aiming at reducing the budget deficit ; a reform taxation in the case of agriculture through which taxes would be replaced by fair levies ;

b) a monetary policy regulating inflation ;

c) a generally free output price policy except in the case of retail trade. In this case, the government will fix price ceiling on critically essential commodities in view of the hardships facing the society today and considering the time needed to achieve a commensurate supply situation ;

d) the maintain of foreign exchange control regulations on the systematic allocation of available earnings. Here the only innovation proposed is a partial retention scheme for the benefit of the exporters ;

e) the maintain of the exchange rate between birr and US \$. Nevertheless, it is worth mentioning that the document assesses the birr overvaluation compared to the US dollar but it defers the question to an indefinite future ;

f) a land conservation agriculture policy and a revitalisation one. For instance, the government is intending to allocate a greater share of its budget and manpower resources to agriculture.

D) Comments on the Economic Policy of Ethiopia for the transition period (7)

1 - General comments

13. One of the main feature is that the EPTP has **posponed most structural reforms**, for instance, those related to land tenure, resettlement, villagization, decentralization, etc... The dominant argument lies explicitly in the transitional nature of the new government or, more precisely, on the need to secure peace. In the case of land rural tenure, the government's will has been to avoid the risks of tenancy in the South of the country, established monopolies and increased rural migrations. As an outcome, the document concludes that the **State should remain the land owner at least during the transition period**. This has been made clearer through the second document (i.e. which exists only in amharic version). The case of urban land is analogous to that of rural land. The lack of purchasing power could create price distortions and speculation giving rise to impoverishing process in the case of low income people at the opposite of high income one. So, **the State should remain the owner of urban land**.

14. The land tenure issue is a very debatable question. It has been recently adressed by a group of economists including five Nobel prize in the case of... the late USSR. Sending a letter to M. Gorbatchev the economists demonstrated in the light of the Walras'theory (Théorie mathématique du prix des terres et de leur rachat par l'Etat - 1880) that land had to remain state ownership. This would permit to collect a special tax which would be a function of :

⁷ I benefitted from notes written by the E.E.C's economic adviser at Addis Ababa to write the following paragraphs.

(i) land yield as was the case with Ricardo's analysis (Essays on the Influence of the Low Price of Corn on the Profit of Stock – 1815) ;

(ii) population growth and ;

(iii) public investments.

15. Another feature to be noted is that **the new policy articulates growth facets only through a description of policy intentions i.e. without the use of a macro economic framework indicating how growth should proceed during the transition period.** Then one understands why the words consolidation of stability have been used (para 9). The EPTP overlooks also important long term issues (population growth and its geographical distribution, environment, human resources development), sensitive reforms (labour law) and also some economic sectors (e.g. tourism and its related services). **In this respect, it neglects the unformal sector which has become one of the dominant challenge to the government and the society.** Indeed, the unformal sector reduces fiscal receipts when public expenditure are likely to increase given increased needs to fulfill. **That issue related to the budget evolution and further indebtness position of the State is not adressed in the government's document.** That might be rather detrimental to the economy given adverse implications on monetary policy, sectoral policy etc... In this respect, the question of **securing** enough foreign aid is not really adressed.

16. A very interesting point of the document is the government's attention to mix market rules (profitability) and social concern i.e. employment protection. The question is adressed in the case of farms and factories closing down. And also that of market rules and income distribution in the case of rural and urban land. It is rather unfortunate not to get any clarification as **how** to mix the different points.

2 – *Comments on specific issues*

17. On the **foreign trade front** the reestablishing of state monopoly in the case of coffee export (and oil import) may be viewed as a step backwards. Indeed since 1987/88, coffee trade has been partly reopened to private exporters, who handled between 10 and 20% of the market. Reestablishing state monopoly might have negative implications for export receipts. Indeed, it should lead to lower price (as was the case in the past : peasants received no more than 40 per cent of

world price on average at long run), lower quality premiums and high smuggling. Given the existence of a more favorable exchange rate in Eritrea, it could even be explosive. **That could also be the case given the partial retention scheme.** Indeed, exporters could find much more profitable to export through Eritrea using black-market networks and keep what they need.

18. **The question of Eritrean cession** is not adressed in the document. That is not only a rather sensible **political** issue, it has also becoming a short term economic challenge given the de facto devaluation of the birr in Eritrea. That will bring additional pressure on the Ethiopian system by encouraging the diversion of export trade and reducing foreign exchange inflows. Further, Ethiopia is about to lose definitely its seaports such as Tio, Massawa, Assab and as such the related external duties. Not to mention also 40 per cent of its manufacturing output.

19. **At the sectoral level a lot of policy issues are not adressed.** For instance, **the agriculture sector** needs supporting services previously issued by the producers' co-operatives. None intention is put forward as how to re-organize the crumbling service co-operatives so that they can perform sustainable, economically viable and socially acceptable functions. The government proposes the replacement of taxes by "fair levies" without any clarification on these ones. **The industry sector** needs urgently spare parts for factories to be reopened at least in the suburb of A.A., etc... This issue is not touched. The question of the **credit policy** with its implications for small and large scale units i.e. private and state participations in the economy is not adressed

20. **The document does not explicitly mention the challenges (8) the Ethiopian Economy has to faced with during the transition period.** So, it remains very difficult to appreciate the pertinency of the listed intentions as a tool to stabilize the Economy as it has been indicated. In this respect to stabilize most likely has more something to do with peace than growth. And finally, it is worth indicating that the nature of the policies (intentions of) assumed during the transition period towards **private investment versus public ones, domestic accumulation versus foreign one** etc... are not mentioned. This is also true as far as the links between various sectors of the economy are concerned. **There is a lack of intersectoral concern.**

8 Apart from those indicated at paragraph 16.

21. In the light of the preceding, it appears that one has to wait for political commitments to be able to appreciate the EPTP. This places economic operators on a waiting position (for instance expecting a new investment code) which might be rather detrimental to the economy by postponing growth needed to stabilize the economy. This could be particularly true as far as the value of the birr is concerned. The Ethiopian diaspora living in the US strongly expects a devaluation of the birr to the US \$. For it that is the condition to get repatriated funds. **This is a real challenge given that the amount of available funds might be as big as two times the Ethiopian GDP (birr 10 billion).** The devaluation of the currency is also an issue strongly supported by the World Bank.

