*Student Economic Review, Vol. 19, 2005*

# ETHIOPIA: WHAT CAN BE DONE?

Jennifer Flynn

*Senior Sophister*

*Jennifer Flynn analyses the plight of one of the world's poorest countries in this case study. A look is taken at the extent and the causes of poverty in Ethiopia. The importance for development of good governance, labour mobilisation, access to education, and a move away from an overdependence on coffee exports is emphasised.*

## Introduction

Ethiopia has long been known as the cradle of humanity. It was from here that primitive man first emerged. Yet 100 million years later, Ethiopia is in crisis. 62% of the population live in what the United Nations describes as absolute poverty. The extent of the poverty facing the Ethiopian people is staggering. Wherever you look, throughout the country, the indicators of poverty – subsistence farming, hunger, high mortality rates – can be seen.

The causes of poverty in Ethiopia are the same as they are in most other Less Developed Countries (LDCs). An over-reliance on agriculture, a lack of infrastructure, war, poor education, and trivial levels of livelihood diversification are all to blame. Throughout the world, these problems are universal to LDCs, and in order to overcome poverty, they must first attempt to overcome these obstacles.

Both the government of Ethiopia and the various international agencies at work within the country have come up with remedies to the widespread poverty. The current government has put both the Ethiopian Country Strategy Paper and the Poverty Reduction Strategy Paper (PRSP) forward. These focus mainly on an agriculture-led rejuvenation of the economy. The World Bank has itself created seven policies, which it believes will reduce poverty in the developing world. These policies, while having some merit, do not seem to be having the desired result.

An alternative policy, which I will explore, is one supported by many economists when assessing the feasibility of developing world growth. This is the theory of labour mobilisation.

## Extent of Poverty

Ethiopia is frequently described as the poorest country in the world. 26.3% of its population live on less than $1 a day (World Bank 2004a). Its Gross National Income (GNI) per capita in 2003[1] was $90 (World Bank 2004b). This contrasts starkly with the 1982 figure of $130 per capita (Cornia et al 1992).

One of the largest recipients of foreign aid, it is also one of the most indebted countries in the world. Between 1996 and 1999, disbursements from the Organisation of Development Aid (ODA) accounted for an average of 44% of the Federal Ethiopian budget per annum (Joint Committee on Foreign Affairs 2003). The 2000/01 budget allowed for $700m in external grants and loans (ibid). Yet in the same fiscal year, Ethiopia had $5,614m of debt, which cost $232m to service (ibid). External debt accounted for 88.2% of GNI (World Bank 2004a).

Like most LDCs, the population is employed mainly in economic activities based in rural areas. 85% of the labour force is employed in agriculture, and three quarters of the population rely on it as their only source of income (Griffin and Graham 1992; Parker 1995). These landholdings are usually only one hectare in size, which is barely large enough to feed the average family of five to six (Cornia et al 1992).

The result of this subsistence farming is hunger and malnutrition, which are both signs of poverty and underdevelopment. The average daily caloric intake in Ethiopia is 1,621 calories per person (Parker 1995). 60% of children suffer from stunted growth as a result of hunger and malnutrition. This will result in them never reaching their full adult size and will also compromise their health in years to come (Buerk 2004). 17% of children will die before their fifth birthday (Joint Committee on Foreign Affairs 2003).

Famine is also a recurring and tragic problem for the people of Ethiopia. Three major famines have taken place since the 1970s. These have resulted in massive loss of life, and have also locked Ethiopia into a vicious cycle of continuous poverty, as after the famine ends, the people no longer possess the tools and skills necessary to get the economy back on its feet. Agricultural output has fallen to less than a third of what it was in 1960, yet the population is increasing by an average of 2.8% per year (Abegaz 1994). Seven million people starved during the famine that so shocked the world in 1984. Last year, aid agencies had to feed 14 million (Buerk 2004).

Other indicators of poverty are a lack of access to education, clean water, and sanitation, as well as high mortality rates. Ethiopia is among the worst

[1] The last year of available data.

performing countries when these factors are taken into account. Secondary school enrolment is 10%, while access to sanitation is 18% (Joint Committee on Foreign Affairs 2003). As of 2000, only 24% of people had access to clean water, and these were mainly in the urban areas (UNDP 2004). Life expectancy has fallen from 45 years in 1990, to 42 years in 2002 (World Bank 2004a). This is mainly attributable to the spread of HIV/AIDS. It is estimated that 2.1 million of the 65 million population are infected. 160,000 people died of the disease in 2001, and there are approximately one million AIDS orphans under the age of fifteen (Joint Committee on Foreign Affairs 2003). In conjunction with this, poor sanitation and healthcare means more than 80% of mortality is due to "diseases of poverty" such as diarrhoea and malaria (Ahmed 1992).

