
SURVEY

of the

ETHIOPIAN ECONOMY

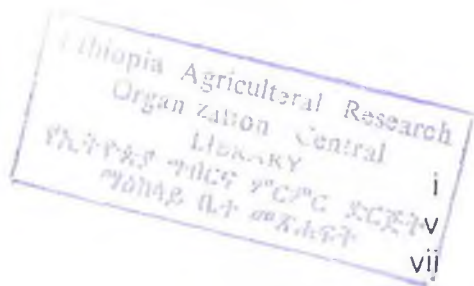
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REVIEW OF POST-REFORM DEVELOPMENTS
(1992/93 - 1997/98)

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Ministry of Economic Development and
Cooperation (MEDaC)
September, 1999
Addis Ababa, Ethiopia

Contents



Abbreviations	i
Explanatory Notes	
Preface	vii
Part I: Overview	1-35
Part II: Review of Developments of the Macroeconomy	
Chapter 1 Aggregate Output And Inflation.....	36
1.1 Development in Aggregate output	36
1.1.1 Background.....	36
1.1.2 The Supply Side	37
1.1.3 The Demand Side	42
1.1.3.1 Trends in Expenditure Aggregates During the Post Reform Period	42
1.1.3.2 Saving Investment	45
1.2 Trends in Inflation	49
1.2.1 Background	49
1.2.2 The Addis Ababa Retail Price Index (1963=100)	49
1.2.3 The New CPI (1995/96=100).....	53
1.2.4 The implicit GDP Deflator	55
Chapter 2 External Sector and the Balance of payments.....	57
2.1 Background	57
2.2 Review of External Sector Reform Measures	58
2.3 Structure and Performance of the Export Sector.....	60
2.3.1 The structure of Exports	60
2.3.2 Export Earnings (Public Versus Private Exporters).....	61
2.4 Coffee Export and Earnings	62
2.5 World Prices of Ethiopian Coffee	64
2.6 Structure and Performance of Imports	65
2.6.1 Trends in the Value of Imports	65
2.6.2 Imports by End Use	65
2.7 Direction of Trade	66
2.8 Developments in the Balance of Payments	70
2.8.1 Trade Balance	70
2.8.2 Current Account Balance	70
2.8.3 Reserve Position	72
Chapter 3 Public Finance.....	73
3.1 Background	73
3.2 Review of Fiscal Policies	74
3.2.1 Managing Fiscal Deficit	74
3.2.2 Tax Policy	74
3.2.3 Expenditure Policy	77
3.2.4 Fiscal Federalism	78
3.2.5 Administrative and Restructuring Measures	79
3.3 Performance of Public Finance (Post 1991/92).....	79

	3.3.1 Government Revenue	79
	3.3.2 Government Expenditure	85
	3.3.2.1 Capital Expenditure	87
	3.3.2.2 Recurrent Expenditure	92
	3.4 Government Budget Deficit and Financing	95
Chapter 4	Money and Banking	98
	4.1 Money	98
	4.1.1 Background	98
	4.1.2 Review of Monetary and Financial Policies	98
	4.1.3 Developments in Monetary Aggregates	100
	4.2 Banking Activities	107
	4.2.1 Background	107
	4.2.2 Deposit Mobilization	108
	4.2.3 Loan Disbursements	112
Chapter 5	Population and Development	118
	5.1 Background	117
	5.2 Population Size, Distribution and Structure	117
	5.3 Urbanization	120
	5.4 Population Age Structure	120
	5.5 The Dependency Burden	121
	5.6 Trends in Fertility and Mortality	122
	5.7 Migration	124
	5.8 Implication on Economic and Social Development	125
	5.9 Population Program Implementation	126
	5.10 Population Projection and Its Implications	127
Chapter 6	Employment	130
	6.1 Background	130
	6.2 The Policy Environment	130
	6.2.1 Poverty & Employment Focused Policies & Programs	131
	6.2.2 Policy Towards Improving the Labour Market Performance	132
	6.3 Size and Structure of the Labour Force	134
	6.4 The Level and Pattern of Employment	137
	6.5 Unemployment	141
	6.6 Employment Prospects	144
	Part III: Review of Sectoral Developments	
Chapter 7	Agriculture and Food Security	145
	7.1 Agriculture (crop, Livestock and Fisheries)	145
	7.1.1 Background	145
	7.1.2 Review of the Agricultural Resource Base	145
	7.1.3 Review of Agricultural Policies and Strategies	146
	7.1.4 The Performance of the Agriculture Sector	148
	7.1.4.1 Crop Production and Area Cultivated for Major crops (private Holders)	152
	7.1.4.2 Livestock and Livestock Products (Private Holders)	156
	7.1.4.2.1 The Performance of the Livestock Sub-Sector (Private Holdings)	159

7.1.4.3	State or/and Commercial farms (Crop Production and Area Cultivated).....	169
7.1.4.4	Livestock and Livestock Products (State and/or Commercial Farms).....	170
7.1.4.5	Financial Performance of State Farms.....	171
7.1.4.6	Fishery.....	174
7.1.5	Agricultural Input Supply and Utilization (Crop Sub-sector).....	175
7.1.5.1	Fertilizer Supply and Utilization.....	175
7.1.5.2	Fertilizer Imports.....	176
7.1.5.3	Fertilizer Consumption.....	177
7.1.5.4	Fertilizer Prices and Marketing.....	179
7.1.5.5	Improved Seeds.....	180
7.1.6	The New Extension Program and Development In Agricultural Research.....	187
7.1.6.1	Review of the New Extension Program.....	187
7.1.6.2	Review of Developments in Agricultural Research.....	188
7.1.6.3	Organization of the Ethiopian Agricultural Research System.....	189
7.1.6.4	Agricultural Research Personnel.....	189
7.1.7	Developmental Expenditure in Agriculture.....	190
7.1.8	Agricultural Credit.....	192
7.1.9	Private Sector Participation in Agriculture and Allied Activities.....	194
7.2	Food Security Issues in Ethiopia.....	196
7.2.1	Conceptual Issues.....	196
7.2.2	Food Security Situation.....	197
7.2.3	Bird's Eye-view of the Ethiopian Food Security Strategy.....	199
7.2.4	Reflections on Disaster Prevention and Management.....	199
7.2.5	Reflections on Food Aid Management.....	200
7.2.6	Reflections on Grain Price Stabilization.....	200
Chapter 8	Manufacturing	202
8.1	Background.....	202
8.2	Review of the Manufacturing Sector Policies and Strategies.....	203
8.3	Performance of Large and Medium Scale Manufacturing.....	206
8.3.1	Gross Value of Output.....	206
8.3.2	Value Added.....	210
8.3.3	Gross Operating Surplus.....	215
8.3.4	Employment in Manufacturing.....	217
8.3.5	Manufacturing Sales and Export.....	222
8.3.6	Energy Consumption.....	223
8.3.7	Import Intensity.....	226
8.3.8	Capacity Utilization.....	228
8.3.9	Capital Intensity.....	229
8.4	New Capital Expenditure in Large and Medium Scale Manufacturing.....	231
8.5	Small Scale and Cottage/Handicraft Manufacturing.....	234

	8.6 Privatization of Public-owned Manufacturing Industries	243
	8.7 Outstanding Issues and Problems	244
Chapter 9	Mining	246
	9.1 Background	246
	9.2 Review of the Mineral Sector Policy and Strategy	247
	9.2.1 The Mining Law	248
	9.2.1.1 Provisions of The Mining Law	248
	9.2.1.2 Financial Regime	249
	9.2.2 Institutional Set up	249
	9.2.3 Other Strategic Measures	251
	9.3 Mineral Exploration Potentials	251
	9.4 Performance of Mineral Production	253
	9.5 Government Investment on Exploration and Development of Minerals	253
	9.6 Private Sector Participation	254
	9.7 Outstanding Issues and Problems	254
Chapter 10	Energy	257
	10.1 Background	257
	10.2 The Power Sub-sector	257
	10.2.1 Institutional Set Up	257
	10.2.2 Energy Sector Policy and Strategy	257
	10.2.3 Hydroelectric Power Potential	258
	10.2.4 Capacity of the Power System	258
	10.2.5 Electricity Generation	260
	10.2.6 Electricity Consumption by Consumer Category	261
	10.2.7 Power Plants Under Construction	262
	10.3 The Petroleum Sub-sector	265
	10.3.1 Institutional Set Up	265
	10.3.2 Domestic Production (Refining) and Import of Refined Products	266
	10.3.3 Domestic Consumption (Sales by EPE)	267
	10.3.4 Price Trends of Petroleum Products	268
	10.4 Scope and Status of Alternative Sources of Energy	269
	10.5 Investment In the Energy Sector	270
	10.6 Outstanding Issues and Problems of the Sector	271
Chapter 11	Water	273
	11.1 Domestic Water Supply	273
	11.1.1 Background	273
	11.1.2 Policies and Strategies	273
	11.1.3 Coverage of Urban Water Supply	274
	11.1.4 Water Tariff	275
	11.1.5 Revision of Water Tariffs	276
	11.1.6 Government Capital Expenditure on Water Supply	277
	11.2 Irrigation	279
	11.2.1 Background	279
	11.2.2 Irrigation Policy and Strategy	282
	11.2.3 Review of Developments of Irrigation Schemes	282
	11.2.4 Government Investment On Irrigation Development	283

11.3	Master Plan Studies of Major River Basins.....	284
11.3.1	Completed River Basin Integrated Development Master Plan Studies.....	286
11.3.2	On-going River Basins Integrated Development Master Plan Studies.....	287
11.4	Outstanding Issues and Problems of the Sector.....	288
Chapter 12	Construction, Housing and Urban Development	291
12.1	Construction	291
12.1.1	Evolution of Construction Activities in Ethiopia.....	291
12.1.2	Policy Measures of the Construction Sector Since 1991.....	291
12.1.3	Present Structure and Capacity of the Construction Industry.....	293
12.1.4	Review of Road Construction	295
12.1.4.1	Background	295
12.1.4.2	The Road Stock (Network)	295
12.1.4.3	Trends in Road Construction	296
12.1.4.4	The Five Years Road Sector Development Program.....	298
12.1.4.5	Salient Features of the Road Fund.....	300
12.1.4.6	The Domestic Road Construction Industry..	301
12.2	Housing and Urban Development	303
12.2.1	Background.....	303
12.2.2	The Housing and Urban Development Policies and Strategies.....	304
12.2.3	Housing Characteristics and Conditions	306
Chapter 13	Domestic Trade and Tourism	315
13.1	Domestic Trade.....	315
13.1.1	Background.....	315
13.1.2	Review of Policies and Strategies... ..	316
13.1.2.1	Pre -1991/92 Policies and Strategies	316
13.1.2.2	Post -1991/92 Policies and Strategies	318
13.1.3	Structure and Performance of Domestic Trade.....	321
13.1.3.1	Wholesale Trade Under Public Enterprises.....	321
13.1.3.2	Wholesale Trade Under Private Enterprises	326
13.1.3.3	Retail Trade.....	327
13.1.3.4	Petty Trade.....	327
13.2	Tourism.....	328
13.2.1	Background.....	328
13.2.2	Review of Tourism Policies and Strategies.....	330
13.2.3	Review of Tourist Attractions.....	332
13.2.4	Trends in the Inflow of Tourists	334
13.2.5	Trends in Foreign Exchange Earnings from Tourism	338
13.2.6	Government Investment in Tourism Promotion and	