IV - MAIN ECONOMIC CHALLENGES DURING THE TRANSITION PERIOD

22. Assuming peace to be secured and strengthened and foreign aid to be given to restore basic infrastructures, four economic challenges dominate the transition period. There are :

- 1) how to increase food-sufficiency i.e. reduce the risk to famine ?
- 2) at what speed to restore basic infrastructure ?
- 3) how to close the employment disequilibrium ?
- 4) how to avoid Ethiopia to be black marketed ?

A) A Food sufficiency (or the challenging agriculture)

23. Here the focus is on agriculture potentials. It is how to get an immediate increase of output supply and at what costs for the budget ? It reveals a very complex problem because agriculture potentials are deeply constrained by soil erosion in Ethiopia. This is particularly true in the Highlands which account for 90% of the population and economic activities, 95% of land cultivated and two

thirds of livestock. Of 53.6m ha in the Highlands, 6m are highly eroded, 8.5m are mediumly eroded, 13m are eroded and 10.9 are susceptible to be eroded. This lets 15.2m ha only to be not eroded. FAO and the late government of Ethiopia with finance from the World Bank in 1983–85 carried out a study to present a rural development strategy for the severely eroded Ethiopian Highland. The study (never officially accepted by the government of Ethiopia) estimated that over 1900 million tons of soil are lost from the Highlands of Ethiopia annually. The losses are of productive top soil, and they are for all practical purposes irreversible. **The study characterizes the Highlands of Ethiopia as "one of the largest areas of ecological degradation in Africa, if not in the world"**. One of the findings of the study is that, if present trends continue, by the year 2010 some 38000 sq.km of the Highlands would be eroded down to bare rock, a further 60000 sq.km would have a soil depth of 10cm or below which would be too shallow to support cropping. This would mean that in that year almost 10 million people would have to derive their food and income from sources other than cropping their own lands, and that they would have to be absorbed elsewhere in the economy.

24. The preceding indicates that the Ethiopian authorities are not only challenged by agriculture output at short run (the need to feed the population) but also at long one (the need to stop natural resources degradation to sustain long term growth). At short run, it is obvious to say that there will be further land degradation when people will resettle to peace and the government will give them incentives to supply more. Agriculture challenges also the government in terms of villagization and resettlement in the long run. Indeed, it is **now obvious** that such processes will get **further extension** in the framework of land conservation agriculture policy i.e. growth sustainability.

B) Restoration of basic infrastructure

25. A plan of restoration has been proposed to the foreign donors. It has been coordinated by the World Bank. Most likely it will be fully supported. Therefore the challenged problem will be **at what speed restoration would occur**. Restoration offers opportunities to create jobs or more precisely to accomodate with soldiers to be demobilized. Such a choice has been made by the Eritrean authorities. Indeed, during two years soldiers will be used as labour force to restore basic infrastructure.

C) Employment demand

26. **That is the most obvious challenge during the transition period.** Indeed, every one is aware of the need to demobilize soldiers and to send these ones back home to avoid congestion, increased poverty, social troubles in A.A. Something like 300,000 to 500,000 soldiers have to be demobilized (9). Accounting for the latter ones' families between 1 to 2m people have to be helped to go back home. The Ethiopian authorities have asked the international community to help them by giving (lending ?) them an amount of US \$ 154m. It covers the living expenditure for one year as far as the urban population is concerned, 15 months in the case of rural people. **Soldiers to be demobilized i.e. being given job or money to get (or create) job, go back to farming reveal not only an employment opportunity problem but also that of skilled labour force. Indeed, the army was the best trained power the country had.** So, the army is quasi the lonely resource of skills immediately available for restructured factories, farms and privatization of the economy when neglecting the black-market entrepreneurs. The US government has an agreement with the Ethiopian one under which.

- (i) a reduced army would be reconstructed ;
- (ii) the rest would have to be accomodated **properly.**

In this respect, it is worth indicating that no much progress have been made up to now. As an outcome, the army is in the way to be accomodating by political groups with few gains for peace and recovery and likely increased black-market activities. Apart from the army there was another source of skills, that of the "Communist party". It represented the country capabilities to organize, manage etc... From this viewpoint, the decision to made the party illegal, contrarily to open expressed US views, might be an economic nonsense.

D) Black market economy

27. **Ethiopia is embarked upon a transition to be fully black-marketed.** That is a result of announced reforms (March 5, 1990 ; 1991) and overthrowing of the DERG regime. So, **a market-based economy has already begun functioning in Ethiopia.** But as such it has also begun to "escape" from

9 Not accounted for the Eritrean soldiers (and their families).

government's regulation and taxation. Further, it is challenging government's policy. That is obvious in terms of the parallel exchange rate but not only. **Then, the question is no more how to pass from a command economy to a market-oriented one but rather how to manage black-market activities such as to render these ones market-activities simply.** Apart from intending to recuperate taxes, the government has no other choice if it is intending to increase privatization (10). Indeed, black-market entrepreneurs are "the animal spirits" of Ethiopia at the moment. Further, they also represent potential domestic accumulation in a country where there is a shortage of saving (compared to investment). **As such, Ethiopia is a test-case, not only for developing countries but also developed ones. Indeed, black-market activities increase also in the late Eastern countries.** It addresses the following question to macroeconomists, governments, etc... : how to mix private initiatives with macro planning when :

(i) deregulation occurs or more precisely the nature of regulation changes (rapidly) being less on the decision process making and more on its related issues (wages, profits, unemployment, ...) in a society where the

(ii) social consensus has been challenged through different ways including that of political order.

