POLITICAL TRANSITION AND THE MOBILIZATION OF DEVELOPMENT AID IN ETHIOPIA

by

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1. Introduction

An interim government will shortly be established in Ethiopia to administer what is planned to be a two-year period of transition to a pluralistic policy. Although the transition is essentially political, there is no doubt that its outcome will be influenced by the state of the country's economy in the coming two years or so. Apart from dealing with the immediate task of organizing the relief and rehabilitation of victims of the war and drought plus demobilized soldiers, the interim government will have to take measures to reestablish links of the economy that were dislocated in the course of the last phase of the war, particularly in the foreign trade sector, banking and public finance. Less obvious is the need for ensuring continuity in the implementation of existing development programmes and the process of the formulation of new ones throughout the period of transition. Regardless of the political outcome of the transition, the country cannot afford a two-year time out of the preparation of development projects or the mobilization resources for their implementation.

This paper reviews the role, sources and utilization of international development aid to Ethiopia during the eighties in order to assess the prospects of the flow of external finance into the country in the course of the envisaged transition and beyond.

2. The State of the Ethiopian economy

By nearly all conventional indicators, Ethiopia is the least well off of the countries in Sub-Saharan Africa in which the majority of the least developed economies are found. Its GNP per capita now stands at less than half of the average within the low income group of the sub-continent. Infant morality is much higher and average life expectancy shorter in Ethiopia than anywhere else in the Horn and East Africa. The daily calorie intake of the average Ethiopian is lower than that of the average Sudanese, Somali, Tanzanian, Kenyan or Ugandan, who also has better access to modern medical services and formal education. Traditional agriculture dominates the Ethiopian economy more that it does most Sub-Saharan economies with 85 per cent of the population engaged in it to produce around 40 per cent of the GNP and just under 90 per cent of the country's exports. Ethiopians save or export a far smaller share of their output and have less access to imported goods and services than most other Africans. The Ethiopian economy is also losing the natural resource base of its agriculture probably faster than any other country on the continent through soil erosion and devegetation.

With the destruction of a growing part of its countryside through famine or starvation following almost regular spells of drought, Ethiopia has become the symbol of the economic crisis the subcontinent has been undergoing since the mid-seventies.

Per capita GNP fell at an annual average rate of 3 per cent in most countries during the 80s. While the rate of fall for Ethiopia was much lower at less than two per cent, the extremely low level of the base figure of the early seventies meant that the fall in per capital income in Ethiopia translated into the far greater social catastrophes of famine and the dislocation of entire rural communities.

Nearly 60 per cent of Ethiopia's GNP is now recorded as agricultural. However, the following should also be noted. First, in dualistic economies like Ethiopia's where factor mobility between the traditional rural sector and the relatively modern urban enclave is limited, and where economic power of communities merges with political power, the relative prices of the output of the rural sector reflect the tendency of urban political power to dictate the distribution of income that favours urban economic activities against rural ones. Figures on the relative share of agriculture in GNP do not therefore indicate productivity differentials in the same sense as they do in industrialized market economies. Secondly, the relative share of agriculture in the commodity sector is more than 70 per cent and the larger part of the sector's output is food and hence a necessity, the demand for which is universal. Third, the foreign exchange earning capacity of the economy is almost entirely agricultural while probably as high as 50 per cent of the net output of urban industry depends on local supply of agricultural raw materials and nearly all of it on imported inputs. In contrast, only a small fraction of agricultural output in the country depends on local urban or imported inputs.

The agricultural crisis of the past two decades has consequently produced frequent and major upward shifts in prices in urban areas that have consistently redistributed income against low and middle income employees of the public sector who probably constitute the majority of urban income-earners. The crisis has also meant stagnation in foreign exchange earnings. In the face of growing debt service payments the absence of direct foreign investment and insufficient access to grant aid this resulted in a rapid fall in the country's capacity to pay for its imports without recourse to external borrowing which is increasing the debt burden and thereby reducing import capacity even further. An ever-diminishing import capacity in turn means growing under utilization of existing industrial capacity, as well as less ability to finance replacement investments with all the implication this has for employment, productivity and price levels in urban economic activity.

Between 1980 and 1987, the ratio of the excess of the value of import over export earnings to the value of exports nearly doubled from around 70 per cent to 167 per cent the foreign exchange revenue gap increasing from US$ 291 million to US$ 623 million. Meanwhile the resulting increase in dependence on external finance increased external debt by more than three fold from US$ 701 million to US$ 2,434 million and the ratio debt service payments from less than a tenth to about a third of export earnings. The debt service ratio for the average Sub-Saharan economy is currently at half of this figure.

3. Development Aid in the 1990s

While a symptom of the economic crisis Ethiopia has been undergoing over the past two decades, the current magnitudes and rates of growth of its foreign exchange gap and external debt burden suggest that the crisis would have been of more severe social and political consequences than it has been without the flow of external capital primarily in the form of relief assistance and medium and long-term development aid from United Nations Agencies, the World Bank group, other multilateral and bilateral sources the more important of which have been East European countries, Italy, the United States, Germany and Sweden. Since the 1984-85 famine international NGOs have also become increasingly important sources not only of relief assistance but also the financing of rural development programmes.

