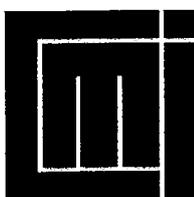


# **Economic Reconstruction and the Peasants in Ethiopia**

Two Papers Presented at the Symposium on the  
Ethiopian Economy, with a Postscript

Fantu Cheru and Siegfried Pausewang

D 1992: 3



**Working Paper**

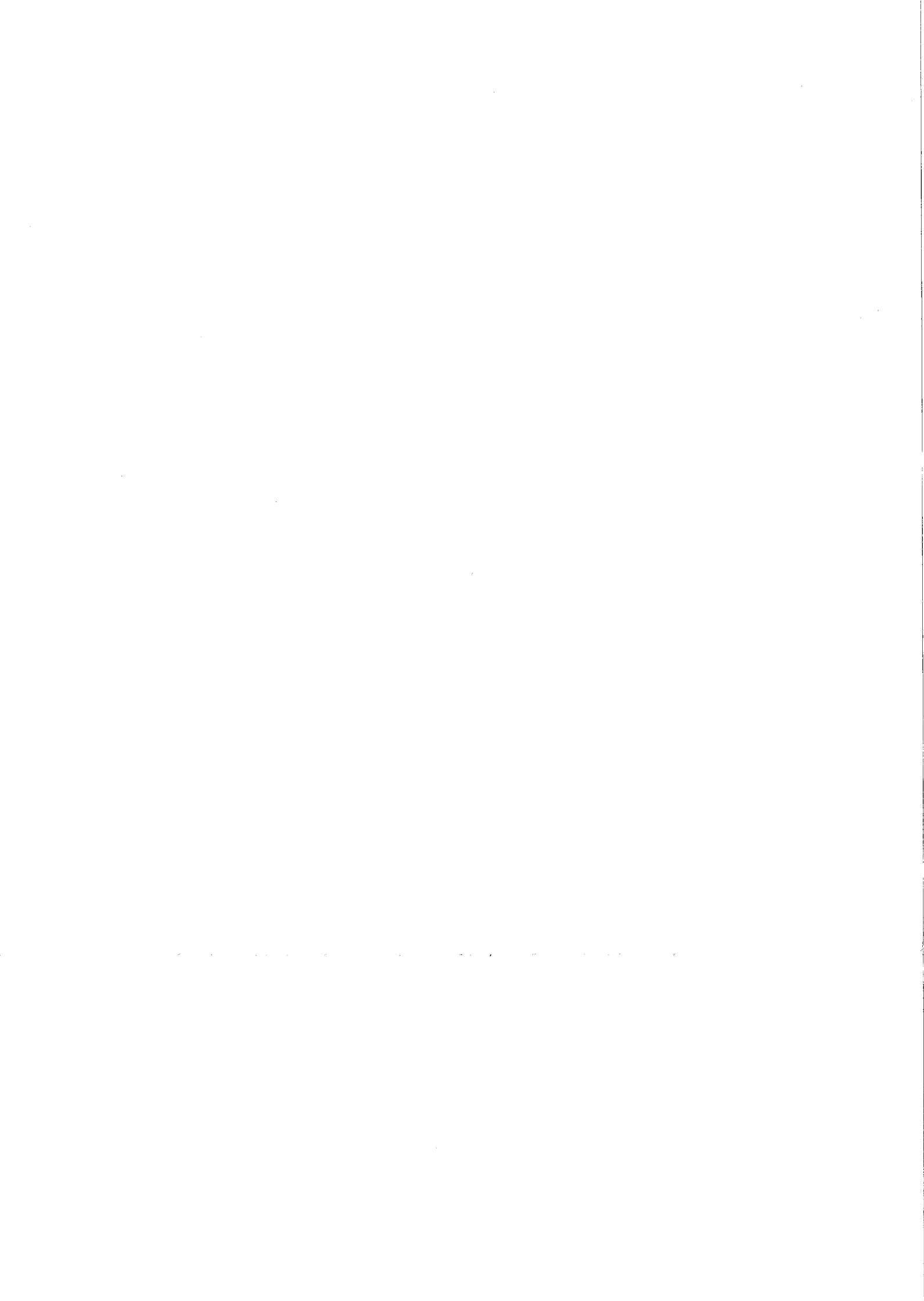
DERAP — Development Research and Action Programme

**Chr. Michelsen Institute**

Department of Social Science and Development

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ISSN 0800-2045



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Bergen, May 1992. 66 p.