CONCLUSION

28. On the basis of the preceding comments, one can indicate that Ethiopia during the transition period will be economically challenged by agriculture supply, employment demand (and skills) and substitution of black market activities for market ones. The outcome or derived challenges are a reduction of fiscal basis while social needs to be fulfilled increase, increased risks of social instability (and maybe of peace), permanent risks to famine. Ethiopia will also be challenged by the **expected** devaluation of the birr which is the condition to get private capital inflows. As far as non economic variables are concerned, there is a risk of political disintegration (Eritrea, Oromoland, Ogaden) of Ethiopia in the framework of increased instability in the all Horn of Africa. **The international community has to be aware of all these challenges so as to shape its help and requirement in accordance.**

10 Which is a prerequisite for a mixed market-based economy.

A N N E X

ANNEX 1**LIST OF THE GENTLEMEN MET DURING MY STAY IN ADDIS
ABABA
(from Nov 19 to Dec 1, 1991)****1. Ministry of Finance**

Ato Merkorios Hiwot (Indebtness position of Ethiopia)

2. O.N.C.C.P. (now Ministry of Planning)

Ato Kibre Moges (Grain Marketing Model-Agriculture policy)

Mr Satish Mishra (Economic policy)

Ato Makonnen Manyazewal (Vice Minister - Economic policy)

Ato Tesfaye Asfaw (Unformal sector)

Ato Mengistu Teferra (Energy and Economic growth)

3. Ministry of Agriculture

Ato Kebede Tato (Soil Conservation Research Project)

4. Natural Resource Dpt

Ato Gedeon Asfaw (Resource conservation policy)

5. Ethiopian Energy Authority

Ato Mekonnen Lule (Energy policy)

6. Ministry of Industry

Ato Gulelat Kebede (Industrial policy)

Ato Solomon Wole (Industrial policy)

7. Commission for the demobilization of Soldiers

Commissioner Mulugeta G/Hiwot

8. SIDA's OFFICE

Mr Karl Hagstrom (Economic policy and foreign aid)

9. ADDIS ABABA UNIVERSITY

Pf Taye Mengistae

Pf Eshetu Chole

Pf Teshome Mulat

Pf Derege W. Medhin

Pf Dejene Aredo

Ato Gebre Hiwot Ageba

10. DUTCH RED CROSS

Mr Henk Tukker

11. WORLD BANK

ANNEX 2

FIRST ANNUAL CONFERENCE ON THE ETHIOPIAN ECONOMY
ORGANISED BY THE DEPARTMENT OF ECONOMICS
ADDIS ABABA UNIVERSITY

ABSTRACTS

November 22-26, 1991.
Nazreth

The Macroeconomic Performance of
The Ethiopian Economy 1974-90

By

Eshetu Chole
Department of Economics
&
Mekonnen Manyazewal
Ministry of Planning

This paper attempts to review the aggregate performance of the Ethiopian economy during the era of military rule. The Derg's economic record is assessed relative to the economic situation it inherited on assuming power and with reference to its own declared objectives.

This record is dismal in virtually every respect. During the period under consideration the rate of growth of GDP averaged 1.9% per annum, which fell considerably short of the population growth rate, assumed to have been 2.7%. This represents a decline in per capita income of about 0.8%, a particularly telling statistic because it reveals that the standard of living of the average Ethiopian, already one of the lowest in the world, suffered further deterioration during the era of military rule. While this represents the overall picture, the performance of the economy was highly uneven over the years, characterized as it was by drastic ups and downs.

The basic underlying factor behind the dismal aggregate record was the disappointing performance of the commodity-producing sectors, most notably agriculture, which grew by a mere 0.7%, a full 2% below the population growth rate and lower than the growth rate of all other sectors with the exception of construction. The performance of industry (manufacturing and construction), which grew by 2.5%, was more respectable, but it was confined within perimeters strictly circumscribed by the agricultural sector. The services on the whole registered a growth rate of 3.5%, the highest growth having been recorded by public administration and defence. In general, the economy experienced no structural transformation.

Owing largely to a dramatic rise in government consumption, the saving rate declined from 13% on the eve of the revolution to about 4% in the last years. In contrast, the trend in investment has generally been an upward one, especially during the second half of our period. Declining saving rates combined with rising investment rates create a steadily widening resource gap, which meant increasing recourse to external sources to finance the country's investment efforts. Consequently, the country's debt position has been deteriorating at an alarming rate.

A corollary of the widening resource gap has been a large and steadily widening budget deficit, financed by external flows and domestic borrowing from the banking system. The latter led to a drastic increase in money supply, with inflationary consequences. It follows that the state of the balance of payments was also unhealthy.

The economy was thus caught in a crisis that was deepening towards the end of the Derg era. The major underlying causes of the crisis have been war, a negative policy environment, an unfavorable demographic dynamics, environmental degradation, low levels of investment, inefficiency in investment, a low level of technology and adverse external factors.

Although the Derg attempted reforms in November 1988 and March 1990, these reforms came too late to save the day. The economic legacy of military rule is therefore a poor one indeed and inferior to what it inherited from the imperial regime. In terms of economic development, therefore, the Derg era represented seventeen lost years.

The Relevance of the Improvement Approach to Agricultural Growth in Ethiopia

By

Dejene Aredo
Department of Economics
Addis Ababa University

The way out of the prevailing agricultural crisis in Ethiopia is obviously through increases in productivity. However, past experience has shown that the costs of wide-spread uses of the high-yielding varieties and chemical fertilizers are prohibitive. In this study it has been attempted to suggest a less costly and yet effective approach to agricultural development. The relevance of existing models of growth is investigated in the light of patterns of resource endowments of the country. Historical evidence from Great Britain and Japan and empirical evidence from Ethiopia are presented in support of the improvement approach to agricultural growth. The suggested approach is put in perspective in the concluding part of the study.

Public Policy, Markets and Technical Progress in the Grain Plough Culture

By

Taye Mengistae
Department of Economics

The grain-plough culture is probably the most important of the various technological systems of traditional agriculture in Ethiopia, in terms of both the size of population engaged and geographical extension. Changes in rural economies of the culture best understood as responses of an entire system of the flow of resources between activities and institutions to external "shocks". These may originate in changes in climatic conditions, shifts in marketing environment, reforms in public policy or some combination of these. The more recurrent of policy induced "positive shocks", can be classified into technological interventions final demand injections and transfer injections.

