

Chapter one

Introduction to Ethiopian Economy

1.1. Overview and Structure of Ethiopian Economy

Prior to 1930s the wide spread economic theory was that of classical economists with this theory the economy itself capable of regulating and therefore there should be no or limited government role in it. But the great depression of 1930s proved the failure of the economy to adjust itself to the full employment level of output, especially in the short run.

Before the 1950s and because of lack of data, no meaningful macroeconomic review of the Ethiopian economy can be made for the period before the late 1950s. The first document of macroeconomic and social policy in the country was prepared in 1957. This was known as "The First Five Year Development plan 1957-61". Regardless of the imprecise and crude nature of the documents on the five year plans, they provide comprehensive national accounts data. It follows that a meaningful review of the macroeconomic objective of the Ethiopian economy is possible for the period since late 1950s. From that time until now three governments have assumed power in Ethiopia. To appreciate the developments in the Ethiopian economy in their proper historical context, one needs highlights of the most significant events. Therefore, we make review of national economic objectives and strategies in the three regimes, namely, the Imperial Government of Ethiopia, The Derg Government, and The Federal Democratic Republic Government (FDRG)

1.1.2 The Imperial Regime

In the Imperial era, **the Ethiopian economy was** a type of mixed economy where the private and the-public, sectors **coexisted**. **Both** sectors were considered equally important 'and **complements**. The economic structure **of that time was** characterized by, on **the one** hand, a **predominant subsistence** sector with extremely **low levels of** output, productivity, **saving and investment**, and on **the other** hand, monetized but **small** sector. The socio-economic development **plan was envisaged to transform the traditional and subsistence economy** into a **monetized economy where commerce and manufacturing** industry were flourishing, and to build modern society.

Ethiopia was, perhaps, **the first** African country to prepare comprehensive planning for socio-economic **development**. **Three five-year plans** were prepared **and implemented**. As we have already mentioned the first –Five year Plan was initially expected to last from 1957 up to 1961. However, due to delay in its implementation the plan covered the period 1958-1962.

As stated in the First Five-Year plan the long-term objectives of socioeconomic development were:

- a) To increase the productive capacity of the economy, in order to secure an abundant and diversified production of goods and services, and to accelerate the rate of economic growth by better utilization of available resources,
- b) to change the existing technology by introducing modern machinery and equipment, and to raise the skill and productivity of labor,
- c) to raise the saving and investment potentials of the country by accelerating the growth of saving, with the view to attaining a self-sustained economic growth,
- d) to improve living conditions and to raise the standard of living of the population according to growing possibilities and by steady and continuous development of the economy,
- e) to provide the nation with better social services, particularly education, public health, social security and cultural services

- so as to affirm and strengthen the personality and integrity of the Ethiopian people,
- f) to offer all citizens an equal opportunity to contribute to the economic and social progress of the country,
 - g) to create a sound economic basis for national defense and security, in order to ensure peaceful development to the nation, and to contribute to world peace and progress.

To achieve the above mentioned objectives, the Five Year Plan, which was the first stage, program in the development plan set forth the following basic targets:

- a) To give priority to the development of infrastructure which represents a prerequisite for accelerating economic growth
- b) To raise the level of education and to devote attention to the training of technical personnel for the implementation of five year plan
- c) To accelerate the development of agriculture which represents the major sector of the national economy and contributes the greatest part of exports and industrial raw materials,
- d) To establish processing industries for the industries for the abundant supplies of domestic raw materials and for the requirements of the domestic market and,
- e) To direct economic, and particularly financial policy, toward mobilizing financial and human resources for economic development

The investment policy for the plan period was in line with the aforementioned targets and its structure was as follows. The total anticipated investment expenditure was birr 673.6 million. Out of the total investment expenditure, birr 240.0 million (35.6%) was allocated to transport and communications. The share of other sectors in the total investment was: industry (manufacturing, mining, electricity) birr 138.0 million or 20.5%; agriculture *including* farmer's investments in kind birr

182.1 million (27.0 %); education, health and community development birr 57.0 million (8.5 %); and the remaining birr 56.5 million was allocated to the various remaining sectors.

By the end of **the First Five Year Plan** major highways had been brought under construction, airports started, a new seaport (Assab) built and a modern telecommunication system had begun to operate. A start was made in establishing modern manufacturing industry, while electric power output was substantially increased mainly due to the completion of the Koka hydroelectric power plant, export trade consisting largely of agricultural raw materials (coffee, hides and skin, oil seeds, cereals, meat and meat products) was being built up; imports primarily concentrated in the area of consumer goods, although some imports of machinery and equipment were under already at the time. The main shortcomings and bottlenecks in implementing the plan were low saving capacity and inadequate methods of mobilizing the available *resources*, lack of trained and skilled man-power, and lack of coordination between investment programs.

The Second Five-Year Plan (1963-67) constitutes logical continuation of the first but with stronger emphasis on productive activities designed to provide increasing quantities of consumer goods and on the creation of new working opportunities for the increasing population of Ethiopia. Stress was also laid in all kinds of research and promotion of statistic information so as to obtain adequate and reliable data for the most propulsive future projects. The continued construction of communication facilities with the intention of opening up new regions of the country was assured. Also, increased expenditures were envisaged in the plan for social program, particularly in the fields of health and education. It became clear that the most propulsive sectors in the attempt to bring about structural transformation of the economy from a predominantly agricultural base to an industrial and agro-industrial one would be mining, manufacturing and power. Agriculture was considered the leading economic activity and would give the largest contribution to the increase in national

production. Hence, unlike the First Five-Year Plan, which placed emphasis on the development of infrastructure, the second plan shifted the emphasis to productive activities.

During the Second Five-Year Plan, there was a rapid development in commercial farming (coffee, sugar cane, cotton and to some degree tobacco). The manufacturing sub-sector grew at about 16 % per annum with the most notable expansion taking place in food processing textile industries, beverages, tobacco and the leather and shoe industries, largely on the basis of import-substitution.

As compared to the First and Second Five Year Plans, the Third Five Year Plan was relatively a refined plan as it was based upon accumulated experience and drawn up under better conditions. The first two five-year plans were characterized by **lack of specialized institutions for their execution, and lack of** inter-ministerial coordination. It became evident that planning requires a modern administrative structure different from that inherited from the past. Hence, the government set-up a high level administrative reform committee towards the end of the First Five Year Plan. The committee was assigned main tasks of simplifying the existing ministerial structure by the elimination of unnecessary ministries, and the transfer of certain functions from one ministry to another in order to avoid duplication and overlapping.

After the Second Five-Year Plan, preparation of the **third was delayed for one year**, to await the recommendation of the administrative reform committee. Even though originally the Third Five Year Plan was expected to cover the period up to 1973 later it was extended by one year (1969-74) because of the above-mentioned problem.

The major goals of the Third Five Year Plan were to achieve:

- a) The fastest possible growth and development of the economy as a whole for a steady, gradual improvement of the

social and cultural welfare of the society,

- b) a steady and perceptible rise in the real standard of living for the population in terms of higher per capita income which should expand on average by over 3 percent annually,
- c) Building of a far stronger foundation for sustained and rapid Growth and development of the economy in the fourth plan period and beyond. This will particularly require the enlargement of the educational base of skills required by various sectors, the acquiring of a more accurate knowledge of the country's natural resources, and the improvement of the administrative capacity of the government.
- d) Gradual improvement in the distribution of real incomes, and increased opportunity among the different sectors of the population and in the various regions of the empire.

Therefore, the Third Five Year Plan shifted the priority to optimization and hence attainment of higher standard of living. However, the revolution of 1974 brought an end to the Imperial regime before completion of the Third Five Year Plan.

National Economic Development Strategy

The Imperial era employed two main strategies. These were export-oriented and import-substitution strategies. Export trade is usually considered as an engine of economic development by providing access to foreign markets for domestic goods. In the import-substitution strategy, however, goods are produced at home for domestic market, instead of importing them. After the Second World War, export promotion and diversification strategies were pursued. Attempts were made to raise export by expanding the items, increasing quantity, and improving quality of exports. Large area of agricultural land was devoted to the production of crops for export market, and much of the physical infrastructure, especially expansion of the road network was related to the growth of foreign trade.

The aim of the export-led development strategy was the generation of the foreign currency required for the country's import finance, and this strategy continued up to 1960. After 1960, however, emphasis was shifted to the import-substitution strategy the aim of which was protecting the infantHome industry from competition with the developed foreign industry. The protection was practiced by means of successively higher tariff imposition on similar imported goods. Studies suggest that "...while the effort for expanding domestic manufacturing industry on the basis of the import-substitution strategy did succeed in making limited contributions to growth in the 1960s, since then it has made no meaningful contribution to the country's economic development. This was partly because the small domestic market quickly became soaked up, but was mainly due to declining exports which resulted in deteriorations in the balance of payments, acute shortages of foreign exchange and mounting international obligation..." (MOPED, 1993:10).

Five year plan	National Income growth rate	Assessment of economic growth plan fulfillment
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Table 1.1 illustrates that in the First-Five Year Plan national income was planned to increase, on the average, by 3.7% per annum. However, the actual national income growth slightly fell short of the target standing at 3.2%. It is also clear that in the Second Five-Year Plan the economy registered an average annual growth rate of 4.6 % of GDP against the 4.3 % target. In the Third Five-Year Plan initially it was planned to attain GDP average annual growth rate of 6 %. Later, in the mid-plan review, the average annual GDP growth rate was revised down to 5 % because achievement of the 6 % target was found to be infeasible. For the first two years of the third plan the average annual growth rate of the GDP was only 4%.

Table-1.1 Annual growth rate of national income in the Imperial regime

	Plan	Actual
First (1958- 1962)	3.7	3.2
Second (1963 - 1967)	4.3	4.6

Source: Shiferaw Bekele, History of Modern Ethiopia 1941 - 74, 1995

Even though there were some achievements in **some** aspects of economic performance, in the Imperial regime, overall the regime failed to bring any meaningful change to socio-economic development. By all indices of underdevelopment (per capita income, nutrition, health, education, etc) the country's performance remained distinctly poor, and on the eve of the 1974 revolution Ethiopia was one of the least developed countries of the world.

The underdevelopment characteristic realities of the Ethiopian economy was aggravated by the famine of the time, and in **conjunction with the increasing political unrest, led to the** downfall of the regime. Hence in 1974 the military junta, Derg, which was later transformed into the Ethiopian People Democratic Republic Government (EPDRG) assumed power.

1.1.3 The Derg Period

The Provisional Military Government of Socialist Ethiopia changed the course of development from market oriented mixed economy to a type of socialism oriented economy. The Derg made a number of changes in the economic policy and institutional framework. The major changes were:-

- ✓ Abolition of private ownership of land both in rural and urban areas
- ✓ Nationalization of extra dwellings, major enterprise in manufacturing industries, banking and insurance

- ✓ Agricultural policy based on state and cooperative farms
- ✓ peasant resettlement and villagization programs
- ✓ Increased government role and discouraged private sector.