Development	340
13.2.7 Review of the Role and Participation of the Private Sector in Tourism development	341
13.3 Outstanding Issues and Problems of Domestic Trade and Tourism	342
13.3.1 Domestic Trade	342
13.3.2 Tourism	344
Chapter 14 Transport and Communication	346
14.1 Road Transport	346
14.1.1 Background	346
14.1.2 Review of Policy Measures in the Transport Sector	347
14.1.3 Road Transport Services	349
14.1.3.1 Review of Fleet Size	351
14.1.3.2 Freight Rates of Road Transport	352
14.1.3.3 Performance of Freight Transport	355
14.1.3.4 Performance of Passenger Transport (inter-urban)	357
14.2 Railway Transport	358
14.2.1 Background	358
14.2.2 Performance of the Ethio-Djibouti Railway	359
14.2.3 Operating Income and Expenses of the Ethio- Djibouti Railway	361
14.2.4 Development Plan for the Future	362
14.3 The Ethiopian Shipping Lines (ESL)	363
14.3.1 Background	363
14.3.2 Performance of the Ethiopian Shipping Lines	363
14.3.3 Operating Income and Expenses	368
14.4 Air Transport	369
14.4.1 Background	369
14.4.2 Capacity and Scope of Operation of EAL	369
14.4.3 Trends in Operating Income and Expenditure	371
14.5 Communication	372
14.5.1 Evolution of Communication Services in Ethiopia	372
14.5.2 Performance of the Communication Sector	375
14.5.2.1 Telecommunication Network and Facilities	375
14.5.2.2 Telecommunication Services and Traffic	384
14.5.2.3 Revenue and Financial Performance of the Telecommunication Sub-Sector	387
14.5.2.4 Review of Reform Measures in Communication	390
14.5.2.5 Review of Development/Investment Programs in the Communication Sub-Sector	392
14.5.2.6 The Performance of Postal Services, the Media and the Press	395
Chapter 15 Education	400
15.1 Background	400
15.2 Policies and Strategies of the Education Sector	401
15.3 Structure and Performance of the Ethiopian Education System	403

	15.3.1 Primary Education.....	403
	15.3.2 Secondary Education.....	405
	15.3.3 Technical/Vocational Training.....	407
	15.3.4 Teachers' Training Programs.....	408
	15.3.5 Higher Education.....	410
	15.4 Government Capital Expenditure on Education.....	411
	15.5 Trends in Private Sector Participation in Education.....	413
Chapter 16	Health.....	415
	16.1 Background.....	415
	16.2 Review of Health Policy.....	415
	16.3 Review of the Salient Features of the Health Sector Development Program (HSDP).....	416
	16.4 Trends in the Development and Distribution of Public Health Institutions.....	417
	16.5 Medical Personnel.....	422
	16.6 Review of Health Status Indicators.....	425
	16.7 Review of Health Budget Allocation and Expenditure Performance.....	426
	16.8 The Role of Private Health Institution and NGOs.....	427
	16.9 Outstanding Issues and Problems.....	428
Chapter 17	Social Security.....	431
	17.1 Background.....	431
	17.2 Review of Policies and the Legal Framework.....	432
	17.3 Type, coverage and Funding of the Ethiopian Social Security Scheme.....	433
	17.4 Institutional set up and Budget.....	433
	17.5 Review of Current Situations and Future Prospects.....	435
	17.6 Outstanding Issues and Problems.....	442
Chapter 18	Social Welfare.....	444
	18.1 Background.....	444
	18.1.1 Social Problems.....	444
	18.1.2 Institutional Aspects of Social Welfare Activity.....	446
	18.2 Review of Social welfare Policies.....	446
	18.3 Scope of Social Welfare in Ethiopia.....	452
	18.3.1 The Urban Poor.....	452
	18.3.2 The Disabled.....	452
	18.3.3 The Destitutes and Neglected Children.....	454
	18.3.4 Ex-Soldiers.....	456
	18.4 Review of Existing Programs to Strengthen Family Welfare.....	457
	18.5 Review Outstanding Issues and Problems.....	458
Appendix 1:	Statistical Tables.....	460
Appendix 2:	The Working Team in the Preparation of the "Survey of the Ethiopian Economy".....	510

Abbreviations

AARH	-	Agency for the Administration of Rental Houses
AARPI	-	Addis Ababa Retail Price Index
ADLI	-	Agricultural Development Led Industrialization
AIDB	-	Agricultural and Industrial Development Bank
AIDS	-	Acquired Immune Deficiency Syndrome
AISCO	-	Agricultural Input Supply Corporation
AISE	-	Agricultural Input Supply Enterprise
AMC	-	Agricultural Marketing Corporation
ARDLI	-	Arsi Rural Development Unit
ARI	-	Acute Respiratory Infection
ASB	-	Annual Statistical Bulletin
AUA	-	Alemaya University of Agriculture
BOD	-	Burden of Disease
CADU	-	Chilalo Agricultural Development Unit
CBB	-	Construction and Business Bank
CBE	-	Commercial Bank of Ethiopia
CDR	-	Crude Death Rate
CIC	-	Currency in Circulation
CPA	-	Central Personnel Agency
CPE	-	Customer Premises Equipment
CPR	-	Contraceptive Prevalence Rate
CSA	-	Central Statistical Authority
CSO	-	Central Statistical Office
CVD	-	Cardiovascular Diseases
DAHSI	-	Development Agency for Handicrafts and Small Scale Industries
DBE	-	Development Bank of Ethiopia
DC	-	Domestic Credit
DD	-	Diarrhea Diseases
DD	-	Demand Deposit
DEL	-	Direct Exchange Lines
DLY	-	Discounted Life Years
DRMAS	-	Digital Radio Multi Access System
EBCS	-	Ethiopian Building Codes and Standards
EC	-	Ethiopian Calendar
EDDC	-	Ethiopian Domestic Distribution Corporation
EEME	-	Ethiopian Earth Moving Equipment
EELPA	-	Ethiopian Electric Light and Power Authority
EPCO	-	Ethiopian Electric Power Cooperation
EGTE	-	Ethiopian Grain Trading Enterprise
EHA	-	Ethiopian High Way Authority
EHNRI	-	Ethiopian Health and Nutrition Research Institute
EIA	-	Environmental Impact Assessment
EIA	-	Ethiopian Investment Authority
EIGS	-	Ethiopian Institute of Geological Surveys
EMRDS	-	Ethiopian Mineral Resources Development Corporation
EMS	-	Emergency Mail Service
ENA	-	Ethiopian News Agency

EPC	-	Ethiopian Petroleum Corporation
EPE	-	Ethiopian Petroleum Enterprise
EPA	-	Ethiopian Privatization Agency
EPRDF	-	Ethiopian People Revolutionary Democratic Front
EPS	-	Ethiopian Postal Service
ERA	-	Ethiopian Roads Authority
ERP	-	Economic Reform Program
ERRP	-	Emergency Recovery and Reconstruction Program
ESC	-	Ethiopian Seed Corporation
ESDP	-	Education Sector Development Program
ESE	-	Ethiopian Seed Enterprise
ESL	-	Ethiopian Shipping Lines
ETA	-	Ethiopia Telecommunication Authority
ETBRC	-	Ethiopian Building Road Construction
ETC	-	Ethiopian Telecommunication Corporation
ETCA	-	Ethiopian Transport Construction Authority
ETP	-	Education Training Policy
EU	-	European Union
EWUCA	-	Ethiopian Water Works Construction Authority
F.Y	-	Fiscal Year
FAO	-	Food and Agricultural Organization
FCSC	-	Federal Civil Service Commission
FDRE	-	Federal Democratic Republic of Ethiopia
FTC	-	Freight Transport corporation
GDCF	-	Gross Domestic Capital Formation
GDP	-	Gross Domestic Product
GDS	-	Gross Domestic Saving
GNDI	-	Gross National Disposable Income
GNP	-	Gross National Product
GNS	-	Gross National Saving
GTZ	-	German Technical Cooperation
GVO	-	Gross Value of Output
GWH	-	Giga Watt Hours
HASIDA	-	Handicrafts and Small Scale Industries Development Agency
HIV	-	Human Immune Deficiency Virus
HSB	-	Housing and Saving Bank
HSDP	-	Health Sector Development Program
IAR	-	Institute of Agricultural Research
IBTE	-	Imperial Board of Telecommunication of Ethiopia
ICB	-	Internationally Competitive Bidding
ICPD	-	Internal Conference on Population and Development
ICS	-	Interconnected System
IDA	-	International Development Agency
IEC	-	Information Education and communication
IGE	-	Imperial Government of Ethiopia
ILO	-	International Labour Organization
ISSA	-	International Social Security Association
ITU	-	International Telecommunication Union
LEDP	-	Lake Fisheries Development Project

