

MINISTRY OF SCIENCE AND HIGHER EDUCATION



Teaching Material for Politics of
Development Dynamism in Ethiopia
(CESt-2052)

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CHAPTER ONE

The Notion of Politics of Development Dynamism

1.1. What is politics?

Conceptually, the term politics have different definitions. When we firstly overlook the focus of politics, it focuses on the actual operation of state administration which is characterized by the process of law making, policy implementation and dispute resolution. Such operation is continued through justifying the questions of “how, by whom, for whom, when and where” decisions can be made and resources can be distributed with in a specific political system.

Broadly, and generally, politics can be understood as “the study of state and government”. Practically, Politics as an art is “used to describe the activities by which public officials are chosen and political policies prompted”. It also implies “the sum-total of the activities which have to do with the actual administration of public affairs” which, as a whole, would include the socio-cultural, and eco-political affairs of the public. Politics as an art also refers to “the actual operation of a political system” which is required to attain development through justifying diverse problems of the government, the state and the people (ibid) and forwarding possible solutions. As an art that focuses on the actual operation of a political system, the fundamental function of politics is to justify questions of “who gets what, when and how”.

1.2. What is Development?

The idea of development has been applied to a wide range of political situations and with great conceptual variety. Philosophers, economists, sociologists, political scientists, and many others have studied development from a multitude of angles, usually relying on their own definitions of the topic. Adam Smith, Thomas Malthus, David Ricardo, Friedrich List, John Stuart Mill, Karl Marx, Joseph Schumpeter and John Maynard Keynes are the usual suspects to cite in studies on development theories. The role of the Enlightenment in establishing development as a lead category in modern thought is impossible to overlook. As Zygmunt Bauman puts it, “the modern mind was born together with the idea that *the world can be changed*. Modernity is about

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rejecting the world as it has been thus far and the resolution to change it. The modern way of being consists in compulsive, obsessive change: in the refutation of what ‘merely is’ in the name of what could, and by the same token ought, to be put in its place.”

Development is a concept which is contested both theoretically and politically and is inherently both complex and ambiguous. Recently it has taken on the limited meaning of the practice of development agencies, especially in aiming at reducing poverty and the Millennium Development Goals. The Millennium Development Goals (MDGs) were a pledge to uphold the principles of human dignity, equality and equity and free the world from extreme poverty. The vision of the liberation of people, which animated development practice in the 1950s and 1960s, has thus been replaced by a vision of the liberalization of economies. Even if the development of a socio-economic system can be viewed as a holistic exercise, i.e. as an all-encompassing endeavor; for practical purposes, in particular for policy making and development management, the focus of the agents aiming at development is almost always on selected parts of the system or on specific features. To this end, development is qualified and specified in different ways.

Development strategies have thus usually focused on rapid industrialization, often at the expense of agriculture and rural development. A common alternative economic index of development has been the use of rates of growth of income per capita or per capita GNP to take into account the ability of a nation to expand its output at a rate faster than the growth rate of its population. This is correctly explained by what Ingham calls ‘goods-centered’ view of development rather than a ‘people-centered’ development ethic. Such a perspective equates development with economic growth which refers to an increase in the real output of goods and services in the country like increase in income, in savings, or in investment, etc.

Broadly, development is “the process of improving the quality of all human lives and capabilities by raising people’s levels of living, self-esteem and freedom”. Within such general notion of development, there are three core values of development, namely:

- i. Sustenance: the ability to meet basic needs;
- ii. Self-Esteem: to be a person; and
- iii. Freedom from servitude: to be able to choose

1.3. Major Paradigms of Development and their Relevance to Ethiopia

A Development Paradigm in principle is an argument for how to conceptualize and overcome the development challenges confronting us. While the Development Paradigm is grounded in analysis, it is a strongly normative argument for how best to approach development. When referring to a society or to a socioeconomic system, development usually means improvement, either in the general situation of the system, or in some of its constituent elements. Development may occur due to some deliberate action carried out by single agents or by some authority preordered to achieve improvement, to favorable circumstances in both.

Identifying an exhaustive set of past and present paradigms adopted to develop socioeconomic systems is a very tall order. The difficulty arises due to various factors such as: the complexity of the development concept per se, its multidimensional nature; the diversity of countries and country experiences; the different overlapping thoughts and related actions carried out at national, regional and international level. Also the analytical difficulties in identifying cause-effect relationships between development policies and results achieved. Also, difficulties controlling due to other factors influencing development processes such as endowments; level of well-being achieved so far, geographic location, geo-political and geo-strategic influences, dimensions, degree of social/ethnic homogeneity and so on.

Since the dawn of its existence, Ethiopia has been caught in the competing forces of emulation and self-sufficiency, in the tensions between modernization and isolationism. One of the oldest surviving political entities in the world, its rich cultural heritage and history of resistance to colonialism have fostered a strong, enduring sense of independence and exceptionalism. Contact with more technologically-advanced European nations, on the other hand, has often driven the country's leaders towards forceful projects of modernization and state-building borne of both admiration and rivalry. The result of this ambivalence has been the adoption of a variety of lessons from countries such as Britain, Japan and the Soviet Union—a highly contested, very ideological and often unsuccessful process that Bahru (2001) and particularly Clapham (1990; 2006) have done much to elucidate. In contrast to the historical literature, the literature on

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present-day Ethiopia has mainly focused on involuntary policy transfer, contrasting the impact of donor conditionality and systemic change with domestic inertia.

❖ The Washington Consensus

The WC emerged in the early 1980s as a dramatic right-wing reaction against the perceived weaknesses of the pre-WC developmentalist consensus. Rhetorically, the WC involved a heavy attachment to a Universalist neo-liberal ideology, with absolute commitment to the free market and the presumption of the state as a source of both inefficiency and corruption. At the level of scholarship, the WC suppressed the old development economics as a separate and respected field and instead imposed rigid adherence to the deductive and formal methods of neoclassical economics that were thought to be equally and directly applicable for analysis of the problems of poor countries.

According to Washington Consensus, development is only possible if countries are able to benefit from the globalized environment. They have to liberalize foreign trade, privatize public assets, lower marginal tax rates and broaden the tax base; keep public deficits tight, refrain from market interventions, liberalize exchange and interest rates, allow free FDI. This will complement domestic savings and bring about new modern technologies. Countries which do not adjust their policies accordingly are more likely to be marginalized from the development mainstream.

The WC comprised three elements. First is the hegemony of modern neoclassical theory within development economics. In general, the neoclassical theory assumes that the market is efficient and the state is inefficient. It naturally follows from this assumption that the market rather than the state should address such economic problems of development as industrial growth, international competitiveness and employment creation. Unquestioned belief in the neoclassical theory also leads to the assumption that capital mobility and the relentless advance of globalization is good for the world economy and all individual economies.

Second, the main reasons why poor countries remain poor are because of misconceived state intervention, corruption, inefficiency and misguided economic incentives. According to Washington Consensus, development is the inevitable outcome of a set of appropriate incentives

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and neoclassical economic policies, including fiscal restraint, privatization, the abolition of government intervention in prices, labour market flexibility, and trade, financial, and capital account liberalization.

Third, under the Washington Consensus the World Bank set the agenda for the study of development, with the Bank and the IMF imposing the standards of orthodoxy within development economics, and enforcing the relevant policies through conditionality imposed on poor countries facing balance of payments, fiscal or financial crises.

It is apparent that this combination of policies, regulations and incentives is designed to shift the economic role of state institutions away from direct intervention in the allocation of resources, and transfer to the (financial) markets control over the levels of investment and consumption, the allocation of investment funds, the composition of output and employment, and the selection of competitive advantages. In these circumstances, poverty alleviation cannot be a priority. Significantly, with the Washington Consensus, states lost much of their capacity to select, implement and monitor distributive and welfare policies because of legislative changes, departmental reorganizations, salary reductions and large-scale redundancies.

In the late 1980s and 1990s, the hegemony of the Washington Consensus came under attack both in the academia and in the emerging social movements, with three (not necessarily complementary) criticisms pushed to the fore. The first was inspired by the notion of the developmental state, thought to apply to the successful East Asian newly industrializing economies (NIEs), with Japan as the precursor, followed by the four “tigers” (Hong Kong Special Administrative Region of China, Republic of Korea, Singapore and Taiwan Province of China) in the 1960s and 1970s, followed, in turn, by China, Indonesia, Malaysia, Thailand and Viet Nam. In all these cases, it was found that the state had violated the main tenets of the Washington Consensus through long-term planning, protectionism, directed finance and other departures from the free market.

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The second approach focused on the notion of adjustment with a human face. The Washington Consensus stood accused of being at least oblivious to the disproportionate burden on the poor arising from the processes of adjustment and stabilization. The third criticism of the WC concerns the interface between economics and politics. The closely related transitions to neoliberal economic policies and to political democracy in several countries in the South and in Eastern Europe have introduced a potentially severe tension because of the deployment of democratic and supposedly inclusive political systems to enforce exclusionary economic policies. The neoliberal economic policies demand a state hostile to the majority, even though a democratic state should be responsive to majority pressures.

Ethiopia's history of emulation, high level of donor dependency and mixed record of compliance with the Washington Consensus make it an important case for scholars wishing to understand the impact of alternative developmental models on developing-country elites. Few countries as poor and aid dependent as Ethiopia have managed to retain such apparent control over their policy spaces, yet to what extent is non-compliance with the Washington Consensus driven by domestic factors alone? Conversely, to what extent is compliance driven only by systemic change and external conditionality? Does voluntary lesson-drawing—either towards or away from the Washington Consensus—still play a role in a country with more experience of emulation than most?

❖ **Agriculture-based development** Agricultural growth is seen as directly contributing to the various dimensions of socio-economic development, not only through its contributions to the general growth of the economic system, but also for its specific contributions to poverty reduction (in its small-scale version), resilience of local communities, preservation of the environment etc.

❖ **FDI-based development**

A further consideration applies to financial sources that may be used to fund capital accumulation to start up and feed development processes. Further to funds from exports, selected countries rely heavily on FDI; above all when they are endowed with natural resources (land, water, minerals, oil) and/or with cheap labour.

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- ❖ **Foreign aid-based development:** Whenever foreign aid is not fully absorbed by immediate emergency-related consumption of subsistence goods (e.g. staple food), selected countries may attempt to kick-start their development process using grants, either channelled to the country through the funding of specific development projects or through the public budget support.

The above-mentioned paradigms are far from being mutually exclusive, as several countries have adopted and are adopting more than one paradigm at a time, because they refer to different phases of economic processes (funding, production, trade), different dimensions of development (economic, social) and impinge on different endowments and resources.

Despite these limits, the identified development paradigms are a useful key to interpret the development paths and related policies of single countries or sets of them. More specifically, the development paradigms can be used to explain, e.g. by means of econometric models, the convergence or divergence in the development processes of similar countries adopting different paradigms, of different countries or similar countries adopting similar paradigms. Additionally, as countries are prone to external shocks (e.g. sudden and persistent modifications of their terms of trade), and/or prone to longer term modifications of their development context, (e.g. exhaustion of their resource endowments, incoming environmental constraints due to climate change); the set of development paradigms identified are useful to analyse in such changing contexts, the development perspectives of selected countries under alternative paradigms, e.g. with country-specific and/or regional computable models. This analysis will enable decision makers to highlight the potential and drawbacks of alternative development paradigms and provide relevant information to feed decision making processes.

1.4. The Origin of the Quest for Modernization and Development in Ethiopia (1855-1930)

1.4.1. Emperor Tewodros II and Ethiopia's modernization

After almost ninety years of political instability and lack of state cohesion, the end of the “Zemene Mesafint”, Tewodros instituted two primary measures designed to strengthen his imperial authority. Within the end of “Zemene Mesafent”, he now presiding over

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a reunited Ethiopia and he attempted to implement a number of reforms including land reform, the introduction of a standing army, collection of books in the form of a library, tax codes, church rules, and above all a centralized political system with respective administrative districts. First, he fragmented traditional administrative divisions and thus deprived many local princes and kings of their bases of power.

Administrators for the reconstructed administrative units were chosen except in rare circumstances by the emperor himself. Most were trusted officers in his military or members of the royal family. They were responsible for collecting tithes and taxes on behalf of the sovereign and were instrumental in Tewodros's efforts to break the power of patrimonial, feudal lords. He also jailed most of his potential enemies. This facilitated the maintenance of law and order in the countryside, and buttressed the emperor's centralizing efforts.

Second, Tewodros began to create a disciplined, professional state army for the first time. He often employed Europeans and Turks who had military expertise to train his forces, and he also provided his soldiers with regular salaries, clothes, and equipment. This did much to strengthen both his empire's military and the administrative capacity of the government. Tewodros's centralization policies were continued, but not significantly improved, by Yohannes IV who succeeded him in 1872.

Despite his reform attempts and his relatively strong centralized form of governance, however, the Ethiopian Church opposed Tewodros that he confronted early on, and the mushrooming of revolts all over his nascent empire clearly undermined his legitimacy to power. Tewodros was not opposed to the Ethiopian Orthodox Religion as such, but he despised the conservative clergy. To be sure, he was anti-Catholic and during his early reign he declared that there should be only one Christian Orthodox Tewahdo religion and monogamy for all Ethiopians. Thus, he himself fostered enemies that include not only the conservative orthodox clergy but also Catholic and Moslem Ethiopians as well. Adding insult to injury, as mentioned above, rebel leaders emerged all over Ethiopia.

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1.4.1.1. What were the Development Projects of Tewodros II?

A. Expanding micro technical works of cottage industry

Understanding the absence of domestic skilled man power, his first attempt was engaging foreigners on micro technical works for the development of Ethiopia through persuasion and coercion (Pawlos, 1993) . Accordingly, he facilitated foreign missionaries, researchers and visitors to collectively work with two Engineers of France (Fiere and Galinyer) on the area of handwork (handcrafting or other technical works) , carpentry and metal working (ibid).

B. Setting a foundation for the school of youth literacy

Emperor Tewodros II who was inspired by European technological power had started a school at Gafat to train young Ethiopians to develop their literacy and some technical skills (Pawlos, 1993, Bahiru, 2002).

C. Producing weapons

By trial and error, under the ceaseless prodding of the emperor, the missionaries managed to manufacture some weapons (Bahiru, 2003). Emperor Tewodros II have a long run vision to domestically produce modern products (import substitution) including the technology of armament production.

D. Designing a plan of and facilitating road construction

Another area of development that Emperor Tewodros II gave a special concern is for road construction. In this regard, he had a strong ambition to connect all corners of Ethiopia via road even if there was no any vehicle in the country during that time (Pawlos, 1993:168). This is so as to safeguard merchants from the exploitative attempts of bandits and robbers since roads (highways) were within forests where bandits live. Accordingly, by making Debretabor as capital city, the Emperor have established a plan of road construction to connect with the capital city and other province like Gojjam, Gondar and Meqdela and among others (Pawlos, 1993).

Thus, the road that stretches from Debretabor to Chachaho has been constructed by foreign missionaries (Flad, Bender and Kislie) during Tewodros II (Pawlos, 1993).

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E. Focusing on transport service provision

Apart from roads, vehicles (handcraft) which can move (take and bring) commodities have been made during the reign of Tewodros II (Pawlos, 1993). In addition to that, hydro mechanical vehicle, boat and ship were made in 1958 even if their service was not satisfactory (Pawlos, 1993:170). Generally, Emperor Tewodros II was the Monarchy who had a distinguished concept of modernization and ambition for the transformation of Ethiopian society. However, the existence of multi-faced internal and some external limitation render his ambition of attaining modernization. Among others;

1. He lacked any social or institutional base upon which to build. In this regard, the plan that the Emperor has designed produces opposition from different directions. The attitude of the people, appointees and priest completely cannot closely relate with vision of Emperor Tewodros II.
2. National unity eluded him; (national unity have challenged him)
3. There was no historic bureaucracy;
4. No national administration had survived the division of the country;
5. Urbanization was practically unknown (except, perhaps, in a most rudimentary form)
6. Foreign assistance was not forthcoming on a scale at all relevant to the country's needs like technicians (Crummey, 1969 and Fesseha, 2010).

1.4.2. Reign of Emperor Menelik II Modernization and Education in Ethiopia

A. Economic and Financial Developments

Innovation in Iyasu's time, as in that of Menelik, centred largely on Addis Ababa, then little more than two decades old, but rapidly expanding. The most important technological development of Iyasu's reign, and one which brought one of his grandfather's principal achievements to fruition, was the extension of the railway to Addis Ababa. This extension was agreed on 6 April 1913 when Iyasu and General Famin, the French vice-president of the railway company, concluded an agreement for the construction of the final stretch of line from

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the Awash River to Addis Ababa.

Construction of the line made steady progress. Iyasu and his cousin Teferi Mekonnen (later Emperor Haile Selassie) entrained for Djibouti in April 1915; and the railway finally reached Addis Ababa on 21 May. Around this time Iyasu allocated land for the city's railway station.

i. Hydro-Electric Power: A no less exciting innovation, in 1911-12, was the harnessing of hydro-electric power from the Aqaqi River, with two 74 horse power dynamos supplied by a Manchester firm.

ii. Banking, and Printed Money: The Bank of Abyssinia developed significantly in the post-Menelik period. Originally operating in a small hut in Ras Mekonnen's compound, the bank moved in 1910 to a specially built stone structure. Designed by an Italian architect Vaudetto, it was constructed by his compatriot Castagna. The Bank also expanded in the provinces. It had originally begun with two provincial branches (in Harar and Dire Dawa), but three additional ones were opened in 1912 at Desse, Gore, and Dambidollo.