### **Summary:**

The two papers present proposals for the economic reconstruction of Ethiopia, based on the interests of the peasants and other poor groups. In the first paper, Fantu Cheru outlines a reform programme combining the market based efficiency model of the World Bank, the long-term adjustment with transformation strategy of the ECA, and the human development approach of the UNDP. The second paper by Siegfried Pausewang refers to experience in rural Ethiopia during the last 15 years, and argues that Ethiopia has two major resources to build on: her land and the work, knowledge and initiative of her peasants. Economic recovery has to start with rural democracy; empowering peasants and their rural communities. The postscript reports impressions about the present situation in Ethiopia and also in Eritrea.

### **Sammendrag:**

I to artikler legger forfatterne fram sine forslag til økonomisk gjenoppbygging av Etiopia, basert på bøndenes og andre fattige gruppers interesser. I det første bidraget sammenfatter Fantu Cheru et reformprogram som kombinerer Verdensbankens markedsbaserte effektivitetsmodell med ECAs langsiktige strategi for tilpasning med intern utvikling, og UNDPs konsept om menneskelig utvikling. Det andre bidraget av Siegfried Pausewang bygger på erfaringer fra landsbygda i Etiopia gjennom de siste 15 år, og argumenterer for at Etiopia må bygge på to viktige ressurser: jorden, og bøndenes arbeid, kunnskap og initiativrikdom. Økonomisk gjenreisning må begynne med lokaldemokrati; for å gi bøndene og deres bygdefellesskap mer makt. Som vedlegg følger en reiserapport som gir inntrykk fra den aktuelle situasjonen i Etiopia og Eritrea.

### **Indexing terms:**

Structural adjustment  
Poverty  
Ethiopia  
Eritrea

### **Stikkord:**

Strukturtilpasning  
Fattigdom  
Etiopia  
Eritrea

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## Foreword

### **The “Symposium on the Ethiopian Economy”**

In autumn 1991, the “Inter-Africa Group” in Nairobi and Addis Ababa started to plan a “Symposium on the Ethiopian Economy”. The intention was to get concerned people together to discussions which would lead towards planning an economic adjustment programme which could put specific Ethiopian conditions and interests in the centre of reforms, instead of leaving the programme design to the international institutions.

The Inter-Africa Group, a private organisation of (mainly) Ethiopian intellectuals interested in promoting human rights and a democratic development, received active support from the Ethiopian transitional Government for this symposium, planned for December 1991 but postponed to January 15-18, 1992.

Both Fantu Cheru and myself were invited to the symposium. Fantu spent ten days in December at CMI, as a guest researcher, and most of the time was spent in preparing our presentations at the Symposium. We were both anticipating that the discussions at the symposium would not sufficiently consider the needs and interests of the peasants. We have experienced before how easily urban intellectuals assume without questioning that economic growth will benefit everyone, and that only an unabated free market economy can create that growth. We both feared that the large majority of peasants would not be heard in this discussion, nor would the consequences of economic reforms for those urban poor who could lose their jobs and who would feel inflationary effects most desperately, be sufficiently considered. Unfortunately experience shows that their interest is all too often sacrificed without much concern, to the advantage of urban elites who have their vocal and eloquent advocates represented in such discussions.

With over 80 percent of the Ethiopian population living in agriculture, mostly as subsistence peasants, and with a rapidly growing problem of urban unemployment and housing shortages, we felt that an economic programme which did not take care of their interests could create quite unpredictable social costs, which again could lead to political instability and more disruption and violence.