These changes created the preconditions for the construction of a socialist economy. With the establishment of the National Revolutionary Development Campaign and Central Planning Supreme Council in 1978, six annual development campaign plans were launched from 1978-1984. The main objectives of the campaigns were:

- To alleviate acute and urgent socio-economic problems,
- To lay down the material and technical foundation for the socialist system, and
- To reconstruct the destroyed infrastructure in the course of revolution.

Basically, in the beginning, the government acted boldly and resolutely to successfully implement agrarian reform, a national adult literacy campaign, and to establish a unique rural institutional structure. However, the immense problems of transforming a deeply traditional society, and the subsequent rigid and stifling policies of the Derg eroded the expected progress.

The annual development campaign plans we discussed earlier did not emanate from long-term development strategy. In the Derg period, the first long-term plan, i.e. the Ten Year Perspective Plan was launched in 1984. As stated in the Ten Year Perspective Plan of 1984/85-1993/94 the objectives of economic development **were:**

- a) Improving gradually the material and cultural well-being of the people,
- b) Accelerating growth of the economy through the expansion of the country's productive capacity,
- c) Ensuring structurally balanced development of the national economy by expanding domestic resources based industries,
- d) Conserving, exploring, developing and exploiting rationally the natural resources of the country,

- e) expanding and strengthening socialist production relations
- f) Raising the level of education and skills of the people,
- g) Laying down the basis for the development of national science and technology capability,
- h) Eliminating unemployment gradually,
- i) Alleviating social problems,
- j) Ensuring balance and proportional development of all regions of the country.

In the Ten Year Perspective Plan, priority areas were also identified. Agriculture as the foundation of the country's economy was placed first in the priority order. The other priority area was industry. Since industry is the motive power for achieving rapid economic development, it was imperative that much greater investment be made in this sector in order to increase gradually industry's contribution to the development of the national economy and to ensure its structural transformation. This goal was to be attained through the establishment of light and cottage industries; creation, expansion and strengthening of handicraft producers' cooperative. Due to the fact that the expansion and development of an industry heavily depends upon the capacity of power generation and the extent to which mineral resources are exploited, the power and mining sectors were also given due attention in the priority agenda. To provide a firm scientific and technical basis for the country's overall development, the development of science and technology was also identified as a priority area.

It appears that the development objectives and priorities set-out were relevant and consistent with the country's needs and resource base of the country. In practice, however, the implementation was limited to lip-service.

Even though, overall, the Derg regime also proved itself a failure like its predecessor, it had achieved some success especially in illiteracy reduction. "Ethiopia's literacy campaigns have raised the literacy rate from 7 percent in 1974 to 71 percent in 1988. Primary school enrollment has increased from 15 percent to 35 percent". (ONCCP, 1990). The Ethiopian

primary school enrollment, however, was still below the sub-Saharan average.

In the end of the regime (1990) the Workers Party of Ethiopia assessed the previous performance and the perspective of the economy and decided to transform it into mixed economy.

The key elements of the new EPDRG economic policy were:

- a) Promotion of mixed economy whereby all forms of enterprise (state, private and cooperative) operate side by side in a competitive environment,
- b) Greater use of the market mechanism to guide economic decisions.
- c) Elimination of state controls on the operation of private enterprises like capital ceilings, area of operation etc.
- d) Restructuring public enterprise management towards competitiveness and profitability, and
- e) Strictly voluntary formation of cooperatives.

However, as the system was on the verge of failure the change in the policy could not rescue it from collapse.

There were many factors which contributed to the economic crisis of the time and collapse of the EPDRG. Following are the main ones.

- The misguided policy wherein state control of the economy was over-extended and the private sector suppressed;
- economic mismanagement in the form of inefficient management, bureaucratic red-tape, embezzlement of public funds, bribery etc;
- the protracted civil war; the recurrent drought supplemented by population pressure
- Structural problem which manifested itself in serious lags in the two major sectors (agriculture and industry).

In the case of agriculture the poor performance was mainly:-

- the consequence of the use of backward technology and methods of cultivation by the peasantry which claims most of the output of the sector,
- Over- population in the highlands and the untapped agricultural potential of the lowlands because of the absence of physical infrastructure.

In the industrial sector the main drawbacks were:-

- the small domestic market which emanated from low income
- the dependence of the sector on imported inputs
- the unfavorable balance of payment and hence shortage of foreign exchange which resulted in obsolete machinery
- lack of spare parts and raw materials
- And the absence of inter-sectorial coordination.

As far as the development strategy is concerned, during the Derg regime there was barrier to import in the form of limited type and volume of import. The strategy pursued by the regime, therefore, was import-substitution.

As we have already mentioned, the objective of the *Derg* was building socialist society and hence there was strong *central* government. In other words, the role of the government in economic decision-making was quite high and its impact on the character and performance of the economy was overwhelming.

The role of the government in the economy, however was not uniform or not equal in all sectors. As shown in Eshetu (1988). The contribution of the government sector to the total agricultural output was no more than 2 %. The number of farmers organized under recognized agricultural cooperatives was also no more than 3 percent of the country's farmers.

This implies that in the agricultural sector the role of the private farmers was predominant. The share of the public sector in other sectors was as shown in Table 1.2. The table reveals that in the sectors like electricity and water supply, administration, defence, banking and insurance there was pure government monopoly whereas in the sectors like education, medium and large scale manufacturing industries, health, transport and communications there was significant government contribution to output and in the small-scale industries it was nil. Hence, the Ethiopian Economy of the time was not a socialist economy to the degree envisaged and remained mixed.

Table 1.2. Public sector contribution to sectoral output

Sector	Public sector contribution to output (%)
Industry:	
- Medium and large scale manufacturing industries	89.2
- Small scale industries	0
- Construction	48.4
- Electricity and water	100
Service:	
- Administration, defence, banking and insurance	100
- Education	94.3
- Health	87.6
- Transport and communication	71.8

- Whole sale and retail trade	19.3
- Housing	36.4

Source: A Summary from Eshetu Chole, The Ethiopian Economy: An overview, Geneva, 1988

Eventually, the Ten Year Perspective Plan envisaged achievement of average annual growth rate was 6.5 percent in real GDP at 1980/81 factor cost, for the period 1983/84-1993/94. However from 1983/84-1990/91 the average annual Real GDP growth rate was only about 1.6 percent.

1.1.4 The FDRG

Following the collapse of the Derg regime the various political forces established Transitional Government of Ethiopia (TGE). During the transition period as the various political forces agreed on common political issues, the economic policy of the transitional period should have had the support of at least the majority of the political forces concerned. Latter, however, some parties abandoned the coalition government.

The objectives of the economic policies of the TGE were:

- a) To replace the command economy with the market economy,
- b) To enhance popular participation in economic activities and decision-making processes by ensuring control over resources by regional authorities,
- c) To perform structural adjustment of the economy,
- d) To put the utmost emphasis on the agricultural sector,
- e) To increase and diversify export.

Following *completion* of the transition period, in accordance with the general election results, the majority of the Parliament

seats went to the EPRDF. Consequently, the FDRG replaced the TGE and the programme of the EPRDF became the programme of the country.

As mentioned in the MOFED (2003), the main objectives of the economic *development* programme of the FDRG are to build a market economy in which

- i) a broad spectrum of the Ethiopian people are beneficiaries,
- ii) Dependence on food aid is eliminated and
- iii) Rapid economic *growth* is assured.

To achieve the above-mentioned objectives, the FDRG launched Agriculture-Development-Led Industrialization strategy (*ADLI*). Given the prevalence of rural life in Ethiopia.

Achievement of the mentioned objective requires a comprehensive rural development vision as well as commitment for its realization. The rural and agriculture centered development programme therefore was adopted to assist in the realization of the country's development objective. The rural and agriculture centered development programme is believed to result in a rapid productivity growth in the peasant agriculture and hence benefit the society at large by boasting the supply side through sustainable supply of export products, food at reasonable prices, and raw materials for the manufacturing sector. The programme is also expected to create market outlets (effective demand) for outputs of other sectors particularly the manufacturing sector, i.e., as income of the rural population rises the need for domestically produced goods like agricultural machinery, tools and other inputs increases, and thereby helps industrial expansion, rapid development of trade, transport and other related services. It follows that although the ADLI is admittedly centered on agricultural development it is not confined to it.

Ever since the takeover of power in 1991, the TGE **and** then the FDRG have been preoccupied with transformation of **the** command economy inherited from the past regime into a market-based economy. A macroeconomic **stabilization** and **structural reform measures** have been undertaken. These are:

- Government **structure was decentralized** and power **was** moved to **regional states**

- for achievement of **fiscal** balance a number of tax reforms and other government revenue enhancement measures were taken;
- prices were **partially deregulated**;
- **the** role of the government in economic **activities was limited**, public enterprises were **granted autonomy, preferential treatment** of the public enterprises **was eliminated, and institutions** like **Privatization Agency and Foreign Trade** Promotion Agency were established;
- a new investment code **was** promulgated to provide incentives and improve legal and administrative environment for investors;
- a new labor code wherein retrenchment (layoff of workers when demand for goods and services falls) and redeployment of workers is allowed was introduced;
- automatic hiring of graduates from higher education institutions was terminated;
- to transform the backward and bureaucratic civil service reform has been undertaken;
- capacity building and corruption campaign embarked on;
- the financial institution reform provides for the private investors to commence banking and insurance businesses and compete with the state owned ones on commercial basis;
- a new deposit and loan interest rate structure was introduced;
- tight monetary policy was pursued to ensure consistency of growth rate of money supply with that of nominal GDP so that inflation could be checked and external balance maintained;
- in the process of liberalization automatic granting of export licenses, and automatic granting of import licenses except for goods on negative list became effective;
- The local currency (birr) was initially devalued from birr 2.07 to birr 5.00 per USD and then after foreign exchange auction was introduced to make the exchange rate market determined.

Various studies reveal that despite their overlapping nature, there are three phases in the reform programme of the FDRG. These are:

- i. stabilization *phase* wherein monetary policy, fiscal policy and exchange rate equilibra were sought,
- ii. Structural reform which aims at creating enabling environment for private sector participation in the

economy.

In this phase the emphasis has been put on deregulation of price and distribution; trade liberalization; establishment of appropriate legal, institutional and regulatory framework to pave the way for the private sector development,

- iii. Enhancement of international competitiveness, which aims at development of appropriate financial sector institutions, and a comprehensive reform of the public sectors. It includes rationalization of the civil service, restructuring and/or privatizing of the inefficient parastatals etc.

Furthermore, the FDRG is expressing its commitment to work toward meeting the Millennium Development Goals of 2015. For this purpose, the government prepared the main strategy document called Sustainable Development and Poverty Reduction Programme (SDPRP). The overriding objective of the programme is to reduce poverty while at the same time maintaining macroeconomic stability.

The development programme and effort of the FDRG of Ethiopia enjoys high appreciation and vigorous support externally (i.e., from donor countries and organizations). Internally, however, the programme is not as popular as externally and even observed facing resistance. While the favorable external situation creates optimism about the success of the programme the reluctance and even resistance of the main force (internal factor) leaves room for suspicion about its lasting success.