A further innovation, in 1915, was that of bank notes, of 5, 10, 100 and 500 thaler denominations. Such notes were at first accepted only by foreign merchants, who found it inconvenient to rely solely on silver coins, 500 of which weighed 14 kilos. Two French banking institutions, the Banque de l'Indochine and the Compagnie de l'Afrique Orientale, likewise established themselves in Addis Ababa in 1915. Contact with Djibouti also led to the circulation of French currency at Dire Dawa, and along the railway. Another development was the Ethiopian postal authority's introduction in January 1912 of money orders, which were much appreciated by the capital's Ethiopian population.

iii. Commercial Consciousness: This period witnessed intensified Ethiopian commercial consciousness. The Bank of Abyssinia's annual report for 1911 states merchants had stopped buying Maria Theresa thalers. 'Many Abyssinian chiefs' had therefore begun putting their money into commercial concerns – and were 'only too willing to contract with European merchants' for the sale of ivory, coffee, wax, and civet.

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iv. Imperial Hotel and Smaller Private Hotels: The Imperial Hotel, founded by Empress Taytu in 1907, subsequently underwent important reorganization. It was reopened in 1909, when it was taken over by a Greek entrepreneur, M. Bololakos, who further developed it. This period also witnessed the establishment of several smaller private Addis Ababa hotels. An increasing number of restaurants, cafés and drinking houses also came into existence at this time.

B. Social Development and Reform

i. Education: Attempting to bring change from traditional models of education to the modern and secular forms was not a simple task for previous secular rulers, as there were significant obstacles. This was due in part to the conservative attitude of church leaders (Popes from the Egyptian Coptic Church) and the noblemen. A modest attempt was made by Emperor Menelik II (1889-1913). It was primarily for the sons of the nobility, and the fundamental principle that dictated the development of its curriculum was political interest. The education policy makers (the Emperor, aristocracy and foreign advisors) were interested in the prevailing international order, modernizing Ethiopia and the training of interpreters for international communication. In this respect, the aims of education were to contribute to maintaining Ethiopia's sovereignty.

Emperor Menelik II strongly believed that the building of Ethiopia as a modern state, as well as the strengthening of existing political power, necessitated the introduction of modern education. It was believed that the country's independence could be linked to an educated populace that was fluent in foreign languages. Consequently, the curriculum included such languages as French, Italian, English, Arabic and Amharic. Observing the shortcomings of traditional schools to meet the demands of the international political atmosphere, and filling a need to advance the nation, Menelik II opened the first modern school at Addis Ababa in 1908. It was opened with the objective of educating the young to ensure peace in the country, reconstructing the country, and enabling Ethiopia to exist as a great nation among the comity of nations. It was also aimed at producing administrators, interpreters and technicians.

ii. Printing Presses and French-language Newspaper: Printing expanded significantly in this period. In May 1911 Iyasu inaugurated a new printing press, the Imprimerie Ethiopienne, the

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equipment for which had earlier been imported by the French trader Léon Chefneux. A further printing-press was introduced in 1913 by a French businessman, M. Devages. Ethiopia's first foreign-language newspaper was launched at this time by another Frenchman, Léopold Polart. Published weekly it was entitled *Le Courrier d'Ethiopie*, and printed on Devages's press.

iii. The Menilek Hospital and Dr Merab's Pharmacy: Faced with the closure of the Old Russian Red Cross hospital in 1906, Iyasu's government in 1910 established a new hospital, the Menelik II, which was situated on site of the earlier institution. That same year, on 1 December, Dr Mérab, a Georgian, founded the capital's first pharmacy and named it the Pharmacie la Géorgie.

CHAPTER TWO

DEVELOPMENT ISSUES, POLICIES AND STRATEGIES DURING THE IMPERIAL REGIME OF HAILE SILASSIE I

According to Ethiopian history, the Imperial Regime refers to the reign of Emperor Haile Silassie (1930-1974) in particular, and to its predecessor reigns in general. Therefore, in this chapter, the imperial regime mainly refers to the regime of Emperor Haile Silassie, and it also describes the economic situation of Ethiopia before the occupation of Italy, at the time of Italy occupation and post Italy occupation of Ethiopia.

2.1. Economic situation of Ethiopia before and during Italian occupation

By African standards, Ethiopia is a potentially wealthy country, with fertile soil and good rainfall over large regions. Farmers produce a variety of grains, including wheat, corn, and millet. Coffee also grows well on southern slopes. Herders can raise cattle, sheep, and goats in nearly all parts of the country. Additionally, Ethiopia possesses several valuable minerals, including gold and platinum. Unlike most sub-Saharan African countries, Ethiopia's resources have enabled the country to maintain contacts with the outside world for centuries. Since ancient times, Ethiopian traders exchanged gold, ivory, musk, and wild animal skins for salt and luxury goods, such as silk and velvet. By the late nineteenth century, coffee had become one of Ethiopia's more important cash crops. At that time, most trade flowed along two major trade routes, both of which terminated in the far southwest in the Kefa-Jima region. From there:

One route went north to Missewa via Gonder and Adwa, The second route along the Awash River valley to Harar and then on to Berbera or Zeila on the Red Sea.

Despite its many riches, Ethiopia never became a great trading nation. Most Ethiopians despised traders, preferring instead to emulate the country's warriors and priests. After establishing a foothold in the country, Greek, Armenian, and Arab traders became the economic intermediaries between Ethiopia and the outside world. Arabs also settled in the interior and eventually dominated all commercial activity except petty trade.

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When their occupation of Ethiopia ended in 1941, the Italians left behind Ethiopia a country whose economic structure was much as it had been for centuries. At the time of Italy occupation, there had been some improvements in communications, particularly in the area of road building, and attempts had been made to establish a few small industries and to introduce commercial farming, particularly in Eritrea, which Italy had occupied since 1890. But these economic changes were very limited. With only a small proportion of the population participating in the money economy and trade consisted mostly of bartering system. At this time, wage labor was limited, economic units were largely self-sufficient, foreign trade was negligible and the market for manufactured goods was extremely small. Accordingly, during the late 1940s and 1950s, much of the economy in Ethiopia remained unchanged.

The government mainly focused its development efforts on expansion of the bureaucratic structure and supplementary services. Most farmers use subsistence production of crops on small plots of land or herded cattle. Traditional and primitive farming methods provided the population with a subsistence standard of living which could not contribute for economic growth of the country. In addition, many nomadic peoples raised livestock and followed a life of seasonal movement in drier areas. The agricultural sector grew slightly and the industrial sector represented a small part of the total economy.

2.2. Growth and Economic Structure of Ethiopia during Imperial Regime

The post-colonial period (1941- 1974): By the early 1950s, Emperor Haile Selassie I (1930 - 1974) had renewed calls for a transition from a subsistence economy to an agro-industrial economy. To accomplish this task, Ethiopia needed an infrastructure to exploit resources, a material base to improve living conditions, better health, education, communications, and other services. A key element of the emperor's new economic policy was the adoption of centrally administered development plans. For the sake of convenience it is better to divide the post-colonial period in to different periods as follows:

The period of Restoration and Reconstruction (1941-1952): This period of reconstruction showed very little industrial development relative to the colonial period. The terminal date 1952

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represents the establishment of the federation of Eretria with Ethiopia. This period was the time of restoration of Emperor Haile Silassie to his power from his flees because of Italian occupation of Ethiopia. The restoration of the Emperor was done by the military aid of Britain. Therefore politically this period was not stable because of two reasons: There were problems of internal security. The British imposed on the Emperor a master client relationship. In this circumstance, therefore Haile Silassie's focus was to reclaim full sovereignty for Ethiopia and to consolidate his rule by centralizing and modernizing the government. These concerns were bound to influence the substances of his economic policies. However, the decline of British influence went hand in hand with the growth of the relationship between Ethiopia and United States of America (U.S.A.) relation which were to be economically more meaning full over long time. In 1943 president Roosevelt of U.S.A. had written a letter to Emperor Haile Silassie's to supply articles, services and information to strengthen the defense of Ethiopia.

The Ethiopian government also asked the U.S.A. government about technical mission to be sent to Ethiopia to investigate the country's resources and its economic problems and draw up an aid package for its development. However, no significant level of industrial activity could commence in the immediate post war period.

The Period of Ethiopian Industrialization (1953-1961): The origin of Ethiopian industrialization can be placed within this period. The terminal year 1961 represents the end of the first five year plan period. The period 1953-1961 has shown high industrialization in the development history of Ethiopia. More than 60% of the industries were established after 1957. Therefore, for the sake of convenience we can divide this period in to two i.e. 1953-1956 and 1957-1961.

The time of Industrial Development (1953-1956): This period was one of the significant times in the industrial development history of Ethiopia. Eight manufacturing enterprises were established in Ethiopia during 1952-1954. Most prominent among these was the Wonji sugar factory, which was officially inaugurated on 20th of March 1954. The factory was a joint operation between the Ethiopian government and Dutch (Holland) firms. In addition to this, new textile factory in Addis Ababa, two new wood processing plans and three leather and shoes factories were established in 1952-1954. By 1954 the total number of manufacturing

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establishment had reached 154, of which 83 or about 54% were located in Eritrea. Although all these industrial developments were taken place at this period, there were no articulated and organized policy frameworks at all in Ethiopia.

However, in 1954/55 the government created the **National Economic Council** to coordinate the state's development plans. This agency, which was a policy making body chaired by the emperor, devoted its attention to improving agricultural and industrial productivity, eradicating illiteracy and diseases, and improving living standards for all Ethiopians. Between 1945 and 1957, several technical missions, including one each from the United States of America (U.S.A.), the Food and Agriculture Organization of the United Nations (FAO), and Yugoslavia, prepared a series of development plans. However, these plans failed to achieve any meaningful results, largely because basic statistical data were scarce and the government's administrative and technical capabilities were minimal. The National Economic Council helped to prepare Ethiopia's first and second five-year plans.

2.3. Development Policy during Imperial Period

Although the factors related to decolonization driven industrialization are not directly relevant for non-colonised countries like Ethiopia, the concept of modernisation in the classical spirit (within an international context) and the ideological hang ups of national pride and self-reliance (in the local context) led the Imperial Government to adopt an **import substituting industrialization development** strategy. Import Substitution (IS) refers to a policy that eliminates the importation of the commodity and allows for the production in the domestic market. The objective of this policy is to bring about structural changes in the economy. The structural change is brought about by creating gaps in the process of eliminating imports and thus making investment possible in the non-traditional sectors.

The choice of industry as an engine of growth, and the associated discrimination against agriculture dates from 1945, when a ten year industrial development programme was initiated. This was reinforced by the three successive five-year development plans (1958-74). With regard to agriculture, the first five-year plan anticipated no need to bring about fundamental changes in

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the present methods of production. In the second five-year development plan it was emphasised that industry is the most 'propulsive' sector in the economy and that the precondition for faster industrialisation had to be created by trebling industrial output within five years. This view was further strengthened in the third five year plan. While it was planned that the share of industry in GDP should double within five years, it was acknowledged that there was no quick solution to the peasant problem.

2.3.1. Agricultural Development Policies of the Imperial Regime

According to UNDP 2003 report, Ethiopia is one of the poorest economies in the world where 45 percent of its rural population and 37 percent of its urban population now resided below the absolute poverty line (though the number seems to decrease in recent times). However, the prevalence of such grinding poverty is structurally linked to the low growth and productivity of Ethiopia's subsistence agriculture, the mainstay of 85% of its population. The farming practice is traditional (using ox drawn ploughshares), inefficient and vulnerable to the vagaries of nature as it is primarily rain fed. Productivity therefore fall once the rains shortfall and famine strikes. The problem of food insecurity has now become chronic where an average of 4 million people needs food assistance every year. Fostering sustainable agricultural development, with a view to attend domestic consumption demand and supply foreign exchange earning crops to export, has therefore been a policy imperative articulated in all hitherto drafted and endorsed development policies of the country.

2.3.1.1. The Imperial Regime's Plans

A. Phase I: A central and nationwide development plan meant to spearhead various sectoral development programs was first drafted in Imperial Ethiopia for a five years period spanning 1957-1961 to realize a monetized robust Ethiopian economy which is predominantly nonagricultural. While recognizing that the greater part of the population is engaged in agriculture, around 17 million people out of a total population estimated at 19 million in 1957, the document referred to the subsistence agriculture and cattle breeding of the peasantry as “**obsolete forms of economy**” whose degree of integration into the various branches of the economy has been relatively low. It then posits that the growth of Ethiopian agriculture should be geared in manner where the monetized contribution of the sector could be augmented through

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the establishment and consolidation of an urban and industrialized economy that creates a higher monetary demand and a strong incentive to agricultural production. In short, industrialization became an overarching development agendum in the FFYP that was also thought to trigger, monetize and integrate agriculture.

The industry first doctrine was aimed at protecting industry, viewing agriculture as instrumental to the industrialization effort, without due policy concern given to increasing agricultural output. On the other hand, it was expected that the sector would supply the industrial sector with industrial crops, wage goods, export crops and capital. This, apparently contradictory, policy of neglect and, at the same time, expectation, as expressed in the plan documents, suggests that the development strategy, from the very beginning, emphasized only the instrumental role of agriculture in supporting the industrialization process. It is clear that if you neglect agriculture it does not remain invariant. This consistent demand for resources from agriculture, without concomitant investment in it, has led to a situation characterized by a pronounced imbalance between agriculture and industry.

During the first five-year plan period, while industrial output doubled, agricultural output increased by only 11 percent. This translates into an annual growth rate of 18.9 percent per annum, for industry and 2.6 percent for agriculture. Naturally, this created an imbalance between the demand for agricultural output and agricultural supply. Indeed, it was formally acknowledged that “cereal production could not meet the growing demand of the population” and the government was forced to import grains. This imbalance quickly drew the attention of the government and planner in the sense that something had to be done, in relation to agriculture, before the industrialization process was arrested. How exactly agriculture adjusted to the requirement made by the industrialization process is reflected in the evolution of the policy pursued in the country.

Two policies and strategies were employed to increase agricultural productivity: extending the surface land used for cultivation (extensification) and increasing labor productivity on the cultivated farm fields (intensification). The rationale for the former is the fact that a large portion of Ethiopia’s arable land was not utilized yet and the government was leasing huge tracts of land

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for foreign and local investors in order to promote large scale commercial farms. A daunting task however was to transform the small holder subsistence agriculture where inefficient and traditional implements and farming techniques were used by farmers to fend mainly for household consumption.

To intensify productivity on these holdings, the government endorsed the development of agricultural extension services that capitalized mainly on the provision of improved farming implements (iron ploughs, harrows, rollers, improves sickles, scythes, wooden rakes, hay forks etc), the popularization and distribution of improved seeds and the instruction of modern farming techniques to peasants. Again small holder agriculture was deemed to increase yield of marketable crops and industrial raw materials. Despite the FFYP's aspirations to monetize and integrate agriculture with an industrial economy, through the promotion of large-scale commercial farms, the country could not even meet the growing consumption demand of its people.

To conclude, it would be safe to assert that the monetization of the economy through rapid industrialization was an imperative commanding the heights of economic planning in Imperial Ethiopia. Agricultural development was relegated to a level where it is seen as a tributary sector feeding industrial raw materials and redundant labor to an urban industrialized metropolis. The sectoral policies therefore favored the establishment and expansion of large scale commercial farms at the expense of small holder peasant agriculture that employed more than two thirds of the economically active labor force.

B. Phase II: The Second Five Year Plan (1963-67) began acknowledging that the country has then become an importer of wheat (45000 tons in 1960) instead of being an exporter. The failure was partly said to be caused by the neglect or lack of attention given to the small holders' peasant agriculture. The remedy envisaged increasing production and filling the food deficit (in the SFYP) was again the agricultural extension service whose objectives were to introduce advanced methods of farming and improved technical means in the peasant sector of the economy. The SFYP to the planners' credit has also stated why the shift to promote and

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transform the peasantry was then viewed as indispensable. First, because the livelihood of the majority of the people is exclusively based on peasant agriculture, attention should be given to this subsection of the economy. Secondly, the national and political consciousness of the peasantry would have an important bearing not only on the development but also on the entire prospect of the country.

The main objective of the second five year plan was to speed up the industrialization process and treble industrial output within five years. The government and planners had anticipated that there would be an urgent requirement for resources to be released from agriculture. On the other hand, further agriculture-industry imbalance was anticipated. Indeed, the Government explicitly acknowledged that “the production targets cannot be fulfilled by the subsistence sector,” and hence that “large-scale and mechanized agricultural undertakings have to be established”.

The same thing was true in the preparation of the third-five year plan. A point of departure for the planners of the third five-year plan was, because there is no quick solution to the peasant problem, and because only a modest growth of output from peasant agriculture can be expected in the five years ahead, there is a simultaneous need to develop modern commercial agriculture. This activity provides considerable opportunity for a rapid production increase, and immediate impact on the entire economy, if given the required allocation of capital and expertise. The rapid development of commercial agriculture is the only way to get the relatively quick increase needed in agricultural exports. It is from this sector that the rapid gains are expected in output and availability of surpluses, both for consumption domestically, particularly in the cities and towns as well as for export.

Therefore, one might reasonably argue that the important variable in the plan was the marketed surplus, and not total agricultural output per se. The traditional and technologically limited nature of peasant agriculture was used as an excuse for its continued neglect from the mainstream development process, notwithstanding the fact that this type of farming accounted for 93 percent of agricultural production.

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The document was also a pioneer to formally recognize that the feudal land tenure system was one major obstacle against the development of agriculture. While airing these problems as challenges lying ahead of the Ethiopian economy and politics, it however reiterated that “large scale farming is the right way to develop Ethiopian agriculture.” And to the latter end, more than 50% (estimated at 128 million Ethiopian Birr) of the total monetary investment in agriculture (estimated at 242 million Ethiopian Birr) was allocated, attesting that there was not any genuine political commitment on the part of the Imperial regime to address the challenges facing peasant agriculture.

