The national development policies of ethiopia economics essay



The main purpose of this paper is to review the national agricultural development policies of Ethiopia during the reign of the Imperial, Derg and EPRDF led government and the predominant trends of international field of development thinking pursued (similarities and differences among) in the period of post 1974 to 2004.

Ethiopia is one of the poorest nations on earth. From its 77 million people over 80 percent depend on subsistence agriculture and more than 40% live below the absolute poverty line, (CSA, 2007). The country has remained to be one of the tragic places where the worst cases of famine and drought and man made problems such as extended civil war and degradations of natural resources have been observed (EC project proposal 1998). However, the country has a good resource potential for economic development.

In response to these socio- economic situations, various development policies and strategies have been brought in to practice by the successive governments that ruled the country which had in most of the cases ended up with bare minimum impacts in reversing the prevailed development bottlenecks of the country. Thus a good part of the poor performance is explained by policy failures of the past regimes generally and the 'derg' regime in particular (EEA, 1999/2000) as sited by (Alemayehu, G. 2007). Thus, after the collapse of the military regime in May 1991, the EPRDF led government adopted various development policy reforms and structural adjustments that included liberalization of markets, decentralization of central government authorities to regions, woredas and designed agriculture development led industrialization strategies. Similarly, at the later stages of the period (2002), the government pinpointed poverty reduction as its https://assignbuster.com/the-national-development-policies-of-ethiopia-economics-essay/

crucial development objective which is in consonance with international directions and commitments.

In what follows this paper tries to review development policies of the up to the current regime in Ethiopia. 2. Trends and Development Policy Environment Before and after 1991[1]

2. 1 Development Policies up to 1974

The imperial government of Haileselasie, was the first government to exercise different development policies as Ethiopia is first African state to attempt economic development planning (Georgi. G. 1981). But the plans determined only general trends and likely development rates as they gave an extremely generalized allocation to particular sectors of the economy as of 1960s (Haile H., 1995).

During this time three five-year plans were prepared for the development of the economy with different targets and area of priorities. They were:

The first five year plan (1957-62)

The second five year plan (1963-67)

The Third five year plan (1968-73)

2. 1. 1. First five year plan (1957-62)[2]

This plan had some targets on the agricultural sector. According to the evaluations of the plan targets that was made in the second five year plan, its impact on the agricultural sector was negligible since emphasis during this plan period was on infrastructure and social transformation (raising the

level of education and the training of technical personnel) for the implementation of the five year program.

"No need to bring about fundamental changes in present methods of (peasant) production" and stuck to the "kind of tools now used" (Dejene (IEG 1957), pg 45

Donor's policy of this period was biased in favour of urbanization vis-à-vis rural development. the world bank for example, by far the largest single source of development assistance to Ethiopia in recent years, allocated 85% of its total loans to modern roads during the 1950-59 period, and nothing to the agricultural sector(world Bank 1985).

2. 1. 2. Second five-year plan (1963-67)[3]

Mainly the priority focus 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:

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.

The organization of farmers' cooperatives

The organization of commercial farms based on mechanization IEG (1962).

However, 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, The land reform policy was completely ignored, a fact which basically accounted for the failure and above all, there was lack of progress in policy measures and organizational programs, which were essential for the success of the plan.

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

2. 1. 3. The third five-year plan (1968 -73)[4]

This time exhibited a marked 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. This being the strategy, two main approaches for the development of Ethiopia agriculture were indicated in the third five-year plan. These were the package program and the development of large-scale commercial farms:

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 CPP aimed at achieving maximum result by focusing on specific high potential areas such as Chilalo, Wollaita, Ada District, Tahtay Adyabo, Hadegti and Humera and established agricultural development units for each of them. This program had the following objectives (Tesfai 1975: 41)

To increase the income of low income small holder farmers and tenants and narrow the prevailing income disparities in the rural areas;

To achieve economic and social development;

To enhance local participation in development;

To increase employment opportunities; and

To stress on research, training, and transferability.

The objectives were supposed to be achieved through

The provision of extension services; i. e., spreading innovations and organizing demonstration fields to farmers;

The establishment of marketing organizations aiming at selling production fairly in comparison to the cost of production;

Sale of inputs through marketing organizations which would make high yielding seeds and fertilizers available to the farmers;

The provision of credit facilities at a reasonable rate of interest so that the farmers could be able to purchase the new supplies; and

Promoting improved water supply system and expansion of education.