Out of such concern we tried to view “structural adjustment” in Ethiopia from the point of view of the poor. We wanted to imagine how an economic new start in Ethiopia could integrate their interest, not to delay or to sabotage an economic adjustment, but to make it more socially acceptable and thereby more realistic in the long run. There is no question that the Ethiopian economy needs a new start,

and that it has to adjust to conditions in the world economy. However, our conviction was that such a programme should start from the particular conditions in the country, which is one of the world's very poorest countries<sup>1</sup>.

We agreed to look for alternatives, for a new economic policy in Ethiopia which tries to develop the country from the bottom and upwards. This should be a programme which centers around the goal to give all people a chance to feed themselves through their own work, and which would employ all the existing labour force productively, in one form or the other. By necessity, this would mean that the majority has for some time to come to remain in agriculture, basically producing their own subsistence.

We did also consider how to integrate this concern into a planning process well under way already, and how to reconcile our ideas with the demands Ethiopia is facing from a world opinion swept away by the victory of free market economy, and not very open for restrictive policies to protect local interests and cultural and social values outside the realm of market economy.

The two papers presented here are the result of this exercise. They were prepared for presentation at the symposium in Addis Ababa, and certainly were shaped by our expectations.

Fantu Cheru managed after some initial lobbying to get into the opening session. Given a very short time, as an additional speaker, his orally summarized paper attracted much attention and response: Of all four speakers he was the only one to give a view forward, to make practical suggestions as to how to formulate an economic policy specific to Ethiopia and responsive to her present problems. However, the following discussions proved that our fears had been correct, and that little consideration was given to the needs of the poor when it came to issues of interest conflict, such as urban housing, investment priorities, trade policies etc.

My own paper was again in short summary presented in a plenum on agriculture. It drowned in a discussion which was mostly concerned with the Minister of agriculture's position on the question of land privatisation and with the assumed necessity to attract private investment in agriculture. Again, in abstract, the "human development" approach was commended, but in practical issues, the discussions swiftly bypassed the view from below.

<sup>1</sup> It is interesting, though, that Ethiopia being the very poorest country by average GDP, figures much better on the "Human Development Index" of UNDP, on place 141 of a total of 160, thanks mainly to a relatively high literacy rate and a better health service compared to other countries with a very low GDP.

The two papers are here made available together with my report from the visit to Ethiopia and also Eritrea. I hope that the three documents together represent a view and an assessment of the present situation in Ethiopia which will be of interest for the reader wanting to follow events in the country.

Bergen, March 1992

Siegfried Pausewang

# Designing a structural adjustment program for Ethiopia: Reconstruction, rehabilitation and long-term transformation<sup>1</sup>

Fantu Cheru

The Ethiopian economy has been constrained by a number of factors since the 1974 revolution. While the civil war and successive droughts are partly to blame, the institution of centralized planning, the nationalization of land, the over-emphasis on state farms to the neglect of small farmers, forced villagization and resettlement programmes and excessive taxation of peasants contributed to a decade of economic stagnation. On the whole, the economy has been characterized by low agricultural productivity, a small industrial base, shortages of skilled manpower and weak infrastructure.<sup>2</sup> Given the severity of the economic crisis, the need for fundamental restructuring of the productive sectors of the economy, with active participation of broad sectors of the population, is widely acknowledged by the transitional government and the donor community. The real challenge, however, is how to design an economic program that would protect the poor and vulnerable groups in the stabilization phase without sacrificing long-term development.

The impetus for market-based reform began in December 1987 when the Mengistu regime reluctantly introduced its "Agricultural Marketing and Pricing Policy Reform" to stimulate food production.<sup>3</sup> The partial retreat from socialism was influenced by two important factors. First, in October 1985, a team of Soviet economic advisors working at the ONCCP submitted to the government an economic plan which called for the adoption of more radical market-oriented policies with regard to pricing, marketing and distribution of goods and services.

<sup>1</sup> I gratefully acknowledge the contribution to this paper by Siegfried Pausewang through critical and constructive discussions during its preparation.