C. Phase III: This referred to the Third Five Year Plan (1968-73) that reported about the remarkable increase in the per capita production of the non-agricultural sectors (at an average rate of 7.5 %). Agriculture, however, was mentioned to have lagged behind whose repercussions would threaten the progress in the other sectors as well. It is argued that an accelerated development of agriculture would have an output contribution by supplying industrial raw materials to the emerging manufacturing sectors, a factor contribution releasing surplus and disguised labor to the other sectors, and a market contribution where peasants consume processed goods and services.

In a similar vein, the policy identified two major problems in Ethiopian agriculture which were the problem of production and the problem of the peasantry. The latter was referring to the prevailing landlord tenant tenure system that had strangled the development of peasant agriculture as one structural impediment. The monarchy and feudal aristocracy then had either ownership (*Rist* and *Rist gult* arrangements) or usufruct rights (*Gult*) over land and used to lease out land to tenants often on a sharecropping basis. The former predated on the fruits of the farmer’s labor as the lion share (often more than two third) of what peasants or tenants produced was expropriated by the land lords. It is stated in the TFYP that the existing tenure system availed neither the means (owing to meager tenant capital) nor the motives (owing to tenant insecurity) for increasing output. Stressing the urgency to execute land reform it stated, the immediate concern of land reform is to overcome the apathy, of the agricultural population caused by traditional inequitable land tenure patterns, concentration of land ownership in a small

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group, insecurity of tenure, and exorbitant rate share cropping arrangements. Accordingly a draft proclamation was presented to the Parliament that discussed the problems related to the existing land tenure system and suggested motions on how to reform certain aspects of it i.e. matters related to tenant landlord contracts, terms of lease, and tenure security. The draft document was rejected by the majority of the members of parliament who used to have huge tracts of land and felt threatened by these modest technical and less radical suggestions of the draft document. The monarchy and its old guard feudal entourage were unwilling to take practical legislative as well as executive measures to deal with land tenure issue.

The TFYP also came up with a more explicit and well thought strategy to modernize peasant agriculture through the allocation of financial and human resources to areas that were defined as promising like Chilalo in Arsi province, Wolayita in Sidamo province and the Southern livestock regions. This strategy of concentrating development efforts in selected areas was called the Minimum Package Program I.

The Chilalo Agricultural Development Unit (CADU) in Arsi was the first project that the new package kicked off with followed by the Wolayita Agricultural Development Unit (WADU) and the Adda District Development Program (ADDP) launched in 1967, 1970, and 1972 respectively. The package program was essentially in the Ethiopian version of the Green Revolution characterized by the synergetic adoption of modern high yield varieties, chemical nutrients, pesticides and irrigation as well as extension services. The projects saw to it that they engage with small holding tenants, mainly with holdings of 20 hectares or less so as to increase yield productivity, create employment opportunities and bridge the income disparities between peasants and the remaining section of the population. Such promising initiatives were nonetheless proved to be too costly in terms of manpower and financial resources. They also got entangled in a number of organizational as well as structural (political) problems. In CADU's case for instance, the integrated nature of the project brought a challenge on how to coordinate the various stakeholders (local administrative structures, the project office, the Ministry of Agriculture, the Agro Industrial Bank of Ethiopia, Highway Authority etc). Landlords deeply resented and were suspicious of the project's effort to address and communicate with their

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tenants. On the other hand, the feudal lords were eager to beat the system and capture the gains of the Minimum Package Program (MPP) using their local social networks and bureaucratic machinations. The consequences were a sharp decline in agricultural productivity, increased national dependence on food imports and the 1973/74 famine that took heavy tolls of lives in Wollo and Tigray provinces and ultimately led to the downfall of the Imperial regime.

In general, the imperial regime used to draw foreign and domestic entrepreneurs to invest in commercial farms through a package that leases out land with symbolic rent expenditure, exempts investment equipments from custom duties, allows free remittance of profits, and the provision of credits under favorable conditions. In contrast little attention was given to peasant agriculture up until the endorsement of the TFYP that elucidated the weight of agricultural development in the Ethiopian context, attempted to deal with structural problems like the land tenure issue, and led to the package program. Project initiatives like CADU however were not success stories as they were costly and not placed in an ideal situation. Problems faced by the Ethiopian green revolution ranged from technical and organizational hiccups to more structural problems pervasive and inimical in the system i.e. serfdom and tenure insecurity.

2.4. The Role of the Imperial Government in the Economy

The imperial government presided over what was, even in the mid-twentieth century, essentially a feudal economy with aristocrats and the church owning most arable land and tenant farmers who paid very high rents making up the majority of the nation's agriculturalists. Acting primarily through the Ministry of Finance, the emperor used fiscal and monetary strategies to direct the local economy. The various ministries, although not always effective, played a key role in developing and implementing programs. The government conducted negotiations with the ministries to allocate resources for plan priorities.

Officials formulated actual operations however, without adhering to plan priorities. This problem developed partly because the relationship between the Planning Commission, responsible for formulating national objectives and priorities, and the Ministry of Finance, responsible for resource planning and management, was not clearly defined. The Ministry of Finance often played a pivotal role, whereas the Planning Commission was relegated to a minor role. Often the

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Planning Commission was perceived as merely another bureaucratic layer. The ultimate power to approve budgets and programs rested with the emperor, although the Council of Ministers had the opportunity to review plans.

2.5. Land Tenure System of the Imperial Period

The question of land tenure has been a pivotal and sensitive political issue in contemporary history of Ethiopia. This was apparent, especially, in the South during the pre-1975 Land Reform period. Following Emperor Menelik government's conquest and incorporation of the southern territories, there emerged a situation whereby large portion of arable lands were confiscated from the indigenous peoples and allotted to a handful northern landlords and political elites to the neglect of land rights of the majority of the local population. Emperor Haile Selassie preserved Menelik's tenure policy. The fact that government policies favoured and encouraged landlordism exposed the peasants of the South to landlessness, exploitation, and oppression in several ways. The Ethiopian empire accommodated a land tenure system that is described as one of the most complex compilations of different land use systems in Africa.

The tenure system can be understood in a rudimentary way if one examines it in the context of the basic distinction between land ownership patterns in the north and those in the south. Historically, Ethiopia was divided into the northern highlands, which constituted the core of the old Christian kingdom, and the Southern highlands, most of which were brought under imperial rule by conquest. This north-south distinction was reflected in land tenure differences. In general, the land tenure of the imperial regimes in Ethiopia was classified as:

Rist: Communal land

Gult: Grant land

Gebar: freehold or sometimes referred to as private

Samon: Church owned land

Maderia or Mengist: State controlled land

Unfortunately, there is no comprehensive and commonly accepted definition of these different types of land tenure. Therefore, these ambiguous traditional terms (*rist*, *gult*, and *gebbar*) could have different meaning in different localities.

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A. Rist Tenure: usufruct and private ownership rights for cultivable land were recognized under the feudal system that was in place until 1975 when the imperial rule of Haile Selassie ended. It was a kind of corporate ownership system based on descent that granted usufruct rights – the right to appropriate the return from the land. By birth right, both male and female descendants could substantiate and claim their use rights to a portion of arable land.

The land was owned by the lineage or community rather than the individual, who was entitled to rent his or her use-rights but could not mortgage, sell, or give the land away. Individuals had the rights to the land by virtue of their blood ties to the founding fathers. For instance, *wana abbat* in Gojjam and *nay kidm aboy* or *akni abbat* in Tigray. In the Northern provinces particularly in Gojam, Gonder, Tigray, parts of Wello, have different meaning in different localities. Rist was hereditary, inalienable, and inviolable. No user of any piece of land could sell his or her share outside the family or mortgage or bequeath his or her share as a gift, as the land belonged not to the individual but to the descent group. Most peasants in the northern highlands held at least some rist land, but there were some members belonging to minority ethnic groups who were tenant farmers.

Rist rights were conditional upon payment of taxes or fulfillment of obligations to the family or community, who retained secondary rights to an individual's holdings, such as access to use or gather water, trees, or fodder. Claims to land were usually accepted or rejected by the representative of the *Rist* Corporation who consulted other members of the kinship group. The number and sizes of families varied over time, and in many localities redistribution of land within the kinship group occurred regularly. *Rist* rules aimed at maintaining continuity in the possession of land to both individually operated and a clan land. This is because land was a common property of the village community and not a private property of an individual.

Rist is burdened with some ambiguity in the literature. It is usually conceptualized as a genuine Abyssinian collective land tenure system. Therefore, it refers to *rist* as a variant of communal land tenure in Ethiopia. Even though the *rist* system provided for general tenure security, it granted only very insecure property rights to a particular plot of land. It continuously endangered

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the security of an individual's effective rights to use a specific plot of land and encouraged fragmentation and successive reduction in individual plot size. At the same time, it sustained and privileged the majority of the rural peasantry with direct access to land through its distributive role and guaranteed that the bulk of the land was under peasant control.

B, Gult Tenure: was a form of private ownership, prevailed mainly in the southern regions, consisting of large holdings granted by the Emperor or provincial authorities. In the northern part of Ethiopia, *gult* holders were largely an aristocratic group, whereas in the southern periphery, it was civil and military servants of the imperial regime who had received *gult* rights as compensation for their services. *Gult* rights were also vested organizations, in particular the Orthodox Church. Even though most scholars consider *gult* to be a right to land, it has also been characterized as a right to the manpower of the peasants living on the land. Owners were entitled to collect taxes or labor service from tenant farmers, some of whom had been cultivating the same land under customary or community property rights.

Gult rights were often provided in lieu of salaries to imperial officials and soldiers. The *gult* system was characterized by greatly concentrated landholdings and absentee ownership, political patronage, and widespread share-cropping under penurious terms. Owners could lease, sell, or mortgage land while tenants were subject to numerous restrictions, steep taxes, mandatory labor services and arbitrary eviction. In *gult* system, an ownership right acquired from the monarch or from provincial rulers who were empowered to make land grants. Until the government instituted salaries in the twentieth century, *gult* rights were the typical form of compensation for an official. For this reason, *gult* was usually linked to an office, and while the *gult* lords had a number of duties towards the crown such as administration, maintenance of security in the region, and military services. They also had the right to oversee other administrative personnel in the granted area. *Gult* rights were not inheritable or not necessarily hereditary and since formal land ownership was vested in the state, the *gult right* could be withdrawn by the crown at any time, although this did not happen frequently. However, many local *gult* holders (local nobles) were at the same time *rist* holders. All *gult* rights were abolished by the Derg and tenants were entitled to claim the lands that were not reallocated as state farms.

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C. Gebbar or Private Property Rights: There is some confusion in the literature regarding the meaning of the terms *gebbar* and the existence of private property rights during the imperial rule. Prior to an administrative reform in 1941, the term *gebbar* - which existed in the center but was then transferred to the conquered South was characterized tribute paying peasants who were controlled by *gult* lords or local elites (*balabbat*) and suffered from burdensome tributes and services to be delivered to these authorities.

There are two processes that led to the emergence of private property in Ethiopia.

- ✓ First, after the return of Emperor Haile Selassie from exile in 1942, land tenure (what is referred to as 'freehold') was granted to selected individuals such as soldiers and civilian victims of the Italian occupation.
- ✓ Second, a tax reform in 1941 defined the land for which tax had been paid to the government as the property of the taxpayer.

As a consequence, tax paying *gebbar*s became the legal owners of their land. The term *gebbar* was henceforth used to refer to private property during the Ethiopian Empire. All land for which no tax had been paid to the government (or put differently - land for which land lords had pocketed tax payments made by farmers, instead of forwarding it to the government), was converted into government land thereby depriving pastoralists of their communal rights. This tax reform limited the influence of the local landlords and abolished all *gult* and *rist gult* rights, including those of the Orthodox Church.

The farmers therefore were no longer required to pay tribute to the local overlords, but directly to the representatives of the Ethiopian crown. The tax reform increased tenure security, in particular for *rist* rights holders in the North who had paid land tax and at the same time improved the situation of a class of taxpaying peasants in the South.

Overall, these reforms, even though poorly implemented, meant the juridical recognition of some kind of private property rights for individual rights holders, including ownership rights. However, many peasants had, under the tribute system imposed on them, lost their land or had lived on the land of the new class of tax paying *gebbar* owners. In addition, many landlords had

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registered formally as taxpayers and thereby deprived those farmers of their land rights. These farmers then became tenants who practiced share cropping.

Share cropping demanded from the tenant to deliver a large share of up to half of the produce to the landlords to maintain the right to use the land for subsistence production. The tenant was also subject to arbitrary demands for gifts and labor services. Some authors' state that share cropping relations differed between the Norths as the contracts had been of less exploitative character than in the South.

D. *Samon*: was a lands granted by the Emperor to the Ethiopian Orthodox Church, which held an estimated 10–20% of all arable land; tenant farmers on these lands also provided tribute or labor in exchange for use rights. The government had granted to the Ethiopian Orthodox Church in perpetuity. Traditionally, the church had claimed about one-third of Ethiopia's land; however, actual ownership probably never reached this figure. Estimates of church holdings range from 10 to 20 percent of the country's cultivated land. Peasants who worked on church land paid tribute to the church (or monastery) rather than to the emperor. The church lost all its land after the 1974 revolution of the Derg.

E. *Maderia or Mengist*: was a land registered as government property and stayed under the control of the government itself. *Maderia* was a land granted mainly to government officials, war veterans, and other patriots in the name of a pension or salary. Although it granted *maderia* land for life, the state possessed a reversionary right over all land grants. Government land comprised about 12 percent of the country's agricultural land.

Comparing with Southern, landlordism in the northern Ethiopia was rare and landless tenants were few. For instance, tenancy in Begemdir and in Gojam was estimated at about 2 percent of holdings. In the southern provinces, however, few farmers owned the land on which they worked. Southern landownership patterns developed as a result of land measurement and land grants following the Ethiopian conquest of the region in the late nineteenth and early twentieth century's. After conquest, officials divided southern land equally among the state, the church,

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and the indigenous population. Warlords who administered the occupied regions received the state's share. They, in turn, redistributed part of their share to their officers and soldiers.

The government distributed the church's share among the church hierarchy in the same manner. Officials divided the rest between the traditional leaders (balabats) and the indigenous people. Thus, the loss of two-thirds of the land to the new landlords and the church made many local people tenants (gebbars). Tenancy in the southern provinces ranged between 65 and 80 percent of the holdings, and tenant payments to landowners averaged as high as 50 percent of the produce. In the northern and southern parts of Ethiopia, peasant farmers lacked the means to improve production because of the fragmentation of holdings, a lack of credit, and the absence of modern facilities. Particularly in the south, the insecurity of tenure and high rents killed the peasants' incentive to improve production.

By the mid-1960s, many sectors of Ethiopian society favored land reform. University students led the land reform movement and campaigned against the government's reluctance to introduce land reform programs and the lack of commitment to integrated rural development.

In general, the Ethiopian land tenure system during the emperors' rule was dominated by drastic power imbalances between landlords and peasantry. Land policy was used in as an instrument of "divide-and-rule" at the disposal of the emperors (and the nobility). The Emperor reserved the sovereign right over all land with the authority to grant and withdraw land rights at all levels, and this right was exercised to keep a retinue of war lords, governors, and nobles personally obliged to the emperor.

CHAPTER THREE

DEVELOPMENT ISSUES, POLICIES AND STRATEGIES DURING THE DERGUE REGIME

3.1. Introduction

The revolution in 1974 ultimately resulted in removal of the emperor from power. In September 1974 Provisional Military Administrative Council (PMAC) also called Derg, was established by popular revolution. The period of transition was characterized by political upheavals, instability and terror unfolding in the struggle between rival political forces to control power and the state machinery. Nevertheless the Military cabal declared Ethiopian socialism on December 20, 1974 as the ideology instituting a new social and economic order in Ethiopia. Ethiopian socialism acceded to the Marxist Leninist stance about the exploitation of mankind through the private ownership of the means of production, one of its primary goals being the elimination of exploitation through ownership and control of the major means of production. Beginnings made to promote the development of peasant agriculture were further pronounced following the overthrow of the old feudal order and the ascendancy of a Military Marxist junta to power.

After the revolution, the government's role in determining economic policies changed dramatically and a number of policy measures were undertaken. The major step taken was launching the development objective declaration on December 1974 **socialism as the guiding ideology** of the country, economic system where market forces were deliberately repressed and socialization of the production and distribution process pursued vigorously. This declaration was further clarified and strengthened by the declaration on **Economic Policy Socialist Ethiopia** of February 1975. The justification articulated during Dergue period, though falling under a classical spirit of development theories, was of a non-capitalist development path to socialism. This is under the classical spirit of development theories because the most important factor to socialist development was the development of the productive forces which mature by way of the rapid industrialisation process, and which are capable of transforming peasants into proletariat. And it was a non-capitalist development path to socialism because of the revolution embarked

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upon within the context of a backward agrarian and feudal mode of production, with the state taking a leading role. The essence of the economic policy was to delineate and indicates economic sectors and activities where the state sector, private sector and foreign capital could invest and operate in the country's economic development.

The 1974 revolution also resulted in the nationalization and restructuring of the Ethiopian economy. Restructuring the economy along socialist lines and achieving sustained economic growth was the two major economic objectives of the Provisional Military Pursuit of the military regime's Administrative Council when it assumed power in 1974. After the 1974 revolution, the pace of economic restructuring was accelerated by a barrage of legislation. A key part of the effort to reshape the economy was the implementation of Africa's most ambitious land reform program, which included nationalization of both rural and urban land. The land reform proclamation of March 1975 made all rural lands the collective property of Ethiopian people. This proclamation terminated the feudal relations of agricultural production of the Imperial regimes of Ethiopia. This proclamation also launched the formation of Peasant Associations (PAs) in rural Ethiopia.