Based on the inter-activity analysis of a village economy of the culture, this paper is a critique of some of the premises of current rural development programmes in the country and approaches to reforms in agrarian policy. Contrary to these premises, the paper argues, final demand injections may be superior to transfer injections as means of raising the incomes or the marketable surplus of rural economies in the culture. Final demand injections may also be more effective in those terms when directed at home activities rather than farming and at traditionally less traded grain types rather than those observed as the main traditions "exports" of an economy. Furthermore, it is a strong possibility that the same injections are a viable substitute to projects of technological intervention should these be not feasible in a locality. The agronomic bias of characterising such projects at the moment is also seems projects to be unjustified. Results supposing the case for final demand injections imply that technological interventions may be more effective when directed at home activities rather than farm activities and at less known crops of a rural economy rather than a traditional major "exports".

**Economic Reform and Agricultural Deco-Operativisation
in Ethiopia: Implications for Agricultural**

Production in 1990s

By

Alemayehu Lirensa

Since the March 1990 economic reform, rural Ethiopia has experienced agricultural decoperativisation emanating from abolition of producers' co-operatives and crumbling of service co-operatives. This trend will have several consequences on the rural economy in general and agricultural production in particular. This paper argues that abolishing producers' co-operative farms is a robust idea and less harmful to agricultural production in the long-run although it creates short-term dislocations and disruptions to food production in the peasant sector. On the other hand, the paper contends that the dissolution of service co-operatives can not be tolerated given their multi-faceted and important role in rural development and agricultural production. It is imminent that the link between the state and peasant sectors will be cut-off and rural/agricultural development will be at stake if the service co-operatives are let to disappear just like producers' co-operatives. Immediate measures should be undertaken to re-organize the crumbling service co-operatives so that they can perform sustainable, economically viable and socially acceptable functions.

Economic Efficiency of Food Grain Marketing

in Southern Ethiopia after the March 1990 Reform

By

Wolday Amha
Awassa College of Agriculture
AAU

The improvement in the performance of the food grain marketing system in Ethiopia is believed to be a part and parcel of the agricultural development. The inefficiency of the food grain marketing system has been repeatedly pointed out by many researchers as a major barrier to the whole development process. Moreover, there seems to be a lack of systematic study on the performance of the marketing system in agriculture which would give basic information to the policy makers.

The aim of this study is to assess the impact of the food grain marketing reform of March 1990 by using qualitative and quantitative approaches. Here, market integration, seasonal and spacial price variations are estimated from the time-series weekly price data of the 17 major market in Southern Ethiopia.

The study broadly concludes: (a) the barriers to entry in the food grain wholesale and retail private trade has improved. The size of the licensed and unlicensed food grain trade has increased after the March 1990 market liberalization policy reform; (b) the price correlation coefficient and the coefficient of variation in the 17 markets has increased after the reform showing a movement of the food grain marketing system closer to the competitive model; (c) the role of AMC and the service cooperatives in the food grain marketing process has declined significantly ; (d) the mean price of food grain has increased by 30 percent in 11 months time immediately after the reform; (e) the anti-food grain private traders attitude of the government has also shown an improvement.

Rural Credit and Peasant Indebtedness:

A Case Study in North Shewa

By

Gebrehiwot Ageba
Department of Economics
Addis Ababa University

Private peasant households in Ethiopia have been excluded from the credit services of formal credit institutions not only because institutional credit sources, as they have been operating so far, are not well suited to cater to their needs but also as a matter of deliberate government policy. Those who need to be helped most in getting access to resources have been the first to be denied.

This paper looks into the role of credit in a peasant household economy, the sources of credit and their eligibility criteria, and the debt situation and credit utilization of peasant households.

Informal lenders have a crucial role in meeting the credit needs of peasant households as they provide them what institutional lenders can not. Relatives and friends/neighbors are the most important lenders. The money lender (in his various guises of professional lender, big farmer, or trader/merchant) has a very insignificant role as a source of credit. Contrary to expectations borrowing from non-institutional sources involve either no interest charge at all or

very low nominal interest rates despite the fact that there is no competition from formal credit institutions. Borrower peasant households are highly in debt relative to their income. Default rate is very low but rescheduling of loans is common. Social sanctions against defaulting borrowers have contributed much to the observed low default rate. Under the severe constraints and competing needs they face borrower households have allocated a good proportion of their loans "productively".

Recent Trends in the Development of Manufacturing

Industries in Ethiopia

By

Bulti Terfassa
Ethiopian Cement Corporation

The degree of economic development of a country is always measured by the size of the contribution of manufacturing industry to GDP and its share of employment in the total labour force. The basic issues in economic development have therefore been how to maintain industrial growth in advanced countries and bring about industrialization in the developing countries.

Inward and outward looking industrial development strategies have been adopted by many developing countries but the success stories are limited to a few south east Asian countries.

Ethiopia has adopted the import substitution industrial strategy since the early fifties. The strategy remained in operation even after the institutional change in 1974.

The impact of the import substitution strategy on the development of manufacturing industry for the period 1970-1989 has been assessed and disappointing performance has been observed. Growth in output slowed particularly in recent years and per capita supply of basic manufacturing items has declined.

The effects of the strategy on the structure of manufacturing industry has also been analyzed and the result shows that both sectorally and branch wise the industrial structure more or less remained the same in the last 20 years.

With sound policy there is no reason why the rate of growth of industry should not recover in the 1990's and rise gradually thereafter. For this to be achieved, industrial policy will need to be overhauled in the early 1990s. Successful development seems to require the combination of import substitution and export promotion strategies than giving undue emphasis to one and neglecting the other.