<sup>2</sup> For an excellent treatment of the problem see Pausewang et al., *Ethiopia: Rural Development Options*, Zed Press (London: 1990).

<sup>3</sup> Government of Ethiopia, *Agricultural Pricing and Marketing Policy of Ethiopia: A Synopsis*, Addis Ababa (December, 1987).

The Sokolov report<sup>4</sup> gave primary emphasis to agricultural production, commercial farms and private sector initiatives over state control of the economy. The report warned that any attempt by the government to completely prohibit and block any development of private, non-public exchange was "stupid and suicidal" during the transition period. However, the Mengistu regime ignored this warning in the face of widespread deterioration of the economy. War instead of development became its important preoccupation.

The second reason why the government made a partial retreat from socialism in 1987 had to do with the drought of 1986 which came at a time when it was putting up an extravagant 12th anniversary celebration of the Revolution. This was a major embarrassment. In addition, events in Eastern Europe were moving in a different direction. Gorbachev's much publicized economic liberalization had caught up in Eastern Europe like a brush fire. For Mengistu and the Party, it was time to make a strategic move and embrace perestroika in the hope of unfreezing much needed financial assistance from the World Bank and other donors.

In its December 1987 policy statement, the government for the first time acknowledged that, under existing conditions, increased output from the peasant sector could not be realized without improved infrastructure, soil conservation, provision of improved seeds, fertilizers and farm implements. The need for reorganizing marketing, pricing and distribution systems was also acknowledged.

Despite instituting these reforms, the response of the donor community was limited, though food aid increased. To appease the donors and secure additional funding from them, a new investment code was promulgated in June 1989, and further economic liberalization in March 1990. Among the measures announced on March 6, 1990 were:

- \* unlimited private investment in all sectors of the economy;
- \* use of government land for private construction of industries, hotels and other enterprises;
- \* private development of houses, apartments and office buildings for rent or sale;<sup>5</sup>

<sup>4</sup> V.V. Sokolov et al., *Considerations on the Economic Policy of Ethiopia for the Next Five Years*, Unpublished Paper, Office of National Committee for Central Planning (ONCCP), Addis Ababa, 1985.

<sup>5</sup> Peoples Democratic Republic of Ethiopia, *Construction and Use of Urban Houses Proclamation Amendment*, Council of State Special Decree No. 15/1990, Negarit Gazeta, Vol.49, No.9, Addis Ababa, 3rd March 1990.

- \* abolition of the fixed price and quota system; the Agricultural Marketing Corporation (AMC) was allowed to compete with private traders in the open market;
- \* inheritable legal usufructuary rights on the land the peasants till, and the right to sell their produce privately, including trees on individual land, but not sale of the land.<sup>6</sup>

Following this announcement, peasants seized the opportunity to take over unused government land, including some state farms, disbanded producer cooperatives and fired government-appointed peasant association leaders. The rapid disintegration of rural institutions and political instability throughout the country severely hampered implementation of the above mentioned reform measures.

When the Mengistu regime collapsed last May, it left behind not only an empty treasury, but a whole plethora of social and economic problems that require radical policy measures beyond political intervention. Among the horrible legacies of the past government are:

Productive sector

- agricultural crisis
- breakdown of rural institutions
- breakdown of infrastructure
- environmental crisis
- energy/fuelwood crisis
- administrative malaise

Social sector

- education crisis
- health crisis
- refugees/displaced persons
- youth unemployment
- special problem of women

The reconstruction task in Ethiopia can be compared to the condition of Western Europe after the second world war. The priority then was not liberalization of markets since productive capacity was destroyed, but the rehabilitation and the reconstruction to attain plausible capacity. There were of course differences between the two situations. Unlike the European case, the destruction of Ethiopia was of our own making. Second, while Europe's rapid reconstruction was aided by a massive inflow of external funds under the banner of the Marshall Plan, Ethiopia cannot expect to generate a substantial volume of aid given the sense of urgency and competition expressed by newly liberated countries as a result of the end of the Cold War. Therefore, while adjustment policies in the area of pricing, exchange rate, public sector reform and liberalization of markets are some of the