The other measure taken during the first year of the Derg regime was nationalization of urban land and extra houses on July 26, 1975. The urban land proclamation allowed each family to retain only one dwelling for its occupation and transferred all rented houses to the state. The proclamation also launched for the establishment of Urban Dwellers Association (Kebeles). The kebeles were responsible to administer rent houses whose rent is below 100 birr per month and serves as basic units for urban administration and carry out political and local development functions. Most of Ethiopia's industries, large-scale agricultural farms, and financial institutions, banks, insurance companies, industrial and commercial firms were nationalized and brought under the control of the government, and both rural and urban communities were organized into a hierarchy of associations.

3.2. Land Policy of the Derg Regime

On 4 March 1975, the Provisional Military Administrative Council known as the *derg* announced an agrarian reform program known as Proclamation No. 31/1975 Proclamation to provide for the Public Ownership of Rural Lands. This proclamation declared all rural land to be the property of the state without any compensation to previous rights holders and prohibited all tenancy relations. The program was implemented almost everywhere, and its impact was far-reaching in most settled farming areas. Under the program all customary and other pre-existing land rights were extinguished and all land was declared to be public property. Individual households could farm up to 10 hectares of land (in practice this was often less than 3 hectares), but had only usufruct right over the land they cultivated, a right they could not transfer by sale, lease, mortgage, gift, or inheritance.

The land was subject to periodic reallocations by peasant associations to balance inequalities or to accommodate new claimants. It was also subject to reallocation by agents of the party, which after 1984 came to play an increasingly prominent role in rural policy implementation, to make way for or promote socialist programs. The reform also abolished tenancy, agricultural wage labor, and other forms of peasant dependency on the landed classes. Large holdings were confiscated and turned into state farms, settlement schemes, or cooperatives. The land reform policy of Derg regime was the major success history that earned credit to the socialist government and praised by the masses, except the feudal land lords, royal families and their associates.

The Proclamation provided the legal basis for the distribution of usufruct rights to a large number of rural families who had been working under exploitative tenancy contracts for a small group of landlords. The reform hence implemented the “*land to the tiller*” approach that was popular in the 1970s.

The *Derg* justified the land reform program on two principles:

historical justice: to overcome the exploitative character of imperial agrarian relations; and

Justice as egalitarianism: providing each farm family with equal access to cultivation land according to their needs.

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The Proclamation made a number of provisions. Farmers were not allowed to transfer their usufruct rights by sale, mortgage, or lease, and bequeathing of allocated usufruct rights was limited to primary family members like spouse and children upon death of the rights holder. The plot size per family was restricted to a maximum of 10 hectares, and the use of hired agricultural labor was prohibited. The reform was the first uniform tenure system imposed upon Ethiopia as a whole. Considering the difference in agrarian relations that had existed in the North and South of Ethiopia prior to the reform, the changes were more radical for tenant cultivators (and landlords) in the South than for *rist* rights holders in the North. In the *rist* system, land distribution had already been relatively egalitarian.

The *derg* brought about major changes in organizational structures and institutions in order to implement “agrarian socialism” including the quest for collectivization of small-scale farms and the establishment of state farms. The state thereby effectively abolished the remains of traditional institutions of *rist* and *gult*, and took over the control to distribute access to land through Peasant Associations (PA). Membership in Peasant Associations was established as the central element of the state’s rural bureaucracy and became obligatory for all farmers. The leadership of the Peasant Associations was entitled to expropriate land from the landholders and distribute it equally among its members, which made the collectivity of the members of the Peasant Association proprietors of the land.

Towards the end of the 1970s, the *derg* intensified the collectivization program with the promotion of Agricultural Producer Cooperatives (APC) and the establishment of large-scale state farms. APC were to be formed by members of a Peasant Association by pooling their land, draught animals, and farm implements.

The head of the cooperative automatically became the head of the Peasant Association and thereby could exert substantial political control and power over all association members. Officially, peasants should enter APCs at their free will but some authors report more forceful implementation of cooperatives. In retrospect, land reform had positive as well as negative effects. On the positive side, land reform abolished large-scale and absentee landlordism and the

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exploitation of the peasantry by the landed classes. It redistributed available assets to the peasantry on a relatively equitable basis. To a large extent it gave land and community membership to former slaves and artisans who had previously occupied a socially and economically marginal status. Land reform also gave rise to a uniformity of rural administration and land tenure throughout the country (the areas in the periphery may be exceptions), thus doing away with the complexity of tenure arrangements.

On the negative side, the agrarian reform program had several shortcomings. (1) It forced peasants to engage in periodic redistribution of land to accommodate new claimants and new members of peasant associations with a net effect of leveling down and diminishing individual possessions. (2) Repeated redistribution gave rise to and exacerbated tenure insecurity among peasant households. This is perhaps the most damaging aspect of the reform. (3) The socialization policies of the Derg pursued with great haste and without peasant consent further heightened peasant insecurity and led to loss of incentives for land improvements or increased effort. (4) The extractive programs of the Derg impoverished peasant households and extended and deepened rural poverty.

3.3. Rural Institutions

Supportive role of the rural institutions created in the process of the revolution, namely, peasant associations (PAs), producer's cooperatives (PCs), and service cooperatives. These institutions were established both to replace earlier rural institutions which were seen as exploitative and reactionary and to support the government's ambitious program of rural transformation that went well beyond land tenure reform.

3.3.1. Formation of Rural Peasant Associations

During its thirteen year existence (1974 to 1987), the Dergue worked to spread administrative reform down to the lowest echelons of regional administration. To this end, it took several important steps in 1975. With its Land Reform Proclamation in March 1975, the Derg abolished the lowest level of rural administration of the imperial regime that is the *balabat*, and called for

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the formation of peasant associations that would be responsible for the implementation and enforcement of the land reform measures. The proclamation has also stipulated the formation of Peasant Associations within a minimum of 800 hectare, emerging as the lowest tier of local administration in rural Ethiopia.

Later in the year, the Derg issued Proclamation No. 71, which gave peasant associations legal status and authorized them to create conditions facilitating the complete destruction of the feudal order. It also empowered the associations' executive committees to draft internal regulations that would, in theory, devolve more power to local communities. These associations were to be guided initially by students in the Development Through Cooperation Campaign (commonly referred to as *Hibret Lelimat zemecha*), who were expected to teach peasants about the revolution's goals. Students were also supposed to help local communities plan and implement development programs in their areas.

Initially, it was not clear how much power, authority, or autonomy the regime intended to devolve to local institutions. Consequently, state agents often came into conflict with local organizations under the guidance of students who were often more radical and politically smart than government functionaries. By 1990 there were more than 20,000 peasant associations throughout the country. They represented the lowest level of government administration and, in collaboration with the local Workers Party of Ethiopia (WPE) office, were responsible for processing and interpreting national policies, maintaining law and order, and planning and implementing certain local development policies. State control grew further in 1975 when the Derg promoted the formation of the All Ethiopia Peasants' Association (AEPA), a national association having district offices responsible for overseeing the activities of local associations. Before the WPE's formation, AEPA district representatives exercised supervisory powers over the associations under their jurisdiction.

3.4. Formation of Urban Kebeles

In July 1975, the Derg issued Proclamation No. 47, which established kebeles, or urban dwellers' associations in Addis Ababa and five other urban centers. In Addis Ababa there were 291 kebeles possessed neighborhood constituencies ranging from 3,000 to 12,000 residents each. Like the peasant associations in the countryside, the kebeles were initially responsible only for the collection of rent, the establishment of local judicial tribunals, and the provision of basic health, education, and other social services in their neighborhoods. Kebele powers were expanded in late 1976 to include the collection of local taxes and the registration of houses, residents, births, deaths, and marriages. In April 1981, the Derg issued Proclamation No. 25, which provided kebeles with extended powers and a more elaborate administrative structure. According to this new structure, the general assembly composed of all kebele residents, was empowered to elect a policy committee, which in turn was authorized to appoint the executive committee, the revolution defense committee, and the judicial tribunal. At the time of this proclamation, there were 1,260 kebeles in 315 towns. Similar to the countryside, the WPE in urban kebeles had also become the most important political institution, capable of overriding decisions taken by kebeles.

3.5. Rural Programs of the Dergue Government

In 1984 the founding congress of the Workers' Party of Ethiopia (WPE) emphasized the need for a coordinated strategy based on socialist principles to accelerate agricultural development. To implement this strategy, the government relied on peasant associations and rural development, cooperatives and state farms, resettlement and villagization, increased food production, and a new marketing policy.

i. Resettlement Policy: Shortly after the 1974 revolution, the Derg government launched a policy to accelerate resettlement programs. Article 18 of the 1975 Land Reform Proclamation stated that the government shall have the responsibility to settle peasants or to establish cottage industries to accommodate those who, as a result of distribution of land, remain with little or no land. Accordingly, in 1975/76 there were eighty-eight settlement centers accommodating 38,818

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households. The government conducted most of these resettlement programs under the auspices of the Relief and Rehabilitation Commission (RRC) and the Ministry of Agriculture. The settlements were concentrated mainly in the south and southwest. In 1984 the government announced its intention to resettle 1.5 million people from the drought affected northern regions to the south and southwest, where arable land was plentiful. By 1986 the government had resettled more than 600,000 people to three settlement areas. More than 250,000 went to Wellega; about 150,000 settled in the Gambela area of Ilubabor; and just over 100,000 went to Pawe, the largest planned resettlement in Gojam and largely sustained by Italian financial support. In addition, another 78,000 went to Kefa, Shewa, and western Gonder.

The Derg's policies appear to have been driven more by political imperatives than by perceived economic objectives. A case in point was the controversial policy of resettling the victims of the drought and famine outside their home areas. The government claimed that it was carrying out the program for humanitarian reasons, contending that it would remove the people from exhausted and unproductive land and place them in settlements with rich agricultural potential. In addition, the government argued that the new settlements would greatly facilitate its efforts to provide social services. Initially, settlers were chosen from feeding centers in Wello, Tigray, and northern Shewa and transported by trucks, buses, and cargo aircraft to resettlement sites in Kefa, Gojam, Gonder, Welega, and Ilubabor.

The government was poorly prepared for the operation, and the first settlers experienced tremendous hardships in alien, underdeveloped, and disease infested areas. Some peasants moved voluntarily, but many more were forced to move. Many of those forcibly resettled were able to escape. Some fled into Sudan or Somalia, and others took shelter in refugee camps or walked thousands of miles to reenter their native regions. Still others joined opposition groups dedicated to overthrowing the regime. Those who remained in resettled areas were often resented by the local residents, many of whom had been impressed into building community infrastructure and donating materials.

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Some critics rejected the government's argument that resettlement was driven by humanitarian considerations. Instead, they contended that the government's motives were political. It is argued by some scholars that his policy led to a depopulation of areas that harbored groups that militarily opposed the regime, such as the Eritrean People's Liberation Front (EPLF), the Tigray People's Liberation Front (TPLF), and the Oromo Liberation Front (OLF). Critics within the international community charged that the Ethiopian government's resettlement program served as an obstacle to dealing more effectively with the problems of drought and famine relief. Moving victims to settlements far from their home areas merely made them inordinately dependent on the government. In addition, they claimed that fundamental human rights were sacrificed in the name of political expediency.

Regardless of the real motive for the resettlement policy, its net effect was to increase government control over large segments of society. In each resettlement site, Workers Party of Ethiopia (WPE) members carried out political education and attempted to stimulate the population to be more productive. The government insisted that it was not trying to enforce collectivized agricultural production but rather was trying to encourage more efficient activities. However, in actual practice, members of WPE pressured peasants to form collectives. The main value of this policy for the regime seems to have been the political control it promised.

ii. Villagization Program: In 1985 the government initiated a new relocation program known as villagization. The objectives of the program, which grouped scattered farming communities throughout the country into small village clusters, were to promote rational land use; conserve resources; provide access to clean water and to health and education services; and strengthen security. The idea of clustering villages was introduced in the Land Reform Proclamation of 1975; however, there was no immediate effort to implement such a policy on a large scale. The first area to become the object of serious government efforts was Bale, following the onset of the Ogaden War of 1977-78. At that time, ethnic Somali and Oromo living in Bale were forced by the Ethiopian government into strategically clustered villages. The official objective of the move was to provide social services more efficiently and to stimulate voluntary self-help among villagers.

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The government did not introduce a comprehensive villagization plan until 1985. In January of that year, the villagization process began in serious in Harerge, and by May there were some 2,000 villagized communities there. That summer, the process was begun in Shewa and Arsi, and in 1986 small-scale villagization efforts were begun in Gojam, Welega, Kefa, Sidamo, and Ilubabor. The National Villagization Coordinating Committee of the Ministry of Agriculture, in collaboration with the WPE, organized and managed the project. The long-term goal of the program was the movement of 33 million rural residents. By late 1989, about 13 million peasants had been villagized.

The WPE introduced guidelines for site selection, village layout, and related matters. At the regional level, a committee planned, coordinated, and monitored the program through a network of subcommittees (planning and programming; site selection and surveying; material procurement, transportation, and logistics; construction; propaganda and training; monitoring and evaluation; and security).

The villagization program was most successful in the central highlands and southern lowlands, regions such as central Shewa, Arsi, and highland Harerge that were firmly under government control. Government efforts to villagize parts of western Shewa, the Harerge lowlands, and Gojam met with resistance. In the case of Gojam and western Shewa, this resistance in large measure was attributed to the fact that the TPLF and the Ethiopian People's Democratic Movement (EPDM) were most active in those regions. The Harerghe lowlands were populated by ethnic Somali who were not as cooperative with the government as were the highlanders, who tended to be Oromo. But not all Oromo peasants readily supported the villagization program. Many fled from new villages in Harerge after 1986, taking refuge in camps in Somalia.

By June 1986, an estimated 50,000 such refugees had fled resettlement, mainly for political reasons. Some refugees complained that they were forced to abandon their traditional patterns of cultivation and to move into villages where they had to farm collectively and to participate in food for work programs. Private humanitarian agencies and bilateral and multilateral development agencies were apparently aware of alleged, as well as real, violations of human

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rights associated with the villagization program. On purely technical grounds, villagization, like resettlement, seemed to make sense. The official goal was to improve the access of rural residents to social services and to strengthen the ability of rural communities in defending themselves. Another motive, however, seemed to be the conversion of villagized communities into producers' cooperatives or collectives, as well as into centers for military recruitment.

iii. Cooperativization Program: Between 1978 and 1981, the Derg government issued a series of proclamations and directives outlining procedures for the formation of service cooperatives and producers' cooperatives. Service cooperatives provided basic services, such as the sale of farm inputs and consumer items that were often rationed the provision of loans, the education of peasant association members in socialist philosophy, and the promotion of cottage industries. The government provided a number of inducements to producers' cooperatives, including priority for credits, fertilizers, improved seed, and access to consumer items and building materials. According to the ten year plan, more than half of the country's cultivated land would be organized into producers' cooperatives by 1994.

3.6. Reform Measures and Policy Orientations of the Dergue Regime

The few years that followed the land reform witnessed the government consolidating its power from the center to the peripheries and mobilizing resistance against internal dissent and external aggression from Sudan and Somalia. The government then endorsed a program of **National Democratic Revolution** (1976) that served as an overarching policy document considered to guide the subsequent development of sectoral plans. Nationwide promotion of agricultural producer cooperatives, increasing centralization of rural administration, and the introduction of state control and the expansion of its role in the area of agricultural marketing became the order of the day. Subscribing to the socialist model of centralized economic planning, the Military government established a Central Planning Scheme Council in 1978 which was delegated to prepare annual development plans in line with the commitments of the National Democratic Revolution. Accordingly, a policy statement entitled as Measures for Rural Transformation was developed and disseminated by the then Ministry of Agriculture and Settlement in February 1978.

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Peasants were viewed as short term allies of the proletariat in the struggle, with agriculture viewed as a source of surplus to make industrialization possible. The social transformation (from peasantry to wage labour) and economic structural transformation (from agriculture to industry) of the classical concept may be considered as analogous to the transformation of the peasantry into proletariat, through the industrialization process.

Accordingly, the socialist regime embarked upon the six annual plans at economic recovery and reconstruction on a campaign basis (between 1979 and 1984) as well as a Ten Year Perspective Plan (from 1985 to 1994) as growth strategy. Six such campaigns were successfully launched, and the first three experienced noticeable growth rate of GDP owing to good weather, utilization of spare capacity in the manufacturing sector and successful mobilization of popular efforts in development activities. In the plan, it was clearly stated that agriculture would be the foundation of the economy, which had to finance the long-term industrialisation program, while industry continued to be the priority sector. Up until 1984 this body used to issue annual plans, *Zemetchas* in local parlance, which focused on the spatial and economic reorganization of the peasantry into producer and service cooperatives. Although the annual plans helped the regime deal with some urgent economic problems, such as shortages of food and consumer goods, decline in productivity, lack of foreign exchange, and rising unemployment, these plans failed to move the country significantly closer to attaining its long term development objectives.

3.7. The Ten Year Perspective Plan (TYPP) Objectives and Priorities

A steady decline in per capita agricultural output since 1981 and the government's determination to introduce central planning of the national economy prompted the replacement of the annual development campaigns with the Ten Year Perspective Plan (TYPP) in 1984, when drought and famine severely affected economic performance and a further decline of GDP by 6.7 percent in real terms was recorded in 1984/85. The military government launched a new ten year perspective plan, which represented a renewed commitment to economic growth and structural transformation of the economy. Derg drafted a Ten Year Perspective Plan (1984/5 - 1993/4) due to poor performance of the economy, attributed to:

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- ✓ The disruption of normal economic activity by the internal and external enemies of the revolution; low level of domestic saving which in turn fostered low level investment;
- ✓ Higher inflation;
- ✓ A negative trade balance with the decline of exports; and
- ✓ The higher growth of government expenditure

3.7.1. Objectives of the Ten Year Perspective Plan

The main objective of the TYPP was to realize self-sufficiency in food production by the end of the plan period. The TYPP envisaged an ambitious annual GDP growth rate of 6.5 percent, a 4.3 percent growth rate in agriculture, a structural transformation of the economy, and an allocation of 22.5 percent of government investment to agriculture. The strategy employed was to organize farmers in producer cooperatives and to expand large-scale state farms. To induce farmers to joining producer cooperatives, preferential treatment was to be accorded to the latter in terms of access to improved inputs and marketing of outputs. Specifically TYPP designed in,

- A. Improving gradually the material and cultural wellbeing of the people.
- B. Accelerating growth of the economy through the expansion of the country's productive capacity.
- C. Conserving, exploring and developing the natural resources of the country.
- D. Expanding and strengthening socialist production relations.
- E. Laying down the basis for the development of national science and technology capability.
- F. Alleviating social and unemployment problems gradually.
- G. Ensuring balanced and proportional development of all regions.