LRMC	-	Long Run Supply Cost
LSP	-	Letter of Sector Policy
M	-	Manual
M1	-	Narrow Money
M ₂	-	Broad Money
MEDaC	-	Ministry of Economic Development and Cooperation
MIC	-	Ministry of Information and Culture
MME	-	Ministry of Mines and Energy
MMR	-	Maternal Mortality Rate
MOA	-	Minister of Agriculture
MOE	-	Ministry of Education
MOF	-	Ministry of Finance
MOH	-	Ministry of Health
MOLSA	-	Ministry of Labour and Social Affairs
MOPED	-	Ministry of Planning and Economic Development
MOPTT	-	Ministry of Posts, Telegraphs and Telephone
MOWUD	-	Ministry of Works and Urban Development
MPP1	-	First Minimum Package Project
MPP ₂	-	Second Minimum Package Project
MR	-	Mortality Rate
MSFD	-	Ministry of State Farms Development
MSY	-	Maximum Sustainable Yield
MTC	-	Ministry of Transport and Communication
MW	-	Micro Wave
MWR	-	Ministry of Water Resource
NBE	-	National Bank of Ethiopia
NDD	-	Nutritional Deficiency Disease
NEC	-	National Engineers and Contractors
NFA	-	Net Foreign Assets
NFHS	-	National Food and Nutrition Strategy
NFIA	-	National Fertilizer Industry Agency
NGO	-	Non Governmental Organizations
NMC	-	National Mining Corporation
NSIB	-	National Seed Industry Board
NSIP	-	National Seed Industry Policy
ONCCP	-	Office of the National Committee for Central Planning
OPHCC	-	Office of the Population and Housing Census Commission
PADETES	-	Participatory, Demonstration and Training Extension System
PBX	-	Private Branch Exchanges
PDRE	-	People's Democratic Republic of Ethiopia
PEs	-	Public Enterprises
PFCE	-	Private Final Consumption Expenditure
PHC	-	Primarily Health Care
PHRD	-	Policy on Human Resource Development
PM	-	Prenatal - Maternal
PMAC	-	Provisional Military Administrative Council
PMO	-	Prime Minister's Office
POPIEC	-	Population Information, Education and Communication
PS	-	Pay Station

PTC	-	Public Transport Corporation
PTR	-	Pupil Teacher Ratio
QM	-	Quasi Money
RGRRO	-	Regional Government Rural Roads Organization of
RIB	-	Regional Investment Bureaus
ROA	-	Return on Asset
ROW	-	Rest of the World
RRC	-	Rural Radio Call
RRC	-	Relief and Rehabilitation Commission
RSDP	-	Road Sector Development Program
RTA	-	Road Transport Authority
SA	-	Semi Automatic
SAERP	-	Sustainable Agricultural and Environmental Rehabilitation Program
SAT	-	Satellite
SCS	-	Self Contained System
SD	-	Saving Deposit
SDR	-	Special Drawing Rights
SNNPR	-	<i>Southern Nations and Nationalities Peoples Region</i>
SSA	-	Sub - Saharan Africa
SSA	-	Social Security Authority
SSMID	-	Small Scale and Micro Industry Development
TD	-	Time Deposit
TFR	-	Total Fertility Rate
TGE	-	Transitional Government of Ethiopia
TTI	-	Teachers' Training Institutions
TV	-	<i>Technical and Vocational</i>
TYPP	-	Ten Year Perspective Plan
UN	-	United Nation
UNDP	-	United Nation Development Program
UNICEF	-	United Nation Children Fund
UPU	-	Universal Postal Union
USA	-	United States of America
USAID	-	United States Agency for International Development
USD	-	United States Dollar
WFP	-	World Food Program
WHO	-	World Health Organization
WRDA	-	Woreda Rural Development Agency
WSSA	-	Water Supply and Sewerage Authority
WTO	-	World Trade Organization
WWB	-	World Wide Web
WWII	-	World War II

Explanatory Notes

- (1) The term "Birr" refers to Ethiopian Currency Unit equivalent to 100 one cents denominations. The term "billion" signifies 1,000 million.
- (2) Annual growth rates and changes refer either to compound rates or growth rates based on Least Square Methods. All growth rates of values are in nominal terms except GDP at factor cost which is valued at 1980/81 basic prices.
- (3) Exports are valued f.o.b and imports c.i.f unless otherwise stated.
- (4) Use of hyphen (-) between dates representing years, e.g. 1992/93-1997/98, signifies the full period involved, including the initial and the final years.
- (5) All years in this survey report refer to Gregorian years or Gregorian fiscal years unless otherwise specified.
- (6) An oblique stroke ("/) between two years, e.g. 1992/93, signifies a Gregorian fiscal year covering a twelve month period from July 7 to July 6 of the following year. The 1985 E.F.Y covers the period Hamele 1, 1984 to Sene 30, 1985 which is equivalent to the 1992/93 F.Y.
- (7) The abbreviation F.Y refers throughout this report to Gregorian fiscal years, and Ethiopian Fiscal Years if indicated by E.F.Y. For instance, 1985 E.F.Y or equivalently 1992/93 F.Y. The Ethiopian Calendar Year (E.C) covers a 12 month period each with 30 days and a 5 or six-days "month" of "pagume" which runs from September 11 to September 10 of the following year.
- (8) In the tables:
 - (a) A "-" in a cell of a column signifies unavailability of data if not indicated by "NA" for "Not Available"
 - (b) a minus sign ("-") before a figure in a growth column indicates a decrease and an increase other wise.
 - (c) details and percentages in tables may not necessarily add up to totals because of rounding.
- (9) The data period in the text extends as far back as 1980/81 F.Y. The latest data period which this main report has encompassed is the 1997/98 F.Y.

(10) *Up to date data have not been available for some sectors. The latest data period for those sectors have gone as far back as 1993/94 in some extreme circumstances.*

(11) *As to National Accounts Aggregates, Data covering the period 1980/81-1993/94 are actual, 1994/95-1996/97 are estimates, and 1997/98 are Preliminary estimates*

(12) *The terms "Consumer Price Index" and "Retail Price Index" are interchangeably used in this study although they are strictly different concepts in other contexts.*

Preface

Ever since the launching of the Economic Reform Program (ERP) in Ethiopia in 1992/93, the attempt towards assessing the impact of the reform measures has been confined mainly to reviewing the performance of selected macroeconomic variables. The scope and coverage of these reports were so limited that the need for a comprehensive and economy-wide review of the performance of the Ethiopian economy with a longer time-horizon was imperative. This Report is, therefore, believed to provide a comprehensive picture about the Post-Reform performance of the Ethiopian economy and help lay the ground for an annual economy-wide survey with enhanced socio-economic data base in the future.

The preparation of this Report was initiated by the Economic Policy Analysis Team of the Macroeconomic Planning and Policy Analysis Department of MEDaC. The team subsequently proposed a detailed outline and terms of reference (TOR) for the preparation of the "Survey of the Ethiopian Economy" in September 1997 which was endorsed by the Executive Committee of MEDaC.

Accordingly, each pertinent department incorporated the task of preparing the "Survey" in its 1997/98 work-plan and has been taken as a major undertaking of the ministry for the year. The Macroeconomic Planning and Policy Analysis Department was entrusted with the responsibility of coordinating the overall task of the study and served as a Secretariat. The first draft reports from the relevant departments were submitted almost on schedule to the secretariat. After a thorough review, these draft reports have been edited and reorganized by the secretariat in close collaboration with the concerned departments of MEDaC. The report took its final shape after incorporating the comments of the involved departments and the management of MEDaC on the final draft.

The report has been organized in three major parts, the first of which provides an overview of the whole document with key socioeconomic indicators. Part II dwells upon the performance of the macroeconomy and related issues covering six chapters on

Aggregate Output and Inflation, External Sector and the Balance of Payments, Public Finance, Money and Banking, Population and Development, and Employment. Performance of the various sectors of the economy is incorporated in part III covering 12 chapters of which six are comprised of goods producing sectors, two economic service rendering sectors, and four social service sectors

PART I

OVERVIEW OF THE ETHIOPIAN ECONOMY

OVERVIEW

Aggregate Output and Inflation

Aggregate Output

Gross domestic product and its growth is one of the crucial indicators of economic performance in a country. According to this indicator, economic growth during the Derg regime was very dismal. GDP by industrial origin at 1980/81 constant factor cost was growing, on average, at about 1.5 per cent per annum during the last decade of the Derg period ending in the 1990/91 F.Y. In the face of population growth rate of 2.9 per cent per annum registered during the same period, it is clear that per capita income had been declining drastically.

A recovery in economic performance has been registered since the introduction of the Economic Reform Program (ERP) in 1992/93. Real GDP by industrial origin grew by an average rate of about 5.5 per cent per annum during the period 1992/93 to 1997/98. Growth during this period has come from a strong upsurge in the performance of industry and service sectors which averaged 7.3% and 7.7% per annum, respectively. Improved availability of inputs and spare parts to the highly incapacitated manufacturing sector made possible by the intensive emergency recovery and rehabilitation effort and the accompanied economic reform program which helped rectify factor and product market distortions, are the major factors behind the profound growth registered in the industrial sector. Growth in agriculture has also averaged 3.4 per cent per annum during the period 1992/93 to 1997/98.

A look at the expenditure side of GDP revealed that private final consumption expenditure accounts for 82 per cent of GDP while government Final Consumption Expenditure and Gross Domestic Capital Formation accounts for 11 per cent and 20 per cent of GDP in 1997/98. Gross Domestic Expenditure which is the sum of the above three components take up 113.4 per cent of GDP which shows that our domestic expenditure far exceeds domestic production. The excess, 13.4 per cent, indicates the resource gap also measured by the difference between exports and imports of goods and non-factor services. Although exports have shown a satisfactory performance since 1992, it remained weak as reflected by its average 15 per cent share in GDP in contrast to a more than 28 per cent share in GDP of imports in 1997/98.

Domestic saving (measured as a residual between GDP at current market prices and consumption expenditure) and Gross domestic capital formation have exhibited an increasing trend both in absolute terms and relative to GDP throughout the post-reform years ending in the 1997/98 F.Y. Gross Domestic Capital Formation as a share of GDP has increased from a pre-reform (1990/91) level of a round 10.6 per cent to 20.2 per cent in 1997/98. Domestic saving increased from 3.5 per cent of GDP in 1990/91 to around 7 per cent of GDP in 1997/98. Although both Gross Domestic Capital Formation and Domestic Saving as percent of GDP have doubled in the post-reform period,

domestic saving has still managed to finance only one-third of the Gross Domestic Capital Formation. This implies that the bulk of the Gross Domestic Capital Formation is being financed from external sources which might have a serious implication on debt service burden in the future

Inflation

The Addis Ababa Retail Price Index which was constructed based on the Household Income, Consumption and Expenditure Survey of 1963 had been used as an indicator of overall price changes in Ethiopia till 1996/97. According to this index, annual price changes or inflation had remained low in Ethiopia compared to most developing countries. Throughout the 1980s, for instance, the highest rate of inflation recorded was 18.5 per cent during the drought year of 1984/85. Other years of relatively higher inflation were 1981/82 and 1988/89 when the general index showed a growth rate of 7.3 and 9.5 per cent, respectively. Otherwise, inflation was less than 5 per cent and even fell below zero in some years like in 1986/87 (-9.5 per cent).