Between 1980 and 1985, annual disbursement of medium and long-term development loans from multilateral and bilateral official sources averaged US$ 241 million of which those from the World Bank group were 11 per cent, those from other multilaterals (i.e. the ADP, EEC special action, account, International Fund for Agricultural Development at the IMF), 13 per cent, OECD bilateral 20 per cent, Eastern Europe bilateral 16 per cent and other bilateral 16 per cent. by 1988 the country's medium and long-term outstanding and disbursed debt on account of official multilateral creditors stood at US$ 2,317 million in addition to publicly guaranteed US$ 400 million to private creditors and US$ 104 to the IMF. Official grant development assistance over the entire decade averaged US$ 196 million annually of which UN agencies and the European economic Community accounted for as high as 80 per cent the rest being from bilateral sources.

Figures for the period 1980 to 1985 suggest a pattern of public investment whereby about a third of development assistance for the decade went to projects in transport and communication, and about 10 per cent to those in each of mining and electricity and water supply.

While the 80s represented a period of relatively fast growth in foreign aid, it is nevertheless the case that Ethiopia received far less than the rest of Africa did and at far worse terms. In 1980 official development assistance to Ethiopia was US$ 6 per capita as compared to US$ 25 per capita for the rest of Sub-Saharan Africa. The figure for Ethiopia grew to US$ 14 in 1987 against US$ 32 for Sub-Saharan Africa as a whole, US$ 102 for Somalia, US$ 39 for both Sudan and Kenya, US$ 37 for Tanzania, US$ 10 for Uganda and US$ 230 for Djibouti. While the relative share of grants to total official development aid was the same for Ethiopia as it was for the rest of the Sub-continent, Ethiopia's terms of external borrowing involved higher interest rates, far shorter maturity of loan and shorter grace periods. The average annual interest rates on external public borrowing for Ethiopia was 3.5 in 1980 and rose to 4.4 in 1987. The corresponding 1987 figures were 2.1 for the low income group of Sub-Saharan African economies and, within the Horn and East Africa, 1.1 for Somalia, 1.7 for the Sudan, 1.5 for Djibouti, 1.4 for Kenya, 2.5 for Uganda and 1.2 for Tanzania. The average maturity period for loans stood at 24 years for Ethiopia in 1987 as against 34 years for the low income group of economies in the Sub-continent and 29 to 37 years in the Horn and East Africa. Ethiopia also enjoyed an average grace period of 6 years on its loans as opposed to an average of 8 years for low income Sub-Saharan Africa.

According to the results of a recent World Bank study, Ethiopia and the rest of Sub-Saharan Africa must achieve an annual growth rate of 4 to 5 per cent in GDP over the coming decade in order to transform the current crisis of increasing food insecurity, rising unemployment an deteriorating living standards into a sustainable growth path. (World Bank, 1989). A separate study of the Ethiopian economy argues that this can indeed be achieved provided major policy reforms are made well before the mid-90s and external development averages US$ 994 million in the first half of the decade. (World Bank 1990). This amounts to a three fold increase in the average flow of development aid from what it was in the 1980s in nominal terms. Ethiopia's share in the flow of development assistance to the Sub-Continent has thus been small not only in comparison to what other countries received but also relative to the absolute needs of the country.

4. Influences on the flow of aid in the 1980s

Why did Ethiopia fail to attract international development assistance as much as the rest of Africa, and in volumes that the more desperate state of its economy demanded? The answer to this question is of obvious relevance to the prospects of the flow of aid from the coming years and the measures that need to be taken by the new policy makers to maintain that flow.

One possible influence on Ethiopia's share in the flow of aid to Africa is the history and nature of its international political relations with donor countries which has a direct bearing on the bilateral component of the total flow of official development assistance to the country. Over the 80s, the relative share of bilateral aid in total official development assistance averaged two thirds for Sub-Saharan Africa as a whole and ranged from two-thirds to four-fifths for countries in the Horn and in East Africa. The corresponding figure for Ethiopia, in contrast, has always been less than half with a much smaller volume of total aid. A possible explanation of this is that the rest of Africa has had better political relations with sources of bilateral assistance the most important of which have been North America, Western Europe and the Middle East. Unlike Ethiopia, most African countries have the advantage of special relations with the United Kingdom and France as former colonial powers. The relation between Ethiopia and the Middle Eastern donor countries has also been one of suppressed hostilities over the decade while this has not been the case with other African countries. Lastly Mengistu's regime was an enthusiastic combattant on the side of Moscow in the cold war, which, while of little significance to the international balance of forces was, nevertheless, sufficient to close off Ethiopia's access to Western development aid for which aid from Eastern Europe was too small to be a substitute.