3.7.2. The Development Priorities of the Ten Year Perspective Plan (TYYP)

In terms of development priorities, the Ten Year Perspective Plan took the development of agriculture as the foundation of the country's economy and industry as the leading sector. Within agriculture, the Ten Year Perspective Plan gave priority to:

- A. Formation of peasant cooperatives and the expansion of agricultural extension services.

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- B. The expansion of irrigated farming.
- C. Raising the qualities of livestock through expanding veterinary services.
- D. Forestry development, soil and water conservation practices.

The document emphasized industrialization as second priority sector in TYPP, the motive power for achieving rapid economic development in the country and saw the role of agriculture as that of generating the financial surplus for the country's long term industrialization program. Accordingly, increased power generation as well as the expansion and exploitation of mineral resources were the other priority areas that were considered by the TYPP. The TYPP also took the development of science and technology as an area of focus with a view of increasing output and productivity in both the agricultural and industrial sectors, thereby creating domestic science and technology capacity. Another focus area of the TYPP was improving the lives of the nomadic population. The establishment of farm settlements and cattle raising cooperatives as well as locating development projects in border regions of the country to improve the wellbeing of the nomadic people.

When state farms were formally launched in May 1977, the main objectives were to alleviate the country's food problems, to produce raw material for the industrial sector, and to produce export crops in order to generate foreign exchange. The policy instruments adopted to achieve this objective gave preferential treatment to state farms and producer co-operatives against smallholding peasant agriculture, particularly in relation to the distribution of agricultural inputs, skilled manpower, credit allocation, interest rates, foreign exchange and the like. Later, however, it was realised that the produce of state farms was not sufficient to cope with the demands placed upon agriculture by the urban population and industrialization drive.

The main reason behind the neglect of peasant agriculture and prioritisation of resources to large-scale commercial farms was the perceived need to emphasise the marketable surplus to supply food to the urban population, as well as the production of industrial and export crops in support of industrialisation.

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For this reason, after the 1975 land reform, the Derg converted a majority of the estimated 75,000 hectares of large, commercial farms owned by individuals and cooperatives into state farms. The ten year plan indicated that state farms would be expanded to 468,000 hectares by 1994, accounting for 6.4 percent of the cultivated land. The primary motive for the expansion of state farms was the desire to reverse the drop in food production that has continued since the revolution.

Hence, once again the importance of a nexus between existing agricultural research institutions and farmers plots for adequate provision of improved seeds, fertilizers, new tools and modern agricultural techniques were stressed. Accordingly, CADU expanded to include two more Awrajas in the Arsi provinces namely Ticho and Arbagugu and was renamed as the Arsi Rural Development Unit (ARDU) program. There was a slight difference between these two as the former used the model farmer approach to disseminate inputs and techniques into the surrounding. Farmers living in an area roughly covering 800 hectares were asked to nominate five farmers one of which was selected by CADU to serve as a model farmer. The farmer's plot would also be used as a demonstration plot to others. Following the development of the Ten Years Perspective Plan, a new agricultural development program namely the Peasants Agricultural Development and Extension Program (PADEP) was introduced expected to run from May 1985 to 1990 but was delayed for other reasons.

3.8. Over all Challenges

Though the Wereda became the basic organizational unit to carry out the agricultural extension program with a staff that included one to four Development Agents (DAs), a cooperative agent, a home economics agent, book keepers, guards and gardeners, the concentration of personnel and offices at this level a gap between the agents and the farmers in the hinterland. Transport facilities were not made available for the agents that loosened contact, and hampered the progress of planned green revolution ventures. The few years that followed the land reform witnessed the government consolidating its power from the center to the peripheries and mobilizing resistance against internal dissent and external aggression from Sudan and Somalia. While the rural land reform that abolished feudal serfdom in Ethiopia and redistributed land to

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the tillers was highly commended by the peasantry, subsequent coercive drives to collectivize agriculture was met with skepticism and defiance. Those that resisted joining cooperatives were discriminated against in the allocation of rural land; in terms of access to agricultural inputs; and the prices they sell their grains to the government.

Investment in land and production were low under a nationalised agricultural marketing system with fixed prices, which incorporated a heavy transfer of advantage from rural to urban populations, and to the military. Agricultural produce and other resources began to be diverted to the informal sector, or to the increasing number of ethno-nationalist regional movements fighting the government, and its system of 'garrison socialism'. A small number of traders benefited from monopoly rents supplying goods and services to the state in a dysfunctional or 'non-market' context. Others made extravagant profits from cross border supply into non-government-held areas. Meanwhile, a hostile western international community supplied all but emergency aid through the international NGO sector, further decentralising control of associated rents.

The idea of collective farms was also not popular in the eyes of the independent minded peasants which were quite euphoric about the land redistribution. Many agree that there were other ulterior economic and political motives supposed to have underpinned the government's drive to collective farming and villagization. Some argued that agricultural surplus extraction, through the infamous Agricultural Marketing Corporation, has become quite easy for the government once collectivization was realized. On the other hand, Cooperatives and Peasant Associations were used by the regime as instruments of regimentation and political control over the peasant mass.

The government's attempts to collectivize peasant agriculture and bolster mechanized farming were not success stories. Collectivization restricted the democratic rights of the peasantry, both in political and economic terms. Party agents were purposely planted among the collectivized peasantry and Peasant Associations, not to help them increase productivity and develop the economy, but to control them politically in the rigid principles of socialist ideology and to curb their freedom. The government on the other hand was in favor of promoting mechanized state

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farms by way of increasing production both for consumption and marketing purposes. Resettlement and villagization caused a good deal of social disruption. Families usually were required to move from their traditional locations, close to their customary farming plots, into clustered villages where the land to be cultivated often was on fragmented plots far from the homestead.

The stress on large scale state farms was under attack by Western donors, who channeled their agricultural aid to the peasant sector. These donors maintained that experiences elsewhere in Africa and in Eastern Europe and the Soviet Union had shown that state farms were inefficient and a drain on scarce resources. Also, efforts to consolidate and expand mechanized state farms faced a number of technical, financial and managerial difficulties. Famine and the insidious civil war also ravaged the country's economy. The management was highly centralized and suffered from the lack of appropriate training in technical and managerial skills. The farms were also entangled in serious financial and administrative problems that hamstrung their efficiency and productivity. Financially speaking, state farms were over dependent on bank loans for both working capital and investment.

While the government was on the run to enforce these radical and wide scale measures, the economy in general and food availability in particular was declining at an exorbitant rate. The **Great Famine** (1984) was the logical zenith of the Ethiopian agrarian crisis. The happening shockingly jarred the whole wide world as the silent voices of the dying millions in Wollo and Tigre provinces were televised. The Famine was a multi dimensional crisis whose immediate cause was the recurrent drought that hit the Northern provinces of the country for three consecutive years.

Other factors that further compounded the problem were:

- ✓ The decline in soil fertility;
- ✓ Excessive division of farm land; and
- ✓ The unbridled increase of the rural population.

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A World Bank report identified the then most important agricultural policy problems constraining peasant farmers from adopting improved technologies, producing greater marketed output, and investing in agriculture as being (a) grain market regulation, including compulsory quota deliveries by producers to the government at below-free-market prices, (b) land tenure uncertainties, (c) subsidizing agricultural producer cooperatives, (d) poorly planned resettlement policy (e) the social upheaval and uncertainties caused by villagization of peasants (f) state farm development absorbing comparatively large resources with little positive economic impact.

Structurally speaking however, the famine was a stark proof of policy failure on the part of the Marxist military government. The recurrent drought and famine, ill-designed agricultural policies, substantial defense expenditures, stagnation of economic activities due to neglect of the peasant subsector, protracted civil war and loss of territories under government control and the consequent dwindling of revenues became characteristic of the military government, the cumulative result being weakening of its political power. Moreover, the country was embroiled in the civil war the Derg was waging against the TPLF and the EPLF in the North. More than 50% of the country's expenditures went for the army while less than 5% of the country's budget was spent on Agriculture. These culminated in the collapse of the military government in May 1991 and a subsequent formation of the Transitional Government of Ethiopia, led by the Ethiopian People's Revolutionary Democratic Front (EPRDF).

3.9. Economic Growth Performance during Dergue period

Ethiopian economic growth performance during the Derg regime was dismal. According to Geda (2001), growth decelerated to 2.3 percent (-0.4 percent in per capita terms) between 1974/75 and 1989/90. Growth was drastically asymmetrical because of its dependence on volatile agricultural sector and negative shocks from political instability, and inappropriate institutions.

Broadly speaking, the Dergue period from 1974 to 1991 saw four phases of slow economic growth or stagnation. During the first phase (1974-1978) uncertainty, instability and the war in the Ogaden brought growth to a halt, and the annual GDP increase down to 0.4%. With the reopening of nationalised plants and good rains, annual GDP growth rose to 5.7% during 1978-1980, only to collapse again as manufacturing took a downturn and agriculture went into crisis

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under the pressures of war, drought and a yawning fiscal deficit during 1980-85. Finally, the period 1985-1991 saw further stagnation, shortages of foreign currency and an escalating debt-service ratio. Overall, during the period 1974 to 1990, Ethiopian growth is estimated to have decelerated to an average of 2.3%, equivalent to -0.4% per capita growth, when population increase is factored in. The Derg regime's growth performance can be categorized in to four phases as discussed below.

The First Phase: The period of the revolution (1974-1978): Internal political disturbance, armed conflict, and radical institutional reform marked the 1974-78 period of the revolution. There was little economic growth; instead, the government's nationalization measures and the highly unstable political climate caused economic dislocation in sectors such as agriculture and manufacturing. Additionally, the military budget consumed a substantial portion of the nation's resources. As a result of these problems, GDP increased at an average annual rate of only 0.4 percent. Moreover, this time account deficit and the overall fiscal deficit widened, and the retail price index jumped, experiencing at 16.5 percent average annual increase.

The Second Phase: The period of Economic Recovery (1978-1980): During this phase, the economy began to recover as the government consolidated power and implemented institutional reforms. The government's new Development through Cooperation Campaign (commonly referred to as *Hibret Lelimat zemecha*) also contributed to the economy's improvement. More important, security conditions improved as internal and external threats subsided. In the aftermath of the 1977-78 Ogaden War and the decline in rebel activity in Eritrea, Addis Ababa set production targets and mobilized the resources needed to improve economic conditions. Consequently, GDP grew at an average annual rate of 5.7 percent. Benefiting from good weather, agricultural production increased at an average annual rate of 3.6 percent, and manufacturing increased at an average annual rate of 18.9 percent, as many closed plants, particularly in Eritrea, reopened. The current account deficit and the overall fiscal deficit remained below 5 percent of GDP during this period.

The Third Phase: The Period of Economic Decline (1980-1985): This period experienced a slowdown of the economic growth. Except for Ethiopian fiscal year 1982/83, in all the remaining

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time the growth of GDP was declined. Manufacturing sector took a downturn of its growth and the agricultural sector reached a high crisis stage. Four factors accounted for these developments.

1. First, the 1984-85 droughts affected almost all regions of the country. As a result, the government committed scarce resources to famine relief efforts while tabling long-term development projects. Consequently, the external accounts and the overall fiscal deficit worsened, despite international drought assistance were made totaling more than US\$450 million. Notwithstanding these efforts, close to 8 million people became famine victims during the drought of the mid-1980s, and about 1 million died.
2. Second, the manufacturing sector stagnated as agricultural inputs declined. Also, many industries exhausted their capacity to increase output; as a result, they failed to meet the rising demand for consumer items.
3. Third, the lack of foreign exchange and declining investment reversed the relatively high manufacturing growth rates of 1978-80.
4. Finally, Ethiopia's large military establishment created a major burden on the economy. Defense expenditures during this time were absorbing 40 to 50 percent of the government's current expenditure.

The Fourth Phase: The Period of Economic Stagnation (1985-1990): During this time, the economy of the country continued to stagnate, despite an improvement in the weather in 1985/86 and 1986/87, which helped reverse the agricultural decline and the manufacturing sector, also grew during this period with GDP increasing at an average annual rate of 5 percent. However, the lasting effects of the 1984-85 droughts weakened these achievements and contributed to the economy's overall stagnation. During the 1985-90 periods, accounted deficit and the overall fiscal deficit worsened to annual rates of 10.6 and 13.5 percent, respectively, and the debt service ratio continued to climb.

Because of various social, political and natural problems the economic planning and development programs of the Derg regime were not successful. Drought, regional conflicts, inflexible government policy, and lack of confidence by the private sector seriously affected the economic growth of the country. Falling productivity, soaring inflation, growing dependence on

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foreign aid and loans, high unemployment, and a deteriorating balance of payments all combined to create a deepening economic crisis.

In 1990, the time at which the Derg regime fall down, Ethiopia had a gross national product of US\$6 billion and a per capita income of about US\$120, one of the lowest per capita incomes of any country in the world. In response to the continued economic deterioration, the regime introduced several additional reforms. For instance, the 1988 Investment Code allowed unlimited participation of the private sector in certain areas of the economy. In January 1988, under pressure from aid donor countries, the government agreed to restructure agricultural and farm price policies. Finally, in March 1990 President Mengistu Haile Mariam announced the end of the country's Marxist economic system and the beginning of a mixed economy. Despite these reforms, the economy failed to improve.

CHAPTER FOUR

DEVELOPMENT ISSUES, POLICIES AND STRATEGIES IN POST-1991 ETHIOPIA

4.1. Agricultural Development Led Industrialization (ADLI) policy

Whereas the former regimes in Ethiopia toyed with the idea of agricultural development, it is this present government that regarded it as a major policy objective towards which the financial, human and institutional resources of the nation should be mobilized. Soon after the downfall of the Derg, the Transitional Government of Ethiopia declared that a major part of the budget and manpower would be allocated to rehabilitate and develop peasant agriculture. The farmers' own plots were used as sites to demonstrate the use of improved implements and new agricultural techniques.

These are called Extension Management and Training Plots (EMTPs). The reports from the project sites were encouraging as the average yield per hectare of the EMTPs significantly increased outstripping that of the national average. The results led to the expansion of the project both in terms of the number of EMTPs and the technical packages offered to the peasant.

The relative success of these initiatives coupled with the self-professed conviction of the ruling party to first eradicate the plights of the rural mass then led to the endorsement of the ADLI strategy (1995). Accordingly the policy emphasizes modernizing smallholder agriculture and intensifying yield productivity through the supply of appropriate technology, certified seeds, fertilizers, rural credit facilities and technical assistance. Along this line, various sectoral policy reforms were carried out in the last eight years which include: the inauguration of a nationwide agricultural extension program, the promulgation of laws that liberalized the procurement and distribution of inputs (fertilizers and certified seeds), and efforts to increase and avail rural credit facilities for farmers.

Subsequent to the inaugural of ADLI, a National Extension Intervention Program (NEIP) was established, under the Ministry of Agriculture, delegated with the task of developing a

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nationwide agricultural extension program. To that end, an extension program namely Participatory Demonstration and Training and Extension System (PADETES) was devised. Packages meant to intensify the production of high value crops, upgrade livestock quality and production, ensure post harvest protection as well as soil and water conservation followed suit. As a national initiative, the implementation of PADETES is entirely within the jurisdiction of the national regional governments and their regional agricultural bureaus. The training of frontline extension agents, the assortment and development of locally specific technical packages, the supervision and coordination of input agencies and credit organizations, all fall in the mandate of the regional agricultural bureaus. The Federal Ministry on the other hand is delegated with the task of

- ✓ Formulating agricultural policies;
- ✓ Designing packages,
- ✓ Organizing; and
- ✓ Conducting training activities to upgrade the knowledge and skill of regional partners.

A number of articles and evaluative reports are written on the post 1991 performance of Ethiopian agriculture, many of which attempted to reflect on ADLI and its PADETES package. The protagonists stress that the reforms introduced by the government have rehabilitated and revitalized the sector. Agricultural output showed a remarkable increase in 1995/96 and 1996/97 but sharply declined following the drought in 1997/98.

The import of fertilizers has been steadily increasing following the liberalization of fertilizer procurement and marketing. So did the amount of total fund channeled to the agricultural sector in the form of credit for the purchase of these inputs. From 1995/96 to 1998/99, the volume of agricultural credit given to farmers has increased.

4.1.1. Problems of ADLI

ADLI with its green revolution packages has not yet realized its basic objective i.e. food self-sufficiency. The criticisms posed on ADLI in general and the packages in particular are mainly of two types. The first cluster of arguments dwells on the technical, managerial and marketing problems of the policy. The recruitment and training of frontline extension agents, known as the

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development agents, was put as inadequate. Most of the agents are high school graduates that got a nine months training only who are also under-funded and over-burdened with other unrelated activities like the management of credit facilities. They tend to spend much of their time instructing farmers instead of improving farmer skills and utilizing indigenous knowledge. The other main problem, faced by farmers enrolled in the package, was the decline in output prices especially during years of good harvest. This has been acknowledged both by the practitioners (Federal Ministry officials and regional bureau heads) and the academics. The decline has adversely affected farmers gain and in most cases they were not able to defray costs incurred for fertilizer procurement.

