

SOSC 2800 Research Essay

Ethiopia and Policy

Samir Janmohamed

Word Count: 2100

Throughout the world, in both developed and developing countries, millions of people live in perpetual poverty as a result of political, social and economic challenges. A number of these challenges have not been met with policies that solve the issues at hand but instead continue to delay development to a date many never live to see. The issue of policies is easily seen in an analysis of Ethiopia's past and present where corruption, lack of social services and misinformed economic policies has been the norm. Being a nation with an area of roughly one million square kilometers and a population growth rate of 2.89% (Central Intelligence Agency, 2016), the nation suffers from high levels of food insufficiency that has been the result of political instability, high population growth rate, and repressive policies that keep farmers from producing for market consumption. In reality, the nation has abundant natural resources that could be used to feed its own population as well as produce a surplus for export. In 1990, the government understood the counter-productiveness of their policies thus opening the doors to liberalization and withdrawal from past policies under a new democratic government. Throughout this essay, we will explore areas that require attention as well as understand the successes and failures of the policies that have come forward while also shining a light towards the different policy prescriptions that could possibly help remedy the current situation.

Some of the policies that did not work include the creation of farm cooperatives, grain market restrictions and quota deliveries (Pausewang, Cheru, Brüne, & Chole, 1990). Lack of mobility due to cultural and social constraints has also limited levels of development. Famines are synonymous with Ethiopian history resulting from drought, political instability, misinformed social and economic policy prescriptions, poor credit services and inadequate physical infrastructure (Gethahun , 2001, pp. 1-5). The move

from a monarchy towards a socialist doctrine saw no change in levels of poverty but instead led to in policy prescriptions that have improved the lives of the urban rich. Poverty has not been eradicated completely with the poorest families being poorer than they were in 2005, mainly as a result of high prices of food (Teshome, 2014). Education enrollment remains low especially among women and young girls. Lack of Education attainment has impaired many of these people from finding jobs in urban areas as well as industrial parks that had sprung to life at the beginning of the millennium. The urban population has continued to rise at a rate of almost 5% per year from 1990 (Trading Economics, 2016). Dependence on agriculture has remained with almost 90% of exports being agricultural products. Issues of land distribution have persisted from the socialist era with lands being owned by commercial farmers who rent out the land was and continues to be held by people who would receive up to 75% of the produce.

Prior to 1990, the socialist doctrine of the government led to the transformation of the nation. Policy makers enforced programs, which increased military spending, nationalization of industry and lands (Bisten, Shimeles, & Kebede, 2005, p. 14), formation of collectives in rural areas to streamline production and the institution of a program of villagization (Pausewang, Cheru, Brüne, & Chole, 1990, pp. 3-5). Similar to other socialist regimes around the world, the Ethiopian government used five-year plans to jumpstart economic growth and industrialization. Two five-year plans followed between 1957 to 1967 with emphasis on large-scale commercial farming and production of export crops (mainly coffee). There was an initial increase in levels of production, which began to lag behind the rapid growth in the urban and rural population (Pausewang, Cheru, Brüne, & Chole, 1990, p. 49). This “industry first” argument was

challenged by major donors who moved funding towards rural development and the development of infrastructure (Pausewang, Cheru, Brüne, & Chole, 1990, p. 50). The World Bank and American organizations began to encourage the government to increase funding for small holders in areas that were promising; the government delivered by voicing the need to lead the “process of the transformation of rural agriculture” in its third five-year plan (1968-1973) (Pausewang, Cheru, Brüne, & Chole, 1990, p. 20). Levels of foreign aid, however, were much lower during this period. Policy makers continued to remain under the impression that capital-intensive methods and mechanization would prove successful in increasing levels of production in a short period of time. 15 years later, it became evident that the policy resulted in no improvement in food sufficiency and food security. There has been pressure on the government to move towards taking on free market policies consistent with the methods of the World Bank and the International Monetary Fund (IMF). The rise of democracy brought with it leaders willing to lean towards such ideals (Pausewang, Cheru, Brüne, & Chole, 1990, pp. 4-5).