The first two fiscal years of the 1990's were, however, marked by a relatively higher inflation (about 21 per cent in both years) mainly due to social and economic disruptions which resulted from the heightened civil war culminating with the overthrow of the Derg in May 1991.

Following the attainment of peace and stability and the recovery in economic performance, growth in the general price level has slowed down. In 1992/93, inflation as per the old Addis Ababa Consumer Price Index stood at only 10 per cent, an unexpected out turn

in the face of price liberalization and other macro-economic measures introduced during the period. In 1993/94 too, inflation further declined to 1.2 per cent largely because of the preceding year's good crop harvest. The fiscal year 1994/95, witnessed the highest post reform rate of inflation which stood at 13.4 per cent which, however, subsided to a mere 0.9 per cent in 1995/96 and further to -6.4 per cent in 1996/97. The occurrence of the 1993/94 drought and the windfall gain in export earnings in 1994/95 which pushed up money supply are believed to be the major reasons behind the 13.4 per cent inflation in 1994/95.

Due to a number of shortcomings associated with the 1963 based Addis Ababa Consumer Price Index, particularly problems related with coverage and classification and sheer obsolescence to represent current consumption pattern in the country, a new price index at the country, urban and rural levels was developed in 1996/97. According to the new index, the inflation rate stood at 2.3 per cent in 1997/98 fiscal year which is still quite low. The rate of inflation recorded in 1997/98 was 4.23 per cent and 3.85 per cent in urban and rural areas of Ethiopia, respectively.

In general, the rate of change in overall price level (inflation) in Ethiopia has been traditionally moderate. Although the reasons behind this are difficult to tell with certainty, the low levels of economic development coupled with the degree of monetization of the economy, and the nature of the macroeconomic policies pursued are believed to have strong bearings on this outcome.

External Sector and the Balance of Payment (BOP)

Recently, Ethiopia has taken important steps towards liberalizing its external sector through introducing pertinent policy measures. Among the policy measures taken to encourage exports include: the devaluation of the exchange rate and subsequent introduction of a foreign exchange auction market, the suspension of taxes and duties levied on export goods except on coffee in January 1993, the introduction of export duty drawback scheme in August 1993, reduction of license fees for coffee exporters and simplification of the procedures of obtaining licenses, subsequent reduction and elimination of the foreign exchange surrender requirement, and allowing of exporters to open foreign exchange deposit accounts in commercial banks. With regard to imports, tariff regime has been overhauled with massive cuts on tariff rates, the maximum tariff rate was slashed from 230 per cent to 50 per cent, the number of tax exemptions was also reduced from 327 to 138, and the weighted average tariff rate (weighted by the number of items in each tariff band) has been brought down to 21 per cent. Simplification of the system of import licenses and reduction of negative lists have also been undertaken apart from simplification and standardization of customs clearance procedure.

An encouraging performance has been registered in the export sector during the post-reform period. Export earnings (merchandise) have showed a continuous revival from 154.2 million USD in 1991/92 to 600 million USD in 1996/97. The participation of the private sector which had been marginalised

during the Derg regime has now become dynamic with its share in export earnings growing continuously from 16 per cent in 1990/91 to 80 per cent in 1997/98. However, the revival in private sector participation has not been accompanied either by a significant increase in the volume nor in the diversification of export products. Still, Coffee, Oil Seeds and Pulses, Hides and Skins and recently "Chat" in that order account for the lion's share of the export earnings of Ethiopia which are all agricultural commodities.

Triggered by the demand for recovery and reconstruction which was backed by external financial support, imports have also showed significant increases over the post reform program period. Merchandise import was valued at 875.8 million USD in 1991/92 which now stood at 1.45 billion USD in 1997/98. The lion share of imports has been accounted for by capital and consumer goods which altogether account for 64% of imports during the period 1991/92-1996/97. Imports of fuel and semi-finished goods took up 18% and 16% of imports during the same period, respectively.

Chronic trade deficit has remained the dominant feature of Ethiopia's merchandise external trade sector for a long time. This feature has also continued even during the post reform period as merchandise export earnings have still fallen short of covering even half of our import bill.

The continuously increasing surplus on the services account and the substantial inflows of private and official transfers registered in the post reform period have helped bridge the trade deficit and

check growth in the current account deficit with in acceptable limits. Consequently, the reserve position of the country which reached a mere 1.3 weeks of import in 1991/92 recovered to 33.1 weeks of import in 1995/96 but slightly declined to 22.6 weeks of import in 1996/97. It also further declined to about 15 weeks of import in 1997/98 F.Y. The fact that the recovery of the

reserve position of the country relied much on the inflow of external resources puts a question on the sustainability of the reserve position and has become a cause for concern entailing the urgent need for the diversification of the export base in order to boost the export earnings capacity of the country

Public Finance

Despite the aggressive efforts made to raise domestic revenue, fiscal deficit was widening during the last decade of the military regime owing to the fast growing expenditure. The unsustainable fiscal-ills of the Derg, therefore necessitated a comprehensive set of reform measures which aimed at containing the budget deficit at a sustainable level and avoiding inflationary financing through domestic bank borrowing. This entailed enhancing revenue collection while at the same time rationalizing and containing growth in expenditure. Government's resort to domestic bank financing of the deficit was progressively eliminated to prevent crowding-out of the private sector and inflationary pressure. The fiscal system was also organized along the federal set up government, providing substantial fiscal authority to regional states.

On the revenue front, the tax structure has been changed by revising the tax schedules, introducing/reintroducing new taxes, and reducing tax exemptions. Efforts have also been made to enhance the efficiency of revenue collection and administration by restructuring the Customs and Inland Revenue Authorities. The growth and structure of government expenditure was mainly influenced by the

rationalization of the role of the government towards the provision of basic infrastructural and social services while leaving the productive sectors to the private sector. The sharp decline in defense outlays and the removal of budget subsidy to public enterprises also played an important role to check growth in overall expenditure and rendered it productive by focusing on infrastructure and social services.

The interplay of the policy measures highlighted above, the strong recovery in domestic production and enhanced flow of external resources have helped government attain a prudent and sound fiscal environment during the post reform period ending in 1997/98. Fiscal deficit excluding grants declined subsequently from around 11 per cent of GDP in 1990/91 to about 5 per cent of GDP in 1996/97. It also stood at around 6.8 per cent in the 1997/98 F.Y. Government borrowing from the domestic banking system gradually declined and government began to effect net repayment of loan owed to the banking system since 1995/96 F.Y. Sizable proportion of the deficit was financed from external sources. The overall improvement in fiscal soundness was also witnessed by the capacity of the government to finance increasingly larger parts of capital expenditure out of

domestic revenue having fully covered the recurrent portion of total expenditure.

Domestic revenue has achieved an about 22 per cent annual average growth rate during the period 1991/92 to 1997/98. In absolute terms, it increased from Birr 2.2 billion in 1991/92 to an estimated Birr 8.4 billion in 1997/98. Its ratio to GDP thus increased from 10.6 per cent in 1991/92 to 19 per cent in 1997/98. Among the major components of domestic revenue; foreign trade taxes, direct taxes and domestic indirect taxes grew at annual average rates of 26.9, 20.6, and 13.4 per cent respectively, during the post reform period. These tax bases accounted on average for 26, 24 and 19 per cent of the total domestic revenue while the balance, i.e. about 31 per cent came from non-tax sources during the fiscal years spanning 1991/92 to 1997/98. During this period, however, the contribution of direct taxes and domestic indirect taxes to total domestic revenue declined from 29 and 24.7 per cent to 22 and 14 per cent, respectively. The share of foreign trade taxes and non-tax revenue on the other hand, increased from 19 and 27 per cent in 1991/92 to 26 and 31 per cent in 1997/98, respectively.

Direct taxes have been the major sources of revenue for regional governments. The regional states, however, managed to generate 16 to 17 per cent of total revenue on average since 1993/94 and this figure is expected to increase with improved administration of land use fees and agricultural income tax and the expansion of private investment.

Performance of government expenditure has also been equally impressive. Its growth averaged 18.7 per cent per annum for the period 1991/92 to

1997/98 which is well below the rate of growth in revenue collection. Unlike the Derg period, much of the growth in total expenditure was accounted for by capital spending whose share in total spending increased from 22 per cent in 1991/92 to 42 per cent in 1996/97. In 1997/98, however, the share of capital and recurrent expenditure was 38 and 62 per cent respectively owing to the less than satisfactory performance of capital projects and the effect of the Ethio-Entran border conflict. In absolute terms, however, both capital and recurrent spending have been increasing.

In line with the government's priority areas of intervention, road construction and the social sectors kept on absorbing an increasing share of public capital expenditure while the share of agriculture, industry and mining has declined. The gap is believed to be bridged via the participation of the emerging private sector in those productive sectors. Nearly a quarter of total capital expenditure in 1996/97 was channeled to roads construction while the share of education and health sectors in total capital expenditure almost doubled as compared to its level at the beginning of the reform period.

Recurrent expenditure grew at a lower rate than capital expenditure during the reform period and its ratio to GDP dropped from a pre-reform average of 22 per cent to about 15 per cent in recent years. The share of defense in recurrent spending has substantially declined from 45 per cent during the last three years of the Derg to about 14 to 15 per cent in 1995/96 and 1996/97. Allocation to administrative and general services account for a little more than 30 per cent of total recurrent expenditure in 1996/97 down from a pre reform average of over 50 per cent.

Debt servicing, on the other hand, become increasingly important in the post reform period absorbing on average about 22 per cent of recurrent spending up from 10 per cent average share during the Derg period. Recurrent expenditure has also given emphasis to social services and key

economic services undertaken by governments at all levels

Money and Banking

Monetary Aggregates

Monetary aggregates have been important indicators of macroeconomic performance as they are directly or indirectly influenced by fiscal, external sector and monetary policies of a country. During the period of the Derg, for instance, the widening budget deficit which was by and large financed through domestic bank borrowing has been the most important source of monetary expansion. The foreign reserve of the country during that period was so low having little contribution for growth in the monetary base (M_2). Despite the prevalence of negative real rates of return on deposits, savings have been growing at about 10 per cent per annum during the Derg mainly because of absence of alternative investment outlets for the private sector financial resources. This situation however, helped government channel cheap financial resources to the socialized sector while maintaining a stable macroeconomic environment in the face of a growth in money supply faster than the nominal value of the production of goods and services in the economy. The stability was nonetheless unsustainable as it took place at the cost of a weak economic and financial sector performance.