## Causes of Poverty

There are a myriad of reasons why Ethiopia continues to experience serious poverty and lack of development. Amongst them are over-farming of the land, a reliance on coffee as a source of export income, lack of infrastructure, little diversification and the prevalence of conflict in the region during the last twenty five years.

### Agriculture

Dreze and Sen tell us that famines such as those experienced repeatedly by Ethiopians are primarily due not to a lack of food, but rather with an inability to purchase it (1989). There is evidence that during the 1973 famine in Wollo province, prices for food in the provincial capital, Dessie, were no higher than they were in Addis Ababa. The problem here was that the poor's only source of income – their crop – had failed due to drought. Without a surplus to sell, they had no currency with which to buy the food that they needed (Sen 1999).

The reliance on traditional agriculture by Ethiopians over the millennia is also a major contributory factor to poverty. Traditionally agriculture is geared towards production for personal consumption rather than for sale. Ingham believes that "the low productivity of traditional agriculture is an important underlying explanation of rural poverty in developing countries" (1995: 275). The current land tenure system, whereby peasants do not own the land they cultivate, means that there is no incentive for growth or up scaling. The plot is forfeited if the farmer leaves it, thus the workers have no reason to invest in their land by buying tools or implementing irrigation systems (Buerk 2004).

95% of cultivated land is in the hands of peasant farmers (Ghose 1992). These people are usually from the poorest strata of Ethiopian society, and have farmed the same land for centuries. The soil in numerous places is seriously fatigued, and only 35cm deep in some upland areas. 1.5 million tonnes of soil are washed into the Blue Nile annually (Parker 1995). This effectively makes the land unviable as an area in which to grow crops. Yet year after year, these Ethiopians must try to grow something in order to feed themselves.

The reasons for the soil becoming so fatigued are manifold. Throughout the years, little thought was given to the potential damage that was being done by the intensive subsistence farming that was taking place. The poor "heavily discount the future and choose consumption over conservation" on the whole (Perkins et al 2001: 241). During the famines of 1973 and 1984, the poor sold their tools in order to buy food. This meant that when they returned to their land the following year, they had no implements with which to cultivate it. The price of firewood rose by 9% during the late 1970s, thus pricing many farmers out of the market. This resulted in them replacing firewood with dung. Whatever surplus they had from their animals, they sold. Inevitably, they soon experienced a severe lack of natural fertiliser, and thus, poorly nourished soil (Pomfret 1997). The soil also blows away due to the extreme deforestation that has occurred in the last thirty years. Parker tells us that there is now only one sixth of the forest cover that there was in the late 1960s (1995). One third of peasant farmers own no traction animals, and thus can't plough their land (ibid). All of these factors combine to make the reliance on agriculture in Ethiopia a major cause of poverty.

## Overdependence on Coffee

Ethiopia is the second largest coffee exporter in Africa, and the beans account for two thirds of its annual export income (ibid). The industry directly or indirectly employs 25% of the population (Joint Committee on Foreign Affairs 2003). This dependence on coffee for export income is ill-advised, as the world coffee market has plummeted in value over the last five years. While the price of coffee has been declining for decades[2], Ethiopia has been significantly affected since 2000. Its export revenue in 2000 from coffee beans was $420m. By 2003, this had fallen dramatically to just $175m (Joint Committee on Foreign Affairs 2003). This means that vast swathes of the population are earning less than half of what they were five years ago from coffee production. In this time, inflation has

[2] Using real product price indices (1971= 100) we can see that between 1971 and 1973 coffee was worth 116.21, while by 1992-1994 it had fallen in value to 50.37 (Lawrence & Belshaw 2002).

stood at roughly 5% per annum (ibid). The result of this is that "real" income for Ethiopia's coffee growers has declined sharply since the start of the decade.