The ADLI strategy has two main components, i.e., the external sector (export-led) part and the internal sector (rural centered development strategy) part. In the external sector, in addition to agriculture, which constitutes the basis of the foreign trade of Ethiopia, mining is also expected to play a major role. The rural centered development programme is believed to result in rapid productivity growth in the peasant agriculture and hence benefit the society at large by boosting the supply side through sustainable supply of export products, food at reasonable prices, and raw materials for the manufacturing sector.

The programme is also expected to create market outlets (effective demand) for outputs of other sectors

particularly the manufacturing sector,i.e, as income of the rural population rises the need for domestically produced goods like agricultural machinery, tools and other inputs increases, and thereby helps industrial expansion, rapid development of trade, transport and other related services.

In the FDRG's five year programme of **peace and democracy**, it was stated that "... the programme, therefore aims at 7 to 10 percent average annual economic growth rate during the period under consideration so as to prepare a ground for a meaningful eradication of poverty in this country once and for all...". Despite the envisaged average annual economic growth rate of 7 to 10 percent, over the period 1996/97-2001/02, average annual real GDP growth rate was only about 4.3 percent. In fact, the present government like its predecessors has registered some achievements in separate areas. For instance, more roads, aerodromes, schools, and other infrastructures have been constructed. However, overall, the poverty in the country, instead of being eradicated, rather intensified. The following discussion is in support of the prevalence of poverty in Ethiopia.

The poverty rate of the country for the various previous years cannot be compared due to revisions in purchasing power parity (PPp) exchange rates. However, the World Bank report reveals that, on the basis of the 1999-2000 survey year, 44.2 percent of the Ethiopian population lives below the national absolute poverty line. The percentage of population living below poverty line is 45.0 percent and 37.0 percent for the rural and urban population, respectively. This means that the poverty situation is worse in the rural areas of the country than in the urban areas. Also, 81.9 percent of the Ethiopian population lives below the international poverty line of \$1 a day and 98.4 percent is below the poverty line of \$ 2 a day. In other words, at the national standard 44.2 percent of the Ethiopian population is extremely poor earning income that does **not allow it obtain the basic necessities of life. In the same**Manner at the international level 81.9 % of the Ethiopian population is extremely poor living on less than \$1 a day which is considered insufficient to the basic necessities of life.

Moreover, the per capita gross national income of Ethiopia is one of the lowest per capita income in the

world, standing at \$ 100. This places the Ethiopian economy at 206 rank, out of the 208 economies included in the rankings.

Also, studies suggest that "adult illiteracy is very high at approximately 65 percent of adults above 15 years, compared with 53 percent for all sub-Saharan Africa (Befekadu, 1999/2000:105). The number of famine-hit population in 2003 is also the highest (14.3 million) and is double that of the year 2002(7.14 million). Hence, the Ethiopian economy is not in a good shape and is in the depth of poverty.

1.1.5 Remark

We have seen that the main economic development objective of the three governments of Ethiopia has been accelerating the rate of economic growth with the final goal of improving living conditions and raising the standard of living of the population. While there have been some encouraging cases of success in each of the regimes, so far, none of them has achieved the final goal, and the overall development record of the country is disappointing. (During the period under consideration).

In the *population and Resource Base of Ethiopia* written by the same author it was mentioned that most of the highland of Ethiopia is degraded. Yet, the country has sufficient potential for development provided the fast population growth rate is controlled, participatory development and good governance are established and maintained, and long-lasting peace and stability are achieved. The unutilized growth potential of the country may be presented as follows.

Despite the over-cultivation and degradation of a great part of especially the northern highlands, the low lands have not yet been developed and also only about 5.7 potentially irrigable land has been developed. The country has also abundant water resource for energy generation, fishery and irrigation purpose. The abundant cultural heritage, the beautiful lakes, mountains, parks, animals and birds; the impressive water falls, the hot springs and the excellent climatic conditions of the country are the enormous potential for the tourism industry. The country is also endowed with metallic industrial minerals and to some degree with

petroleum. Since about 65 percent of the adult population of Ethiopia is illiterate: elevating the level of education and skill of the labor force is also the reserve for enhancing productivity. However, the factor endowment can lead to sustainable development only in conjunction with peace and stability, participatory and consensus politics, and good governance.

Peace and stability are indispensable for the cause of development. This is because social strife and military conflicts result in the loss of life, destruction of infrastructure and property, diversion of scarce government resources away from public services to military expenditure, the disruption of economic transaction etc. The provision of a lasting peace and stability requires peaceful resolution of conflicts and reconciliation of different interests. Past experiences teach us that military and security strengths and compulsion of the people to listen to the government can only help the government for survival, no matter how long, but never for participatory development. This makes consensus politics very essential. The general agreement and hence participatory development depend upon the readiness of the government for concession and its commitment to accommodate the diversified interests, and equally *upon* the readiness of the various ethnic and political parties for concession.

1.2 National income Accounts of Ethiopia

It is common Knowledge that the purpose of an economic activity is satisfaction of human wants. To this end, society produces various goods and services. The money value of all goods and so, vices produced in the economy constitutes total national income. There are three possible approaches to measuring of the gross national income. These are the output approach, the income approach, and the expenditure approach. In the output approach national income is obtained by adding up the output figures of all the firms in the country. In the income approach national income equals the sum of all the incomes accruing to all factors of production used in producing the national output. Thus,

$$\text{GDP} = \text{Wages and Salaries} + \text{Rent} + \text{Interest} + \text{Profit}$$

In the expenditure approach national income is found by summing up **all the** spending on the final goods and **services** in the economy. Therefore,

GDP = Consumption + Investment + Government + Net expenditure
(C) expenditure (I) expenditure
(G) export (NE)

With regard to historical development of national income accounts in Ethiopia, following is a summary from MOPED, 1994,

In **Ethiopia, since 1952, a number of estimates of national income accounts (NYA) have** been prepared by such agencies like the State bank (the now National Bank), central statistical Authority(CSA), Ministry of Planning and Economic Development (MOPED), Ministry of Economic Development and Cooperation (MEDaC) and Ministry of Finance and Economic Development (MOFED)

The State Bank's estimates for 1952 were built up by the expenditure approach. These estimates were inaccurate since all the subsistence consumption of agricultural produces were valued at export prices which included transportation and distribution costs that were never in fact incurred. In 1958, the same body made some adjustments to the methodology of NYA by making use of part of the background data and by making certain assumptions about consumption of cereals. Both estimates, however, had not been officially adopted by the government. The First Five Year Plan of Ethiopia (1957 -62) was formulated in 1957. At that time, there was a need for estimates of GDP by industrial origin to facilitate economic analysis and assigning of priorities. Projections were prepared by the Planning Board Office for 1957. The method was output approach based upon the estimated population. This estimate was also not devoid of high degree of inaccuracy. Thus, in 1960, the Planning Board Office made revised estimates for 1957-60. When the Second Five Year Plan was drafted, assessment of the rate of growth of the economy necessitated revision of the estimates of the national income. Hence, the Planning Board Office again undertook the estimates for 1957

and 1961. The resulting estimates were published in the Second Five **Year** plan document.

Estimating national product and expenditure aggregate by the Central Statistical Authority was started in 1964. The CSA, more **or** less, pursued the same methodological procedure as the Planning Board Office except that methodological problems had been more consistently treated. **In contrast to the Planning Board's** estimates, the CSA attempted to set out the estimation procedure in considerable detail so that revision of such estimates can easily be effected in the future. All the estimates were at current prices at this stage. The CSA revised the estimates subsequently and a revised series of estimates were released in October 1967, in "Estimates of National Accounts of Ethiopia, 1961-1966." Apart from revising the earlier estimates, estimates at constant prices of 1961 were also derived and presented.

From 1977 onwards the then Planning Commission and its successor MOPED took over the task of estimating national income. The GDP estimates were compiled sector by sector by following more or less the methodology adopted by the CSA in its 1961-63 and 1961-66 estimates making improvements whenever improved data became available. The base year for constant prices was shifted to the 1980/81.

The next body which was responsible for NYA was MEDaC. Currently, the NYA job is performed by the MOFED. The methodological approaches -pursued, in estimating the national income are the output approach and the expenditure approach.

i. Output approach

As shown in Table 1.3, for national income measurement purpose, the whole economy is classified into Agriculture and Allied Activities (Agriculture, Forestry, and Fishing), Industry (all other commodity sectors), Distributive Services, and Other services. The table reveals that in the year 2000/01 the total real

GDP of Ethiopia was birr 17,354,400,000 out of which birr 7,831,100,000 (45.1 percent) was contributed by the agricultural sector. The *share* of other commodity sectors was only birr 1,818,100,000 (10.5 percent), and that of the service sector was birr 7,705,200,000 (44.4 percent). Obviously, in 2000/01, the share of agriculture in the Ethiopian (GDP was the highest followed by the service sector.

Chapter TWO

2. Recent Performance of the different sectors in the Ethiopian economy

I. Overview of the Agricultural Sector

Agriculture is the mainstay (principal support or back bone) of the Ethiopian economy. The role of agriculture in the economy is summarized below:

1. It contributes the highest share (an average of 45%) to the country's GDP.
This is an evidence of the fact that the Ethiopian economy is essentially an agrarian economy. In the developed countries the share of agriculture is less than 5% of their GDP. As development proceeds it is natural that the share of agriculture in Ethiopia will also go down. For comparative view let us see the share of agriculture in selected countries:

Table 2.1: Percentage share of Agriculture in GDP in selected countries

Country	% share in 1999
Bangladesh	25
Brazil	9
China	18
Cameroon	44
Egypt	17
Ethiopia	52
France	3
Germany	1
India	28
Japan	2
Kenya	23
Sudan	40
Tanzania	45

Source: World Bank, World Development Indicators 2001, PP. 28-30

Agriculture is the major foreign exchange earner from exports. Nearly all Ethiopian exports originate from this sector. Agricultural is the main foreign exchange earner. The main Ethiopian exports such as coffee, pulses, oilseeds, hides and skins are all agricultural products. Agricultural exports account for over 90 percent of the total exports of the country. Coffee alone represents about 60% of the total export earnings of the country. The percentage share of major exports is given below for reference:

Table 2.2: Percentage share of the value of major export items

Commodity	1993/ 94	1994/ 95	1995/ 96	1996/ 97	1997/ 98	1998/ 99	1999/ 00	2000/ 01	2001/ 02	2002/ 03
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Coffee	51	63	66	59	70	58	54	39	36	34
Oilseeds	3	2	2	2	8	7	6	7	7	10
Hides and Skins	14	13	12	10	8	7	7	16	12	11
Pulses	2	4	3	2	2	3	2	2	7	4
Meat Products	0	0	0	1	1	1	1	0	0	1
Fruits and Vegetables	0	1	1	1	1	1	1	1	2	2
Sugar	2	0	0	0	0	0	1	2	2	4
Chat	8	6	7	6	7	12	16	13	11	12
Gold	13	4	3	11	0	5	7	6	8	9
Petroleum Products	5	3	2	2	0	0	0	0	0	0
Others	1	3	4	6	3	6	5	13	14	14

Source: Computed from data by Customs Authority (cited in NBE, Annual Report 2002/03), P. 131

One can clearly see from the table above that almost all Ethiopian exports are agricultural goods, and coffee is the most important single export item. In the last three years the share of coffee has shown relative decline mainly because of the fall in the international price of coffee largely because of excess supply in the world market. Vietnam, which was virtually unknown in the coffee market, has in the last few years rose into being the second biggest coffee producer in the world following Brazil.