Health and nutritional studies were to be established

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. This and its huge resource requirements led to the reevaluation of it adoption of what is known as the minimum package program.

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 pre cent of the agricultural population

For the implementation of MPP, the Extension and Project Implementation

Department (EPID) was established

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.

However, due to shortages of manpower, improved seeds and fertilizers, the MPP was not able to achieve its objective of coverage of wider areas and the cost of the MPP was not as low as it was envisaged. landless and semilandless rural population.

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.

The Development of Large Scale Commercial Farms

The objectives in establishing large-scale commercial farms were to achieve rapid gains in output both to domestic consumption and the availability of surpluses for investment, to get an increase in agricultural exports or substitution for imports, to create new employment opportunities this is 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:

Exemption from income tax (tax holiday) for five years for investments of Br. 200, 000 and above;

Exemption from customs duty; and

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.

But due to misguided incentives, capital dependent operations and outflow capital the large farms did not live up to the expectations of the country.

At the end of the second five years plan the "industry First" argument of the 1950s was being challenged theoretically as post independent Africa's aspiration for a rapid industrialization process become increasingly frustrated (Johnston, M et. al 1961) and the major donors made a significant shift in their aid policies in favor of rural development vis-à-vis urbanization and construction of infrastructure. In an attempt to realize this change of policy, donors subjected to Ethiopian government to strong pressure foreign assistance agencies, particularly the World Bank (IBRD) and American organizations, advised Ethiopia to give high priority to the agricultural sector and recommended the package approach concentrating on the more promising regions. This idea also supported by FAO (Nekby 1971: 9)

The third five-year plan largely followed and coincided with the strategy of what has been known as the Green Revolution (1960s-70s) and which had its own success story in raising agricultural production tremendously in (e. g., India, Pakistan, and other Asian countries). However, it could not minimize the income gap (in fact it is believed to have increased it) and benefits were not fairly distributed (many areas were not included in the program).

2. 2 Development Policies during the Derg Regime (1974-1991)

It is generally acknowledged that the pre-1975 land tenure system in Ethiopia was one of the most complex in the world and had not been thoroughly studied (Cohen and Weintraub, 1975; Gilkes, 1975; Dessalegn,

1984; Dejene, 1999) as sited by (FAO, 2003). After the 1975 land reform by the Derge has been considered by many as a radical measure that has abolished tenant – landlord relationships in Ethiopia.

In order to implement the Proclamation, peasant associations were established at various levels. Following the land reform proclamation, another decree that was knows 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.

2. 2. 1. 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,

The small peasant sub sector represented by the overwhelmingly large number of small farmers: and

The "socialist" subsector represented by the producers' cooperatives and state farms.

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 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 favoring the socialist strategy as opposed to a smallholder approach.

The Socialist Sub Sector

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 they 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 labor from peasant and youth association members.

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.

However, the cooperativization drive ended in complete collapse largely because of the lack of farmers' willingness. Good evidence is what happened when the government was forced by circumstances to issue the 'Mixed Economic Policy Reform' of March 1990. 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.

State Farms

State farms are farming enterprise 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.

The chief aims of state farms were to help alleviate the countries food problems, Contribute to export earning and employment generation.

However their performance had been very disappointing due to the following main reasons.

Management inefficiency: Lack of appropriate management in the sate farms resulted in misutilization of resources. Highly centralized management system curtailed the exercise of managerial autonomy at farm levels.

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.

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.

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.

Resettlement and Villagaization

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 underutilized fertile lands; and from a social point of view resettlement was seen as a way of providing land to those with out 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.

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 prorgamme was extended to the adjusting 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-1987, 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.

The above development policy reforms of the Derg's Military government was a result of the ties made with the East Socialist states such as Russia and other east European countries that had an ideology of command economy system.

2. 3. Policy reform during the early transitional government (1991-1994)

The EPRDF overthrew the Derg regime in May 1991 after a 17-year prolonged civil war in all parts of the country, leading to the formation of Transitional Government of Ethiopia (TGE). The 1991 economic policy document of the TGE declared collectivization and villagization as undesirable and liberalized both agricultural markets. The overriding objective of the government was given as attaining fast broad based economic development. an economic reform program was initated, which took the form of structural adjustment program(SAP) nder the auspices of the world bank and IMF. the reform included the removal of substantial taxation of agriculture, market liberalization and devaluation. The fertilizer market was liberalized, creating a multi channel distribution system. (Alemayehu and Berhanu (1999), pg. 52).