**Infrastructure**

The lack of infrastructure in Ethiopia is also a significant contributor to rural poverty. Hardly any of the 20,000km of roads have tarmac, and the ones that do are generally very pot-holed (Parker 1995). Rural roads alleviate poverty by providing farmers with the opportunity to reach larger markets. There they can purchase necessary products more cheaply, and also sell their own goods at a higher market price (Perkins et al 2001). Many rural areas of Ethiopia are virtually cut off from the 18 large cities, as it would take days if not weeks to reach them. This means that rural producers cannot avail of a prevailing market price that might be more beneficial to them.

**Education**

Lack of access to education also means that the vast majority of the poor in Ethiopia have few marketable skills. In order for poverty to be alleviated, livelihood diversification is essential. With 85% of the population relying solely on agriculture as their income source, a drought or crop failure will inevitably bring disaster. Currently 49% of the population have no livelihood diversification activity (Carswell 2000). Activities which can be pursued for alternative income provision are casual labour, herding, trading, or formal employment. Without these additional sources of income, Ethiopia's poor will never be able to free themselves of the cycle of drought and famine.

A great many jobs, however, require a certain level of formal education. While public expenditure on education has increased from 9.4% in 1990 to 13.8% in 2001 (UNDP 2004), there are still huge sections of the population with little or no opportunity to attend school. Less than half of all school-aged children are enrolled in primary education, and adult literacy stands at 41% (ibid). Without a considerable increase in the availability of education, the vast majority of Ethiopians will not have the opportunity to seek alternative or additional employment to that in the agricultural sector.

**Conflict**

The final cause of poverty in Ethiopia is war. Conflict is one of the greatest impediments to development in LDCs. Not only is it expensive, it causes many other economic problems as well. The war with neighbouring Eritrea, which is currently under ceasefire, cost an estimated $2m a day during its duration (Buerk 2004). This is an extraordinary amount of government expenditure on current goods which has brought no benefit to the country or the populace itself.

Another problem that arises from conflict is refugees. War in Somalia and southern Sudan in the 1980s and 1990s brought an estimated 1 million people into Ethiopia. At one point, Hartisheik refugee camp could have qualified as the second largest city, housing about 250,000 people (Parker 1995). Not only do these people require food and shelter, they also need healthcare and education. Even providing the bare minimum necessary is an enormous drain on the government coffers, and brings little benefit to the economy as a whole.

The final problem Ethiopia faces because of conflict is what is known as the brain drain. The mass exodus of the educated for the countries of the developed world began during the civil war in the 1980s. Up to one third of qualified doctors have left Ethiopia in the last two decades (UNDP 2003). Universities need approximately 600 lecturers in dozens of subjects. The emigration of the educated middle class means that the skills and expertise needed to pull Ethiopia out of its poverty trap are missing.

## Policies to Relieve Poverty

### National policies

The current Ethiopian government has promised to implement some policies which it claims will allow Ethiopia's economy to expand. Ideologically Marxist, they are currently pursuing an agriculture-led policy which they believe will revitalise the failing economy. Along with this, the ruling Ethiopian People's Revolutionary Democratic Front has created a strategy paper and a Poverty Reduction Strategy Paper (PRSP). The major aims of these are:

- i. to focus on agriculture
- ii. to strengthen industry and improve infrastructure
- iii. to stimulate export growth with high value agricultural products
- iv. to invest in education
- v. to deepen decentralisation
- vi. to improve governance and reduce governmental waste
- vii. to implement agricultural research, water harvesting, and small scale irrigation projects
- viii. to increase water resource utilisation

**Problems with National Policy**

Without the correct support, however, the agriculture-led regeneration of Ethiopia will be a failure. The most pressing need in rural areas currently is irrigation and potable water. While the government has made commitments to increase water harvesting and implement irrigation schemes, it has so far invested little in these areas. The irrigation, projects that are being carried out are done on a small-scale by NGOs and Christian charities. While this helps some farmers, the vast majority are still facing another year of unfarmable land and no water. Without irrigation, tools, and fertilisers, it is impossible for Ethiopia to produce the high value agricultural produce that the government believes will stimulate export growth and lessen the reliance on coffee for foreign currency.

The insistence by the government that the peasants remain on their land may actually be hindering Ethiopia's economic growth (Buerk 2004). The current land tenure practice means that if a farmer leaves his land, he loses it. Many who fled the highlands during the 1984 famine looking for food or medical help faced this situation. Tenure insecurity means that there is little incentive for the farmer to invest in the land himself, and this is why the World Bank has advised that farmers be given assets.