3. It provides livelihood to 85% of the Ethiopian population. That is it provides employment for about 85 percent of the productive population.
4. Agriculture is an important source of government revenue. This includes direct taxes (agricultural income tax and land use fee) as well as agriculture related indirect taxes.

5. It is an important source of inputs and it provides market to the industrial and other sectors of the economy.
6. Agriculture is the foundation of the country's food production and hence the major contributing sector to food security.

It is reasonable to assume that the agricultural sector will remain to be the basis of the Ethiopian economy for the years to come. The reasons for this assumption include:

1. Increased demand for food as a result of rapid population growth and improved level of income should be met by the agricultural sector (because there is limited import capacity in the country). To meet the increased demand for food, agricultural production and productivity has to increase.
2. The industrial sector is expected to exhibit rapid expansion. This expansion will bring about increased demand for raw materials some of which are agricultural inputs. These inputs can be made available if the agricultural sector expands and strengthens.
3. As pointed out above, agriculture contributes the greatest share to GDP. As the biggest sector of the economy, it is expected to be an important source of capital formation (surplus for investment) for the economy. To provide this surplus for investment, agricultural production and productivity has to improve.
4. The agricultural sector does not only supply raw materials, but also it serves as an extensive market for the industrial as well as other sectors of the economy. A rapid development of agriculture and an increase in income of the agrarian population is needed to provide sufficient market for industrial and service sector products.
5. Agriculture is an important source of foreign exchange earning. The foreign exchange needs of the country is ever increasing. To be able to meet the serious need of the country for foreign exchange, rapid development of agriculture, and particularly of exportable agricultural products becomes necessary.
6. Industrial growth entails a major shift of labour from the agricultural sectors of the Economy to the other sectors. This is the result of structural transformation. But such occupational changes could smoothly occur only if agricultural productivity per man increases and the excess labour force is released. This presupposes rapid growth of the agricultural sector.

Even though, agriculture is the backbone of the Ethiopian economy, its production and productivity has long been extremely unsatisfactory. The rate of growth of agricultural production has constantly been lagging behind the rate of growth of the GDP and the rate of growth of population. The country has not for the large part been able to produce enough food to feed its population because of the poor performance of the agricultural sector. The poor performance of the agricultural sector implies that there is:

- a. heavy dependence on food aid;
- b. a growing need for food imports from outside;

- c. Inability to overcome the effects of natural and man made calamities due to absence of sufficient food stock reserves, so that the country becomes highly vulnerable to drought
- d. very low rate of growth of agricultural surplus which will result in foreign exchange problems as well as low domestic savings and investment (capital formation).

The main reasons for the poor performance of the agricultural sector could generally be put as follows:

1. A large portion of the potentially cultivable land (especially in the lowlands) has not actually been cultivated. Had the country been able to utilize its available land resources, it could have become self sufficient in food, and even become a food surplus country. (Problems related with extensive cultivation).
2. Even the land which is at present under cultivation has not been used efficiently (intensive cultivation related problems). Productivity has been very low because:
 - i. Modern agricultural inputs (chemical fertilizers, insecticides, pesticides, high yielding seeds, farm machinery) and advanced methods of farming are not in wide use.
 - ii. Extension services are limited and there is also lack of proper know-how of agro-technical means, which could increase productivity.
 - iii. The small farmer with its fragmented smallholdings, and archaic means dominant the agricultural sector.
3. Incorrect policies and strategies. Inappropriate tenure systems as well as development policies and strategies have had negative impact on the performance of the agricultural sector.
4. Inadequate and underdeveloped economic infrastructure including transportation and communication facilities have been serious impediments to the development of the sector.
5. Lack of proper marketing and financial facilities and services.
6. Shortage of trained manpower in the rural areas.
7. The lack of peace and stability for a longer period during the last regime has had its negative effect on the performance of the sector.

II. REVIEW OF THE PRE 1974 AGRICULTURAL STRATEGIES

A. The Land Holding System¹

During the Imperial Period there existed a large number of land holding arrangements both in the north and south. One can however isolate the core elements of each of these tenures and show that many of them share commonalities, and can therefore be grouped together. Although by constitution all land in the country belongs to the crown, in practice there existed many land holding arrangements. The standard method of classification identifies four major tenures. These are:

- i. Communal (*rist*) tenure;
- ii. Church tenure;
- iii. State tenure; and
- iv. Private tenure

While the communal, church and state tenures were there in the northern parts of the country (the communal being the dominant one), church, state, and private tenures were prevalent in the southern parts of the country (the private being the most dominant).

Communal System ('Rist')

In the communal system, an individual was said to have rights to land, or *rist* right, in a given farming community if he was able to establish descent from one who was recognized to be the original holder of the land in question or the founder of the community. All those, male as well as female, who could demonstrate kinship ties to the original founder or heirs were entitled to a share of land.

Under this system, each member of the community was assured a piece of land, however small it was, since any 'legitimate' member's claims were always honored. This has led some to argue that the system minimized landlessness, for it was effective in allocating land to people and people to land. The community as a whole paid tribute to the state over all the lands under its control, each holder contributing his share in accordance with his holdings.

Another arrangement here was known as 'Gult', which was property, usually in the form of large estates, granted to the members of the ruling aristocracy. Rights to glut were granted to those who were recognized to have performed loyal service to the crown, and recipients were empowered to collect taxes or tribute from the people on *gult* property and to exercise administrative and judicial authority in the area.

The communal system, which was widely practiced in the northern provinces, notably in Gojjam, Gondar, Northern Showa, Wollo and Tigray, has been seen by some as a flexible and accommodating one. It has been argued that in it the chances for social mobility were greater, landlessness and tenancy were minimized, and most important of all, peasants were assured security of tenure. But the system gave rise to excessive fragmentation and diminution of holdings. This was the most serious flaw of the system.

¹ This part is taken from Desalegn Rahmato's **Agrarian Reform in Ethiopia**.

In Gojjam according to a survey of the ministry of Land Reform of 1971, 80% of the land in the province was *rist* land . In the communal tenure areas, tenancy was not widespread although a small percentage of tenants did exist (13% in Gojjam, 9% in Gonder, and 7% in Tigray). *Rist* areas were far from conducive to tenancy and, due to demographic pressure, excess land was not available.

In theory, *rist* holders acquired land for life, but quite often their rights were challenged by others who claimed the land in question on the ground of closer ties to one or other of the ancestors in the corporate family system. This was one of the chief causes for endless conflict among peasants, where disputants spent years in unprofitable and costly litigation, and where as a consequence the lands in question were left unused or poorly looked after.

The church

The Ethiopia Orthodox Church was reputedly an extensive land holder both in the north as well as in the south. In truth, how much land it held will most probably never be known but it is estimated that the church had owned between 10-12% of the country's cultivated land although some estimates raise this figure to 20%.

Church land, the most common of which has been called *semon*-land was land which in theory belonged to the state but the rights of which had been granted to the church in perpetuity. *Semon* land was meant to be used to enable the church to support its activities, its clergy and others who provided service to it. The church as an institution did not itself carry on agricultural activity; it leased the land instead to others in return for tribute or tax.

The State

Under a variety of classifications, the most important of which were known as *madeira* and *mengist* the state held vast tracts of agricultural land throughout the country, and especially in the southern regions.

As in the case of church land, the full extent of state holdings has not been accurately determined. Some official studies indicate that the state was the dominant land holder in several areas in the south. Some estimates said that about 12 % of all the agricultural land of the country was held by the state but this seems to be greatly under-estimated.

Some of the state land was leased out to individual cultivators and in this way a large number of tenants were dependent on state land. A good portion of it was however given out to individuals as *maderia* land, or registered as government property, *mengiest* land. *Maderria* land, was land that was granted to ex or incumbent officials, war veterans, patriots or persons who were considered to have provided meritorious service to the crown in lieu of pension or salary.

On the whole, the vast holding of the state were primarily used for political purposes; by grants of land the reigning monarchs sought to buy support and loyalty, or by threats of dispossession, to discourage opposition.

Private

Land under private ownership could be sold or exchanged without any restrictions except those provided by law. Private tenures were originally lands which were expropriated from peasants and local chieftains in the south and given to officials and loyal servants of the crown.

Lands under private tenures were private not in the strictly capitalist but in the specifically Ethiopian sense of the term. What the state had granted - and virtually all land under private tenures was originally state property - the state could take away, and in so far as the authority of the state was concerned, the sanctity of private property was not recognized in principle or in fact. In theory, all the land of the country belonged to the state, the latter had the right to claim land under private ownership, and to dispossess any person or land holding institution. In practice, however, this principle was rarely invoked. Although private tenures were located predominantly in the south they were found in both regions of the country.

The largest percentage of tenant holdings, i.e. tenancy, was exercised in the private holding system although other land holding systems involved tenancy. Tenancy, therefore, was more widespread in the south. According to studies conducted, over one third of the holdings in the country, covering just a third of the country's cropland area, were operated by tenant cultivators, and tenants constituted more than one-third of the rural producers in the country.

The Ethiopian land less cultivator (i.e., tenant) worked under a variety of constraints, chief among which were the following.

1. That he gave a major portion of his produce (i.e., between $\frac{1}{3}$ and $\frac{1}{2}$ of harvest) to the land lord in the form of rent ;
2. That the farm in which rent was paid acted as an obstacle to improvements in his production, because no compensation for land improvement was made to the tenant;
3. That he lacked security of tenure in his holding and as a result, became powerless and incapable of making any kind of bargains to improve the terms of his contract, which were often verbal and not written.

There is general agreement that sharecropping was the most common form of rent payment through out the country. What percentage of the peasant's produce was transferred as rent to the landlord, however, varied from area to area. In general, rent was between one third to one-half of the harvest, depending on local custom, availability of land, and the fertility of the soil. Thus, rent was not a fixed and specifically determined quantity, but always a percentage or proportion of the harvest in a given season.

B. Agricultural Development Strategies

During the imperial regime in Ethiopia three five-year plans were prepared for the development of the economy with different targets and area of priorities. These were:

- The first five year plan (1957-62)
- The second five year plan (1963-67)
- The Third five year plan (1968-73)

The idea of developing the agricultural sector, therefore, goes back to the period 1957-62; to the drawing of the first five plan of Ethiopia. According to the evaluations of the plan targets that was made in the second five year plan, one may in general say that its impact on the agricultural sector was negligible since emphasis during this plan period was laid to develop the infrastructure and to raise the level of education as well as to devote attention to the training of technical personal for the implementation of the five year program.