**Efficiency of Ethiopian Public Manufacturing
Industries and the Policy Environment**

By

Alemu Mekonnen
Department of Economics
Addis Ababa University

paper tries to look into the relationship between efficiency of Ethiopian public manufacturing industries and the policy environment. The financial results of these industries show that they are profitable on average, the majority operating with high financial rates of return. In spite of this most of the enterprises have been faced with shortage of financial resources, mostly because of the government's financial policy which requires public enterprises to contribute most of their surplus to the Treasury. With respect to allocative efficiency, while more than half of the sampled enterprises were found to be efficient there are some which are highly inefficient as shown by DRC coefficients. A comparison of financial and economic profits shows the existence of enterprises allocatively inefficient but financially profitable and vice-versa, mainly due to the government's pricing and trade policies. The highly centralized planning system, the existence of excess capacity and the incentive system which does not encourage efficient utilization of resources indicate the possibility of improvement in technical efficiency through policy reform, which would in turn lead to improvements in allocative and financial performance of enterprises. It is suggested that non-efficiency objectives should be taken into account with dynamic allocative efficiency considerations in

**The State of Small Scale Industries in Ethiopia
Problems and Some Policy Issues**

By

Solomon Wole
Ministry of Industry

Small scale industry sector in Ethiopia is characterized by low level of development, and many others, is caused by misguided development policy pursued by the past regime. Despite this, the role of the sector by way of contributing to GDP, employment and foreign earnings of the country is very low. Nevertheless, given adequate policy environment, the potential of the sector is immense. This has been witnessed by the emergence of a new class of entrepreneurs engaged in skill intensive activities in the past few years, and the recent rise in

the number of potential investors willing to establish manufacturing industries even at a time of political uncertainty.

Against this background, this paper attempts to high light the problems affecting the development of small scale industries and to outline some policy issues required for the long term development of the sector.

Energy and Economic Growth in Ethiopia

By

Mengistu Teferra
Ministry of Planning

Ethiopia's energy resources mainly consist of hydro, geothermal, natural gas & biomass. The bulk of inanimate energy supply is from biomass sources. Petroleum & hydroelectricity constitute the bulk of the modern energy supply source, with petroleum accounting for the lion's share of the supply.

Petroleum is mainly used in transport. However, kerosine demand in the household sector is rising at an appreciable rate and may soon become a major petroleum fuel consumed outside the transport sector. Industry remains the greatest consumer of electricity, but consumption growth rate is highest for the service sector. The household sector is the biggest consumer of biomass fuels and there are ample signs of shortage of supply of these fuels in urban areas.

Ethiopia's energy resources are huge in comparison to the level & rate of utilization of energy at present. Only the lack of indigenous oil deposits may be seen as a major shortcoming. The role of oil can, however be taken over by hydroelectricity and natural gas for most applications. Oil-based electricity supply has, for example, been replaced by hydroelectricity. Likewise, city passenger transport can be fuelled by hydroelectricity if modal shift is made to electric trains. The same is true for freight transport in certain busy corridors. Agricultural production & industrial processing can benefit immensely from the availability of indigenous energy resources.

The advantages of hydroelectricity become more pronounced in the case of energy-intensive industries like iron & steel making processes. There are constraints in the development of the energy resources but overall it appears that given the right macroeconomic, social & political environment, the energy resources of Ethiopia can play a positive role for economic growth.

Food People Eat - The Energy Economics of Injera and Wot

By

Bereket Kebede
Department of Economics
A.A.U.

First by using the amount of materials and energy needed to produce injera and wot the paper estimates the input coefficients. And by using these coefficients, the total amount of materials and energy for preparing injera and wot by all the households in the village of Sirba and Godeti are estimated. The figures generated clearly show that injera and wot production is an "industry" accounting for a large amount of resource use. In addition, after estimating the energy contents of injera and wot, their nutritional value to the peasants is examined. The consumption of injera and wot doesn't show significant seasonal variations but the per capita food energy members of different wealth strata get significantly differ, indicating that the nutritional status of the richer peasants is far better than the poor. Related with the consumption of injera and wot, problems affecting nutritional levels of peasants are discussed: nutrition wastage due to diseases, etc., effect of seasonal variations in agricultural work, adaptation to low level of food consumption, distribution of food in the household, etc. The problem of a national income accounting system which doesn't report housework activities is also mentioned.

Issues of Human Resource Development in Ethiopia

By

Getahun Gebru
Ministry of Planning

Human Resources Development (HRD) can be defined as the development and utilization of human potentials for social economic development, essentially through education, training and employment education is the key change agent for moving societies along the development process. Thus developing countries give high priority to education both to universalize primary education and to meet their skilled manpower requirements. This led to the explosion of school enrollment between the 1960s and 1980s.

These rapid rate of expansion of enrollment, however, could not be sustained into the 1980s due to the economic crisis of the 1980s. Developing countries could not finance the required increasing level of educational costs, hence stagnation of school enrolment and deterioration of the quality of education assumed crisis proportion.

The objective of this short paper is to give an overview of the current level of HRD in Ethiopia, major issues in HRD, and recommendation of policy measures which should be looked into in greater scope and detail.

Educational development being the basic component of HRD, its level in Ethiopia can be assessed in terms of literacy rate, primary and secondary school participation rates, the diversity, level and number of graduates of technical and higher education. This is the quantitative aspect and the qualitative dimension is relatively difficult to measure.

As a result of 22 rounds of literacy campaigns, the country's level of literacy had been raised from less than 10 percent in 1979 to 62 percent in 1990. This implies the positive change in the level of development of the country's human resources.

In terms of participation in primary education, primary school enrollment increased from 859,000 in 1974 to 2,855,846 in 1989. Although this growth (8.3%) had been quite substantial, there is still a long way to go to achieve the objectives of universalizing primary education in Ethiopia.

During 1974-1989, junior secondary school enrolment rose from 101,749 to 434,684 increasing at an annual rate of 10%. Enrolment figures in senior secondary schools increased from 81,296 in 1974 to 412,571 in 1989.

The country has 16 governmental and non governmental technical and vocational schools training middle level manpower in vocational fields with an annual intake limited to 1500. Total enrolment at tertiary level education had reached 17,613 in 1989.

As it is the case for primary education, secondary education opportunities have not been equitably distributed. The number of female students as percentage of the males was 69% in junior and 64% in senior secondary schools 1989. Compared with the 68% rate for Sub-Saharan Africa, there are still wide gaps to be narrowed.