Another influence on Ethiopia's share of international development aid to Africa over the last decade has been the economic policy of the old regime. For most of the decade, the policy was one of persistent drive towards the urbanization of village production, the nationalization of all rural trade, agricultural marketing, finance, large scale urban industry and real estate development and foreign trade.

By the mid-eighties, the policy resulted in an over-extended public sector not only of civil administration but also the central management of urban economic activity and the flow of resources between towns and the countryside. It also converted the rudiments of urban entrepreneurship of the seventies into a growing rentier community of civil servants and dealers that lived on speculation on the flow of merchandise between official markets and free markets that inevitably developed parallel to them. This institutional framework was reinforced by a set of pricing and credit policies that were a disincentive to rural growth and industrial expansion by siphoning off resources from peasant agriculture to urban consumption and from industrial production to commodity speculation. The evident correlation between the policy and the trend of decline in rural and urban standards of living on the one hand, and rising unemployment, price instability and sustained balance of payment difficulties on the other, was bound to put off not only the World Bank and the IMF but also bilateral donors whose attitudes towards recipients are always decisively influenced by the former.

In a document that set the tone for donor policies towards Sub-Saharan Africa a decade ago (World Bank, 1981) the World Bank acknowledged the contribution of adverse trends in international terms of trade and population pressure on national resources, and social infrastructure to the economic crisis in the Sub-Continent. But it also stressed that government policies were equally to blame. The policies which generally stifled private enterprise were a disincentive to small farmers as the main supplies of food and agricultural exportables, encouraged inefficiency in public enterprises through mismanagement and excessive protection from both domestic and international competitors, and discouraged domestic savings and production for exports through generally negative real interest rates and overvalued domestic currencies. Development assistance should be conditional upon and in support of structural adjustment programmes inclusive of the liberalization of trade and exchange rate policies, the encouragement of private enterprise, changes in spending taxation, pricing and credit policies towards improving the incentive structure of the economy, reduction in public budget deficits and tighter control over monetary aggregates. The more comprehensive and radical a country's adjustment programmes, the greater the level of aid it should deserve.

By the end of the decade, 19 countries in the Sub-Continent had undertaken structural adjustment programmes of this kind thereby being eligible for more aid through one of the special financial support programmes of the World Bank and the IMF and attracting greater bilateral aid (World Bank, 1989). Ethiopia was classified by the World Bank among the non-reforming or weakly reforming group of 12 countries in the Sub-continent and therefore had little access to adjustment lending, was less attractive to bilateral donors on that account, and would have received less aid than it did were it not for the impact of the 1984-85 famine on the attitudes of governments and the public.

Towards the end of the decade, East European aid to Mengistu's regime suddenly diminished which left it with no alternative to the liberalization of its economic policies as a means of securing greater access to World Bank, IMF and Western bilateral aid. By early 1990 the government appeared to be ready to reverse the policy trend of the preceding 15 years and solicit western aid under any terms. However, the legislative process of the required policy reform was overtaken by the breakdown of the policy making process and the eventual fall of the government.

A third influence on the flow of official development assistance was the civil war itself which forced donor governments and multilateral sources to believe that official development aid to Ethiopia amounted to indirect financing of the Government's war effort to the extent that such aid substituted domestic resources that were diverted from development projects to the military.

Lastly we should note that the magnitude of aid to a country depends on the efficiency of its own institutions in the mobilization of foreign financing. Other things being equal, the total volume of assistance should be higher the greater is the scope and number of bankable development programmes or projects that the country's policy making and planning apparatus is able to formulate and present to potential donors.

By the mid-80s government planners had accepted, at least on paper, disaster preparedness and prevention, food self-sufficiency, national resource conservation, export promotion, and human resource development as priority objectives of development endeavours for which external financing would be sought. While this largely agreed with donor priorities of the 1980s, the planners had yet to translate these into a concrete public investment programme.

5. Prospects for the 1990s

There is no reason to suppose that the determinants of the volume of foreign development assistance will be any different in the 90s from those in the 80S. Whether or not Ethiopia will be able to attract the aid required for it to come out of the current economic crisis before the year 2000 will continue to depend on its political relations with donor governments, the compatibility of its economic policy with donor preferences, the degree of its political stability and the country's capacity in the preparation of development projects and programmes.

The end of the civil war should enhance the prospects of more bilateral aid to the extent it is likely that the new government will have better relations with the West and Middle Eastern countries and multilateral sources see less risk of indirectly financing civil strife. Prospects should be even better if the interim government implements an economic reform programme that is consistent with donor policies. However, whether or not this is likely to be the actual case cannot be told at this stage. It is also uncertain that the interim government will be determined to ensure the minimum continuity in the planning and policy making process that is required for the timely translation of development priorities into specific public investment programmes.

It is thus possible that the 1990s could see the flow of less aid to Ethiopia than the 1980s despite a better atmosphere of international relations. It is equally possible, though, that the interim government recognizes the crucial need for speedy policy reforms toward economic liberalization and maintaining continuity in the process of development planning during the transition period, in which case the country's prospects of attracting development assistance should be much better than they have ever been.

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