The reforming of the financial sector and monetary policies pursued were thus at the heart of the Economic Reform

Program launched since 1992/93 with a broader objective of stabilizing the macroeconomy and create an effective and efficient financial sector which facilitate economic growth. Maintaining the growth rates of the monetary base in line with the growth rate of nominal GDP has been the immediate objective of monetary policies pursued during the reform period which has helped contain inflationary tendencies while maintaining external balances.

A number of reform measures have been taken along this line including the adjustment of interest rates, so as to render real rates of return on financial assets positive, and allowing for market determination of interest rates by setting only the minimum deposit and maximum lending rates. Since January 1998, however, the ceiling on the lending rate was removed. Discriminatory interest rates for credit channeled to privileged sectors and clients had been also suspended to rectify market distortions. Apart from allowing private sector participation in the financial sector, the specialized government banks have been reformed to undertake commercial banking activities. A bi-weekly auction market for Treasury-Bills with three categories of maturities was introduced since January 1995 which has helped avoid the crowding out effect of government borrowing from the banking system while laying the ground for capital market development in Ethiopia.

Unlike the period of the 1980's when bank claims on central government grew by about 16 per cent per annum, the post reform period witnessed a 3.2 per cent annual average growth rate. Hence, growth in the stock of domestic credit averaged 9.8 per cent for the period 1991/92 - 1997/98, despite a remarkable growth (20 per cent per annum) in credit to non-government borrowers. Moreover, the share of government borrowing in total domestic credit declined to 49 per cent in 1997/98 from a peak of 70 per cent in 1991/92. This was made possible by the prudent fiscal policy pursued by the government. The foreign assets position of the banking sector, on the other hand, grew by 48 per cent per annum on average since 1991/92 reversing the 4 per cent decline during the 1980's. Hence, foreign assets of the banking sector has increasingly become an important determinant of expansion of the monetary base (M_2) during the reform period under review. The annual average rate of expansion of the monetary base during the reform period ending in 1997/98, therefore, stood at about 12 per cent, nearly equal to the 11.6 per cent growth during the Derg, but now consistent with growth in nominal GDP (12.6 per cent).

Owing to the favorable environment created for the mobilization of savings, interest bearing deposits (quasi-money) have been growing at about 21 per cent per annum during the post-reform period while currency in circulation grew by only 1.8 per cent per annum. Since 1995/96, currency in circulation was declining in absolute terms reflecting economic agents' awareness about the high cost of holding money in terms of forgone interest earnings. This contrasts sharply with the 12 per cent annual average expansion in currency outside banks during the 1980's. Demand

deposits, on the other hand, increased by 14 per cent per annum during the same period which mainly is attributed to the expansion of business activities.

Notwithstanding the commendable developments outlined above, a slow down in the growth of outstanding credit to the private sector and modest increase in that of government have been observed since 1996/97. On the other hand, the rate of growth in interest bearing deposits have also decelerated, particularly that of saving deposits.

Banking

With regard to banking activities, owing to the maintenance of positive real interest rates and the attainment of economic recovery, deposit mobilization of commercial banks during the post reform years (1992/93 - 1997/98) expanded faster (17.5 per cent) than that of the Derg period (10.6 per cent). Much of the growth in total deposit mobilized during the Derg period was attributed to an average growth rate of 15.5 per cent in saving deposits in the face of a 5.4 per cent decline in time deposits which reflects the direct disincentive of negative real interest rates on resource mobilization. During the post reform period, all types of deposits have been increasing, including time deposit which has been growing by an average rate of 19.7 per cent. Despite the emergence of private banks, the Commercial Bank of Ethiopia achieved an average growth rate 17.5 per cent in deposit mobilization which further helped increase its average share in total deposit mobilization to 92 per cent during 1991/92 - 1997/98, from 88 per cent during the period 1980/81 - 1990/91. As a result of the liberalization of the financial sector which involved the establishment of private banking and

insurance companies, five private banks have been established since 1994/95. The share of these private banks in total deposit mobilization increased to 5.6 per cent by 1997/98 from a mere 0.33 per cent in 1994/95.

Despite the preferential access to bank credit by the socialized sector, gross credit channeled to non-government borrowers, i.e., the private sector, public enterprises and cooperatives declined at an average annual rate of 6 per cent per annum during the period 1980/81 to 1990/91. Credit flow to the private sector declined at an average rate of 5 per cent per annum owing to restrictions on this sector. The fact that new investment and expansion of public enterprises had been undertaken through government capital budget resulted in the decline of their credit absorption at an average annual rate of 10 per cent during the Derg period although they accounted for about 60 per cent of total credit.

Following the removal of restriction on private sector endeavors as well as discriminatory interest rates among sectors, the flow of credit to the private sector during the period 1991/92 to 1997/98 grew at an average annual rate of 42 per cent. On the other hand, credit intake of public enterprises kept on declining during the post reform period at an annual average rate of 5 per cent partly because of the process of privatization and limited new investment or expansion in public enterprises.

The reform measures of the government have been successful in shifting the flow of financial resources to more efficient sectors which is evidenced by the change in the structure of credit disbursement in the post reform period. Hence, for the period 1991/92 -

1997/98, the average share of credit to the private sector rose to 76 per cent while that of public enterprises dropped to 12.5 per cent. The share of cooperatives stood at 11 to 12 per cent both before and after the reform program. There has been a general tendency of a slow down in the rate of growth of credit in recent years as compared to the fast expansion in the earlier years of the reform which could be ascribed by the melting-down of the pent-up demand at the beginning of the reform.

All economic sectors, except industry and housing and construction, exhibited a decline in their rate of credit intake during the Derg period. Since 1991/92, however, credit to the agriculture sector and international trade grew at an average rate of 40 and 48 per cent, respectively, while that of industry and domestic trade exhibited a 20 and 32 per cent average growth rate. Domestic trade, however, absorbed a larger share of credit (about 32 per cent) during the post reform period while the share of agriculture and industry stood at 15 and 13 per cent. International trade, on the average, absorbed 15 per cent of the total credit during the same period. The pre-reform situation, however, exhibited a dominant share (32 per cent) for agriculture, channeled mainly to state farms, followed by international trade with a share of 25 per cent.

During the post reform period, about 75.7 per cent of the credit has been coming from the Commercial Bank of Ethiopia while the share of Development Bank of Ethiopia stood at 15 per cent. Within the four years of their operation, the share of private banks in total loan disbursed reached 16.7 per cent by 1997/98 which is much higher than their share in deposits mobilization.

Population and Development

Population and development are highly interrelated, one affecting the performance and structure of the other. Hence, understanding the size, sex and age composition, rural-urban and regional distributions, and the structure of the population is crucial for sound policy formulation, economic analysis, and development planning.

It has been documented that population growth rate has increased from about 2 per cent in 1950 to about 2.9 per cent as per the first 1984 population and Housing Census results. The 1994 population and Housing Census of Ethiopia put the total population of the country at 53.5 million which makes the country the third most populous country in Africa. If the current trends continue, the population of Ethiopia is expected to double every 24 years and is expected to reach 120 million by the year 2022.

The age structure of the population reveals that the proportion of total population under 15 years of age was over 45 per cent in 1970 and 1981. However, it has increased to 48 per cent in 1984 and declined to 45 per cent in 1994. The proportion of working age population (15 to 64 years of age) has decreased from about 52 per cent in 1970 to about 44 per cent in 1990 and increased to 51 per cent by 1994. On the other hand, the available documents revealed that the dependency burden defined as the ratio of the size of the dependent population (those people under 15 years of age and those 65 years and over) to that of the working age population (15 to 64 years of age) has increased from 94 per cent in 1970 to 111 per cent in 1984. The 1994 population and Housing Census shows

that the overall dependency ratio was 90.4 which is smaller as compared to the 1984 figure of 111.

There have been ample evidences that total fertility in Ethiopia has increased from 5.2 in 1970 to 7.7 in 1990. However, it has declined from 7.5 in 1984 to 6.7 in 1994. It is to be noted that urban fertility declined from 6.3 in 1984 to 4.5 in 1994 while rural fertility also declined from 8.1 in 1984 to 7.2 in 1994. Mortality indices such as crude death rate (CDR), infant mortality rate, and life expectancy at birth show a general pattern of mortality decline in the country.

With regard to infant mortality rate, it has declined from 153 deaths per 1000 births in 1970 to 110 in 1984. But this rate has slightly increased to 116 in 1994.

The Ethiopian population has been projected to increase from 54.6 million in 1995 to 129.1 million in 2030. This shows that population growth is expected to average about 2.46 per cent per annum between the years 1995-2030.

By and large, population growth, structure, age and sex composition, spatial distribution and the like determine the economic development needs of the country. For instance, high fertility increases the dependency burden in the short-run. This reduces the saving and investment required to expand the productive capacity of the economy.

On the social front, it is estimated that about 47 per cent of the total population lives within a radius of 10 kilometers

from health care facilities. Moreover, the ratio of population to medical doctors is about 30,700 and the ratio of population to nurses is 15,000. Similarly, the available sources suggest that primary school enrollment

increased from 451.5 thousands in 1968 to 2.28 million in 1994. The elementary school age (7-12) population is projected to increase from 9.8 million by 2000 to 17 million by 2030.

Employment

The challenges of employment in the Ethiopian context remain to be one of the long-term development objective having had a lot to do with the structure and rate of growth of the population and the inherent characteristics of the economy. The rapidly expanding and predominately young population has contributed to an increasing labour force more than 85 per cent of which is absorbed by the rural economy. The rural economy is also marked by lower productivity and low income of labour which resulted in pervasive poverty. Urban areas have also experienced rapid expansion of open unemployment and informal sector employment further complicating the problem.

In an effort to address the objectives of poverty alleviation and employment promotion, the TGE and now the FDRE adapted a number of development policies and strategies, as well as medium to long term development programs since 1991/92. Such measures have directly or indirectly affected the labour absorption capacity of the economy and enhanced labour mobility and productivity.

The agricultural based, rural centered Agricultural Development Led Industrialization (ADLI) strategy, for instance, was designed to address the problems of unemployment (under employment) and low productivity of labour in rural areas. Reform measures to liberalize the functioning of factor markets are also believed to have

improved the absorption of the country's abundant resource, labour. Rationalization of public expenditure in favour of human resource and infrastructure development have been important steps to facilitate private sector investment activities which in turn would enhance employment prospects. With regard to the public sector the on going civil service reform is aimed at enhancing efficiency and productivity of its employees.