In the second five-year plan (1963-67), priority was given to industry (manufacturing), minerals and electric power development, but, unlike the first five year plan, some attention was given to agriculture.

In this plan, quantitative targets for the production of agricultural marketable products like cereals, cotton, cattle, and coffee; and for the rate of growth of agriculture were set. To achieve the production targets set in the plan three main approaches were outlined:

1. Execution of land reform, introduction of tools implements and machinery as well as elementary training of the producers so as to raise productivity, per capita income and consumption so as to transform the subsistence economy into a monetized economy.
2. The organization of farmers' cooperatives
3. The organization of commercial farms based on mechanization

Plan Evaluation

- In the second five-year plan agriculture was anticipated to grow at a rate of 2.4 percent, but it was said to have grown at a rate of 1.9 only.
- It was only 42.2 percent of the investment target that was actually full filled because of which much of the development programs were not achieved
- Above all, there was lack of progress in policy measures and organizational programs, which were essential for the success of the plan.
- The land reform policy was completely ignored, a fact which basically accounted for the failure.

Because of all these, the agricultural sector could not develop as much as it was anticipated in the plan.

Next to the second five-year plan comes the third five-year plan (1968.73), which exhibited a *market departure* from the previous plans. It recognized the importance of the agricultural sector and charted out a relatively clear and well articulated agricultural development strategy. The plan argued that modernization of peasant subsistence agriculture in all areas of the country simultaneously is hardly possible, but no time should be lost in making a start in strategically selected areas in which good results can soon be seen. The third five-year plan largely followed the strategy of what has been known as the Green Revolution and which had its own success story in raising agricultural production in India and other countries of Asia.

This being the strategy, two main approaches for the development of Ethiopia agriculture were indicated in the third five-year plan. These were:

- i. The Package Program
- ii. The Development of Large Scale Commercial Farms

1. The Package Program

The package program followed the policy of concentrating development efforts in a given area so as to bring the required changes in agriculture. The practice was to be limited to specific areas since the modernization of peasant subsistence farms in all areas of the country simultaneously was assumed that it would lead to the dilution of efforts and scarce resources.

In accordance with this, the implementation of the program was started in strategically selected areas where good results were expected in a relatively short period of time. At first the package program took the form of a Comprehensive Package Program (CPP), and later the Minimum Package Program followed.

The Comprehensive Package Program (CPP)

The CPP, also known as Maximum Package Program, was designed to be implemented by concentration development efforts and resources on a few selected areas based on their natural conditions, accessibility, and the people's will to accept innovations, etc. The objectives of the CPP were:

- i) to increase the income of low income small holder farmers and tenants and narrow the prevailing income disparities in the rural areas;
- ii) to achieve economic and social development;
- iii) to enhance local participation in development ;
- iv) to increase employment opportunities; and
- v) to stress on research, training, and transferability.

The selected areas were to receive the necessary inputs and services in the form of a package so as to bring the required results and it was planned to step by step reach the other areas of the country. The services and inputs to be provided in the form of a package include:

- a) The provision of extension services; i.e., spreading innovations and organizing demonstration fields to farmers;
- b) The establishment of marketing organizations aiming at selling production fairly in comparison to the cost of production;
- c) Sale of inputs through marketing organizations which would make high yielding seeds and fertilizers available to the farmers;
- d) The provision of credit facilities at a reasonable rate of interest so that the farmers could be able to purchase the new supplies; and
- e) Promoting improved water supply system and expansion of education. Health and nutritional studies were to be established

All these were available to tenant farmers and to those who own land not exceeding twenty hectares.

In line with the strategy and the package indicated above, the following comprehensive package projects were launched in the third five year plan:

1. Chilalo Agricultural Development Unit (CADU)
2. Wollaita Agricultural Development unit (WADU)
3. Ada District Development Project (ADDP)
4. Others such as
 - Tahtay Adyabo and Hadegti Agricultural Development Unit (TAHADU)
 - Southern Regional Development Project
 - Humera Agricultural Development Unit

While the first two projects were implemented the implementation of the third one (ADDP) was only started. The other projects (such as TAHADU) were either not completely implemented or they were interrupted in their initial period.

CADU, the most famous of all the projects, was established in 1967 and it was located in the center of Chilalo Awraja in Arsi. The project covers 10000 sq. km. and about 400000 inhabitants. The Swedish International Development Authority (SIDA) covered 67% of the project cost (besides the expense of its own staff), and the rest was covered by the Ethiopian government.

WADU was established in 1970 and was located in Wollaita Awraja of Sidamo province. The project area covers the highland areas of Sodo and Bolosso with a population of 236000 and the largely uninhabited low land areas of Abela an Bele with a population of

approximately 3500. 69.4% of WADU costs were financed by an IDA credit, 4.8% by the UK government, and the remaining by the Ethiopian government.

ADDP was launched in 1972 and its location was in the Ada area around Debrezeit. Not much is known about the performance of this project.

Evaluation

In general, the CPP has resulted in the increase of incomes of peasants and tenants in the project areas. The increases in incomes were, however, directly related to the size of the land holdings and thus it resulted in growing differentiation among the peasantry.

The increase in incomes has been shifting to the landlords in the form of an increase in land rent; i.e., a shift of benefit from the target population to the non target population.

Since incomes increased with the increase in the size of land, landlords with larger land holdings found it to be attractive, and this motivated for the development of profit oriented capitalist farms at the expense of the low income peasant farms which resulted in the eviction of the tenants and the condition of these tenants became worse.

The Minimum Package Program (MPP)

The comprehensive package projects were found too costly to be duplicated in other parts of the country. It was thus decided to launch a scheme which was thought to be less costly per farmer. Thus, in 1972 the minimum package program (MPP) involving only those minimum services considered critical for rural development (mainly fertilizer and credit) started to be implemented along all-weather roads.

The MPP was envisaged to reduce the cost of developing the agricultural sector that in comparison to the CPP a much wider coverage could be attained. Tentative programs were made for the establishment of about ten projects in selected high response areas each year for thirteen year. According to the program;

- By 1985 it was estimated that one million families or about 20 percent of the total would be reached
- the MPP was designed to cover 440 *woredas* out of the 550 *woredas* of the country and this was to cover about 70 per cent of the agricultural population
- for the implementation of MPP, the Extension and Project Implementation Department (EPID) was established

The overall objective of the MPP was similar to those of the CPP; basically to promote economic, cultural, social and political development of the small farmer over a wide area with a minimum reliance on scarce resources.

The basic unit of MPP is the minimum package area, each containing approximately 10,000 farmers and located in close proximity to a 75-kilometer stretch of all-weather road. MPP was designed to involve the entire population of Ethiopia, though it initially has been restricted to the Addis Ababa region due to the lack of all-weather roads elsewhere in the country. Each MPP area is divided into extension areas, each of which has its own marketing center and a one-hectare trial demonstration plot.

To achieve the objectives, the diffusion of a few proved methods and innovations including improved seeds, fertilizers and farm implements as widely as possible was envisaged to reach the small farmers in various parts of the country.

Evaluation of the MPP

1. Due to shortages of manpower, improved seeds and fertilizers, the MPP was not able to achieve its objective of coverage of wider areas.
2. The cost of the MPP was not as low as it was envisaged. The total cost of the program up to 1976 was estimated to be 70 million birr. The foreign exchange needed to cover costs of the program was too high as it amounted to 40-43 per cent of the total cost.
3. Farmers who were included in the program but who lived far away from the main rural roads were not reached by the program and this resulted in disparities of income between those who were reached and not reached.
4. Due to the benefits accrued from the program, landlords started to evict tenants from the land and this again led to worsening of the conditions of the poor landless and semi-landless rural population.

In conclusion, one can infer that both package programs did not meet their target because of:

- the then prevailing land tenure system
- low level of education of the rural population
- lack of basic health and related services
- lack of emphasis on the diversification of rural employment opportunity

As a result of these, agricultural production did not increase as much as anticipated was not increased and the standard of living of the majority did not improve. In fact the programs demonstrated that rural development policy based on feudal land holding arrangements would tend to worsen the conditions of the low-income target population.

2. The Development of Large Scale Commercial Farms

The objectives in establishing large-scale commercial farms were

1. to achieve rapid gains in output both to domestic consumption and the

- availability of surpluses for investment
- 2. to get an increase in agricultural exports or substitution for imports
- 3. to create new employment opportunities

Because of the fact that such farms require big investment which was not available from internal sources, the implementation of the strategy necessitated a heavy dependence on foreign capital. To attract foreign investment a number of incentives were provided including:

- i. Exemption from income tax (tax holiday) for five years for investments of Br. 200000 and above;
- ii. Exemption from customs duty; and
- iii. Remittance of profits and salaries in hard currency.

As a result, a number of large-scale commercial farms, mainly owned by foreigners, such as the Wonji Sugar Enterprise, the Setit Humera Plantation, and the Tendaho Plantation were quickly established.

One of the objectives of establishing commercial farms was to increase the domestic consumption of agricultural products but they failed to meet their objective since they were producing industrial materials.

Large-scale commercial farms were expected to produce a significant amount of surplus for reinvestment (i.e., capital formation) but the heavy dependence on foreign capital led to a significant outflow of profits and dividends which was permitted as an incentive to attract foreign capital.

Most of the products of the large commercial farms were consumed domestically and they made an insignificant contribution to exports. Although they produced products which were imported prior to their establishment and hence served to substitute imports, the outflow of profits and dividends in terms of foreign exchange imposed a burden on the balance of payments.

Because farms with investment in excess of 200, 000 Birr were exempted from paying profit taxes for the first five years (and even for more years), the development of large-scale commercial farms did not generate revenue for the central government

Furthermore, since they were also exempted from import tax, the government could not generate income in the form of import tax from the establishment of these firms.

In general their contribution to capital formation was considered either insignificant or negative. However, they created employment opportunities for unskilled labour which earned very low wages. The skilled or technical workers were expatriates. Another

disadvantage of such farms was that they created dislocation (eviction) in the lives of the nomads which were living in or near the areas.

In sum, the shortcomings of the establishment of large scale commercial farms were:

- a) they failed to contribute towards the production of food stuffs
- b) They failed to generate surplus for investment
- c) They failed to produce exportable commodities
- d) They created dislocation of the nomadic society
- e) They could not generate revenue for the government

III. AGRICULTURE DURING THE DERG ERA (1974-91)

3.1. Land Tenure

In pre- 1974 Ethiopia, the feudal tenure system and the neglect of small peasant agriculture were among the fundamental constraints towards the objective of achieving agricultural development. Thus, the bringing about of a fundamental change in the archaic land tenure system was considered one of the major challenges on the even of the 1974 Ethiopia Revolution. Land reform has been considered a key issue for Ethiopia's agricultural future.