At all levels of education, there is problem of quality and relevance and unemployment especially at vocational level.

Human resource development in Ethiopia is considered to very low. The various fundamental problems and weaknesses of educational development: low coverage, poor quality, inequitable distribution and the inefficiency of the system, all indicate to the low level of HRD.

In light of the economic crises of the country, these problems can only be solved through long-term, sustained efforts.

The Commercial Road Transport Sector:

Performance, Problems and Future Possibilities

By

Bayu Mulat
Ministry of Planning

1. *The Ethiopian transport system is poorly developed and despite great potentials, its contribution to the GDP is only 6%. The sector has been inadequate to support an efficient production and distribution system.*

2. *The commercial road transport sector comprises passenger (urban taxi and bus services) and freight (dry and liquid cargo) transport services rendered by the two parastatal organizations, the Public Transport Corporation (PTC) and Freight Transport Corporations.*

3. *Consideration of the status of bus service in Addis shows that about 12% of all daily trips is handled by buses. In terms of the adequacy and availability of the service, the Addis Ababa's situation was found to be the lowest compared to other African cities with similar population.*

4. *Taxi service in Addis Ababa is organized in zonal system of operation whereby taxis are required to operate on assigned routes and at a fixed tariff. In 1985, 10% of all daily trips in the city was handled by taxis. The old age of taxis, is an important aspect of the service. It was found out that over 75% of the taxi fleet was more than 20 years old. This has made taxi riding dangerous. Recent trends suggest some improvements in the taxi situation. Over 1100 minibuses have been imported for taxi business.*

5. *The regional bus service is rendered by government and private buses of different capacities. Currently the private owners (associates) operate over 3120 small, medium and big buses while the government deploys 316 big buses. The private sector handles 82% of the regional passenger transport.*

6. *There are a total of 7400 dry and liquid cargo trucks of various capacities in the country. The private sector which owns 87% of the national fleet handles 70% of the yearly performed ton km. The average age of the private trucks was 16.3 years while that of the government was 9.5 years. This old age of vehicles, coupled with shortage of spare-parts and deliberate policy of controlling the growth of the private sector has made transport shortage a perennial problem in the country.*

7. *The problems observable in the commercial road transport sector emanated mainly from the wrong sectoral development strategy. The objective of increasing the role of the state*

sector has not been successful. But this objective succeeded in limiting the growth of the private sector. Government policies like import policy, tariff and tax policy reinforce each other in the effort of controlling the development of the private sector. As a result, the transport service deteriorated. Another problem area is the lack of integrated subsectoral approach in the transport sector. The critical importance of the inter-relations and inter-phases within the tradition, intermediate and modern transport subsectors is overlooked. Problems within the modern sector are always confronted within the perspective of the modern sector. This approach has also contributed to unjustified investment and deterioration of transport services within the modern sector.

**Highlight's on the State of Ethiopia's External Trade
and Growth Implications**

By

Ghiorghis Tekle
Department of Economics
Addis Ababa University

Trade induced growth in many developing countries has not occurred for a number of reasons. In fact where it occurred, it has been argued that international trade has subjected some developing countries to slow rate of growth of their domestic economies. Although international trade is believed to improve resource allocation and provide benefits to domestic producers and consumers at large, the situation in countries like Ethiopia has been to the contrary where the expected results from international trade have not been realized. Among a number of factors the unstable foreign trade sector, limited external market, commodity composition and the terms of trade are major ones to explain the poor performance of trade in Ethiopia. This short paper tries to give highlights on the state of external trade of the Ethiopian economy in the context of growth.

Export Instability and Economic

Growth in Ethiopia

By

Yohannes Ayalew
Ministry of Trade

This paper assessed some basic facts about the instability of Ethiopia's exports; singled out and determined the magnitudes of export prices and/or quantities to which total export earnings are very sensitive; and discussed the contributions made by exports to the country's economic growth in perspective. Some policy suggestions are also outlined based on the results obtained in the study.

From the results it is observed that total export earnings which are found to have a significant potential for growth have been highly instable mainly due to structural rigidities in the export sector and the economy at large. The study further concludes that given the current level and structure of the economy, import substitution strategy is an inappropriate policy target. For the country to attain self-sustained growth (SSG) path, the results stress that, the emphasis should be toward export drive and internal drive policies.

An Overview of

Ethiopia's Planning Experience

By

Tesfaye Asfaw Andabo
Ministry of Planning

It is over three decades since Ethiopia adopted a planned approach to development. In the immediate post II World War period, sectoral programmes of varying durations were prepared for agriculture, industry, forestry, transport and telecommunications, education and water resources development.

An administrative machinery for formulating plans, called the National Economic Council was established in 1955. The Council consisted of a planning Board and a Secretariat to the Board, specifically charged with the task of drawing up plans. The Executive Committee of the Planning Board was chaired by the Prime Minister and the country's First Five Year Plan (1957-1961) as well as its Second Five Year Plan (1962-1967) were prepared under this arrangement.

The First and Second Five Year Plan period is marked by the restructuring of the state machinery to the needs of planning. The restructuring had a positive impact on the country's economy, since a number of modern and competent institutions were created or strengthened.

The Third Five Year Development Plan covered the period between 1968-1973 and was compiled under the supervision of the newly established Ministry of Planning and Development.

In general, the first two Five Year Plans were conservative as testified by the low or modest levels of investment and growth rate targets they set to achieve while the Third Five Year Plan was ambitious (a six per cent GDP growth rate) in both regards which led to the under implementation of the plan.

Between 1974 and 1978 there was little or no national planning in the country. Starting from 1979, six annual Development Campaign Programmes popularly known as " Zemechas " were prepared. The campaigns had limited and immediate objectives to address urgent problems of the times and were useful in helping to identify the major constraints of the economy. These were, the recurrent drought, instability in world commodity markets and until recently the intensified civil war.

In 1984 the country's first long-term plan covering the period 1984/85-1993/94 was launched. The Ten Year Plan targeted a lofty average annual growth rate of 6.5 per cent in real GDP.