The TGE which was replaced by the Federal Democratic Republic of Ethiopia (FDRE) in August 1995 through public election. Since 1992 the TGE was successful to favor market driven development policy by undergoing important structural adjustments and reforms (European Union, 2002). These included; the abolishment of all price controls to agricultural products, the reduction and harmonization of trade tariffs, privatization of state owned enterprises. The government has also made decentralization of power from the Addis based central government to the autonomous regions and nationalities that were believed to accelerate the policy shift from the previous ones to agricultural development, which was not actually endorsed during this period.

But the period TGE was characterized by unstable political environments full of suspicion and mistrust over the EPRDF led ruling (Daniel Ayalew, and et. al, 1999). It can therefore be said that main agenda was the "rehabilitation" type of development thinking and that the development policy in this period was not just fully materialized for the fact that the government was confronted with complexity of challenges from the internal environments that were discussed above.

The external policy environment during this period can be generally regarded as cool in response to the structural and policy adjustments made by the country until the constitution of Ethiopia was fully endorsed in 1994. This was a remarkable condition for the endorsement of the Agricultural Development Led Industrialization (ADLI) strategy. (EPRDF, 1995)

2. 4. The National Development Policy and the Five-Year Development Plan (1995-1999)

In the fiscal year of 1995 the establishment of the first federal government structure in the country, it was then possible to attract the attention of the western developed nations. The development policy was well recognized in this period and it was successful enough to become one of the African nations which were nominated for the Sasakawa Global 2000 Agricultural Extension Intervention. Although this extension model was introduced to the country at a pilot level in late 1993, it was widely adopted in all the regions. Significant production increments were registered as a result of this extension system through the supply of inputs such as improved seed, fertilizer, pesticides etc. The approach was heavily criticized for its blanket approach with out giving due consideration to variability in biophysical conditions such as ecology, soils, moisture condition, fertility, topography, altitude, etc. and socioeconomic conditions such as wealth, labor, social setting, food habit, culture, etc. More over it was recognized by some scholars and research institutions that landraces, that have been suitable for erratic and unpredictable areas, were endangered by the replacement of single varieties introduced by the SG2000 extension system (MUC, 1996).

The way the development policies during this period relate or differ from the international development thinking can be seen from the discussion made by the odi published Rethinking Rural Development (odi Briefing Paper, 2002). Accordingly the development policies during the TGE remarkably relate to the policy environments in the developed world back to the 1950s, where a model based on small farm development has been dominate. On the other

hand the attempt to address rural development policy differs from the then international development context in that the budget priorities given to maintain the balance between productive sectors (agriculture manufacturing, etc) and social sectors (road infrastructure, health, education, etc.) was not compromised. The development policy emphasized the SG2000 extension system through the adoption of new technology including improve seeds and fertilizer.

Towards the end of this period the macroeconomic policy of ADLI was supplemented by new policies for the sector development programs (SDP) that include education, health, HIV/AIDS and other important sectors (EU Country Strategy Paper, 2002). The other development strategy adopted with in the context of ADLI by the government of Ethiopia in 1996 was the National Food Security Strategy. Following to the adoption of this strategy the National food security Program was established in 1998 by targeting food insecurity in four regions. The implementation of these programs was interrupted by the boarder conflict that occurred with Eritrea in the same year.

2. 5. The Poverty Reduction Strategy (PRS) and the Second Five Year Development Plan (2000-2004)

The overall objective of this strategy was to encourage the external resource/capital inflow and to increase aggregate output level (IPRSP, 2000). It can be said that the Ethiopian government have took an initiative to prepare the IPRSP soon after the end of the Ethio-Eriteria border war look like to the Marshall plan prepared for the period of 1948-1952 as discussed in

Singer (singer, 1989). This is meant for the rehabilitation and reconstruction of the European countries that were heavily destructed by e World War II.

On the other hand the government has adopted poverty reduction as the core objective for development by arguing that economic growth as the principal, but not the only means to the development of Ethiopian economy. This thinking is quite similar to the combination of the Neo-Classical Economic Theory that existed in the 1980s and the New Development Theory (Todaro, 1987) in that it tries to address four important issues: the sources of economic growth and the potential for growth in the future, the mechanisms and conditions by which economic growth translates into poverty reduction, the initial effect of poverty and inequality on the sustained and rapid economic growth, and the links among economic growth, income distribution and pover