Others set out to criticize the ADLI practice as one that has not essentially helped in the reduction of absolute poverty both in the rural and urban areas. There is an excessive decline of farm sizes with population increase. ADLI policy has not delved into matters of creating *links* between the rural and urban sections of the population.

4.2. The Poverty Reduction Strategy Paper (PRSP) (2002-2004)

The government of Ethiopia has prepared an elaborate and comprehensive PRSP that contains description of poverty profile, outline overall macroeconomic as well as key sectorial development objectives and strategies, a three-year macroeconomic fiscal framework and financing plan, and a framework for monitoring and evaluation of its implementation. This report assesses Ethiopia's PRSP from five inter-related perspectives: the processes, its content, public finance aspects, capacity building issues, and donor's involvement.

The PRSP preparation process involved a two-phase exercise: preparation of I-PRSP during the first phase followed by the development of a full PRSP. The full PRSP preparation process has benefited a lot from comments made by various quarters including the donor community on the I-PRSP, as well as from best practices and experiences of other African countries, and therefore revealed significant improvement over the I-PRSP. Broad and meaningful participation of various stakeholders did take place during the consultation processes at various administrative levels including the Wereda (district), regional, and federal levels. A parallel consultation

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process that was initiated and organized by various NGOs and civic associations greatly contributed towards ensuring wider ownership as well as enriching the content of the final PRSP.

4.2.1. Objectives of PRSP

Ethiopia's PRSP is actually a strategy paper for promoting Sustainable Development and Poverty Reduction Program (SDPRP) in which government expressed its commitment towards poverty reduction by making it the very orbit of development policy - it aims to achieve this by linking poverty with growth process that is fast, broad-based, equitable and sustainable. With a view towards meeting the Millennium Development Goals (MDG) by 2015, the target is to reduce poverty by 10% at the end of the program period while maintaining an average real GDP growth rate of 7%. In view of the magnitude and extent of poverty in Ethiopia, which is widespread, deep and severe, there seems to be little option other than what the government intends to achieve.

4.2.2. Components of PRSP

Content-wise, the SDPRP begins by providing adequate diagnosis of *poverty profile* - its trends, dimensions, and determinants as well as a presentation of how these could be related to growth. This analysis is grounded on a fairly rich data-base. Then a detailed presentation is made regarding the government's development goals, policies and strategies - key elements of these include:

- ✓ The Agricultural Development Led Industrialization (ADLI) as a strategy for achieving rapid and broad-based, self-reliant development in the context of a growing market economy;
- ✓ The judiciary and civil service reforms;
- ✓ The administrative decentralization and empowerment; and
- ✓ Capacity building.

This is followed by a detailed discussion of the key-sector development policies and strategies including agricultural and rural development in general and food security in particular, the road and water development programs, and the education and health sector development programs. The link between these development programs and poverty reduction has been fairly adequately

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established. Issues of vulnerability to shocks and response capability as well as cross-cutting issues such as environmental concerns, population, gender, private and export sector development, urban development, HIV/AIDS, etc. have been outlined.

Ethiopia's PRSP process could be considered as sufficiently participatory; the SDPRP addresses the key developmental challenges that the country has been facing; it is adequately and systematically integrated with the budget process. Key capacity constraints for the successful formulation, implementation and monitoring of the SDPRP at various levels have been identified, and government is attempting to aggressively address them in a comprehensive manner. Also, there seems to exist strong support to the SDPRP from the donors' community in a coordinated manner; however, improvement in both quantity and quality of this support is desirable for a successful implementation of the SDPRP.

4.3. Overall objective of A Plan for Accelerated and Sustained Development to End Poverty-PASDEP (2005/06-2009/10)

The main objective of the Five-Year Development Plan is to lay out the directions for accelerated, sustained, and people-centered economic development as well as to pave the groundwork for the attainment of the MDGs by 2015. In realizing the objective, PASDEP will contribute to the attainment of Ethiopia's vision of becoming a middle income country.

The country's vision specifically on the economic sector has set the following goals:

- To build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy;
- To sustain economic development and secure social justice; and,
- Increase per capita income of citizens so that it reaches at the level of those in middle-income countries.

4.3.1. Pillars of PASDEP

The following are the eight major pillars/principles of PASDEP:

- I. Building All-inclusive Implementation Capacity;
- II. Massive Push to Accelerate Growth;
- III. Addressing the Population Challenge;

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- IV. Unleashing the Potentials of Ethiopian Women;
- V. Strengthen the Infrastructure Backbone of the Country;
- VI. Improve Human Development;
- VII. Managing Risks; and
- VIII. Creating Jobs

The next section briefly assesses each of the eight pillars of the PASDEP as follows:

I. Building All-inclusive Implementation Capacity

This is to mean in brief:

- Strengthening of Democratic institutions;
- Implementing Civil Service Reform;
- Justice System Reform,
- Wereda (District) level capacity building;
- Development of information communication system; and
- Develop construction sector

II. Massive Push to Accelerate Growth

This would briefly mean to have an accelerated and sustained economic growth the accelerating initiative should possess **two** main thrusts:-

- Commercialization of Agriculture; and
- Accelerating private sector development

III. Addressing the Population Challenge

Obviously high population growth rate influences economic growth. So a to address this challenge:-

- Implement national population policy and strategy;
- Strengthen girls education
- Fight against traditional harmful practice.

IV. Unleashing the Potentials of Ethiopian Women

- Major effort to get more girls into school;
- Improving Women's health through extensive program of female outreach health workers up to village and family level;
- Liberating girls and Women's time from the unproductive hours spent fetching water,

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- Improving rural telephone to open up small entrepreneurship opportunities for Women elsewhere,
- Intensifying the responsiveness to women clients of a wide range programs (agricultural extension, micro-credit, natural resources management, and small business promotion)

V. Strengthen the Infrastructure Backbone of the Country

This is related with expansion of road network, clean water supply, irrigation development, urban development, electricity supply (hydropower) and telecommunication services.

VI. Improve Human Development

Its main ingredients include: higher education and literacy, better primary health care, better and closer access to water supply and sanitation, halting the spread of HIV/AIDS and other infection debases, and better food security and nutrition and housing conditions

VII. Managing Risks

It includes manage risk as a result of crop failures, and major illness, manage impact of shocks-variation in aid flows, revenues, or oil prices, manage the volatility of GDP growth

VIII. Creating Jobs

Since creating job for the youth is a serious challenge, the government of Ethiopia has put high emphasis to overcome this by orienting the development activities to be labor intensive sectors/areas.

4.3.2. Overview of Growth Performance of PASDEP

The Government of Ethiopia considered *two growth scenarios* under PASDEP. These are:

- **Base Case Scenario**; which was based on the requirements of achieving MDGs with the projection of an average annual real GDP growth rate of 7 %.
- **High Case Scenario**; which was based on Ethiopia's vision with projection of an average annual real GDP growth rate of 10 %.

4.3.3. Major Challenges Encountered

The following are the major challenges faced during the implementation process of the policy packages of the PASDEP:

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- Inflationary pressure and external imbalance were twin challenges during the plan period; demanding the government to take fiscal and monetary policy as well as administrative measures to stabilize the macro-economy for sustaining rapid growth.
- Inadequate capacity for domestic revenue collection and narrow domestic revenue base were the challenges encountered during the program period, though improvements have been made towards the end of the program period through effective implementation of the tax reform program.
- Low level of domestic savings to support the huge demand for the country's investment which requires critical attention by the Government, the private sector and the people at large.
- In some parts of the country, delayed entrance of the rainy seasons, early withdrawal of rain and disproportionate of rain were challenges particularly to agricultural development from which great lessons have been drawn.

4.3.4. Lessons drawn

The following are some of the most important lessons drawn so far to mitigate the gaps created due to the challenges mentioned above:

- Positive lessons of economic management through provision of leadership and in terms of coordinating the efforts of the private sector, development partners, NGOs and the general public to deliver rapid growth, expansion of basic services and infrastructure.
- Another lesson is that it is possible to implement huge infrastructure projects by mobilizing own resources and human capacity. This is an important lesson to be further employed in the GTP period.
- A number of model farmers have achieved the highest productivity and production in agriculture during the program period. Best practices of these model farmers will be scaled up to move forward the productivity and production of smallholder farmers to approach to those of the model farmers.
- Implementation of Good Governance Package has resulted in strengthening participation, efficiency, effectiveness, transparency, accountability and responsiveness.

4.4. Growth and Transformation Plan (GTP) (2010/11-2014/15)

4.4.1. Bases of the GTP

Development Policies and Strategies of the Government are the overall frameworks of the GTP.

Within these frameworks, the main bases include:

- The performance of PASDEP and the lessons drawn during its implementation.
- The country’s vision:
 - “To reach the level of middle-income countries where democracy and good governance are maintained through people’s participation and where good will and social justice are secured; and
 - “In the economic sector; to build an economy which has a modern & productive agricultural sector with enhanced technology & an industrial sector that plays a leading role in the economy; to sustain economic development and secure social justice; and increase per capita income of citizens so that it reaches at the level of those in middle income countries by the year 2025.”

The main agenda of the plan is to sustain broad-based, rapid and equitable economic growth to reduce and ultimately eradicate poverty.

4.4.2. Objectives of the GTP

The most fundamental objectives of the GTP include:

- ✓ Maintaining at least an average real GDP growth rate of 11% and attain MDGs
- ✓ Expanding and ensuring the qualities of education and health services and achieve MDGs in the social sector
- ✓ Establishing suitable conditions for sustainable nation building through the creation of stable democratic and developmental state
- ✓ Ensuring the sustainability of growth by realizing all the above objectives within stable macroeconomic framework

4.4.3. Pillar Strategies of the GTP

The following are the core pillars of the Growth and Transformation Plan:

- ✓ Rapid, Sustainable and equitable economic growth,

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- ✓ Maintaining agriculture as major source of economic growth,
- ✓ Creating conditions for the industry to play key role in the economy,
- ✓ Enhancing expansion and quality of infrastructure development,
- ✓ Enhancing expansion and quality of social development,
- ✓ Building capacity and deepen good governance, and
- ✓ Promote gender and youth empowerment and equity.

The seven pillars of the GTP are as follows:

I. Rapid, Sustainable and Equitable Economic Growth

Accordingly, there are two Growth Scenarios under the GTP. These are:

Base Case Scenario, which is based on maintaining the last five years growth momentum, that is, an average annual real GDP growth of 11%.

High Case Scenario, which is based on achieving an average annual real GDP growth rate of 14.9 % is projected with the assumption that the agricultural value added in 2009/10 will double at the end of the program period (2014/15) .

II. Maintain Agriculture As a Major Source of Economic Growth

Since agriculture is the backbone of the economy, the following are the main objectives of the GTP in relation with the agricultural sector. These include:

- ✓ Perusing agricultural development strategies & based on lessons drawn from past experience, farmers and pastoralists production and productivity will be enhanced and oriented to focus on productive and commercial crops for domestic & foreign markets;
- ✓ Expand technologies used by model farmers to all other farmers and develop small holders' production & productivity, strengthen supportive Government structures to achieve these objectives;
- ✓ New technologies will be continuously tested and delivered to farmers and pastoralists;
- ✓ Agricultural growth will be accelerated & sustainability ensured through expansion of irrigation developments and wise use of natural resources. This would be implemented by using farmers & supportive Government services;
- ✓ Farmers will be oriented to produce commercial crops with better price, by linking area specialization, favorable market & expanding infrastructure;

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- ✓ Private investors in agriculture and large commercial farms will be encouraged & supported;
- ✓ Production based on high value products and labor intensive horticulture on limited landholdings will be encouraged to expand near main urban centers linked with the small farmers production system;
- ✓ Limited land more labor and more land limited labor;
- ✓ Infrastructure is expanding in areas where extensive and favorable land is available for commercial agriculture. This creates favorable condition for agricultural investment. Using this condition, invitation of private investors to agriculture will be one basic direction. Private investors who will be engaged in extensive commercial farms will get the necessary government support;
- ✓ By giving due attention to areas which have great growth potential, farmers & private investors will be encouraged to focus on production of products better market value and demand;
- ✓ Improved system of agricultural marketing will be built by the conscious & organized participation of the actors & concerned bodies from product to export trade, to create favorable condition for agricultural production;
- ✓ Agricultural marketing will be made to be transparent, effective, and marketing infrastructure enhanced;
- ✓ To support development efforts in the sector provision of investment services will be strengthened; and
- ✓ Enabling agriculture to grow at an accelerated rate will ensure food security, enable to play determining role in avoiding inflation pressure, enable to reduce shortage of foreign exchange, significantly contributes to the country's vision to reach the level of middle income countries, and create favorable conditions for production of raw materials for the development of the industrial sector.

III. Creating conditions for the industry to play key role in the economy.

- ✚ By ensuring rapid growth in the industrial sector, the plan envisages that:
- ✓ Suitable conditions will be created to enable the industry to be the next growth source of the country's economy;

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- ✓ The industry will contribute to reducing shortage of foreign exchange and to the sustained growth of agriculture;
- ✓ Various industries will expand to generate huge job opportunities; and
- ✓ In the industrial sector small & micro as well as medium & large industries will be given due attention.
- ✚ By focusing on the expansion & strengthening of small & micro institutions, GTP's industrial policy envisages that:
 - ✓ Job opportunities will be created;
 - ✓ Urbanization gets accelerated;
 - ✓ The agricultural Sector supports through supply of production tools; and
 - ✓ Suitable conditions Created for the emergence of new entrepreneurs-bases for the growth of the private sector.
- ✚ By ensuring rapid & sustained growth of technology for the medium & large scale industries:
 - ✓ The competitiveness of the economy will be enhanced;
 - ✓ Small & micro institutions will expand & strengthened; and
 - ✓ Suitable conditions created for the agricultural sector.
- ✚ Focus will be made on export -led industrialization to solve foreign exchange problems & to contribute to rapid technological transformation,
- ✚ Import substituting industries have also contributions to reduce shortage of foreign exchange and will be given attention to expand more than ever before,
- ✚ Higher educational institutions & vocational schools will be enabled to produce capable manpower according to the needs of the industries in quality & quantity. This will be augmented by using foreign investment & technical supports in a manner which creates opportunities for leadership skills, technological transfer & building technical capacity,
- ✚ The youth will be encouraged to create their own job & through process become industrial entrepreneur,
- ✚ Enabling technical & vocational schools to support expansion of small & micro industries in transferring knowledge & the concept of entrepreneurship,
- ✚ Actively seek foreign investment,

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- ✚ Creating suitable conditions for Ethiopian investors who have the interest & ability in the industrial sector and augment their efforts through joint venture with foreign investors as well as
- ✚ To enable different industries support each other & reduce costs of investment, industrial zones will be expanded with the required infrastructure & other services,
 - ✓ This will enable to create different growth corridors which have strong linkages with the rural hinterland and dynamic source of growth, and
 - ✓ When there is no sufficient option, public enterprises will be engaged in selected strategic investments either alone or by joining with private investors.

IV. Enhancing Expansion and Quality of Infrastructure Development

As to the quality and expansion of basic infrastructures, the GTP envisages the following:

- ✚ Increasing investment in infrastructure to strengthen the foundation for growth;
- ✚ Create conditions to substitute imported inputs by local products to reduce pressure on foreign currency requirements and there by contribute to industrial development;
- ✚ Providing quality transport, communication & power supply services to enhance the economic growth;
- ✚ Giving due attention to road, railway, energy, telecommunication, irrigation, water & sanitation infrastructure;
- ✚ Regarding roads, the construction of main & feeder roads will continue. Special attention will be providing to construction of new feeder all-weather roads to connect Kebele to all weather roads;
- ✚ Regarding railway, construction will be undertaken to complete the country wide network in three directions with four lines;
- ✚ In order to fulfill the energy demand of the country, focus will be given to expanding use of renewable energy sources such as water, wind, & geo-thermal which are clean & non-polluting ones;
- ✚ To benefit from the modern telecommunication technology, the current wide area network construction will continue to improve service quality in all parts of the country broad band multi-media;

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- ✚ Developing & using the water resources of the country for different economic & social activities in sustainable & equitable manner, expand water supply and irrigation construction works;
- ✚ To ensure rapid & equitable urban growth, expansion of infrastructure will be given due attention according to the level of their development & the role. The infrastructure construction will be linked to job creation & development of small scale enterprises;
- ✚ The construction industry is where the private sector play the dominate role. The sector will be market oriented and focus on growth, employment generation, and competitiveness. Design suitability for disabled will be given due attention; and
- ✚ Regarding sanitation, clean & suitable work & urban environment will be ensured.

V. Enhancing Expansion and Quality of Social Services

With regard to expansion/access to and the quality of social services like education, healthcare needs safe water and so forth, GTP's objectives include:

- ✚ Improving access and quality of education & training
 - ✓ To strengthen the ongoing efforts in expanding education to ensure quality, and
 - ✓ To exert maximum effort to alleviate problems that limit children's & women's participation in education;
- ✚ To improve and promote the quality of higher education through:
 - ✓ prioritizing science and technology,
 - ✓ establishing and implementing a system which can promote institutional & teacher competence and expertise in conducting research and adapting technology,
 - ✓ providing the ongoing TVET program in an integrated manner with the small and medium enterprise development, and
 - ✓ encouraging private sector investment in the sector and provide support and supervise its standards;
- ✚ To expand access to pre-primary education and functional adult literacy;
- ✚ To meet the MDGs in the sector
- ✚ Improve access and quality of health service:
 - ✓ By using the health extension program to provide effective community based health care and disease prevention and also enhancing provision of quality curative services,

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- ✓ By equipping health facilities with the necessary human power and equipment standards,
- ✓ Through enhancing the sectors human capacity, administration and retention by increasing training and education of health professionals,
- ✓ By strengthening, monitoring and regulating private health care providers so that they satisfy the citizens by providing quality health services,
- ✓ Through the provision of incentives for investors who engage in pharmaceutical factories, and at last,
- ✓ Through meeting all MDGs targets of the sector.