<sup>6</sup> Report by President Mengistu Hailemariam to the 11th Plenum of the Central Committee of the Workers Party of Ethiopia, Resolutions adopted by the plenum, Addis Ababa, March 1990.

essential ingredients of a balanced national strategy, the special circumstances of Ethiopia will require the design of an adjustment package that is consistent with the short-term reconstruction and long-term development needs of the country. Since agriculture is the mainstay of the Ethiopian economy, there must be fundamental reorientation of government and donor policies and resources towards solving rural problems. Land reform, credit, improved extension, greater government accountability and people's participation are important prerequisites if poor farmers are to succeed.

### **Structural adjustment or transformation?**

The Ethiopian situation must be analyzed in the context of the larger debate on Africa's future. Since Ethiopia will become the last country in Africa to join the bandwagon of structural adjustment and policy reform, it has the added advantage of reviewing the experiences of other African countries which have adopted SAP reforms, and to integrate those successful strategies to its own program while excluding those programs that did not work at all or had negative consequences.

The debate about Africa's future which began with the publication of the World Bank's *Accelerated Development in Sub-Saharan Africa* (commonly referred as the Berg Report) a decade ago still continues although the World Bank and the ECA are much closer now in their prescriptions than they were before.<sup>7</sup> A comparison of two recently released official documents: the World Bank's *Sub-Saharan Africa: From Crisis to Sustainable Growth* (SSA)<sup>8</sup>, and ECA's *African Alternative Framework for Structural Adjustment* (AAF)<sup>9</sup>, highlights where the debate is going. A review of this debate is very relevant and might help us think through when formulating the transitional development plan for Ethiopia. The World Bank is more humble now and does not claim to have all the answers. The Africans are also much more open to accept criticism and take responsibility for their own mistakes. This does not mean, however, that a consensus is emerging between the Bank and the ECA as to the proper development strategy for Africa. Needless to say, this has been a rather healthy debate and the points raised by both sides are increasingly being reflected in the design of the so-called "new generation" of structural adjustment packages.<sup>10</sup>

<sup>7</sup> World Bank, *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, World Bank (Washington, D.C: 1981).

<sup>8</sup> World Bank, *Sub-Sahara Africa: From Crisis to Sustainable Growth*, (Washington, D.C: 1989).

<sup>9</sup> UN Economic Commission for Africa (ECA), *African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation*, E/ECA/CM.16/6/Rev.3, (Addis Ababa 1989).

<sup>10</sup> This is reviewed in F. Cheru and Justin Bayili: *Burkina Faso: Assessment of Microeconomic Policy and Its Impact on Grassroots and Non-Governmental Organizations*, Consultant Report to the African Development Foundation (Washington, D.C: July 15, 1991).

The theme underlying the AAF is that orthodox adjustment policies are inappropriate to Africa because they fail to attack the structural causes to balance of payment difficulties, production bottlenecks and low rate of revenue generation. Therefore, policy reforms designed to restore short-term financial and price structures simply exacerbate the economic problem, thus undermining the possibility of transforming African economies and laying the foundations for long-term sustainable development with equity. The ECA views human development and transformation as a sine qua non for self-sustained development. And the only way to do that is to give greater emphasis to the alleviation of poverty and the provision of education and social services. This put the ECA report on a collision course with the apologists of structural adjustment.

The World Bank also shows a major departure from its landmark 1981 Berg Report. While Berg ignored African inputs, the SSA heavily relied on African input in the preparation of the report. However, there still exist major areas of differences between the two agencies. The Bank views poverty alleviation as a separate activity from structural adjustment. Differences are also observed on the appropriateness of devaluation, liberalization and privatization policies. The ECA is not opposed to implementation of these measures it wants to apply them case by case. The Bank's continued insistence on export-led growth in the face of declining commodity prices is challenged by the ECA and justifiably so.