There is also an argument that allowing the peasants to sell their land would actually stimulate the economy (ibid). Numerous small farms could be aggregated into one large farm, and thus take advantage of economies of scale. This would reduce production costs, which in turn would cause a fall in the prevailing market price of the goods. Larger farms with larger production volumes would also stimulate rural employment, not only in agriculture, but also in industries allied to farming such as food processing.

The government's strategy plan also mentions nothing of co-ops. Currently co-ops only account for 1.4% of the cultivated area and production in Ethiopia, and just 0.8% of peasants are members. Mirotchie argues that by biasing the distribution of yield-increasing inputs such as fertilisers and better seeds towards co-operatives, it would encourage more farmers to join (1994). In time, this would allow the co-op members to take advantage of economies of scale in harvesting and transport, and allow them to enter larger markets. The increasing revenue they received would spark a rejuvenation of the rural economy.

Gross school enrolment has improved in recent years, increasing from 33% in 1990 to 64% in 2000 (World Bank 2004b). Only about one quarter of girls are enrolled, however (Parker 1995). If development is to happen, the government needs to emphasise the importance of education for women as well as men. Educated women know more about sanitation and health, and tend to have fewer children. By educating this generation of girls, the government is investing in their children's futures.Another area in which the government has failed to look is the provision of health care. Parker found that at least 50% of the population wanted family planning, yet in 2001 only 8% of women had access to contraception (World Bank 2004b). The current population growth rate is 2.8%, which is unsustainable in the long-term (Joint Committee on Foreign Affairs 2003).

**Policy Alternatives**

One policy which has been put forth as an alternative by some economists is mobilisation of labour surplus to stimulate the economy. Pomfret argues that since farmers can only cultivate their land at certain times of the year, their main asset is their labour power (1997). Since this is Ethiopia's main resource, the surplus seasonal labour should be mobilised into capital construction projects (Griffin 1992). This would not only provide a floor to rural poverty, but would also:

i. increase land under cultivation
ii. increase yields through the use of land improvement projects
iii. increase the cropping ratio, e.g. through small scale irrigation works
iv. increase the productivity of labour
v. develop a local construction industry
vi. establish small workshops for agricultural products/tools
(Ghose 1992; Griffin 1992)

The end result of this mobilisation of labour would take the form of additional income for poor families, livelihood diversification, and long-term benefits to the rural economy via capital expenditure. These economists agree that the agriculture-led policy is appropriate, but also that industry should be encouraged. The increase in agricultural output will stimulate industry into producing agricultural inputs such as fertiliser, but also processing agricultural outputs for export (ibid). The ability to export will bring much needed foreign currency into Ethiopia and hopefully stimulate the economy further.

The World Bank has also come up with seven policies which it believes will reduce poverty in the developing world:

i. make labour cheaper in relation to capital
ii. give assets to the poor
iii. increase education
iv. implement progressive taxation

v. public provision of consumption goods to the poor
vi. commodity market intervention in order to aid the poor producers and consumers
vii. develop new technology, which will increase productivity

While some of these views are contentious, not all of them can be brushed aside. The provision of education has already been seen as essential for the development of Ethiopia. By allowing subsistence farmers ownership of the land they have tended for years, the Ethiopian government could stimulate the economy in a number of ways.

Other options will not work for Ethiopia, however. The massive surplus of labour in relation to capital already makes labour cheaper when compared to capital. The government needs to employ this labour and implement strategies to increase labour productivity, rather than take action to make labour cheaper.

The introduction of progressive taxation is also unfeasible until Ethiopia tackles its more pressing financial problems. A huge section of the population earns little or nothing. The creation of new jobs through labour mobilisation and rural regeneration will bring money into the countryside. However, the existence of progressive taxation may initially prove to be a disincentive to seeking additional work. Equally, the problem of corruption is rife in many developing countries, and thus, the Government itself must first take steps to improve the quality of their own governance, and set up a system of rules for their civil servants.

## Conclusion

Drought will always be a problem for Ethiopia, but its effects can be lessened through investment in better infrastructure, education, yield-increasing inputs, improved agricultural practices, more access to water and sanitation, and better healthcare.