VI. Building Capacity and Deepen Good Governance

With respect to strengthening the process of democratization and good governance, the GTP envisages the following objectives:

- ✚ Ensuring transparency and combating corruption from its source which includes:
 - ✓ Improving the tax administration system and thereby implement the system to disclose and register asset owned by every citizen thus to recognize and protect their rights,
 - ✓ Setting up a system to classify and register land where by the right of ownership can be clearly identified and recognized,
 - ✓ Based on the developed information system, enabling the allocation of land in a developmental way and to abolish rent seeking trends observed in the area, and
 - ✓ In general putting in place income, wealth land registration and information system will realize transparency and accountability in the economic and political sphere;
- ✚ Establishing government structure with strong implementing capacity through:
 - ✓ Implementing the Civil Service Reform Program at all levels of the government so as to strengthen accountability and transparency, ensure effectiveness and efficiency of public sector service delivery, and
 - ✓ Supporting the ongoing justice reform system and Strengthening the effectiveness of the justice system in terms of its ability to discover the truth through legal procedures; amending laws to ensure that implementation and interpretation of the laws is done in conformity with the constitution and exert efforts in ensuring independence, transparency, accountability and efficient human capacity;
- ✚ Ensure Public Participation: To enable the public aware of its rights and duties:

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- ✓ Strengthen civic education and create common understanding of the public regarding the constitution and countries development strategy directions,
- ✓ Create enabling environment for Membership Based Association (MBA) to enable them protect and promote their rights and benefits, and
- ✓ Create conducive institutional participatory mechanism and made operational at all levels of the government structure MBA to enable them participate in the formulation and evaluation of government policies, strategies and development plans;
- ✚ Enhance democratic culture and institutions through:
 - ✓ Continuous strengthening of democratic institutions to deepen democracy and good governance,
 - ✓ Capacitating the house of people representative offices to enable them effectively implement their legislative power,
 - ✓ Ensuring the provision of appropriate and full reports for peoples representative offices to monitor and regulate the executive organ, and
 - ✓ Law enforcement institutions will be capacitated in terms of attitude, human power and equipment to realize the rule of law

VII. Multi-Sectoral Issues

Some of the most crucial multi-sectoral issues identified by the GTP include:

- ✚ Promote Gender & Youth Empowerment & Equity:
 - ✓ By implementing the women's and youth package in an integrated and strengthened manner, the role and benefit of the youth and women in social, political and economic development endeavor will be ensured;
- ✚ Social welfare:
 - ✓ To ensure the involvement of all relevant stakeholders in promoting social welfare services in inclusive manner, identify social welfare problems and take corrective measures, promote activities that will benefit people with disabilities and the elderly in the course of speeding up of the social and economic development of the country;
- ✚ Population:
 - ✓ To create strong foundations for matching the main population characteristics with the economic development;

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✚ Environment:

- ✓ Building a carbon neutral and climate resilient economy through enforcement of existing environmental laws are priority to the environmental conservation and
- ✓ Formulating and implementing program of adaptation to climate change is very critical for survival of the country and pursuing a clean path to development;

✚ Culture and Tourism:

- ✓ Create a favorable condition to the languages, cultural, historical and natural heritage, of the nations, nationalities and peoples of Ethiopia receive equal recognition,
- ✓ Focuses on identifying the country's historical, cultural, wildlife and natural resources to develop tourism through the participation of the private sector and local community, and
- ✓ Create conducive environment whereby the country's wildlife and their habitats are protected and developed in a sustainable manner; as well as

✚ HIV/AIDS:

- ✓ Provide multi-sectoral HIV/AIDS prevention and control activity that centers the community and other programs akin to the national HIV/AIDS prevention and anti retroviral utilization and supply policy,
- ✓ Create and strengthen enabling environment: capacity building, community empowerment, leadership and governance, mainstreaming, coordination and partnership,
- ✓ Create access and quality of chronic care and treatment through enhancing service integration, laboratory, referral, availability of essential commodities,
- ✓ Strengthen public private partnership and addressing human resource issue, and
- ✓ Strengthen care and support to mitigate the impact of AIDS and scaling up of Health Extension Program.

4.5. Industrial Policy: Ideology and practice

Ethiopia's government recognises the need to support private sector development as the engine of economic growth and productivity enhancement, and it is clearly committed to advancing industrialization and other high-value activities. The government describes itself as a revolutionary democracy and developmental government. It can in fact be characterized as "developmental" in the sense that its attitude and activities are strongly driven by the desire to

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lay the foundations for long-term economic development. Probably few developing countries show such a determined and credible commitment to:

- Industrial development, technical and vocational education and training (TVET) as well as science and development. Substantial investments have been made in new universities, expansion and reform of the TVET system, specialised institutions for sector-specific technology development, and a new Ministry for Science and Technology;
- Pro-poor spending. There is a strong policy focus on improving education and health as well as rural infrastructure, microfinance, and to maintain land policies that protect the livelihoods of the poor;
- decentralization of government power to the ethnic regions and the community

The political elite in the ruling EPRDF is strongly influenced by the successful economic management of latecomer development in Korea and Taiwan. The Industrial Development Strategy, as well as instruction materials for EPRDF cadres and documents circulated by the former Prime Minister Meles Zenawi, stresses the need to build on capitalist enterprises as the engine of growth. At the same time, a clear distinction is made between “rent-seeking” and “developmental” capitalists. Rent-seeking capitalists are those not exposed to competition, including those who accumulate wealth by controlling the state. EPRDF documents refer to Mobutu’s Zaire and to Nigeria as examples of countries exploited by rent-seekers. Developmental capitalists, in contrast, are those who create value in a competitive environment. The government perceives itself as a developmental state that dries up opportunities for rent-seeking and actively fosters and supports developmental capitalists. According to the perception of the EPRDF, it is crucial for Ethiopia to reach a ‘point of no return’ when the old rent-seeking elite will have lost its economic basis and developmental capitalists will have gained hegemony. This explains the government’s firm will to avoid the return to power of conservative business groups, which, according to its interpretation, want to reinstall a rent-seeking economy.

Papers written by the former Prime Minister, EPRDF documents and the Industrial Development Strategy all refer to the lessons that Taiwan and Korea (and in some cases Japan) hold for Ethiopia’s development. These include: early focus on productivity growth in agriculture in

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order to accumulate capital, increase supply for agro-industries, and generate demand for manufactured goods; restriction on ownership of land; a nationalised banking system that has enabled governments to channel credit from rent-seeking to value-creating activities; incentives for export-orientation; ‘carrot and stick’ policies for enterprises, e.g. setting productivity and export targets; a focus on export-led industrialisation; and control of industries as a ‘cash cow’ to generate the financial means the ruling party needs to retain political hegemony.

These elements in fact are a powerful factor in shaping Ethiopia’s industrial policy. Japanese experts have been invited to advise the country on industrial policy, Koreans to draft its science and technology policy. Agricultural demand-led industrialisation is regarded as the starting point for industrial development (also in terms of ensuring political support by the country’s large rural populations): land remains in the hands of the state, as private land ownership is regarded as a principal source of rent-seeking; the financial sector is set to remain under government control; the Board of Directors of the Commercial Bank is appointed by the government, and the bank lends on the basis of “strategic” political criteria; export orientation is strongly encouraged; specific performance targets for major firms are set; and government control of economic sectors – e.g. telecommunications – is maintained as a source of revenue for the government. In 2003/04 the government received 13.5% of its total revenue from SOEs and government-owned property. As Asian experiences show, strategic policymaking of this kind, which defines sector-specific targets, differentiates between rent-seeking and developmental enterprises, and uses incentives to reward and penalize, may help to kick-start development processes if it is well managed. But it certainly creates new sources of rents and, consequently, incentives for illicit enrichment. Rents may accrue to firms for being fortunate enough to have their activities considered as “strategic”; or to firms that are part of the state-owned or endowment-owned enterprises; or to firms that benefit from restricted licensing; or to firms that manage to work around existing import or export bans. If carrots and sticks are used, it is imperative to make sure that clear and transparent rules are in place and to hold policymakers accountable. In contrast, if decisions are taken in a non-transparent and discretionary way, the result will be to encourage rather than overcome rent-seeking.

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4.5.1. Ethiopia's Industrial Development Strategy

Ethiopia's development goals are laid down in the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and its industrialisation goals are set out in the Industrial Development Strategy. PASDEP is the country's second poverty reduction strategy paper, drafted for the five-year period 2005/06-2009/10. It has a much more explicit focus on private sector development, competitiveness, and growth than its predecessor. The Industrial Development Strategy, which was approved in 2002, is regarded as the country's first-ever comprehensive industrial development strategy. It recognises the need for deep institutional reforms of the national institutional system, which is characterised as non-transparent, bureaucratic, anti-democratic, etc. The Plan spells out how "developmental" enterprises are to be supported.

Subsequently, a number of tangible institutional changes have been implemented, including the establishment of new (or strengthening of existing) specialised capacity building and technology institutes for sub-sectors (leather and leather products, textile and apparel, sugar industry, metal, dairy and meat, horticulture), and the elaboration of a detailed sector strategy for the leather industry. Ambitious reforms have been initiated in complementary areas, e.g. to overhaul the TVET system. Likewise, the annual intake capacity of higher education has increased strongly to 48,053, bringing the total number of students in universities to over 180,000 in 2006/07.

Overall, the plan reflects a quite clear strategic orientation and the government's strong commitment to industrial development and structural change. It is more explicit than the respective plans of many other countries, which typically provide standard lists of desirable goals, without offering much practical guidance for policymakers. While many other low-income countries accept whatever private sector development component international donors offer, the Ethiopian government is unmistakably "in the driver's seat" and negotiates with donors to ensure that their offer fits the overall strategy. Given the stability of the government, which has been in power since 1991, Ethiopia's development can build on a long-term strategy.

The Industrial Development Plan mentions a few general principles – e.g. to recognise the role of the private sector as an engine of growth; the importance of state leadership to challenge and

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support developmental firms; and the need to build on both foreign and domestic investors. Furthermore, it specifies priority areas for selective interventions that favour certain sectors over others. What follows presents and critically analyses the main criteria for selective support.

1. The most prominent focus is on agricultural demand-led industrialisation (ADLI). From an inclusive growth perspective, this focus is well chosen. At the moment, 85% of the workforce is rural, with the vast majority engaged in agriculture, and agriculture is hardly connected to manufacturing. Low productivity and income severely constrain rural demand for manufactured products, and only 5% of intermediate inputs demanded by agriculture are produced by the domestic manufacturing industry. The government is making strong efforts to invest in rural infrastructure, primary education and health, rural vocational training centres, increasing the area under irrigation, etc. Dedicated technology and training centres have been set up to support specific industries (e.g. sugar, meat and dairy, leather and leather products) and a number of value chain programmes are underway.

While this strategy, focused on infrastructure and supply-side technical inputs, creates important preconditions for rural development, it has not yet yielded any significant results. Farming and livestock management systems are still mostly archaic, productivity gains are far from satisfactory, and the number of specialised farms producing high-value cash crops (such as cut flowers, fruits and vegetables) remains far too low to improve overall indicators. The underlying key problem is lack of private investment, which in turn is constrained by public land ownership and very small plot sizes. Given these conditions, few investors are willing to undertake major investments in irrigation, mechanisation and agro-industries.

Its profound dependence on agriculture makes Ethiopia particularly susceptible to the adverse effects of climate change. Less regular rainfall could exacerbate rural poverty and nationwide food shortages. Droughts and periodic intensive rain could further deteriorate soil conditions. Strengthening climate resilience through adaptation programmes should therefore be high on the government's agenda. In fact, a National Adaptation Programme of Action was prepared in 2007, and the government is currently developing a national climate change

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strategy with assistance from the World Bank. To date, however, there is little progress in implementation, and climate mitigation and adaptation are not integrated in the PASDEP or the national strategy for industrial development.

2. Priority for export sectors. Given the limited size of local markets and the need to generate foreign exchange, there is a clear focus on export industries. Export-led industrialisation is also one of the lessons the government has learnt from the successful development of Taiwan and Korea. Again, the main emphasis is on high-value agriculture (horticulture) and agro-processing industries (leather products). Export industries benefit from favourable land lease rates, soft loans, tax incentives, subsidies for participation in trade fairs and international missions, and other services. Differential interest rates are offered for different products, e.g. horticulture projects qualify for soft loans, whereas the production of pulses for export does not. Following an “East Asian” approach, export targets are agreed upon for individual firms.

So far export promotion has had limited success. Between 2003/04 and 2007/08, the total exports of three priority sectors (leather, textiles, agro-processing) increased from US\$ 72 to 168 million. Exports thus remain marginal. What is more, the export share of these three priority sectors actually decreased from 12 to 11%. The policy bias in favour of exports has repeatedly been questioned. Critics argue that efficient import substitutions may have the same positive effects on the foreign exchange account; and, even more importantly, entry barriers may be much lower, as local entrepreneurs do not have to cope with international standards, economies of scale, and high transport costs involved in the export business. Then again, encouraging firms to export may have a number of advantages, especially in terms of technological learning. In fact, exporting firms in Ethiopia are generally more productive than non-exporters and increase their productivity faster. While part of this is explained by self-selection, the authors also found strong evidence of “learning-by-exporting”. It can be assumed that experiences of exporters exposed to sophisticated international markets create a number of knowledge spillovers for the local economy. According to recent statements by the Prime Minister and the Ministry of Trade and Industry, equal treatment will be granted to efficient import-substituting industries in the future.

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3. Labour-intensive industries are seen as more appropriate than capital-intensive industries due to Ethiopia's factor endowment. The Industrial Development Strategy talks mainly of agro-processing and garments as potential candidates. However, the strategy paper recognises that low labour productivity seriously constrains export competitiveness. It states that while salaries are two to three times lower than they are in China, productivity is five to seven times lower. Taking Ethiopia's conditions as a landlocked country into account, the prospects for attracting outsourced tasks in global value chains (typically garment assembly in export processing zones) are dim. What remains are activities that are resource-based and use cheap labour, such as the footwear industry.
4. Four specific economic sub-sectors are identified in the Industrial Development Strategy (textile and garment industry; meat and leather products industry; agro-processing industry; construction industry). All of them are agriculture-based and/or labour-intensive. Specialised institutes and/or training programmes have been created for each of the sectors.
5. Cottage and small-scale manufacturing enterprises deserve special attention. Small enterprises account for the lion's share of non-farm employment in Ethiopia, but operate at very low productivity levels. The vast majority of cottage industries and small firms can be categorised as necessity entrepreneurship (as opposed to opportunity entrepreneurship), because they lack basic conditions for business success, e.g. an innovative and promising business idea, capital, as well as technical and managerial skills.

To work on one's own account is mostly a second-best decision in the absence of formal employment opportunities. As it is virtually impossible in the medium term to expand productive formal employment in a way that would fully absorb the currently unemployed or unproductively employed workforce, there is an urgent need to increase productivity within the segment of micro and small enterprises. Government support is mainly channeled through the Federal Micro and Small Enterprises Development Agency (FeMSEDA) and the respective centres in the regions (ReMSEDA). These provide entrepreneurial and vocational training (using appropriate technologies for printing, weaving, metalworking, carpet making, etc.)

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through regional TVET centres and are seeking to increase their outreach by using a train-the-trainers approach.

Critics, however, see the SME policy as a job creation scheme that may be useful to provide poor people a decent source of base income, but does little to nurture innovation- and growth-oriented entrepreneurship. To achieve the latter, more focus should be given to new business models that create additional markets. Options that have not yet been exploited in Ethiopia include: rewarding innovative business concepts; encouraging graduates from universities and colleges to set up new firms and coaching them with the help of experienced business people; support programmes that help link micro and small firms to larger firms, as suppliers or franchisees; and public procurement cum training programmes to upgrade small firms. An approach of this kind would require closer collaboration between FeMSEDA/ReMSEDA and those institutions that promote larger industries, such as the Ethiopian Investment Authority.

Much more can also be done to improve provision of business development services beyond the services provided through the TVET system. As the public system of FeMSEDA/ReMSEDA is unable to reach out effectively to all small enterprises, additional channels of service delivery may be required. Business membership organisations may be encouraged to strengthen their service offer, and private service providers may be built up using a combination of supply-side and demand-side incentives, such as voucher systems

The growth and transformation plan is prepared taking into account two growth scenarios: The base case and the high case scenarios. The base case scenario is based on maintaining the growth momentum registered in the last five years of PASDEP implementation, while the high case scenario envisages to double agricultural value added and the overall economy at the end of the plan period.

To achieve the objectives of the GTP a concerted effort is needed from every actor, development actor and stakeholder and fulfilling the huge investment requirements of the plan.

- ✓ To finance this huge investment it requires to mobilize
- ✓ huge domestic saving;
- ✓ To strengthen tax awareness creation and increase tax revenue;

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- ✓ To promote and encourage individuals, private sector, cooperatives, etc to enhance their saving culture hence increase domestic saving;
- ✓ To further encourage and facilitate conducive environment for private sector investment By pursuing the growth and transformation plan strategy foundation for industry will be created,
- ✓ Huge infrastructure development will be undertaken and all MDG goals will be attained at the end of the GTP implementation period (2014/15),
- ✓ During the GTP period, increased utilization of domestic opportunities through community mobilization; coordinating efforts with non-state actors, increasing the level of domestic savings and significantly improving human capacity will receive particular attention,
- ✓ A growing interest in investment will be realized in the manufacturing sector in order to create job opportunities,
- ✓ Diversify the sources of economic growth, GTP will further enhance the conducive environment for private sector participation in the development process, and
- ✓ Investments on growth enhancing infrastructure and human development will be further increased.