#### Essence of conventional SAP

budgetary balance  
 ending subsidies  
 currency devaluation  
 levying user fees  
 public sector reform  
 cut in social expenditure  
 liberalization of markets  
 limited role for the state

#### Essence of transformation strategy

promoting self-reliance  
 human development  
 support to informal sector  
 expansion of infrastructure  
 some protection is necessary  
 expand social expenditure  
 selective liberalization  
 local democracy/decentralization

Despite the differences mentioned above, the SSA resembles the AAF when it comes to prescriptions. The SSA calls for the type of transformation which AAF highlights: human centred development, agriculture as the primary foundations of growth; involvement of people in national planning; and government accountability; and enhanced intra-African trade and accelerated regional integration and coordination.

Another official document which adds a necessary and very important dimension to the discussion is the *Human Development Report 1991* of the UNDP,<sup>11</sup> which reminds us of the obvious need to adjust economic development to human needs, not vice versa. Its main thrust is to protect the needs of the poor, and to put basic human needs into the front seat on the road to development. Thus, for UNDP, development is first of all to inspire, mobilize, and engage the initiatives and the resources of the poor majority for productive efforts. This approach demands their democratic participation in decisions concerning their lives and their future. Consequently, the report underlines that participation means *empowering the poor*.

Though the UNDP approach is as yet not transformed into a readily applicable economic reform program, its basic message is extremely important: that all adjustment measures have to seriously confront the question: *What is their consequence for the poor?*

The basic message of this paper is that the design of structural adjustment program for Ethiopia should combine both the market-based efficiency model of the World Bank, the long-term adjustment with transformation strategy of the ECA, and the human development approach of the UNDP, taking into account the short and long-term needs of the Ethiopian people. While market-based solutions are very important and necessary in the Ethiopian situation, *markets have to be created first before they can be liberalized*. For example, a small scale Ethiopian soap producer, who had invested very little to upgrade his production capacity as a result of mis-guided government foreign exchange restrictions for the past seventeen years, cannot be expected to compete on the free market without upgrading his technology. To do so, he must get government protection and support to improve his production capacity. Only then can he take advantage of liberalization. Given the general disintegration of infrastructure and institutions necessary to revive the productive sectors of the economy, rehabilitation and reconstruction must proceed ahead of indiscriminate market liberalization. *Careful management of market liberalization* is particularly necessary when considering exchange rate policy and liberalization of imports. Once capacities have been built and production resumes, then the market can be completely freed.

### **Adjustment with transformation for Ethiopia**

A program for fundamental economic restructuring in Ethiopia must give priority to a transformation of peasant agriculture, by shifting significant levels of national resources to support this sector, and by shifting the balance of power from central administration to community control of decision making. Stimulation of agricultural production, on the basis of legal security of land, and supported by

<sup>11</sup> United Nations Development Programme (UNDP), *Human Development Report 1991*, (New York / Oxford, 1991).

strong extension and remunerative pricing policy, is the best social protection poor peasants could have against poverty and inequality. While adjustment policies in the area of pricing, exchange rate, public sector reform and liberalization of markets are some of the essential ingredients of a balanced national strategy, the particular circumstances of Ethiopia demand a more dynamic and comprehensive response geared towards (a) reconstruction and rehabilitation, and (b) transformation.

### **Reconstruction and rehabilitation**

The new economic program must be based on realistic identification and better utilization of local resources and capabilities. The government should not pin its hope on a substantial inflow of foreign aid and direct foreign investment (DFI) to get out of the current crisis. For the transitional period, the first priority can no longer be expansion, but must be consolidation of whatever minimal progress achieved during the last two decades. The program should aim at employing local people in order to cushion them from the ill effects of food price increases, or increased user fees for health and schooling. Required actions should include:

