

**ETHIOPIA**

***TASKS OF THE TRANSITIONAL GOVERNMENT IN  
THE INITIAL PERIOD OF ECONOMIC RECOVERY***

by

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The long and bloody wars waged on all the fronts of Ethiopia are over and the military rule that dictated the country for 17 years has ceased to exist now. The major fighting liberation fronts came into agreement first in London in May, 1991, under the peace negotiation effort of the US State department and then at the July 1991 conference held in Addis Ababa, Ethiopia. The 30 years war of Eritrea at last was solved. Ethiopia and Eritrea had agreed in principle to establish transitional governments in their respective territories. The Eritrean provisional government promised to hold a referendum, in two years time, on whether to stay with Ethiopia or split. The transitional government of Ethiopia promised to go to democratic rule, to allow a multi-party system and finally to conduct elections.

Thus the end of the war in Ethiopia has opened a new chapter- the chapter of economic recovery. It is in this light that I present this introductory note which is too general to identify in which direction the efforts of the economic recovery should focus. If time and other conditions allow, it is the hope of the author to take up the issues further and to detail the suggestions made.

## **I. Background**

The documented history of Ethiopia refers back to millennia. In this history we learned that the country was culturally rich with resources enough for its people and even for its surroundings. Opposed to these, our contemporary history is full of misery, political chaos, war crimes and violation of human rights. The name Ethiopia to many people in the world today is synonymous with human misery, a qualified standard of measurement for malnutrition and chronic famine.

This of course is not without reasons. From time immemorial to the present day, the peoples of Ethiopia have always been at war among themselves on the one hand and against foreign aggressions on the other. In our long history we did not have any meaningful peace devoted to economic activities. The major part of the present Ethiopia was formed as a result of series of wars rather than economic integrations. This may be true in many processes of state formations undergone by several stable nations of today. Our peculiar position however, was that in all these long years we never had the time to iron out our differences by democratic means.

Prior to the 1974 revolution Ethiopia was characterized as a semi-feudal and semicapitalist country. The economic life under Haile Sellasie's, like that under his predecessors, was based on the land and its peasants. The feudal landlords, the high military commanders and the higher clergy collected the fruits of the peasant's labour and entertained the life style of the affluent West.

The few industries that the country possessed were mainly based on agricultural output. The mining industry was not developed and the little revenue the country got from gold had never been fully accounted to the public. The foreign currency used to buy luxurious items from the West was mainly extracted from the export of coffee, hides and skins. etc. etc..

The intolerable misery that this regime brought to the people at last paved the way to the 1974 revolution which dealt away with the feudal class and distributed land to the tillers. In this respect, the revolution of 1974 was undoubtedly successful. But this success by and large seems to be anchored there.

The Ethiopian people's dream for peace, democracy and betterment in their living standard for the first time, at least in the form of a decree, appeared in the 1976 Programme of the National Democratic Revolution.<sup>1</sup> But this programme did not live long and no attempt was made to put it into practice. The military government which snatched political power from the people's revolution of 1974, instead came out with an alternative declaration of full fledged war on all the fronts. The country's available resources were mobilized to the war fronts. Well over 60 per cent of the country's annual budget was allocated to wars for the whole 17 years of Colonel Mengistu's regime.<sup>2</sup> Nearly all available human resources especially the peasants who were supposed to feed the nation and the huge army garrisons were also forced to join the war. Where over 90 per cent of the economy of the country is based on peasant farming, one need not necessarily be an economist to understand the disaster this created.

Parallel to its war economy the military government declared another catastrophe: forced collectivization, geared to feed its bulk military force. The collectivization forced between 700,000 to 1,000,000 peasants<sup>3</sup> to be displaced. The meaningless wars in all fronts of the



country and the dictatorial military rule at the centre forced thousands of people to flee from the country. As a result the country has lost its productive human resources which are essential for any economic development.

Today Ethiopia is facing sever and chronic problems that need immediate attention. The following few examples may explain the depth and dimensions of some of these problems.

- According to the 1991 report of the Economist Intelligence Unit's (EIU), of the total 55 million ha of potential agricultural land only 7 million ha is currently farmed<sup>4</sup> i.e only 13 per cent of the cultivable land is being used. In a country where famine is very acute how could one explain this? Apart from the useless wars that took the farmers away from their land the dimensions of this problem is also widened by the shortage in the instruments of production--the lack of oxen to plough the land. In one study it was revealed that up to 50 per cent of the households do not own oxen.<sup>5</sup> Thus the choice left to the broad peasantry are either to rent or borrow oxen which is difficult in both cases or abandon their farms altogether.