A few months after it took power the Provisional Military Administrative Council (PMAC), also called the Derg, issued the Public Ownership of Rural Lands Proclamation No.31/1975. This proclamation has completely changed the land tenure system and the land holding systems that existed during the Imperial period (communal, church, state, and private) came to be replaced by a new tenure, public (state) ownership of rural lands. Accordingly, all private ownership of land by individuals and organizations was outlawed; the transfer of land by sale, lease or mortgage was declared illegal and anyone willing to farm was to be given land. Tenancy was abolished and peasants were freed from all obligations to landlords. The maximum plot allocated to each household by the newly founded peasant associations was to be 10 hectares. This being the maximum, in actual practice, plots were much smaller. Average holdings vary greatly in different areas but on national level estimates show to be slightly higher than one hectare.

In order to implement the Proclamation, peasant associations were established at various levels. Following the land reform proclamation, another decree that was known as Peasant Associations Organization and Consolidation Proclamation No. 71/1975

was made. This was followed by the All Ethiopia peasant Association Proclamation No 130/1977. University and high school students were dispatched to rural areas to help the implementation of the land reform.

The nationalization of rural lands for a short while guaranteed peasants usufruct rights by the state, but the reform was first and foremost about land tenure and not about farming in general. The government's overriding motives, under the pressure of political events, were political than long-term strategy to improve agricultural productivity and raise the social and economic status of peasant families. By preventing further social divisions based on private ownership of rural land, the 1975 reform legislation brought the peasants into a direct relationship with the state. But this did not change the basic pattern of agricultural production. Ethiopian's agriculture was and is still dominated by the peasant and smallholder sector. This is not to say that, the results have not open the way for the emergence of non-small peasant agricultural sub-sector.

3.2. Agricultural Development Strategy

Proclamation No. 31/1005 was not about agricultural production. It was about radically changing the tenure system that existed in the country. The agricultural development strategy of the Derg period was what was known as "socialist transformation of agriculture"; that of transforming agriculture along socialist lines. This was to be implemented through the establishment and consolidation of state farms and producers' cooperatives. Thus producers' cooperatives and state farms became the overwhelming priority of the government and its implementation was supported by various proclamations and decrees. Implementation of this policy resulted in the existence of two main types of economic structures in agriculture; namely,

- a) The small peasant sub sector represented by the overwhelmingly large number of small farmers; and
- b) The "socialist" sub sector represented by the producers' cooperatives and state farms.

A. The small peasant Farms

In countries like Ethiopia peasant farms have a relatively good productivity record. Although they employ traditional technology and hardly use modern inputs, their crop-yields are often comparatively high, as they make more efficient use of productive resources than cooperatives or state farms. However small scale agriculture is often considered an obstacle to long-term industrial development and the creation of more mechanized frames. Faced with the choice between a smallholder strategy and a "socialist" approach, based on collective ownership, group and state farming and governmental control of the rural economy, the government chose the latter.

The peasant farms are those farms owned and cultivated by private farmers. Most of these farms are the results of the land redistribution and very small in size. The land size allocated and held by different farming families is not equal to one another and varies from one locality to another and from region to region depending on the particular situation of the area. With the emergence of new households, such farms tend to decrease in size from time to time due to redistribution and readjustments made to accommodate

the increasing number of households. The result was land fragmentation with its negative consequences on soil and water conservation, agriculture and the economy in general.

Production technology in such farms is simple and traditional where capital consists of rudimentary implements. The family supplies labour and power is limited to small number of animals. Fragmentation in such farms necessitates travel time and transportation of farm equipment and harvest. Lack of modern inputs and methods of farming, as well as shortage of pesticides and insecticides result in considerable loss of production before and after harvests.

The peasant farms continued to be dominant in Ethiopia even at the height of collectivization year in 1987 by cultivating 94% of the total farmland in Ethiopia. Nevertheless, government policy towards small farmers was discriminatory in that it favored the 'socialist' sub sector. Government policy pertaining tax, modern inputs, credit, pricing policies, and extension services almost completely ignored the small peasants in favour of cooperatives. Quota have been set for every peasant association to sell a given amount of their produce to the Agricultural Marketing Corporation (AMC) at prices fixed by the AMC which were substantially lower than the open market prices and even lower than the prices fixed for cooperatives and state farms. In situation where peasants could not meet the quota, there were incidences where farmers had to buy from the market at higher prices and sell to the AMC at extremely low prices.

In spite of all these, however, the smallholders were more successful at absorbing labour, raising yield and increasing income than producer cooperatives and state farms were. Small farmers were resistant to be collectivized, but the government adamantly pushed forward to strengthen cooperatives unsuccessfully. Apart from other concomitant factors, the disappointing performance of the agricultural sector during the Derg period can be attributed to agricultural policies favouring the socialist strategy as opposed to a smallholder approach.

B. The Socialist Sub Sector

1. Producers' Cooperatives

The *Directive* for the establishment of producers' cooperatives was issued in June 1979. Accordingly, an agricultural producer's cooperative was defined as an economic organization of farmers which is established through the gradual transformation of individually owned means of production in to common ownership based on the will and common interest of the farmers.

The Directive for the establishment of cooperatives was based on the following principles:

- the principle of voluntarism. This principle indicates that cooperatives shall be established on the free will of those to be cooperativezed.
- The principle of gradualism. According to this, the development of cooperatives shall proceed from the simpler type to the more advanced types of cooperatives.

- the principle of all round state assistance. The government is expected to provide all embracing assistance to the establishment and consolidation of cooperatives.

In practice, the principle of voluntarism was violated. In many cases the establishment of cooperatives was conducted by force as opposed to the principle of voluntary entry. As for the gradualism, the directives provided for a gradual progress of cooperatives from simple to advanced types. Cooperatives would start in the form of 'malba', a type of cooperative where members pool their land together (except their backyard) but keep their production implements and animals privately; they would then proceed to 'welba', where land, production implements and animals become communal property and a small plot is kept as a backyard. 'Weland' was a kind of higher cooperative made by a number of 'malbas' and/or 'welbas'.

With regard to all round state assistance, the government gave priority to cooperatives at the expense of smallholder peasants. Once these were established. Privileges not offered to peasant cultivators, or even to state farms were given to cooperatives. They paid less per tax head than individual peasants and modern inputs like fertilizer, pesticides, etc. were provided to them at subsidized prices and bank interest rates were comparatively lower. They were also given priority on extension services and had access to additional labour from peasant and youth association members.

There was no appropriate pricing and marketing policy in relation to their produce because they were forced to sell all their marketable surplus to the Agricultural Marketing Corporation (AMC) at less than their production costs, 30-50 Birr less per quintal as compared to what the open market could offer.

With all these however, the process of collectivization was still very much at an embryonic stage and in the eve of total collapse. Producers' cooperatives were tilling 2 percent of the total farmland in 1987. The marketed surplus of cooperatives and individual farms were also about equal in that the average that both were selling was about 20 percent of their harvest, and the rest was consumed at home (68 per cent) while 12 percent was reserved as next season's seed.

In spite of the overwhelming reluctance of peasants, the government was determined to speed up the process of collectivization. For instance in the Ten Year Perspective Plan it was envisaged to collectivize half of all farmland and increase the number of peasants under cooperatives from 2 per cent to 50 percent by 1994.

However, the cooperativization drive ended in complete collapse largely because of the lack of farmers' willingness. A good evidence is what happened when the government was forced by circumstances to issue the 'Mixed Economic Policy Reform' of March 1990. This policy indicated that 'if the members have no confidence in the organization of cooperatives owing to the fact that they had not proved beneficial for them, they could abolish them in an orderly way based on their democratic decision and embark on working individually.' Although the government intended to reorganize and strengthen them, over 95 percent of the producers' cooperatives disintegrated with in three months after the declaration of the policy reform in that only 143 remained functional out of

3,305 producers' cooperatives. The complete collapse of the cooperative movement may have even left a kind of negative attitude and phobia on the part of farmers to the efforts to reestablish workable cooperatives.

Despite many limitations there were certain areas in which they could have played an important role.

- a) Certain forms of specialized agriculture may produce better results if organized in cooperative and operated on a scale calculated to maximize efficiency and to encourage intensive endeavors. This could have been geared to the market and created labour intensive enterprises based on intensive operation.
- b) Cooperatives could have served as means for the transfer of improved technology to peasants since the leap from traditional ox-drawn ploughs to tractors and advanced technology is often a very difficult undertaking.

2. State Farms

State farms are farming enterprises that are owned, managed and undertaken by the government. Most state farms were privately owned commercial operations before 1975. According to the March 1975 land reform proclamation all large-scale farms shall be organized, as state farms, and the government shall administer these farms in any manner found it fit. In addition to these, many state farms were also established during the Derg period.

In the first decade of their formation, state farms, encouraged by generous government grants and liberal bank credit carried out large expansion schemes in many parts of the country. At the beginning, their land holding measure 55,000 hectares, but later on the land under state farms more than tripled. The ministry of State Farms Development was the managing body of all state farms.

The main objectives of state farms were

1. To alleviate of the acute food shortage prevailing in the country.
2. The production of the necessary raw materials for local industries in sufficient quality.
3. The production of high quality exportable products in large amount
4. Establishing agro-industrial complexes
5. Creation of employment opportunities

As stated above, one of the chief aims of state farms was to help alleviate the country's food problems and to be a reliable source of food grain for state purchasing agencies. How far has this goal been achieved? The total contribution of state farms to the nation's food requirements stood at only 2 percent in the agricultural year 1981/82, but four years later, in 1985/86 this figure had declined to just about 1 percent. The AMC was the chief customer of state farms for all food crops except barley that was sold to breweries.

State farms contribution to the country's exports and its share of foreign currency earnings has been declining. In the period 1982-89 the state farms export, which consisted mainly of live animals, horticultural produce and oil crops, averaged 6 percent of total

exports. The enterprises used up large amount of foreign exchange because their operations were highly capital intensive, and all their chemical inputs (fertilizers pesticides, etc.) were purchased from outside with hard currency. It is estimated that state farms could only cover 40% of their foreign exchange requirements from their own products. Thus, far from earning the national economy hard currency, as the planners had hoped, state agricultural continued to be a big drain on the country's export earnings. To be fair to them, they were forced to sell their entire marketable surplus to the AMC at lower prices.

The record of state farms in the area of employment creation is equally disappointing. In 1980, MSFD had a permanent work force of 35,000, and employs some 50,000 laborers on seasonal basis. In comparison, private mechanized agriculture annually provided seasonal employment for over 300,000 laborers on the eve of the revolution.

In a nutshell, the story of state farms was one of mismanagement, of *wasted resources* and *financial loss on a large scale*. Up to about 1989 state farms have incurred a total accumulated loss of 613 million birr. In the period 1980-1985, annual recorded loses have averaged nearly 80 million birr. In the same period, state farms absorbed 64 percent of state expenditure allocated to agriculture.