Cognizant of the role of the informal sector in the generation of the urban employment, the Government has devised the Small Scale and Micro Industry Development Strategy, while enhancing the expansion of rural credit and micro-financing schemes all over the country. Some regional states have also been conducting various vocational training programs that would provide the requisite skill for productive employment.

On the supply side, the ratification of a national population policy had marked the initiation of a lasting effort towards narrowing the gap between growth in population and development. Target rates of population growth and fertility have been set to slow down the pace at which the labour force expands.

The adoption of the new labour code in 1993 set a clear point of departure on the functioning of the labour market that was defined according to the Labour Proclamation No., 64/1975. The

"labour-right" centered socialist labour code of 1975 was radically changed to one that aims at defining a legal framework for worker-employer relation. The rights and obligation of both parties of the labour market were explicitly stated by proclamation No. 42/93 with the objective of keeping industrial peace, building harmony and cooperation among workers and employers, and granting a right to form associations for both workers and employers (a right preserved only for workers as per the 1975 proclamation). The obligatory demand for labour transactions to take place through the 'Labour Exchange Offices' of MOLSA was revoked by the new labour code, marking the deregulation of the labour market. The new labour code also had a number of features that attempt to facilitate labour mobility, contract enforcement, and creation of safe and healthy working environment.

The Civil Service, on the other hand, is still being governed by laws issued two decades ago. However, minimum wages have been improved while wage freezes were suspended since the launching of the ERP. A comprehensive Civil Service Reform Program has recently begun to be implemented to overhaul the system and ensure quality, transparency and efficiency of service delivery.

With regard to the rural labour market, the TGE had outrightly lifted the restriction on the use of hired labour on individual plots of land.

Owing to paucity of labour statistics, the size and structure of the labour force, the extent of employment/unemployment and relevant features of the labour market are reviewed based on the two Population and Housing Censures of

1984 and 1994. As per the results of the census reports, the economically active population (aged 10 year and over less the inactive in the same range) has accounted for 48 per cent of the total population in 1994 up from 34 per cent a decade ago. Such a remarkable increase in the labour force (5.9 percent per annum on average) is believed to be the out come of at least three factors: the reduction in the rate of inactivity, the rate of growth of the population, and a shift in the structure of the population.

Apart from the natural increases in the labour force, the challenges of creating productive employment was heightened by the influx of ex-solders (about half a million) and returnee refugees to the labour market during the launching of the ERP. Rural-urban migration has also been an important factor for fast growth in urban labour force. This mode of migration is still a major form of migration in Ethiopia although it declined from 40 to 25 per cent between 1984 and 1994. Rural-rural migration instead become the dominant pattern of migration in 1994 accounting for close to one half of total migration.

As could be expected, agriculture accounted for close to 90 per cent of total employment according to the results of the two censuses, while distributive services (trade, hotels, tourism, transport, communication) and 'other' services distantly followed agriculture at 4.8 per cent share in 1994. In urban areas, however, the above mentioned services accounted for 36.7 per cent of total employment in 1994. On the other hand, employment in the public administration and defense and social security sector declined in importance from 5 per cent in 1984 to 1 per cent in 1994.

Self employment and unpaid family labour are the major forms of employment accounting for 90 per cent of the employed labour force. This points to the subsistence nature of the economy and dominance of the informal sector. Between 1984 and 1994, there has also been a shift in the pattern of employment from public to private.

The one time Survey of the Informal Sector (1996) by the CSA indicated that there were 730,696 persons engaged in the informal sector by 1996. This sector accounted for about 50 percent of the economically active population in Addis Ababa. Trade related distributive services and handicrafts accounts for 85 per cent of the informal sector employment in urban areas

According to the 1994 population and housing census, unemployment at the country level stood at 2.9 per cent. Open unemployment in rural Ethiopia was rather very low (less than one per cent), while it was alarmingly high in urban areas at 22 per cent according to the 1994 census. Looking back at the result of the 1984 census, unemployment at the country, urban and rural areas was 1.2, 7.9, and 0.4 per cent, respectively, showing the escalation of urban unemployment between the two census periods.

The 1994 census also revealed a rampant youth unemployment especially in urban centers. About 37 and 38 per

cent of those aged 15-19 and 20-24 were openly unemployed in urban areas in 1994. The rate of unemployment is also high for those in the late 20s and early 30s but successively declines for higher ages. More than 60 per cent of the army of the unemployed in Ethiopia have some level of education of which more than half have attained secondary education. The census result also shows that the majority of the unemployed young are educated while most of the unemployed in the age groups of 40 and over are illiterate.

With regard to regional distribution, the city states of Addis Ababa, Dire Dawa and Harari revealed high urban unemployment rates of 35.4, 35.1, and 27.1 per cent, respectively, in 1994. The Somali regional state also has had 32 per cent urban unemployment rate followed by Oromiya at 15.4 per cent. The rest of the regions showed urban unemployment rates not exceeding 12 per cent.

The attainment of a stable macroeconomic environment, the recovery in economic growth and the growing participation of the private sector in a wider range of economic activities since 1991/92 are expected to result in better employment prospects in the near future if they are strengthened and sustained. Up until 1997/98, some 1184 private investment projects have been made operational creating job opportunities for an estimated 64 thousand permanent and 301 thousand temporary employees.

Agriculture and Food Security

Value added of agriculture and allied activities at 1980/81 constant factor cost

had exhibited an annual average growth rate of a mere 1 percent during the last

decade of the Derg spanning the period 1980/81 to 1990/91. In the face of a population growth rate of about 2.9% during the same period, per capita agricultural value added had been declining at a little less than 2 percent per annum over the period. The value added of Agriculture and allied activities has witnessed an average annual growth rate of 3.4 percent per annum in the post reform period spanning the fiscal years 1992/93 to 1996/97. The highest growth rate achieved was 14.0 percent in 1995/96 while the lowest was a drop of 3.7 percent in 1993/94.

The peasant sector on average accounts for about 95 percent of the total area under crops and for more than 90 percent of the total agricultural output. Moreover, 94 percent of food crops and 98 percent of coffee is being produced by small holder farmers while the remaining 6 percent of food crops and 2 percent of coffee has been on average generated from state and private commercial farms.

Crop production (major crops) by private peasant holdings has been increasing at an annual average rate of 5.3 percent over the post-reform period ending in the 1997/98 F.Y. This growth sharply contrasts with an annual average growth rate of about one percent during the period 1980/81 to 1990/91.

Out of an estimated 66.0 percent of the total land area of the country which is potentially suitable land for agricultural production, 22.0 percent is believed to be under cultivation of which about 89 percent is under annual crops and the remaining being under perennial crops. About 96.0 percent of the cultivated land is believed to be under small holder farming and the residual under state and private commercial farms. Area cultivated under major crops has been

expanding at the rate of 5.6 percent per annum during the period 1991/92-1996/97, accounting for part of the increase in crop output.

Although a comprehensive livestock census has not been undertaken so far, the results of the various sample surveys conducted by the CSA at different times shows that the livestock population of Ethiopia stood at around 30 Million Tropical Livestock Unit (TLU). According to basic data used in the compilation of the National Accounts estimates, the livestock sub-sector contribute about 12 to 15% to overall GDP and 25 to 30% to overall agricultural value added including allied activities

Export of livestock products consisting mainly of hides and skins stood second to coffee in terms of foreign exchange earnings. For instance, livestock exports alone accounted for about 14% of total value of export earnings from primary products in 1995/96, 96% of which being accounted for by hides and skins.

Although reliable data on fishery has not been made available, conservative estimates based on experimental fishing put the potential yield to be between 30,000 to 40,000 ton per year for the main water bodies.

Fertilizer utilization has increased from 145,709 tons in 1990 to 206,294 tons in 1997 showing an annual average growth rate of 5.0% over the period. As per the recent Agricultural Input Supply Enterprise estimates, the major staple food, Teff, accounts for about 40 percent of the total fertilizer used while other cereals like wheat, barely, maize and sorghum altogether account for about 50% and the residual is used on coffee, cotton and tobacco. On average, about 80 percent of fertilizer

sales comprised of DAP while Urea and others (like NPK) accounts for the remaining 19 and 1 percent, respectively.

Direct price control, low interest rate and overvaluation of exchange rate in the past regime, kept fertilizer prices artificially low. To avoid the disincentive effect of the sharp devaluation on fertilizer application, the Transitional Government of Ethiopia introduced territorial pricing and price subsidy for fertilizer until the end of 1996. Since then retail prices, subsidies and whole sale prices have been liberalized successively resulting in to a fully decontrolled fertilizer marketing by now.

As per the information made available on the sale of improved seeds to different producers since 1985, the share of seeds destined to MSFD was consistently higher than that destined to the "others" for the period 1988 to 1990 followed by the MOA except in 1990 in which the share of MOA was higher than the former. In 1991, the share of the MSFD dramatically declined to around 10% and the lion's share, about 66 percent, was accounted for by "others" which constitute the then Relief and Rehabilitation Commission and NGOs, the rest being the share of MOA. The overall utilization of improved seeds hasn't exceeded 2 per cent of the overall seed requirement of the country during the period 1988 to 1990.

During the period 1983 to 1996, the lowest level of overall pesticide import was recorded in 1994 (933 MT) and the highest was recorded in 1989 (9370 MT). The overall volume of pesticide import had declined from 3319 MT in 1983 to 944.4 MT in 1996 showing an annual average decline of 9 percent per annum over the period. The volume of insecticides which account for 98.7

percent of total volume of pesticide import in 1983 had decreased to 46.8 percent of overall pesticide import in 1996 while herbicides which accounted for 1.3 percent in 1983 had increased its share to about 50 percent in 1996. Lack of awareness and technical skill in the use of pesticides is said to be a major reason for such a poor utilization rate.

The government's crop intensification effort which has been geared towards reducing the country's dependency on food aid commenced since 1995 through designing and implementing the new Agricultural Extension Program. This package Program is being implemented on 1 - 2 hectare on-farm demonstration plots of the major cereal crops (Maize, Wheat, Tef and Sorghum) in selected Woredas of the country. As per the assessment made over the last two years, the productivity achieved on those crops was found to be 3 to 4 fold higher than the traditional national average yield of the respective crops.

To support the development effort in the country, the government has been allotting capital budget every year. The share of budget that went to the agricultural sector including Natural Resource and the Environment was around 41 per cent by the end of the fiscal year 1991/92. This share has declined to about 8 per cent by the year 1997/98. The decline in the share of developmental expenditure in agriculture since the early 1990's has been attributed to a greater extent to the exclusion of state farms from capital budget allocation. The crop subsector is on average estimated to have appropriated some 50 percent of development expenditure in agriculture and Natural Resources in any one year.