The planning process in Ethiopia passes through a series of iterative stages which include:-

- The preliminary stage;*
- The analytical stage;*
- Adjustments and directive stage;*
- Plan elaboration stage;*
- Plan adoption stage; and*
- Plan implementation stage.*

The current transitional period in Ethiopia entails a change in the role of planning as the country is moving towards a market economy. Thus, planning is expected to focus on macroeconomic management in such a way that it could effectively influence and harmonize micro-economic decisions which are the domain of the market.

To accelerate its economic growth over the medium to long-term period, Ethiopia faces pressing needs to increase domestic and external resource mobilization. This is also the main challenge of planning. Resources are broadly defined here as comprising not just the primary factors of production (land, labour, capital) but also financial resources, entrepreneurial talents, managerial and administrative capacities.

The country's success in achieving its resource mobilization objectives will therefore, depend in large measure upon its ability to improve the efficiency of its resource use. This requires a conducive economic policy environment and an effective system of economic management.

Linkages Between Macro Planning and Project Planning in Ethiopia

by Gizaw Molla
DEPSA

Planning experiences in Ethiopia have showed us that macro plans set out national economic and social objectives, and priorities between different sectors and regions. The formulation, and elaboration of a macro strategy for economic and social advancement is a prerequisite for a meaningful identification, preparation, appraisal, implementation and ex-post evaluation of projects. Thus, running an economy like that of Ethiopia necessitates a well-integrated and properly coordinated development plan and that projects are one of the major instruments for concretising plans and attaining overall economic and social priorities. It is, therefore, necessary to emphasise the need to establish strong linkages between macro and project planning through the building-up of national capacity in macro planning and project preparation/formation because projects are considered to be as building blocks of national plans.

Financing Government Agricultural Expenditure

in Ethiopia

By

Teshome Mulat
Department of Economics
Addis Ababa University

Agricultural tax reforms in recent years have improved tax performance in Ethiopia. But, rapid growth in government agricultural expenditures and public expenditures generally could not be covered by tax and other non-inflationary revenues alone. The system of deficit financing pursued by the Government has resulted in the manifestation of the so-called " recurrent cost problem " and the " monetization of deficits ".

A Review of Post-1975 Monetary Policy in Ethiopia

By

Berhanie Abebe
Department of Economics, AAU

Review of post-1975 monetary policy of Ethiopia reveals important features and areas of reforms. The selective credit and interest rate policy which favoured the socialized sector has had credit restraining effect, which helped to maintain internal stability in the face of increased bank financing of the fiscal deficit. The main conclusions of the paper underlines the importance of restructuring the financial sector in general and the credit and interest rate policy in particular in a step-wise way so that the reform would respond to the pace of reforms in the real sector.

Investment Promotion and Incentives in Ethiopia

By

Tsegay Teklu
Office of Investment and Joint Ventures

African economies are weak and fragile. Cognizant of the economic and social problems of the continent, the Heads of State and Governments of the OAU committed themselves to bring about economic development, as expressed in the Lagos Plan of Action. The Lagos Plan of Action stipulates the need for collective self-reliance and self sustaining development by creating economic integration units at the national, subregional and regional levels, leading to the establishment of an African Common Market and eventually to an African Economic Community by the year 2000. Pursuant to this, the preferential Trade Area for Eastern and Southern African Countries (PTA) was established in 1982. Ethiopia is a member of the PTA.

The Ethiopian economy has many structural problems, the main one being its overwhelming dependence on the agricultural sector. As a result the country faces many economic and social problems. GDP growth rates are not in tandem with population growth rates, leading to declines in per capita income. As a result of very low savings rates, investment rates are also very low, and these low investment rates are virtually financed by external sources. The poor performance of the productive sectors, inability to generate foreign exchange, ever widening budgetary deficits, ever widening balance of payments deficits; exchange rate problems, the mushrooming of speculative trading activities etc. have brought about penury to the vast majority of people. The low level of development of the country has been further exacerbated by a mis-guided socio-economic policy, internal armed conflict and recurrent drought.

The Economic Reform Programme declared in March 1990 did not run full cycling when it was overtaken by the change in Government.

The objectives of the investment legislation issued following the declaration of the ERP, are the transfer, adoption and absorption of needed foreign technology; the mobilization of the country's material and human resources; the generation and/or saving of foreign exchange; and bringing about intersectoral and inter-regional linkages. The investment legislation provides a range of incentives and a set of guarantees. Some joint venture projects and a few other projects have been approved since the establishment of the Office of Investments and Joint Ventures (OIJV) in July, 1990. The OIJV has undertaken certain investment promotion activities by way of publishing investment guidelines, brochures, workshops, promotional visits etc.

There are many problems which have been encountered. Some of them include speculative trading activities; over-valuation of the local currency; inability to mobilize savings; apathy of the bureaucracy; prohibitive import duties; surtaxes and other changes of equivalent effect, prohibitive marginal tax rates; the marginalization of the private sector etc. which made investments in tangible projects very difficult.

By way of recommendations: there is a need for image-building of the country; rationalizing direct and indirect tax structures to promote savings and investments; encouraging and supporting the private sector to play wider participatory roles in investments; and finally the economic policy to be pursued should be permissive enough for the unrestricted mobilization of the enormous human and material resources of the country by streamlining and rationalizing the legal and procedural modus operandi.

The Economic Reform Programme in Ethiopia

By

Mekonnen Abraham
Ministry of Planning

Despite efforts to increase the productive capacity of the economy, most of the economic indicators point to a worsening situation. Per capita income has fallen, aggregate output stagnated, savings and investment rates declined, food supply shortages worsened, severe balance of payments problem and high debt service obligations emerged, overt and covert unemployment problems aggravated.

In order to tackle these problems, the past regime took far reaching measures in order to change the institutional framework within which the economy has been operating. The measures were designed to mitigate the growing economic problems and place the economy on the path of recovery and sustained growth.