The African Development Fund (AFD) stepped in in 1992 Structural Adjustment Policy (SAP) aimed to improve Ethiopia’s deteriorating economic landscape. The reform program involved changes in policy including improving resource mobilization, liberalization of the foreign exchange and trade system and capacity building (African Development Bank Group, 1997, p. viii). The report states the importance of the government to continue to accelerate financial sector reforms in order to create a vibrant private sector while also involving stakeholders in conversations over policy (African Development Bank Group, 1997, p. x). Also highlighted in the report is a devaluation of

the currency, which has a twofold result: it increases the cost of capital imports and makes exports cheaper in the international market. In my opinion, the liberalization of the currency impairs the ability of the nation to develop through industrialization. Jamaica, for example, was forced to take on similar policies, which have made it harder to increase their foreign currency revenues and created an artificial glass ceiling wherein they continue to depend on tourism and agriculture. To an extent, the ability to control a nation's currency can be beneficial as in the case of China. The extent to which it can lead to benefits, however, depends on the overall strength of the economy in the global playing field.

It is important to understand that the issues of resource availability and the need for capacity building are present mainly in the rural areas. These issues have a great impact on levels of agricultural productivity. The government could channel its resources towards funding for integrated rural development projects while creating policies tailored towards reducing government bureaucracy, which often leads to corruption and inefficiency. Rejection, lack of support and little engagement of the rural population in the planning phases are likely to occur during the action phase of such policies (Cohen, 1987, p. 15). In order for the successful implementation of this policy, public trust for the government, which lacks immensely in Ethiopia, would need to be garnered. In Tanzania, for instance, the newly elected president has been able to increase public trust through reducing government spending, firing executive members of highly corrupt government institutions and channeling funding from extravagant events towards solving issues such as cholera. During his first 100 days in office he was able to increase

tax revenues by 600 billion shillings, making his promise of free education attainable in the near future (Jesse, 2016).

For years, skewed terms of trade have led to the disproportionate transfer of wealth from rural to urban areas. The government has continued to favor commercial farmers, providing them with incentives such as subsidies and farm inputs so as to increase levels of productivity (Gethahun , 2001, p. 11). These actions have encouraged a reverse income distribution whereby the bureaucracy, the rich and the politically connected have prospered with the poor's deepening neediness. It had been highlighted that resources provided to commercial farmers were often used inefficiently while only 5% of Ethiopian farmers had access to farm credit (Mengisteab, 1996, p. 33). In this case, it would be advisable to create a policy allowing the formation of microfinance institutions, which are run privately while reporting to the countries central bank. The bank should be able to provide small and medium-sized loans to members of the community with special focus given to women and young entrepreneurs. The ability to gain access to a line of credit will not only empower a woman but also help to increase levels of female literacy. It would also be advisable for the government to reduce barriers to entry of mobile banking platforms such as those in Kenya. As a number of Ethiopians in rural areas do not have access to such services, increased competition and finding for investment in such areas are likely to result in a higher quality of life through mobile payments for their products.

Currently, the government has placed emphasis on industrialization and production of hides. The need, however, is a policy reorientation towards the development of smallholder agriculture. Arguably, raising the levels of productivity of

small farm families who represent the bulk of the population would be the best method of improving levels of food security which can, in the long run, lead to sustained broad-based economic growth. In order for this to occur members of rural communities require access to access to technology and an active voice in the decision-making process (Gethahun , 2001, p. 5). Access to markets can help to encourage farm producers to begin producing a surplus, which would provide them with stable income as well as ensure peace in urban areas by keeping food prices affordable. The government could adopt policies to reduce barriers to foreign aid and development agencies thus allow them to work freely in rural areas while reporting progress to the government. In the case of Mozambique, a nation similar to Ethiopia in terms of political instability and poverty, a partnership with the Aga Khan Development Network has seen the creation of farmer's cooperatives, access to urban markets through creating linkages between farmers and hotel owners as well as the provision of "seed loans." Such loans allowed farmers to produce for the market while improving their levels of nutrition as well. The effects of this partnership have spread to people of all age groups including schoolchildren who have increased enrollment by 54% between 2003 and 2008 (Aga Khan Development Network, 2007). It is also important to consider the creation of industry based on creating finished goods within Ethiopia. Most of the coffee that is exported often leaves the country in its raw state, fetching low prices on the international market. A policy encouraging the creation of such industries, especially by Ethiopian entrepreneurs, is likely to increase the amount of foreign currency flows. The volatility of coffee prices in addition to production levels around the world is likely to continue to have a toll on the

economy. Policies that encourage the rise of microfinance must also stress the importance of diversifying agro-production.