Agricultural credit provided during the Derg by the then AIDB was biased towards state farms. However, the share of credit to state farms has been consistently declining at the rate of 12.3 percent per annum over the period 1990/91 to 1993/94. On the other hand, the share of credit extended to private holders, cooperatives, and NGOs has been increasing since 1990/91 and began to account for the whole of agricultural credit since 1993/94, the year in which credit to the state farms was almost completely stopped.

The participation of the private sector in the development of modern commercial farms started during the Imperial regime on both crop and livestock production. After the nationalization of these private farms, their contribution to total agricultural output have never exceeded 5.0 percent notwithstanding the huge investment aimed at mechanizing them. Their share had even been declining towards the fall of the Derg. After the launching of the new Economic Reform Program, some of the

state farms have already been liquidated and others have been dissolved and finally distributed to the surrounding farmers and the remaining are being earmarked for privatization. The inhibiting factors for private sector development have since the launching of the reform program been removed and 1157 agricultural projects have been given investment certificates by the Ethiopian Investment Authority and its regional counterparts in the past seven years, of which, 511 have already become operational and another 107 are under implementation.

Food insecurity in Ethiopia, both chronic & transitory, covers a significant number of people. As evidenced from different sources, the size of food insecure was estimated to range between 40 to 50 percent over the last decade. Although an increase in food production has been observed, the rate of increase in the per capita food production has been very low owing to a relatively higher population growth rate in the country.

Manufacturing

The modern manufacturing sector in Ethiopia is not the outcome of its ancient tradition in handicrafts and cottage industries. The sector emerged in the early 20th century largely through foreign private entrepreneurs and the paces of industrial development gained strong momentum only after World War II when government began to take measures conducive for economic growth. As in many developing countries, import substitution was the leading strategy for industrial development which in the Ethiopian context have not fully attained the goal set for it.

Though the role of government in the manufacturing sector was intensified

following the nationalization move of the Derg, the structure of the manufacturing sector remained to be dominated by light and consumer goods producing enterprises. The spatial distribution of the establishments, their contribution to GDP (6 to 7 per cent) and the sectoral strategy also showed no significant change during the Derg mainly because of the suppression of private sector initiatives and foreign exchange shortfalls.

Though an elaborate manufacturing sector policy has not yet been developed, the government since 1991 has been creating conducive environment for the development of the

sector which among others, include reforming the public manufacturing sector, introduction of freely accessible and partly liberalized foreign exchange market, lifting of government control on markets and prices, the encouragement of private investment activities, and adjustment of taxes and tariffs.

Backed by the recovery in agricultural production and the above mentioned policy environment, the manufacturing sector achieved satisfactory performance as measured by various indicators. Gross value of output (GVO) and value added of Large and Medium Scale (LMS) manufacturing, for instance, grew at an average rates of 27.7 and 38 per cent per annum, respectively, during the period 1991/92 to 1996/97 up from a 1.6 and 2.4 per cent annual decline during the 1980's. Employment in LMS manufacturing, however, showed only slight improvement over the pre-reform situation mainly because of retrenched workers from the public sector.

Despite monopolistic right granted to public enterprises in the domestic markets, their sales revenue was growing only by 1.5 per cent per annum during the last decade of the Derg. The situation reversed since the reform program and value of sales grew by 28 per cent per annum though some enterprises faced fierce competition from imported products. Manufacturing export has still had a marginal contribution to total export earnings and the prospect for significant improvement is fraught with a number of problems.

A wide divergence has been observed in import intensity among the different industrial groups over time. The average import intensity of LMS manufacturing increased from 33 per cent in 1991/92 to 44 per cent in

1996/97. It even reached 55 per cent in 1994/95. The sector also met about 60 per cent of its total raw material consumption through import during the 1st half of the 1980's which declined to about 40 per cent in the second half because of the severe foreign exchange shortfall.

Apart from the high import intensity, Ethiopia's LMS manufacturing is marked by high capital intensity which kept on expanding during the post reform period ending in 1996/97 for which data is made available. The sector has thus remained labour saving as also witnessed by the marginal increase in the size of employment.

Apart from the general improvement in the performance of the manufacturing sector, the role of the private sector has been expanding during the post reform period under review. About 21 per cent of the LMS manufacturing GVO in 1996/97 was accounted for by private establishments, up from an about 5 per cent share in 1991/92. The share of value added of private manufacturing increased from 6 per cent to 19 per cent during the same period, while accommodating about 22 per cent of the labour force in LMS manufacturing in 1996/97.

With regard to small scale and handicrafts/cottage manufacturing industries, their share in the value added of the overall manufacturing sector sharply declined from 39 per cent in 1991/92 to 20 per cent in 1997/98. In absolute terms, it has been growing at 9.7 per cent per annum. Value added in small scale and handicraft/cottage manufacturing industries grew at 0.6 per cent per annum during the period 1980/81 to 1990/91. They on average accounted for 30 to 37 per cent of the total

manufacturing value added during the same period, respectively.

The number of persons engaged in small scale and cottage/handicraft manufacturing industries during the 1995/96 fiscal year was 8929 and 1,311,745, respectively. Wage employment, however, accounted for 52 per cent of the persons engaged in small scale manufacturing and for only 3.9 per cent of those engaged in handicrafts/cottage industries. The balance is accounted for by unpaid family labour or the self employed during the same period.

Small scale manufacturing is dominated by the food production sub-group which on average accounts for 60 per cent of the gross value of output while textile is the dominant sub-group in the handicrafts/cottage manufacturing industries with 47 per cent share in the respective gross value of production.

Owing to lack of experience, absence of stock exchange markets, and weak financial institutions, the progress in the privatization of public owned manufacturing enterprises has so far been slow amounting to no more than 20 per cent of the total number of manufacturing enterprises.

Mining

The development of the mining industry in Ethiopia has been sluggish despite the promising and vast reserves of a variety of minerals. A systematic exploration and exploitation of mineral resources in Ethiopia commenced during the early 20th century with the granting of prospecting rights for Europeans.

Apart from the technical and financial problems which has long hindered the expansion of mining activities, the absence of transparent mining laws and regulations, and the exclusion of private sector endeavor in this sector during the period of the Derg is believed to have greatly inhibited the development of the mining sector.

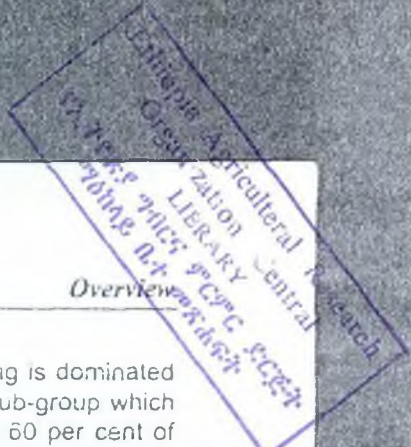
The Transitional Government of Ethiopia attempted to address these problems by issuing a Mining Law and Mining Tax proclamations in 1993. The Mining proclamation provided for the issuance of licenses for prospecting, exploration and development purposes for the private sector taking into account the various stages in the mining cycle.

Development licenses are also graded as artisan, small-scale and large-scale mining, of which the latter two are provided by the Ministry of Mines and Energy and the former by Regional Mines and Energy Bureaus.

According to the 1993 Mining Law, the Government of Ethiopia has a free-equity share of 2% in Mining operations while charging 35 per cent income tax on holders of large and small scale mining, and entitled to a negotiable terms of royalties.

On the other hand, government provides for a highly discounted cash flow of return and a short pay-back period for mining activities as well as a provision for a carry-over of losses incurred in mining operations over a long period of accounting years which are believed to give incentives for miners.

Having laid the grounds for wider private sector participation, the government has limited its role in the mining sector to that of providing geological maps for the



entire country (with out entering into detailed and costly explorations) and identifying areas with promising mineral and petroleum occurrences. Besides, the government has decided to strengthen and raise the standards of the Central Geological Laboratory which plays a key role for the smooth operations of the sector.

On the other hand, the former Ethiopian Mineral Resources Development Corporation was dissolved into four public enterprises (Adola Gold, Abiyata Soda Ash, Bole-Bulbula Crushed Stone, and Ethiopia Mineral Development enterprises) in accordance with the

provisions of the 1992 public enterprises reform. Recently, the government has also privatized the only primary Gold Mine, i.e. Lega-Dembi Gold Mine. The Ministry of Mines and Energy has also decided to float shares for Calub Gas development complex.

Owing to lack of systematic and comprehensive data on all mining activities, however, trends in mineral exploitation have proved hard to establish. Data were available only for extraction of gold, tantalum and kaolin for the post reform period in which the later two showed significant increases while that of gold kept on declining.

Energy

The energy sector in Ethiopia is comprised of the Power and Petroleum sub-sectors including an underdeveloped alternative energy sources. The development and management of the modern energy sector is under the mandate of the Ministry of Mines and Energy while the traditional energy sub sector falls out of the scope of the existing institutional set up, despite its significant role in the country's energy supply system.

The power sub-sector was restructured in the late 1996/97 with the re-establishment of a public corporation which undertakes the operational aspects, and a Government Agency which promotes the development of an efficient, reliable and high quality electricity supply including the licensing of other public and private power operators.

The energy sector policy was issued in May 1994 emphasizing the need for relying on hydropower for electricity while taking advantage of geothermal and other alternative and renewable

sources of energy wherever appropriate. An official energy sector strategy has, however, yet to be developed to meet the policy objectives. Ethiopia stands among the leading countries with huge hydropower potential despite the fact that less than 1 per cent of the existing potential is utilized currently. The country's power system has a total installed capacity of 418.8MW from both the Interconnected and Self Contained Systems. This has been the capacity since 1988 and about 10 per cent of this has not been realized owing to oldage of equipment and maintenance problems.

As per an estimated 10 per cent annual increase in demand for electricity, the existing capacity is expected to be exhausted in the early 21st century. This puts an urgency on the need to institute additional power and energy generation capacity to the existing system.

Electricity generation during the period 1991/92 to 1997/98 increased by about 6.7 per cent per annum on average.

This expansion was largely realized by increasing/improving capacity utilization and not by expanding power generation facilities. Compared with a 3.3 per cent annual average increase during the second half of the 1980's, growth in electricity supply has doubled in the post reform period. More than 95 per cent of total electricity generation emanates from the water based power system.