- A recent report by the UN's Food and Agriculture Organization (FAO) underlines the fact that if the population and agricultural output trends of the country are not reversed, Ethiopia will face a higher grain imports bill. The organization suggests an increase of 4 per cent in agricultural output<sup>6</sup> and check in the population growth. A similar study of the World Bank (App. Diagram 1.) reveals that the agricultural production in Ethiopia has a negative growth rate during the whole of 1980s- in fact much less than the 1970s. In spite of these early warnings there is no sign of either an increase in agricultural production or a decrease in population growth. Instead the current crop production shortfalls are estimated at 500,000 metric tons.<sup>7</sup> The famine still continues and at present it is estimated that over 15 million people are affected.

- With regard to the increase in population, according to the Ethiopian Central Statistical Office's annual abstract, at present the country's inhabitants are well over 60 million, the demographic growth rate is nearly 3 per cent per year and the Ethiopian population will more than

double within the next 25 years<sup>8</sup>. This again means a further decline in food availability.

- The Mengistu regime always used to glorify the success of producers cooperatives all over Ethiopia. But in real terms producers cooperatives were virtually non-productive. The productivity of producers cooperatives had always been far below that of the individual peasants, and accounted for only 2 per cent of the total agricultural production<sup>9</sup>.

- Though land is said to be distributed to the peasants, because of lack of appropriate policies viz. ambiguity in ownership, lack of incentives, forced cooperative farm system, large numbers of peasants without access to the instruments of production (oxen and seeds), and the growing number of households with insufficient land to till, the agricultural sector became unproductive.

- Apart from the failures in the agricultural sector a major area of poor economic performance of the military government of Mengistu was the fall in terms of trade. The balance of trade with the major countries that deal with Ethiopia are all negative, with a deficit of nearly \$ 800 million per year.<sup>10</sup>

- The increase of deficit in foreign trade, deficit in public finance, low savings rate (a fall from 15 per cent in the 1970s to 2 per cent in the 1980s) combined with the huge purchase of arms, aggravated the country's external debt. Today Ethiopia has a net debt service ratio of 40 per cent, (as compared to a mere 5.8 per cent during the last decade).<sup>12</sup> This simply means that from the country's export revenue 40 per cent will go to the payments of interest and amortization of the loan. The overall economic growth (GNP) is as low as 0.8 per cent per year<sup>13</sup> and consumer price inflation is as high as 60 per cent.

After 17 years in power what the military government's balance sheet manifested were, inter alia: war, tyranny, excessive nationalization that discouraged the entire private sector, which hampered productive investment, increased bureaucracy and widespread corruption. The ill advised policy of nationalization and collectivization of all economically functioning sectors, including small and private firms, incorporating them into its maladministration (without efficient



management and qualification) were the main factors which ultimately ruined the economy.

## II. What are the immediate measures to get the economy going again ?

As it is stated earlier Mengistu's regime never had an economic policy appropriate to the needs of the people. The immediate task therefore is to agree on the kind of economy which suits the country.

First, as to the question of socialist or planned economy whether Mengistu had a socialist economy or not remains an academic debate. The points are: (a) because of the blunder made by Mengistu and his socialist party in Ethiopia, (b) taking into account the present situation that took place in the former socialist countries, it is not an economic system to advocate for today.

Second, the current option that some people suggest today is to follow the market economy model. I personally argue against the full fledged market economy system for our country today. This is because the country does not have the necessary preconditions for the implementation of market economy. Reasons:

(a) We do not have a functioning market; (b) we do not have policy sensitive and market oriented entrepreneurs; (c) the country suffers from brain drain and from the lack of managerial capacities; (d) we have lost our skills and knowledge of international terms of trade for nearly two decades; (e) we have lost our knowledge of negotiations and communications with different transnational firms, and the trust of many transnational firms for Ethiopia has been levelled down to the ground; (f) we do not have the necessary institutions to promote open market economy and draw the necessary outlook.

For these and many other reasons I argue that at least at this initial stage the country may not be ready for a full fledged market economy and for open competition without any kind of prior protection.

At this initial period of economic recovery therefore the option seems to be a **mixed economy** in which the state and the private sector play the major role. It may not be the time and place to go in to the details

of mixed economy but we know that **democratically elected government in the political sphere fits with the policies of a mixed economy**- as has been seen in many Western democracies.

After stating which kind of economy is suited to us let me proceed on the discussion of what kind of measures should be taken to get the economy going again. Before doing this allow me to point out briefly that the suggestions are based on certain assumptions. These are: (a) my assumption that a transitional government is a democratic government. (b) as the name suggests it is just a transitional government which remains in power for 2-3 years say and this period paves the way for a democratic government, for the rule of the law and free economic enterprises.