The government has pledged to take the first steps necessary, but without the continued help of the developed world, further improvements in the state of Ethiopia's people and economy are unlikely. The main help needed does not take the form of financial or food aid. Instead, foreign governments and supranational bodies such as the World Bank and the United Nations must provide support and training for the government itself. Good governance is mandatory if any of the other policies implemented are to be successful.

Along with this, there must be an overhaul of existing employment and economic practices. Labour must be mobilised, and the provision of education, fertilisers, and irrigation must begin immediately. If all of this takes place, labour and capital productivity will rise, and the future may begin looking a little rosier.

Ethiopia was one of the first developing world countries to join the League of Nations in 1923 and make its voice heard. If Ethiopia wants to return to those glory days, it must first turn its back on the traditional economics it has practised and embrace the future.

## Bibliography

Abegaz, Berhanu (1994) "Ethiopian Economic Reform," in B. Abegaz (ed.), *Essays on Ethiopian Economic Development.* Aldershot & Vermont: Avebury.

Ahmed, Manzoor (1992) "A Floor to Poverty: Essential Public Services," in Keith Griffin (ed.). *The Economy of Ethiopia*. New York: St. Martin's Press.

Buerk, Michael (2004) "Going Back." *The Sunday Times*, Sunday 4th January, p.1.

Carswell, Grace (2000) *Livelihood Diversification in Southern Ethiopia*. Brighton: Institute of Development Studies.

Cornia, Giovanni Andrea et al. (1992) "The Supply Side: Changing Production Structures and Accelerated Growth," in G.A. Cornia, et al (eds.), *Africa's Recovery in the 1990s: from Stagnation and Adjustment to Human Development*. New York: St. Martin's Press.

Dreze, J. & Sen, A. (1989) *Hunger and Public Action*. Oxford: Clarendon Press.

Ghose, Ajit (1992) "Institutional Transformation and Agricultural Development," in Keith Griffin (ed.), *The Economy of Ethiopia*. New York: St. Martin's Press.

Griffin, Keith (1992) "Summary and Conclusions," in Keith Griffin (ed.), *The Economy of Ethiopia*. New York: St. Martin's Press.

Griffin, Keith & Graham, Andrew (1992) "The Commitment to Socialist Development," in Keith Griffin (ed.). *The Economy of Ethiopia*. New York: St. Martin's Press.

Ingham, Barbara (1995) *Economics and Development*. London: McGraw-Hill Book Company.

Joint Committee on Foreign Affairs (2003) *Project Ethiopia Report*. Dublin: The Stationary Office.

Lawrence, Peter & Belshaw, Deryke (2002) "The Non-Recovery of Agricultural Tradables and its Consequences for Rural Poverty" in D. Belshaw & I. Livingstone (eds.). *Renewing Development in Sub-Saharan Africa: Policy, Performance and Prospects*. New York: Routledge.

Mirotchie, Mesfin (1994) "Technical Efficiency of Ethiopian Agriculture," in B. Abegaz, (ed.), *Essays on Ethiopian Economic Development*. Aldershot & Vermont: Avebury.

Parker, Ben (1995) *Ethiopia: Breaking New Ground*. Oxford: Oxfam.

Perkins, Dwight H. et al. (2001) *Economics of Development*. London: WW Norton & Company Inc.

Pomfret, Richard (1997) *Development Economics*. London: Prentice Hall.

Sen, Amartya (1999) *Development as Freedom*. Oxford: Oxford University Press.

UNDP (2003) *Ethiopia suggests steps to turn brain drain into brain gain*. New York: UNDP, viewed 11th March 2005 <http://www.undp.org/dpa/frontpagearchive/2003/november/11nov03>.

UNDP (2004) *Human Development Report 2004*. New York: UNDP, viewed 8th March <http://hdr.undp.org/statistics/data/cty/cty_f_ETH.html>.

World Bank (2004a) *Millennium Development Goals*. Washington DC: World Bank, viewed 11th March 2005 <http://devdata.worldbank.org/idg/IDGProfile.asp?CCODE=ETH&CNAME=Ethiopia&SelectedCountry=ETH>.

World Bank (2004b) *Ethiopia Data Profile*. Washington DC: World Bank, viewed 8th March 2005 <http://devdata.worldbank.org/external/CPProfile.asp?SelectedCountry=ETH&CCODE=ETH&NAME=Ethiopia&PTYPE=CP>.