Should all else fail; the government may choose to adopt an interventionist approach. Such methods proved successful for South Korea, Singapore, and Taiwan in the late 1970s and 1980s. Government manipulation of the interest rate could increase levels of borrowing and increase levels of investment in addition to allowing for a rise in microfinance banking. Land reform and subsidization of inputs are ideas that are often discarded by those who hold true to neoliberal doctrine but may become necessary to increase their levels of production while providing them with a sense of ownership (Mengisteab, 1996, p. 36). Ethiopia has adopted land reform in its constitution of 1995 but ownership is often still tied to ethnic and tribal peoples. In order to quell this issue, a government directive for the provision of title deeds to farmers could provide a sense of ownership. The provision of loans and grants by the IMF focused towards rural agricultural production could also be a viable option, should the political and economic climate allow such.

Agriculture continues to play a central role in the economy and thus the great dependence on good weather forms. The government has understood the negative effects of dependence on agriculture production and has thus swayed towards industrial policy. The opening of the borders saw a number of industries including the Huajian Group, the world's largest shoe producer, currently employing 3500 people in an industrial park near Addis Ababa (Oqubay, 2015, p. 4). Problems of infrastructure still, keeping the rate of industrialization below optimal. Ethiopian entrepreneurs have invested heavily in the cement industry, which has received high levels of government preferential treatment in

the form of guaranteed low prices and foreign exchange. It is important to note that the government must ensure some level of reinvestment and appropriation of the profits made by international companies while providing safety nets for employees.

As a pessimist, I am under the impression that the current path, however fruitful in the present, may not be enough to solve the political, social and economic challenges faced. Due to high levels of capital intensive production in industry, levels of employment in the sector are unlikely to increase dramatically in the near future. Improvements in quality of life have occurred within the past 10 years with life expectancy increasing from 43 years in 1997 to 65 in 2013 and foreign direct investment reaching 1.2 billion in 2014 (World Bank, 2014) but still more needs to be done to ensure the prospects of development diffuse to the rural areas. It makes no sense increasing levels of industrial production while people cannot feed themselves. Thus, it is my belief that there must be a marriage of well-informed policies and government leaders who want to see change to ensure the issues of today do not become the issues of tomorrow. Without one, the other is likely to fail and the cycle will continue.

Bibliography

Gethahun, H. (2001). 1.1 A Nation in Crisis. In H. Gethahun, *Assault on Rural Poverty: The Case of Ethiopia* (pp. 1-5). Lanham, Maryland, United States of America: University Press of America.

African Development Bank Group. (1997, October). *Structural Adjustment Programme Project Completion Report*. Retrieved February 20, 2016, from African Development Bank Group Website:
<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/ADF-BD-IF-98-07-EN-3670048.PDF>

Aga Khan Development Network. (2007). *Rural Development in Mozambique*. Retrieved February 27, 2015, from Aga Khan Development Network Website:
http://www.akdn.org/rural_development/mozambique.asp

Bisten, A., Shimeles, A., & Kebede, B. (Eds.). (2005). *Poverty Income Distribution and Labour Markets in Ethiopia*. Uppsala, Sweden: Mordiska Afrikainstitutet.

Central Intelligence Agency. (2016, February 25). *The World Factbook: Ethiopia*. Retrieved February 28, 2016, from Central Intelligence Agency Website: <https://www.cia.gov/library/publications/the-world-factbook/geos/et.html>

Cohen, J. M. (1987). *Integrated Rural Development: The Ethiopian Experience and the Debate*. Uppsala, Sweden: The Scandinavian Institute of African Studies .

Jesse, J. (2016, March 6). *The New President of Tanzania Wins Hearts of Tanzanians and Africans*. Retrieved March 6, 2016, from The African Exponent: <https://www.africanexponent.com/post/president-john-pombe-magufuli-wins-hearts-of-tanzanians-2068>

Mengisteab, K. (1996). *Globalization and Autocentricity In Africa's Development in the 21st Century*. Asmara, Eritrea: Africa World Press Inc. .

Oqubay, A. (2015). *Made in Africa : Industrial Policy in Ethiopia* (Vol. 1). Oxford, United Kindgom: Oxford University Press.

Pausewang, S., Cheru, F., Brüne, S., & Chole, E. (Eds.). (1990). *Ethiopia Rural Development Options* . Worcester, United Kingdom: Zed Books.

Teshome, B. (2014). *Ethiopia Poverty Assessment*. Retrieved February 20, 2016, from World Bank Website: <http://www.worldbank.org/en/topic/poverty/publication/ethiopia-poverty-assessment>

Trading Economics. (2016). Retrieved March 3, 2016, from Population in largest city in Ethiopia: <http://www.tradingeconomics.com/ethiopia/population-in-largest-city-wb-data.html>

World Bank. (2014). *Data*. Retrieved March 3, 2016, from World Bank Website: <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD/countries?page=1>