The main reasons for the disappointing performance of the state farms include:

- i. Management inefficiency: Lack of appropriate management in the state farms resulted in misutilization of resources. Highly centralized management system curtailed the exercise of managerial autonomy at farm levels.
- ii. Problems of Planning and Implementation: Farms were not given the right of preparing their own plans. Plans were prepared at enterprise or corporation level, and each farm was ordered to implement the plan, which may not reflect the objective conditions in the farm. The establishment of state farms was not conducted on the basis of proper study and analysis.
- iii. Inadequate Controlling Systems: State farms, as in other public firms, had little managerial freedom to plan and to control. Even the cost-benefit analysis was worked at higher levels and each farm is evaluated base on the grand balance sheet of the enterprise or corporation.
- iv. Disguised Unemployment: Every farm was over populated. There exist unnecessary labour imposing additional costs to the farms. Unnecessary structures were formulated deliberately to absorb more employees.

3.3. Resettlement and Villagization

1. Resettlement

Prior to the 1974 revolution, resettlement was started out on a small scale as a result of individual initiatives by local governors and aid agencies with a variety of motives and objectives. By the time of the revolution a mere 7,000 household heads had been established in 20 settlement sites at a cost of 8 million Us dollars. Resettlement was seen as a means of addressing a range of issues. From an ecological perspective it reduced population pressure in the highlands; from an economic standpoint it was believed that resettlement could help to increase productivity and make use of under-utilized fertile lands; and from a social

point of view resettlement was seen as a way of providing land to those without it, to settle paternalists, and remove unwanted urban unemployment.

Resettlement continued at a small scale in the first decade of the military rule so that in total some 46,000 households, comprising 150,000 people had been resettled on 88 sites in 11 regions.

When Ethiopia was struck by the catastrophic famine of 1984-85 (which claimed the lives of about half a million to a million people), the government embarked on a massive emergency plan to resettle one and a half million people in two years (i.e., 500,000 households) from the drought prone areas in the north to the relatively scarcely populated and fertile areas in the western and south western parts of the country. But because of the difficulties involved and the reluctance of peasants to be resettled, some 200,000 households were resettled instead of the planned 500,000. That is, some 600,000 people representing 1.6 percent of the country's rural population were resettled instead of the anticipated 1.5 million. Most of the settlers were from Wollo, Shewa and Tigray and the remaining mainly from Gonder and Gojam.

In general the resettlement program was not a success story and it was criticized on the following grounds:

1. The program was implemented on the basis of force and coercion. The willingness of the peasants resettled was largely put to doubt especially in the later periods of its implementation.
2. It was a hasty act with insufficient preparations at very poor. The program is known for its poor plan and implementation both at the resettlement sites and at the places where people were supposed to be resettled. Many people died after reaching the resettlement sites. University students were taken to the resettlement sites to construct houses without any prior training and preparation.
3. It was also criticized for being used as a means of depopulating the areas where opposition movements were active. By depriving these areas of manpower, it was said, the government wanted to weaken their activities.

2. Villagization

Villagization is a process by which rural households were moved from scattered dwellings into nucleated villages as part of a governmental attempt to modernize rural life and agricultural production patterns. Villagization in Ethiopia began as a regional operation in Bale during the Ethio-somalia war in 1977/78. One of the main objectives of the program at that time was to guarantee the safety of the local inhabitants from invading Somali troops during the war with Somalia.

Six years later in December 1984, the programme was extended to the adjoining region of Hararghe, again chiefly for security reasons. In June 1986, a National Villagization Coordination Committee was set up to undertake villagization work as an economic policy to improve rural life. By mid-1988, the government claimed that 12 million people (about one third of the rural population) were villagized. The highest number of newly established villages were built in Shewa and Hararghe. The objectives of this program

were the creation of a conducive situation that would facilitate the dissemination of improved agricultural inputs and services. However, this program, like the other programs, was not successful because it was not done on the basis of the participation of the people to be villagized and they were largely unwilling to be villagized. Moreover, it was poorly planned and implemented.

We can briefly summarize the economic performance during the Derg period as follows. During the seventeen years of the military government, the average growth rate of GDP has been 1.9 per cent per annum. The growth rate of the GDP components was such that agriculture grew only at 0.7 per cent, industry by 2.5 per cent and the services sector by 3.5 per cent per year.

When the overall rate of growth of GDP is compared with that of population growth rate of 2.7 per cent per year, one can clearly conclude that the standard of living of the average Ethiopian, already one of the lowest in the world, suffered further deterioration during the era of the military rule. Thus, in terms of economic development, the Derg era represents seventeen lost years.

IV. POST 1991 AGRICULTURAL DEVELOPMENT POLICIES and STRATEGIES

Following the removal by force of arms of the military rule, a transitional government took power in July 1991. The transitional government issued a new Economic Policy in November 1991 which fully recognized that agriculture is the foundation of the national economy and that it can play a decisive role in economic recovery. It has also realized that agriculture in general, and peasant agriculture in particular, faces complex problems requiring unreserved effort for its development

In relation to agriculture the New Economic Policy of 1991:

- fully recognized the importance of agriculture and gave priority to small farmer agriculture (as opposed to producers' cooperatives and state farms);
- abolished the command economic system and instituted a free market economic system;
- abolished the quota delivery and price fixing system, and let farmers to sell their produce in free market at places of their choice and at competitive prices;
- ascertained that resettlement and villagization will be discontinued until conditions are ripe and future programs will be undertaken on the basis of the free will of the people;
- indicated that on the basis of investigations unprofitable state farms will either be provided to nearby farmers or to private investors on concessionary basis;
- encouraged the private sector to participate in the establishment and running of large scale commercial farms provided they do not create dislocation of peasants;
- gave priority to the conservation and development of natural resources.

Land Tenure

Article 40.3 of the Ethiopian Constitution decreed the following in relation to land tenure:

"The right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the state and in the peoples of Ethiopia. Land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange."

Article 40.4 of the Constitution puts the right to use land as follows:

"Ethiopian peasants have [the] right to obtain land without payment and the protection against eviction from their possession."

Thus, the Constitution does not provide ownership rights but the right to use land. While allowing the right to use land, it forbids the sale and mortgaging of land. However, in addition to the right to use, government policy allows for:

- renting of land;
- transferring the right to use land to legal heirs; and
- compensation for land improvements in case of expropriation by government or other bodies.

Therefore, while in terms of ownership, land remains under government ownership. However, there are substantial changes in the exercise of the right to use land, as shown above, and in promoting security of tenure.

Agricultural Development Strategy

The overall development strategy of the country, issued in August 1992, has been proclaimed to be Agricultural Development Led Industrialization (or ADLI, for short). Thus while the ultimate goal is industrialization, agriculture is identified to play a leading role in this process of structural transformation.

Within the framework of ADLI, the government has in November 2002 issued a well articulated rural development policy and strategy. In this policy document, the fundamental development objectives of the country are outlined as:

- i. Building a free market economic system;
- ii. Register rapid economic development;
- iii. Extricate the country from dependence on food aid; and
- iv. Enable poor people to be the main beneficiaries from economic growth.

In order to achieve these objectives, the government delineated the following strategic directions:

1. Extensive use of the labour power
2. Proper utilization of land
3. Preparation of packages compatible to each agroecological zone
4. Coordinated (integrated) development path

Extensive use of labour force: The document argued that accelerated and sustainable growth in Ethiopia can be brought about by utilizing labour intensive rather than capital intensive production processes. Since the country is a capital poor country it appears appropriate to employ capital saving and labour intensive techniques of production which is in line with the principle of proper use of resources. This adoption of labour intensive and capital saving technique, the document underlines, is even more relevant to the agricultural sector than the other sectors. A labour intensive agricultural development strategy, however, does not mean utterly depending on unskilled labour force. An important mechanism that enables to introduce labour intensive strategies and help to employ modern agricultural inputs and practices is the adoption of new agricultural technologies and the training of the agricultural labour force with effective skills.

This strategic direction of extensive use of labour includes the following components:

- Ensuring diligence and work preparedness
- Improve farming skills
- Ensuring the health of farmers
- Improving the supply, replication and dissemination of technology

Depending on labour for bringing about rapid economic growth and betterment of the existing grim realities, presupposes that people are ready to work hard in a bid to improve their lives and fight backwardness. The ultimate objective is to create educated farmers that in turn will facilitate application of modern science and technology. Selecting best traditional practices, disseminating them effectively, and introducing new methods of production are expected to bring about significant improvement in agricultural production. Enabling the rural economy to absorb most of the students (70%) is believed to contribute towards attaining better performance of the agricultural sector. Establishing health posts (one in every 'tabia' to serve about 5000 people) and health centers (one health center for every five health posts) in rural areas which focus on prevention and primary health care are underlined in the policy document as measures to ensure the health of farmers.

Proper utilization of land: It is impossible to ensure agricultural development at the desired rate and on a sustainable basis, unless we are able to use land efficiently. Along with labour land appears to be another very important resource that has to be utilized properly. Designing appropriate land use policy and ensuring security of tenure are considered important areas of focus. Under this direction there exist the following components:

- Ensuring access to land and tenure security
- Pursuing appropriate land use policy
- Improving utilization of water resource

The central theme here is to ensure that every piece of land is utilized in a manner that results in greater productivity. For this to be effected, appropriate land use policy need to be designed and implemented.

Preparation of packages compatible for each agroecological zone: Ethiopia is endowed with a variety of agroecological zones that differ in terms of rainfall, soil types, altitude and other physical features. Accelerated and sustainable agricultural development can be attained only when these differences are addressed properly and development packages are designed in a way that enables to tackle their specific difficulties and take proper advantage of their resources and strengths. Thus, there is a need to articulate a detailed development plan for each agroecological zone to exploit growth opportunities in those areas. The components that fall under this are:

- Combining diversification and specialization (By diversifying economic activities farming communities can enhance their capacity to cope up with difficulties that may arise from price and demand related problems. Focusing on certain economic areas of comparative advantage promotes trade and economic ties between different parts of the country).
- Drought prone areas: In areas that are repeatedly affected by drought improving water harvesting, implementing resettlement activities (resettling people to other areas), and environmental protection and rehabilitation are outlined as areas of focus.
- Regions with adequate rainfall: In these areas ways need to be found to produce more than once in a year for instance by utilizing seeds with short gestation period.
- Pastoral areas: [Designing policies (marketing, animal health, etc.) to deal with the specific problems and endowments of these areas]
- Areas with substantial uncultivated land: (Use of extensive cultivation and resettling people from areas that suffer from frequent drought and shortage of land)

Coordinated (integrated) development path: Coordination is required not only among the activities within agriculture but also with the rest of the socio-economic sectors. One sector cannot register rapid and accelerated growth without the support and complementarities of the others. Agricultural development needs to be closely interlinked with the secondary (industrial) and tertiary (services) sectors. The components of this include:

- Marketing facilities (orient output with the requirements of the market and)
- Improving rural credit systems
- Strengthening cooperatives
- Ensuring popular participation
- Provision of infrastructure facilities
- Strengthening and proper use of rural institutions
- Assign specific duties to government agencies at different

Food Security Strategy

It is useful to distinguish what is meant by food self sufficiency and food security. Food self sufficiency refers to producing sufficient amount food (food enough to feed the population) within the country. On the other hand, food security may be defined as access by

all people at all times to enough food for an active healthy life. The essential elements of food security are the availability of food and the ability to acquire it. Food insecurity, in turn, is the lack of access to enough food. It is good to note that a country can be food self sufficient and yet food insecure; it is also possible for a country not to be food self sufficient but food secure.