The Economic Reform Programme (ERP) introduced in 1990 brought new perspectives on the problems and prospects of the Ethiopian economy and transformed them into a fundamentally new overall development strategy, policies and institutional frameworks on mixed economy model.

Key elements of the NERP are: promotion of mixed economy where all forms of ownership - state, private and cooperatives - operate side by side on the basis of competitiveness and profitability; greater use of the market mechanism to guide economic decisions; elimination of state controls on the operation of private enterprises; restructuring and divestiture of public enterprises and encouragement of foreign investment.

The process of implementing ERP was overtaken by the change of Government, which brought with it changes in political, institutional and economic environment.

The overall aspects of Draft Economic Policy (DEP) introduced by the Transitional Government by and large suggest that DEP is not significantly different from ERP.

Following the adoption of ERP the past regime issued a series of proclamations and regulations that created the legal framework for investment. These regulations removed investment ceilings on private capital, eliminated control on area of operation, provided security of land tenure and property ownership including the right to transfer, sell, rent, etc and eliminated labor hiring restrictions.

Although Ethiopia faces a number of problems associated with backwardness, the potential for development is immense. The liberalization policy would help create an enabling environment for investors provided these new policy orientations are articulated into guidelines and directives in order to enhance their application in the various spheres of development.

A N N E X 3

THE MARCH 5, 1990 REFORMS

(extracted from : "A view on Ethiopia or the Ethiopian verses
by M-P. Verlaeten, DIAL, june 1991, pp. 20-22)

III – THE ETHIOPIAN REFORMS

31. Under pressure from western governments unwilling to contemplate another famine (para 6) on their domestic television screens and hoping to benefit from increased western financial support the Ethiopian government opened up to economic, social and political reforms at the beginning of 1990. At the 11th Regular Plenum of the Central Committee of the Workers Party of Ethiopia on March 5th President Mengitsu Haile-Mariam announced a completely new Ethiopian economic system based on a mixed economy. In addition the President's speech included political innovations through which to embody an Ethiopian perestroïkha or so called it.

32. The mixed economy was defined by several points amongst which the most relevant were:

1/ The co-existence of state and private enterprises, farms to construct a socialist Ethiopia. In both cases the latter ones should be encouraged and strengthened ;

2/ A state managing system putting the emphasis on competition, profitability and productivity otherwise state enterprises or farms should be sold or closed down ;

3/ The abolition of the Agricultural Marketing Corporation and the quota system ;

4/ The abolition of the producers cooperatives if this would be the democratic will of the members ;

5/ The admittance of peasants'rights to use specific area of land and to transfer these rights to their legal heirs when they derive their livelihood from farming ;

6/ The peasants' rights to hire workers to work on their farms ; the private investors' rights to establish modern large farms ; the private traders' rights to compete without any restrictions with the state-run trade enterprises in all sectors of the economy.

The six points should lead to a change in the national plans. Instead of issuing state's directives they should be transformed into indicative plans reflecting both planning and marketing laws. One of the government's objectives was to stimulate the agricultural sector. As such the reform was more or less a response to a recognised agriculture crisis.

33. The Ethiopian perestroïkha was prepared since the beginning of 1988 i.e. in the context of the IDA supported Peasant Agricultural Development Project, the Ninth Plenum of the Central Committee of the Worker's Party of Ethiopia and the July 1989 three decrees. They were promulgated to liberalize the economy improve the climate for private investment and encourage levels of external assistance(24).

24 The notes of the next paragraphs are from *The Policy Framework Paper (1990/91 – 1992/93)* prepared by the Ethiopian authorities in collaboration with the Staffs of the Fund and the World Bank (aug. 30, 1990).

34. The Ethiopian perestroïkha was just one cornerpiece of a wider Government's Economic Reform Programme (ERP) covering the period through the year 2000. Its major aims were :

- a) to raise the real GDP growth rate on a sustained basis in order to progressively increase per capita income and consumption ;
- b) to increase food production and food security ;
- c) to diversify the production base ;
- d) to increase exports through broadly based external sector policies ;
- e) to promote balanced regional development in order to expand employment opportunities in both urban and rural areas ;
- f) to provide adequate levels of health education, and other social welfare facilities ;
- g) to introduce and diffuse appropriate technologies in order to raise labor productivity ;
- h) to work toward removing long-term structural impediments to economic stability with a sustained high rate of growth ;
- i) to remove or minimize constraints to the quality of life, including the adverse effects of recurrent drought, high population growth, and environmental degradation. Vulnerable groups are to be protected during this transformation.

35. To ensure the success of the reforms already announced as well as that of the institutional reforms envisaged in the ERP, the Ethiopian government announced the implementation of comprehensive macroeconomic policies and structural adjustment measures during the next three years (1991-92). Amongst the latter ones :

(a) to adopt an appropriate exchange rate level in conjunction with decreased trade and exchange restrictions⁽²⁵⁾;

(b) to phase out the remaining price distortions by eliminating most official price controls while allowing a flexible administration of the remaining controlled prices ;

(c) to reduce the budget deficit through revenue measures that seek to broaden the tax base by removing price distortions and improving the elasticity of the tax system, and through expenditure restraint by containing the wage bill, curtailing subsidies, gradually reducing security-related outlays, and setting priorities for capital expenditure ;

²⁵ Exchange rate parity had been fixed to 2.07 birr per US \$ since february 1973.

(d) to pursue a monetary policy consistent with the reduction in the rate of inflation by curtailing the Government's recourse to the banking system, while providing adequate credit to the expanding private sector, and adoption of a nondiscriminatory interest rate structure that is positive in real terms.

These measures and policies were expected to result in an average real GDP growth of about 4.5 per cent per annum during 1990/91 – 1992/93. This rate was mainly determined by the agricultural sector which would continue to be the leading sector in the economy.

36. The successful implementation of the reforms was crucially dependent on containing the civil war and receiving increased financial support from the international community through increased levels of external resource on concessional terms and substantial debt relief. This was not the case as far as the civil war was concerned. So even the period was too short to appreciate the outcome of the announced reforms on people's life it may be said that Ethiopia has begun a transition from a command economy to a market-based one since the beginning of 1988.

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