There are challenges, but also opportunities:

- ✓ Acting together we can overcome challenges and maximize opportunities,
- ✓ The Ethiopian people is hopeful because of PASDEP results; excited about the prospect and is developing we can do attitude which is critical,
- ✓ Private sector's growing excitement and investment,
- ✓ Global initiatives to support the achievement of MDGs,
- ✓ Committed leadership to growth and development who mobilizes domestic and external resources, effectively utilizes and deliver results,
- ✓ Deepening democracy and good governance, and

CHAPTER FIVE: THE WAY FORWARD

5.1. Challenges and Prospects of Development in Ethiopia

5.1.1. Challenges of Development of Ethiopia

A. The inheritance and existence of war-full economy

It is true that the cumulative impact of war on development is so devastating. Based on this logic, Ethiopia's economy is highly infected by its experience of leading (running) a war economy since the period of imperial regime. Even recently, what challenges Ethiopia is the happening of political instability, war with Eritrea at the beginning of EPRDF regime. Due to the existence of such political phenomenon, the governments of Ethiopia at different regime have been obligated to expend highest military expenditure and then, high military expenditure that will bring budgetary deficit. At the end can be a formidable obstacle for resource mobilization & development project expansion (Eshetu, 2004). It also obligates a country to have a reliance on foreign resources through borrowing from domestic banking system.

The war also has an adverse impact to decline the capacity of a country to earn and save foreign exchange. It also has an effect to damage infrastructure, on the disruption of transportation. It have a power to *move the youths from their life of engaging on production to war expedition*, losing the productive force of a nation due to the war related death (Eshetu, 2004:172).

However, it does not mean that Ethiopia has no problems of economic progress or development. Rather, since the consequence of war is devastating on the present and future development projects of a country, even it is not sufficient but is a necessary condition to terminate Ethiopia's state of war, ethnic conflict (Ibid).

B. Environmental Factors

Does Ethiopia have a natural resource base that is favorable to development? It is true that Ethiopia is one of those states of the globe which have fertile land of agricultural production and water resources. That is why some researchers believe on how Ethiopia has a potential to be the

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breadbasket and water- tower of Africa respectively. However, the agricultural economy of Ethiopia operates with in the continual survival of environmental constraints. Such environmental constrains of development include

1. soil degradation via soil erosion,
2. expansion of desertification (north-eastern & eastern)
3. frequently recurring drought , (recently Eli no) and generally climate change

Due to such factors, the land is in the journey of losing its potential to support human life is diminishing (Eshetu, 2004). Thus, such problems demand urgent solution to sustain economic development on agricultural and environmental sector. Accordingly, to resolve the impact of environmental degradation that it can have on the productive capacity of the land and its potential to resist the impact of desertification, the resettlement policy of the Derg have played its role through forestry development. The existing regime (EPRDF) is also doing the practice natural or environmental conservation, soil conservation, and is implementing the national and global project of “Green Development” (*Arenguadee Limat*). Lots of trees have planted in each year, but what is grown is few. Thus, the campaign on environmental conservation and rehabilitation should be strengthened. Accordingly, what should be done is in a way that can renew the resource base for agricultural development.

C. Demographic Dynamics

Rapid Population growth and an abject poverty have a direct correlation in Ethiopia. The justification is the existence imbalance economic and population growth. How population growth can be a cause of underdevelopment. What type of demographic factor can complicate the problem of development? This is when there is **serious imbalance as it is stated in the above manner**. Population growth is a result of, among others, high fertility rate which is accompanied by low mortality rate. The factor for the visibility of high population growth with a decrease in mortality rate is due to the availability of better health care services. That is why some researchers recommend that Ethiopia’s development needs to incorporate an aggressive and realistic population policy (Berhanu and Befekadu, 2000).

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Regarding with demographic factor, what matter is not only the size and rate of population growth but also the existence of problem on the age structure of Ethiopian population. In this regard, 47 % the population is on the age of and under 15 which is underproductive. Another demographic factor of underdevelopment is unemployment (youths). So, the prediction and visible condition proves the fact that Ethiopia is virtually assured as a state which have high rate of population growth.

D. Policy of Environment

The case of policy is one of the most Controversial and high complex area of development. When? May be when policies have been interpreted with the interest of regime regardless of the real problem of the people. This is because an inappropriate policy which can't resolve the diverse development issues of the people is undoubtedly the formidable bottleneck of development (Eshetu, 2004). Lots of policies have ended with little success and many failures. That is why, even if challenges are there, policy matters the success and failure of development issues. Accordingly, how do you evaluate the success of development policies and strategies of Ethiopia which has been designed at different regimes?

- Five year plans of the imperial regime
- Ten year perspective plans of the Derg
- GTP of the EPRDF regime... how much of these plan are effective?

The answer may be little effectiveness when the plan is compared with the result. This is due to, for instance, climatic factors, failure of a state to take comprehensive control, state of war and political turmoil. Thus, apart from the willingness and commitment of leadership which is essential for the success of development plans, primarily, struggling to efficiently and timely resolve challenges that will affect the policies is so preponderant.

E. Other Problems

To mention some of them, problems that are affecting the current and future development fate of Ethiopia includes plant (crop) disease , poor Technology for enhancing the output of agricultural production, Corruption (Zemelak, 2017, Abiy, 2019, Bedlu, 2019), highest foreign debt (Mulugeta, 2018), moral crisis and inefficient bureaucracy (Bedlu, 2019), The loose of Portland (access to the sea) that cause for the loose of higher expense , in conducive political

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environment which can enable citizens to have a sense of patriotism, lack of industriousness, good working habit , the failure to learn from our history, hatred and ethnic conflict (Zebene, 2018), the crisis of morality (moral crisis of the society), the failure to have visionary generation (“the people who do not have vision will perish”) (Ashenafi, 2015) and lack of democracy (Merera, 2007), among others.

5.2. Prospects of Development in Ethiopia

- Reduction of oil price (oil price during the Derg regime has been declined and stayed for a long time. the price of oil , at present, becomes nearest to zero in USA following the pandemic of novel corona virus)
- The contribution of Diaspora (recently have reduced)
- The policy that encourages investors (investment code)
- Productive labour force
- The existence of previously inaugurated high mega projects which have a power to resolve diverse socio-economic problems of the people like GERD
- The assistance of donor agencies on poverty reduction and environmental development (green development) (Eshetu, 2004).

5.3. The Solutions of Liberating Ethiopia from Underdevelopment

As it is researched by the Ethiopian Economic Association (EEA) (2000), the socio-economic problems of Ethiopia are indeed alarming. Addressing these problems successfully requires wisdom, foresight, a coherent and multifaceted strategy and the ability to effectively implement this strategy on the part of political leaders of the country. An important element, one without which, success will remain elusive is political commitment for an equitable and dynamic poverty reduction and economic growth. It also requires strategic thinking and planning regarding with the best path of utilizing scare resources of the nation. It also demands the essentiality of understanding the statuesque of international economic environment that the business community engages. Furthermore, attention and quality from educators and intellectuals in producing the human resource that the country demands is so essential. Maximizing advantages

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of external opportunities and minimizing the disadvantaging that external opportunities can possess is another solution to emancipate Ethiopia and Ethiopians from the misery of underdevelopment (EEA, 20003). This bears in mind, the issue of reducing poverty and attaining Ethiopia's development demands lots of hard work and dedication from all of its institutions and working citizens (which is guided by the knowledge of ethics and life of morality).

Enhancing the output of domestic saving and investment is another path of development. This enables a state so as not to rely on the unreliable foreign savings. It is also vital to frequently but reasonably implement revised investment policy with the creation of an enabling environment of investment (stable, liberal and protective). Moreover, it is not just the economic environment that needs to be attractive but also the political atmosphere must be stable and attractive for investment. This is to pave a way for the realization of political stability, economic productivity with a simultaneous demand of Encouraging and assisting the contribution of private sectors on investment (largely the domestic investors which are engines of sustainable economic growth is imperative. Apart from this, the most important job of the government, basically in developing state like Ethiopia is enabling the public sector to actively participate in the economy where the private sector is incapable to invest (EEA, 2000).

5.4. Developmental state Approach: Success and Challenges

Chalmers Johnson is scholars who has pioneered and fabricate the concept of developmental state. His definition was resulted from the research that he has conducted a study on industrial policy in Japan and the miracle of Japan economic development. He has defined developmental state as a state by which...

1. Its economic development is defined in terms of growth, productivity, and competitiveness, Constitutes the foremost and single-minded priority of state action.
2. Has a political system in which the bureaucracy is given sufficient scope to take initiatives and operate effectively.
3. Its politicians "reign" (control ;) while the bureaucrats "rule"
4. A **high degree of government intervention** has occurred to distort relative prices so that the desired levels of investment could materialize in the strategic sectors (Onis: 2011).

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Precisely, the term developmental state is largely used to refer to state-led economic planning *as experienced in the countries of East Asia* (UNDP, 2012)

How developmental state approach has evolved?

It was the success of state-led economic development in the 1970s and 1980s in East Asia gave rise for the growth of a new perspective in the development discourse, namely the developmental state approach. That is why Meyns and Musamba (2010) have defined “a developmental state as one whose ideological underpinnings are developmental and one that seriously *attempts* to deploy its administrative and political resources to the task of economic development”.

For the success of developmental state, the political and institutional system is required to be designed in such a way as to attract the best managerial talent available to the ranks of the bureaucratic elite. Accordingly, it demands a standard that ensured high degree of managerial capability. Furthermore, it requires a standard that can generate a sense of unity and common identity on the part of the bureaucratic elite to attain national goals (Onis: 2011). Generally, developmental state approach of development demands strong bureaucratic accountability and bureaucratic autonomy, "public-private cooperation in the process of policy formulation and implementation. It also needs extensive industrial and infrastructural investment which can be a base for subsequent industrial growth like in Korea (Onis: 2011). Their essentiality is to strengthen infrastructural power. This is because, "Infrastructural power” signifies the ability of the state

1. To penetrate the society,
2. To organize social relations and
3. To implement policies through a process of negotiation and cooperation in society (Onis, 2011).

Close cooperation and interaction among politicians, bureaucrats, and business elites has been the foundation stone of the developmental state. Unless the "autonomy" and cooperation requirements are satisfied, attempts to implement industrial policies will prove to be counterproductive (Onis: 2011).

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Developmental state is also characterized by the existence of a significant degree of institutionalized interaction and dialogue between the state elites and autonomous centers of power within civil society (*Ibid*). Since developmental state is an interventionist state, the type of intervention associated with the developmental state embodies three major components.

First, direct ownership and control of industrial production is of secondary importance as compared with the process of building up economic infrastructure through education, training, and research. Second, the state performs a key role in the promotion of cooperative labor-management relations. Third, and most significant, the state undertakes a leading role in the creation of comparative advantage (Onis, 2011). Accordingly, private sectors, for instance, may be obligated to couple up with the preference of a state that it wants to produce.

It is true that developmental state approach acquires its origin following the successful development experiences of East Asian countries (Meyns and Musamba, 2010). The analysis of Chalmers Johnson implies that the East Asian countries' achievements were based neither on Soviet-type command economies nor on laissez-faire free-market economies, but on "market-conforming methods of state intervention", i.e. a "capitalist developmental state" (*Ibid*). For this end, developmental state, among others has Institutional features. The basic institutional feature is the existence of inexpensive, professional and efficient state bureaucracy. That is why scholars have argued that "the efficacy of the developmental state depends on a meritocratic bureaucracy" (Musamba, 2010:14).

5.4.1. Factors that Determine the Conditions of being Developmental State

Leftwich (2000), have argued on how the emergence and consolidation of a developmental state is conditioned by the following six major factors.

1. Governed by political elite which is developmentally-oriented and which demonstrates high levels of commitment and will in attaining economic growth.
2. Managed by a powerful, professional, highly competent, insulated and career-based bureaucracy.
3. *The presence and role of civil society* has been weak, negligible and subordinate.

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4. exhibit high levels of capacity for effective economic management of both domestic and foreign private economic interests
5. These states exhibit a record of an uneasy mix of repression and poor human rights adherence (especially for undemocratic developmental states)
6. The legitimacy of the political elite to govern is tightly linked to the state's ability to perform (not via the form of government). That is why most developmental states are autocratic.

Leftwich observes that while most of the regimes in developmental states were undemocratic, they tended to be sufficiently developmental (Leftwich 2000). That is why Leftwich argues that the development performance of a particular country is not a function of the regime type. Rather, it is decisively influenced by the “character of the state and its associated politics” (Leftwich 1993).

5.4.2. Globalization and Developmental State Approach

As it is stated by Musamba (2010), state power has actually played a key role in advancing the process of globalization. Globalization has led **neither to the erosion of state power nor to intense global integration** of economic activity (confrontation role of a state). Weiss (2000), concludes that the **developmental state can and has survived** both the external reformist pressures and competitive pressures generated by globalization. Weiss and Musamba have argued that developmental states have the capacity to create tools that enable them to adjust more effectively to the external environment and more importantly, facilitate the internationalization of state capabilities leading to “state-facilitated internationalization” (Musamba, 2010, Weiss, 2000).

5.4.2.1. The General Defining Features of Developmental State

There are four major defining features of developmental state. These are:

- A. Development-oriented political leadership
- B. An autonomous and effective bureaucracy
- C. Production-oriented private sector and
- D. Performance-oriented governance

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A. Development-Oriented Political Leadership

It entails the leadership which is bound together by a powerful economic and political ideology that focused on development. Accordingly, political elites are demanded to devise (formulate) or create functional state institutions that facilitated both political stability and economic development. For this end, **Leaders** of developmental state are either relatively uncorrupted, non-predatory or had limited personal gains. Thus did not impede (hamper) investments but rather facilitate the expansion of national productivity (Musamba, 2010:23). Corruption is an impediment of investment and development; and that is why developmental states have less corrupted leaders.

State-directed development under the developmental state approach is not just about policy. But, more importantly, it is about sustained political will to govern the market in accordance with development aspirations which can be tested practically (Musamba, 2010).

B. Autonomous and Effective Bureaucracy

This feature implies the existence of bureaucracy which has an outstanding *autonomy*, capability and status of being effective. Accordingly, bureaucracy prioritizes meritocratic recruitment, provides promotion incentives, shows rationality and guarantees high levels of prestige and legitimacy to bureaucratic officials. Accordingly, the state itself is disciplined in a manner that prevented predatory and disruptive rent-seeking behavior or the abuse of power.

C. Production-Oriented Private Sector

Production oriented private sector is the centre of the rapid progress of industrialization and modernization. To create production-oriented private sector, the state will intervene to promote the interests of the business sector, create conditions for capital accumulation and productivity improvement. For this matter, the state may use instruments of

- ❖ Selective and strategic use of “protectionism”,
- ❖ provision of industrial subsidies and programs tied to performance standards and targets, and
- ❖ The creation of business coalitions amongst industrial capital and financial capital and the state (Musamba, 2010).

D. Performance-Oriented Governance

One of the fundamental defining features of developmental state is performance oriented governance. The future aims to realize economic growth with equity through alleviating problems of poverty and unemployment, among others. Performance orient governance is associated with promoting rapid economic growth and providing economic benefits to both the ruling elites and the general citizenry. Thus, the feature extends beyond the achievement of economic growth and developmental state does not stop on the materialization of income growth. Additionally, records in terms of improvements in infant mortality, life expectancy, educational achievements and other indicators of ‘human development’ have also been very impressive, even considering their income growth” (Chang , 2006).

Generally, there are two major issues worth noting with regard to the governance- orientation of the developmental state.

- **First**, the ruling elites in these countries demonstrated high levels of commitment to poverty reduction.
- **Second**, they began to address equity concerns from *the early stages of the transformation process*.

That is why the rapid industrial growth in East Asia was paralleled by a favorable pattern of income equality, low unemployment and the near elimination of grinding poverty. Governments “Legitimation occurs from the state’s achievements, not from the way it came to power” (Johnson 1999).

5.4.3. Developmental State Approach and Democracy

There is a debate for the incompatibility and compatibility of developmental state with democracy. However, the belief is the essentiality of democratization for developmental states to attain development. Accordingly, even if their number is different, there are few democratic developmental and many authoritarian developmental states. Thus, it is possible and essential for developmental states to be democratic. The reason is that the persistence of authoritarian system is a major hindrance for political development and economic progress (Randall, 2007). This is because democracy has a critical role to play in enhancing the effectiveness of the state in development (Rueschmeyer, 2005).

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Furthermore, a “democratic developmental state” characterized by strong systems of checks and balances is valuable for the African context. This is true as it is learned from the experience of Botswana and Mauritius, successful examples democratic developmental states of Africa (Mkandawire, 2005). However, a majority of developmental states were found to be intolerant to dissenting voices or to social groups they considered to be economically unproductive (Kwon, 2007). However, there is incompatible relationship between democracy and developmental state. It is due to the existence of incompatible relationship between “developmental state” (social and economic development) and democracy that we are observing democratic developmental states.

5.4.3.1. The Notion of Democratic Developmental State

The concept of democratic developmental state denotes that a given state can be a developmentalist and at the same time advance democratic values for the two can arguably reinforce each other. Developmental state is guided by the goals of coherence and authoritative governance, accountability, inclusiveness, stability, ability to generate consensus and popular participation. For a sustainable economic nationalism, which is a key for the existence and functioning of a developmental state, democratic governance is necessary, and experts argue that the notion of democratic developmental state “makes liberation (of the people, state, society and economy) from domestic tyranny and foreign domination fundamental to democratization, democracy and development (UNDP, 2012). Based on this premise, what the democratic developmental state requires is a political system that is able to accommodate diverse political interests and voices. One can conclude from the foregoing, then, that “a developmental state and democratic governance are not antithetical to each other” and “indeed, they are complementary and as such can reinforce each other” (UNDP, 2013).

Some argues that developmental state without democracy is not only impossible (because such a state lacks the much needed consensus among the populace and coherence in the state) but also unsustainable in the longer term (for there is a limit to legitimacy that emanates from economic performance) (*Ibid*).

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