There are two kinds of food insecurity: Chronic and transitory. Chronic food insecurity is a continuously inadequate diet caused by a household's persistent lack of ability to buy or to produce enough food. Transitory food insecurity is a temporary decline in a household's access to enough food. It often results from instability in food prices, declining food production or household income – and in its worst form produces famine.

Ethiopia has not been able to attain food self sufficiency and food security. Fully aware of the depth of poverty and food insecurity the country is in, the Ethiopian government has recently issued a revised Food Security Strategy (FSS) that aims at ensuring food security in the medium term (three to five years). The first FSS was prepared in 1996 and identified 156 food insecure *weredas* in the country. The revised FSS is targeted mainly at the chronically food insecure moisture deficit areas. It is characterized by a clear focus on environmental rehabilitation as a measure to reverse the current trend in land degradation. Among others, water harvesting and the introduction of high value crops, livestock, and agro-forestry development have been new elements in the revised strategy. In recognition of the role institutions and the human element plan, institutional strength and capacity building is included as a central element of the strategy. The focus of the new FSS, as it also was of the former, is to ensure food security at the household level, while the rural development policies and strategies would focus on ensuring national food self sufficiency.

The FSS has three pillars upon which it is built. These are:

1. Increasing domestic production (supply side factors);
2. Ensuring access to food (demand side factors); and
3. Strengthening emergency response capabilities.

Increasing domestic production: For food insecure areas, production based entitlement of food will be encouraged through augmenting crop and livestock production.

Ensuring access to food: Food insecure farming and non-farming households get some or all of their food from the market. To purchase food from the market households need sufficient income that can cover their minimum food and non food requirements.

The FSS proposes the following measures to help food insecure households earn income:

- i. Initiation, promotion, and strengthening of micro and small enterprises (MSEs) is believed to generate more employment opportunities and income for low income sections of the society.

- ii. Improving the food marketing system; encouraging participation of private sector and cooperatives is expected to improve market efficiency. Parastatal business enterprises are also expected to play significant role in stabilizing prices as well as reaching farmers who are far from agricultural input market.
- iii. Supplementary employment and income generating schemes such as off farm activities and food for work schemes are part of the FSS.
- iv. Targeted programs; This involves provision of inputs, small agricultural tools and implements to resource poor farmers, extending small loans to destitute women to help them develop sustainable livelihood. It also includes cash transfer to orphans, the aged and the handicapped.

Strengthening emergency response capabilities: This includes

- i. early warning arrangements;
- ii. better food and relief distributions; and
- iii. Strategic reserves of food grains.

Chapter three

Ethiopian Economy Socio-economic Conditions

3.1. Introduction and overview

Ethiopia has registered remarkable economic performance with annual growth averaging 10.9% over the past ten years. This is double the Sub Sahara Africa and triples the world average growths over this period and has led to Ethiopia being rated as one of the fastest growing economies in the world. Huge public investments with focus on infrastructure and pro-poor sectors explain much of the economic performance from the expenditure side. Government investments have mainly been carried out from domestic resource mobilization and augmented by external resource inflows. Domestic savings has been growing significantly in the past few years from 12.8% of GDP in 2010/11 to 17.7% of GDP in 2012/13. The newly introduced savings instruments (bonds) and expansion in financial services through the aggressive opening of banking branch networks have contributed to the surge in the domestic savings. From the production side, looking at the Major sectoral classifications the growth remained robust and broad based as all sectors registered positive and significant growth.

The growth in the industry sector was very strong in the past three years. This sector was the highest performer in 2012/13 by registering 18.5% annual growth rate, which was buoyed by the construction boom and expansion in mining and manufacturing subsectors. Agriculture grew by 7.1%, recovering from 4.9 % growth in the previous year mainly attributed to increased crop production as a result of Increases in productivity and expansion of area under cultivation. The main reasons for the increase in the agricultural productivity and production were favorable weather and good rainfall, strengthened agricultural extension services, better access to agricultural inputs, improved access to market and pursue of enhanced policy and advocacy. In 2012/13 the service sector registered 9.9% annual growth and stood out

in terms of its contribution to the overall output. Figure 1 and 2 below depict the trends in growth and sectoral shares of the economy in the past few years.

Figure 1: Real GDP growth trends (in %)

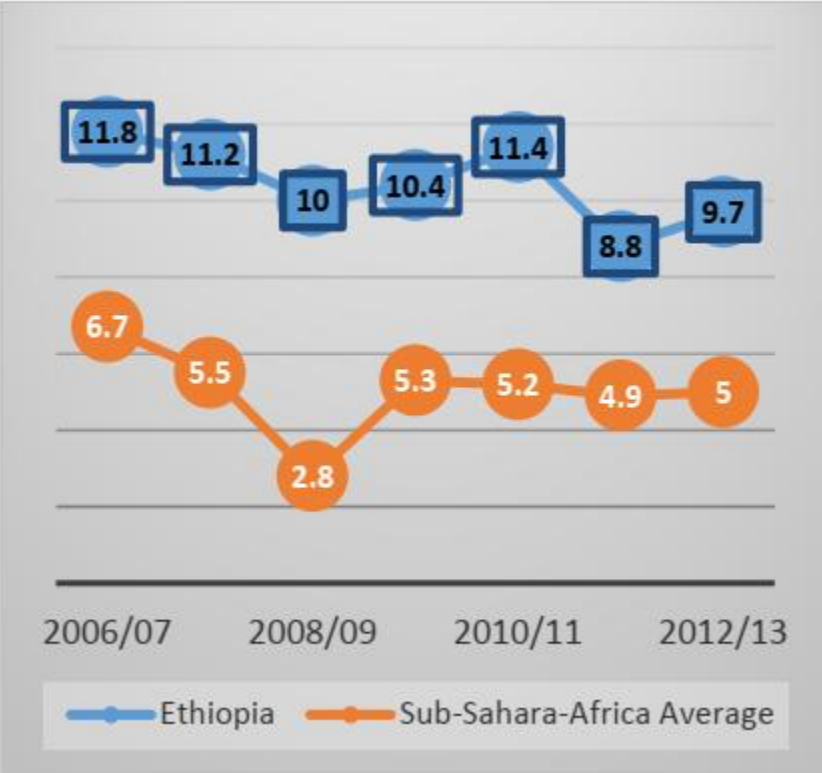
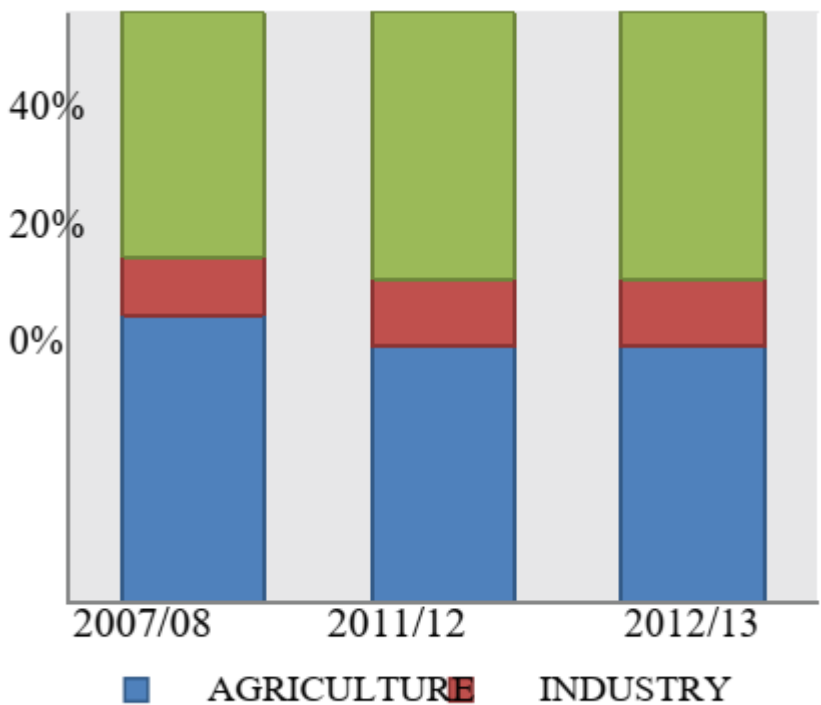


figure 2: Trends in Share of Major Sectoral Components in GDP (%)



The share of the service sector to GDP increased from 38% to 45% in the past 10 years while the share of agricultural declined from 52%t to 43% in the same period. However, agriculture will continue to be the main source of employment as the service sector has not been able to generate much employment. This implies though that the productivity of the much fewer service sector workers far outweighs labor

In this context, measures to raise productivity in the smallholder agriculture as well as to boost private investments in commercial agriculture is imperative to the growth and transformation of the whole economy through diversification and linkages with other sectors, improving the quality of employment and reducing rural poverty. Structurally, the service sector has slowly taken over the lead from agriculture in terms of its contribution to the gross national product. In 2012/13 the respective shares of agriculture, industry and service sectors in the GDP stood at 43%, 12% and 45%.

table 3.1.

	2006/07	2007//08	2008/09	2009/10	2010/11	2011/12	2012/13
Real GDP Growth rate	11.8	11.2	10.0	10.4	11.4	8.8	9.7
SSA average	6.7	5.5	2.8	5.3	5.2	4.9	5.0
Agriculture (%)	9.4	7.5	6.4	7.6	9.0	4.9	7.1
Industry	9.5	10.1	9.7	10.6	15.0	17.1	18.5
Services	15.3	16.0	14.0	13.0	12.5	10.6	9.9
GDP per capita US\$	270	359	419	377	389	510	550
Inflation (year average)	15.1	55.3	2.7	7.3	38.1	20.5	7.4
Exchange rate (year average)	8.68	9.24	10.42	12.89	16.1	17.5	18.3
Gross reserve (in month of import)	2.1	1.2	1.8	2.1	3.1	2.0	1.9
External debt (% of GDP)	11.8	10.4	13.5	18.1	22.0	21.5	24.3
Mid-year Population in millions	72.4	74.9	76.8	78.8	80.9	83.0	84.8

**Trends in
Selected
Economic
Indicators
(percentage
growth rates)**

3.2. Production and Capital formation

Gross capital formation (formerly gross domestic investment) consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed asset includes land improvements (fences, ditches, drains and so on) plant, machinery and equipment purchases and the construction of roads, railways and the like including schools, offices, hospitals, private residential dwellings and commercial and industrial buildings.

Gross fixed capital formation for Ethiopia was 695265 million %. Gross fixed capital formation of Ethiopia increased from 12730 million % in 1998 to 695265 million % in 2017 growing at an average annual rate of 24.61 %.