- \* regaining plausible capacity utilization levels for basic productive sectors (agriculture, industry, transport) and for basic services (health, education, water). For example, reconstruction and expansion of the transport system is essential if peasant production is to improve. Almost 80 percent of the Ethiopian population still live at least half a days walk from the nearest road.
- \* increasing food self-sufficiency on farm and local level, by guaranteeing peasants secure rights on their crop and their land; prompt payment for their crop; free access to local exchange of products without quota deliveries or other state interference; access to health services, schools, extension advise; and local planning procedures, etc.
- \* increasing national food self-sufficiency by providing farmers with necessary incentives such as inputs, social services, consumer goods and prompt payment for their products.
- \* reconstruction and rehabilitation of infrastructure, such as schools, hospitals, roads, bridges, and communication networks, destroyed as a result of the war or years of neglect.
- \* continuing relief for refugees and displaced persons until these people return to their homes and begin producing enough for themselves; A record number of 7.3 million people are currently at the brink of starvation. This number includes 1.2 million refuges from Sudan and Somalia who have been forced to

flee to the camps in Ethiopia. An estimated 200,000 Ethiopian refugees have returned to Ethiopia to flee the fighting and disintegration there.

- \* increasing financial and managerial discipline; This should involve reforms in institutional systems by restructuring, decentralizing and reducing the size of the civil service and making civil servants more accountable. Strengthening the coordinating activities of ministries and government agencies responsible for formulation, implementation and evaluation of policies should be accorded priority. Accountability of civil servants should include a right of local people to question and to appeal decisions, and directives to make the administration supportive and not disruptive to local development efforts.
- \* reversing the massive brain-drain. In the past 20 years, Ethiopia has lost thousands of its educated young men and women to the developed world. For sustained development, it is essential that this situation is reversed. What incentives would you adopt? How much would it cost and who would pay for it? Although the UNDP has a limited program designed to encourage nationals to return home, the transitional government, with assistance from donors, must actively seek ways to reverse the trend. The success of the economic recovery program depends on the acquisition and retention of mid and high-level manpower at sectoral ministries and regional administrations.

### **Macroeconomic issues**

The policy measures designed to support the rehabilitation and reconstruction effort could become ineffective unless accompanied by a radical revision of macroeconomic policies with regard to government budget, pricing policy, liberalization of trade, increased role to the private sector and public sector reform. This is necessary in order to correct structural distortions in the economy and for improving efficiency and allocation of resources to the productive sectors. Among the measures to be adopted are:

#### *Devaluation of the Birr*

An immediate devaluation of the currency will have no effect on improving export potentials given the general deterioration of the productive sectors of the economy. However, *once the rehabilitation phase is completed* and capacities have been upgraded, phased devaluations are unavoidable. Since Ethiopia's export base is very narrow, potential exporters will not be able to take advantage of the immediate effect of devaluation. A devaluation of the currency would even undermine the rehabilitation phase by increasing the cost of inputs and spare parts before any production has started.

For sectors that are still engaged in exports (i.e. coffee production, etc.), price support, special import exemptions, access to credit and storage, restriction on the money supply can help stimulate improved production. It would be dangerous to devalue the currency so as to improve output of one or two export crops while keeping the rest of the economy hostage and derailing the effort at long-term development. Further, devaluation is unlikely to improve the general slump in the price of coffee in the world market; so the effect of devaluation would be less foreign exchange, in spite of more production as a result of costly investment.

### *Managed liberalization of trade*

Price controls on all domestically produced goods should be lifted. Controls on imported goods required by the productive sector (i.e. agriculture, industry) should also be considered. However, import liberalization should not be indiscriminate. Policy makers should be selective and develop a well organized phased liberalization strategy geared to support the rehabilitation and reconstruction phase mentioned above, and to permit local firms to grow and become competitive within a certain defined period. This is particularly important when it comes to the allocation of foreign exchange. Rehabilitation will not succeed if scarce foreign exchange is squandered on cookies and imported mineral water while road building is stopped because of the shortage of foreign currency to buy oil or spare parts.

### *Reforming the bureaucracy*

Streamlining the bureaucracy must proceed after a careful review of the impact of massive redundancy on management and implementation capacity. A system of reward has to be instituted to retain productive employees, allow early retirement of employees, limit new hiring and encourage early departure of temporary workers. The reform should also include retraining and redeployment of personnel who lost their job into activities to support *the rehabilitation and reconstruction effort*.