### III. Immediate Measures: Focuses

1.- In order to have some positive effects from any economic undertakings it is essential that there be **democracy and full participation of the people** in business and in all other public activities. Therefore, the declaration of full democratic rights- right to enter and exit in any business, right to assemble, to be organized and freely enter in discussion in favour of or against any ideas, etc, without any fear of political repression- are the stepping stones to any positive and healthy economic activities.

2.- The economy of Ethiopia is based on the agricultural sector therefore, it is of vital importance that the **hundreds of thousands of militia** mobilized by the military government on the one hand and the different national liberation fronts on the other should be **demobilized** and immediately **return to their villages** and resume their normal life.

3 - Nearly one million peasants have been displaced in the name of villagization during the military rule and these people at different times had explained their unwillingness to live and work under the conditions laid down by Mengistu's regime. Hence they must get the necessary help to return to their villages and resume their normal life. In connection with this the forced cooperative societies should be immediately dismantled. It may start in a voluntary and persuasive manner, if needed.



4 - As compensation to the benefit the peasant lost during the wars and the forced displacement/ villagization I argue that they are entitled to get some sort of help say, in the form of instruments of production like oxen, initial help in seeds, and should be exempted from income taxes at least for two years to come.

5.- The present state farms which in many cases are nationalized from individual farmers by and large are unproductive. It should be one of the tasks of the transitional government to seek means that can increase their effectiveness or else hand them over to private or group ownership -at least those which are not operational. In connection with this the development of commercial farms, for domestic consumption as well as foreign currency, ought to get due attention.

6.- Though the land reform in principle was correct there should be a review of the land reform to deal with the bottle-necks which hampered better production such as inefficient method of distribution of land, bills that forbid the farmers to sell their products in open market.etc. Instead the country's agricultural policies should open incentive windows such as tax exemptions and/or reduction, low price for fertilizers, help in transport, help in building grain stores, help in agricultural extension advisers.

7 - With regard to business the transitional government must be able to give full guarantee in law and in deed that the fruits of the labour first go to the people who took the risk. The idea of entering into business undertakings and self-employment in general should be encouraged, respected, and should be seen as undertakings in the right direction.

8 - In countries like Ethiopia the state could not give employment to all its citizens that seek employment. It is the task of the transitional government to adopt policies that encourage entrepreneurship, adapt programmes of development through enterprises, encourage income-generating activities, create conditions for the private sector and prepare an outlook, a strategy in which the idea of entrepreneurship should be inculcated to youth.

9 - The existence and development of small and cottage enterprises are the pre-conditions for any economic growth. Therefore, as a sign or



gesture of the new economy the nationalized small and cottage enterprises should be denationalized.

10 - Since the country has neither working capital to start with, nor enough know-how, or material wealth which can be transformed for any immediate use I argue that a corridor for foreign investment. "economic free zone" that can operate under the principles of mixed economy should immediately be opened.<sup>11</sup> Equally, investment by Ethiopians living abroad is vital. Ethiopians residing abroad can be potential investors in many economic sectors starting with tourism, construction and helping their families in starting small enterprises. Therefore, it is one of the tasks of the provisional government to provide appropriate economic policy and create political stability to achieve this objective.

12 - Cancellation of all debts especially the debts incurred to purchase arms, should be asked from the concerned governments and negotiation should immediately be taken up to write off other loans which the country is in no position to repay.

13 - Re-thinking on the educational system or investing in people is one of the primary tasks of the transitional government. Though we know all sorts of education are needed in our country the emphasis today must mainly lie on reconstructing the ruined economy. This in turn is directly dependent on the education system and there should be a focus on people to work with their own hands - like producing more intermediate technical officers, agricultural facilitators, business animators, health officers, midwives and fewer political officials. Yesterday's slogan "all to war fronts" should be replaced with slogans of economic recovery- like all to work and work for all; all to their professions and professions for all.

14 - Among the many problems the country is facing today, rapid deforestation, soil depletion, over grazing, over cutting etc. are very alarming. The deforestation has reduced plant cover from 40 per cent to 2.7 per cent of surface area only in the last five decades. Between 50-60 per cent of rainfall is lost as run-off, eroding an estimated 2-3 billion tonnes of topsoil annually<sup>14</sup> etc.- unless something is done immediately we are destroying the very foundation on which our

development can be built. Thus the issue of environmental degradation should be dealt with from the very beginning.

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## Footnotes

1. Declared in April 20,1974.
2. Ethiopian: Svensk U-samarbete p.10
3. Ibid.,p.10
4. Rahmato, p.18.
5. EIU, p.27.
6. Ibid., p.27
7. Campbell,  
p.8
8. EIU, p.27
- 9..Hanssen, p.11.
10. Ibid., p. 5



11. Ibid., p. 4
12. Ibid, p. 4
13. SIDA, Fact Sheet, March 1990
14. Campbell, p.S.