### *Increased price for farmers*

Increase agricultural production (including for export) by instituting higher producer prices, plus a commitment by the government to annual increases of set percentages. But this must be supported by increased inputs and improved institutional support, such as extension, fertilizer, etc. The use of devaluation as an instrument to reward peasants should be avoided during the rehabilitation phase, since its immediate impact would be increased cost of input and transport for peasant producers and a pressure towards export crops at the expense of food security.

### *Government budget*

The program should aim to redirect expenditure away from non-productive to priority sectors, such as agricultural production, health, education, revenue collection and infrastructure maintenance. The collapse of the Mengistu military apparatus, which used to consume over 60 percent of government expenditure, has been a plus when it comes to formulating the national budget. Still, there are many economically useless parastatal boards and state farms that need to be closed down, or their functions consolidated in order to save resources. No new projects, other than those relating to rehabilitation and reconstruction, should be started during the transition period and those already planned should be abandoned. A review of outdated investment and labour codes must be undertaken and a new system of investment selection should be adopted.

At the same time, efforts should be made to expand revenue generation. Improved tax collection and assessment measures, requiring citizens to pay nominal fees for some social services are some of the necessary measures. But the plan should also improve the distribution of tax burdens, and give reasonable access to tax exemptions to poor and needy people, to guarantee food security.

### *Privatization of parastatals and state farms*

Removing functional duplication between government institutions and parastatals is one way of generating revenues and improving administrative efficiency. After a careful review of their performance, those parastatals that never made profits should be liquidated and their functions transferred to the private sector. In fact, selling off loss making parastatals and state farms to private investors, the government should be able to avoid incurring huge debts resulting from direct subsidies. To facilitate this, a Privatization Commission should be set up as soon as possible to prepare a divestiture strategy.

With regard to state farms, privatization and selling to local entrepreneurs or joint venture should be effected without delay to avoid further deterioration of equipment and other capital stock. In other cases, there will be a need to distribute the land to most land hungry peasants.

### *Decentralization*

Most important is the principle to build reconstruction on local initiative and the development of local resources with local manpower. This demands, among others: a local bureaucracy accountable to peasants; a local administration to support individual and collective local initiatives; local administration as a link for communication from the peasants upward to central authorities; and peasants must have security on their land, but land should remain a natural resource, not be made a commodity.

The government should have no illusion how easy it will be to implement such policy. There will be conflict and obstruction as different social coalitions position themselves either to take advantage or escape the negative effects of one policy or another. In all of this, it is important not to lose sight of the peasants interest. At every stage of the process, we should all be asking ourselves: What would this mean to the peasant? How would it affect his productivity?

### *Long-term development*

Policy reforms aimed at improving financial balances and price structures are on their own inadequate to the task of redressing Ethiopia's problems. What is needed are reforms which take into account the special circumstances of this country — i.e.; reforms which will transform the economy and society into a sustainable future. The economic recovery program must place great emphasis on the alleviation of poverty and on improving the welfare of the people, who are the principal resource to build on. It should insure that the people have a significant voice in shaping how the development process proceeds; and it must acknowledge that the provision of health care and of education and training are the basic building blocks of this approach.<sup>12</sup>

## **Priority areas**

### *Agricultural reform*

Addressing the cluster of issues involving agricultural productivity and environmental degradation must be among the top priorities for a transformation strategy in the Ethiopian context. Priority role should be assigned to food and livestock production and distribution (including for export), together with some concern for assuring not only that food is available but also that the people have the means to acquire it. *This in turn leads to the need for providing either employment or accessibility to productive land*, which in turn implies the necessity to improve sectors in support of agriculture, including the development of agro-related industries, the improvement of transport and other physical infrastructure in rural areas. A significant proportion of national budget must be assigned to this important sector. Required actions should include:

<sup>12</sup> This section draws on my "Structural Adjustment, Primary Export Trade, and Sustainable Development in Sub-Saharan Africa", forthcoming in April special environment issue of *World Development Journal*.