The structure of power consumption has concentrated in urban areas with that of the industrial sector accounting for more than 40 per cent of overall utilization. Nevertheless, domestic (household) consumption has increasingly become significant in recent years utilizing about 43 per cent competing aggressively with the productive sectors. Given the huge backlog of applicants, the domestic consumption of electricity is expected to increase faster than the uses for production purposes. As it stands now, less than 5 per cent of the total population is believed to have been served with electricity.

In view of expanding the generation capacity of the power system, the government is undertaking about four power plants projects including; the Gilgel Ghibe Project with a total capacity of 194 MW, Tis Abay II and Finchaa Fourth Unit Projects with capacity of 73 and 33 MW, respectively. The Aluta Langano Geothermal Project is also expected to be completed in the 1998/99 FY with installed capacities of 7.3 MW, respectively.

Although pricing of electricity has still been institutionalized, the government has begun implementing a phased increase in power tariff over a five years period since 1994. Even after the envisaged 60 per cent increase in tariff till the end of the five year period, prices on average are still expected to

cover only 72 per cent of the long run marginal cost of electricity. The tariff structure still subsidizes the domestic consumers although it is based on an ascending block structure without discriminating users of the water based and diesel powered systems unlike the 1986 price Revision.

In the petroleum sub-sector, important institutional measures have been taken in the mid 1997 including the re-establishment of the Ethiopian Petroleum Enterprise, which was formerly a corporation, and the establishment of the National Petroleum Reserve Depots Administration which assumed the task of construction of reserve depots and administration of national petroleum reserves (a role formerly played by EPE) In addition to this, the import of crude oil and its processing at Assab Refinery was suspended in July 1997 for economic reasons, with EPE resorting fully to an import of refined petroleum products.

Despite a steady decline in world price for petroleum, the value of petroleum imports (crude & refined) in recent years was more than twice the average for the pre-reform period which is attributable mainly to the exchange rate devaluation and partly to the increase in volume of imports (50 per cent over the pre-reform period). The expansion in volume of imports is partly explained by increased domestic economic activity enhanced by improved availability of foreign exchange.

Like the power sub-sector, petroleum pricing is under government control but has undergone successive revisions since 1992 and was supposed to be revised on a bi-annual basis since September 1996. The revisions are made in such a way that they take into account the economic cost of

petroleum and trends in world prices and procurement costs. There currently has prevailed a smooth operation of petroleum markets and demand is being adequately met both in urban and rural areas.

Despite a wider scope for the development of alternative sources of energy which is crucial to resolve the

long standing rural energy problems in an environmentally friendly manner, the existing contribution and development of this sub-sector in Ethiopia is at its very rudimentary stage. The major problems behind the poor development of alternatives are believed to be lack of a viable institution and design of appropriate programs.

Water

The survey of the water sector addresses the developments in domestic water supply and irrigation as well as master plan studies for the effective utilization of resources in the various river basins.

As a reflection of the poor infrastructure of the Ethiopian economy, coverage of domestic water supply is very low even by sub-Saharan African standards. By 1992, national coverage of water supply services stood at 26 per cent while that of sanitation services was only 7 per cent.

The rural-urban divergence in water supply coverage is so wide that only 18.8 per cent of the vast rural population is believed to have been supplied with potable water while 76 per cent of the urban population has had access to safe drinking water.

A further look into the status of water supply services shows that only 42.7 per cent of the urban population are served with adequate water supply (i.e. 35-45 liters per capita per day) including the Addis Ababa Administration. If Addis Ababa is excluded, urban population with adequate water supply stands at only 15 per cent and the rest of the urban population are believed to get below standard level of services.

The development of water supply systems both for urban and rural areas has by and large been undertaken by government budget except some involvement of NGOs in rural areas and external loan for big urban centers. Apart from the limited budgetary allocations to the sector, water tariffs have long fallen short of the per unit cost of production hindering adequate and timely maintenance of systems let alone financing investment for water development.

Though there is no systematic historical data on water tariffs (which vary from region to region based on the type of connection), the overall picture as depicted by a recent study by consultants revealed that private connections in big urban centers enjoyed relatively cheaper tariffs than small urban and rural areas. Users of public fountains were also paying higher water tariffs than those with private connections. In areas where people could not afford private or yard connections, or do not have access to public fountains people are forced to buy water from vendors at exorbitant prices as high as Birr 10/M³ and over. This sharply contrasts with private and public fountain tariffs which falls on average between 0.5 to 2 Birr per cubic meter.

In response to the compelling need to revise water tariffs, government has issued a document entitled "Basic Principles and Guidelines for Urban Water Tariff, April 1995" to guide the pricing of urban water systems. Accordingly, tariff adjustment will be undertaken on the basis of cost pricing taking into account the economic, social and financial objectives of the water subsector. Its implementation will, however, be on a phase by phase basis and full cost recovery for urban areas may be reached over a long period of time depending on the objective conditions of each region. Some regions including Addis Ababa Administration have begun revising their water tariffs along this line. However, the general progress shows a slow pace of implementation.

Government capital expenditure on water supply had long been small (less than 3 per cent of total capital expenditure) apart from being urban biased during most of the period. This was the basic reason for low coverage of water services at national level and far worse conditions in rural areas. Though capital outlay on the sector during 1994:95 and 1995:96 was twice as much as it used to be on the eve of the fall of the Derg, it was equally biased to urban areas which claimed about 70 per cent of the allotted budget on average. The share of rural areas is apparently small partly because of huge federal government spending (on study and design of water supply projects) and the disproportionately large outlay in Addis Ababa Administration both of which accrued to urban water supply systems.

With respect to irrigation development, the country is said to have an irrigation potential estimated at 2-3 million hectares of which only 3 per cent is

currently under use. The recurrence of draught since the 1980's has added impetus to the need for a systematic development of small, medium and large scale irrigation projects in potential areas. Despite the felt need and potential for irrigated agriculture, actual development has not progressed effectively owing to financial problems, lack of viable institutions for efficient management and the environmental problems associated with irrigation schemes.

Since the 1993-94 fiscal year, regional governments have been undertaking a large number of small and medium scale irrigation schemes to boost agricultural production. This was in line with the government's strategy to enhance the performance of the agricultural sector through promoting the ongoing extensive extension programs and agricultural inputs supply endeavors. With regard to large scale irrigation projects, the government will undertake the construction of head-works and main canals while actual development of the farms will be left to the private sector.

Irrigation policy and strategy is already underway by the Ministry of Water Resources building upon a previous attempt to formulate a policy at the end of the Derg period.

Ethiopia has 11 drainage basins with enormous water and other natural resources development potential for agriculture, industry, power, tourism, etc. Identifying the resource base in the river basins, suggesting development alternatives and priorities, and identification of projects is a key task undertaken by Basin Wide Integrated Master Plan studies which envisage development activities over 30 to 50 years.

Apart from the fragmented and piecemeal attempt of master plan studies carried out previously, basin wide and integrated (including all sectors) studies are only recent practices. In this regard, master plan studies were concluded for two river

basins, i.e., Baro-Akobo, and Omo-Ghibe Basin Wide Integrated Development Master Plans. Master plan studies for Tekeze and Abbay river basins are near completion while studies on Genale Dawa and Wabi-Shebele river basins is expected to be taken-up in the upcoming fiscal years.

Construction, Housing and Urban Development

Construction

By the end of 1997/98, the construction industry has had a total of 1107 local construction companies registered under the Ministry of Works and Urban Development. General contractors constitute 183 (16%) of the total of which eight are government owned first class contractors. The rest are registered as Building, Road and Special Contractors which constitute about 80.5, 2 and 1 per cent of the registered contractors, respectively. As per the sources from the Ministry of Works and Urban Development (MOWUD), currently there is an annual construction capacity of Birr 1474 million. According to the minimum machinery and equipment requirement criteria, it can safely be claimed that there are only 40 general contractors, eight building contractor and one road contractor in the construction sector in 1998.

Ethiopia's Road stock comprises a total of about 23,812 km networked roads. Trunk roads constitute 8180 km (34.4 per cent), with major link roads and regional roads accounting for the remaining 7589 km (31.9 per cent) and 8043 km (33.8 per cent), respectively. The road density per 1000 population is around 0.43 km, and the density per 1000 km² is 21 km for the year 1998. Classification by the type of road

surface shows that the country has 3856 km of asphalt surfaced and 20156 km gravel surfaced roads.

For the period spanning 1982/83 - 1988/89 for instance, the annual growth rate in the classified road network averaged 2.7 per cent per annum. Owing to the escalating civil war, the three years starting from 1989/90 had witnessed a very low road construction activity. However, the post reform period witnessed a marked recovery in the volume of road construction activities.

Housing & Urban Development

Ethiopia is one of the least urbanized countries in African and yet with one of the fast growing urban population averaging 4.4 per cent per annum. During the Derg Regime, all urban land and extra houses were nationalized and were put under government ownership and land was allocated freely for home builders. Housing finance was provided at subsidized interest rates. After the down fall of the Derg, policies pertaining to the Housing and Urban Development has been relaxed although the Government has still continued with the administration of the nationalized houses.

According to the 1994 Population and Housing Census, there are 852 urban centers (excluding the Somali region) with a population of 6,884,655 accounting for about 13.8 per cent of the total population of the country with housing units which stood at 1,414,019. However, as per the definition of towns by the MOWUD, the number of towns is less than half of the CSA's number. Around 98% of the housing units are non-storied type of building while only 1.8% are classified as one or more storied buildings.

Around 68 per cent of the total urban housing units have electricity while around 31 per cent use lantern and

kerosene. A little more than one per cent use other type of lighting and the remaining are classified as "not stated". About 75 per cent of urban Housing units have access to piped water, a little less than 16 per cent use protected and unprotected spring or well, and 9 per cent use pond or lake. About 42 per cent of the urban housing units have no toilet facility while the remaining have different types of latrine. About 92% of the total housing units have no telephone. The census result indicates that about 45.4 per cent of the housing units are owner occupied, a little less than 7 per cent rent free dwellers and the remaining are stated to have rented from different bodies.

Domestic Trade and Tourism

Domestic Trade

Mass nationalization and socialization right from small retail trade shops to large business enterprises typified the Derg regime's domestic trade policy. During this era, the participation of private organizations and individuals particularly in domestic wholesale trading activities was very limited. Moreover, the distribution of goods and services was in favor of publicly owned enterprises and producers' service cooperatives. It has been documented that while about 31 per cent of EDDC's sales went to private traders, the lion's share (69 per cent) had gone to the socialized sectors. The same applies to AMC in which case almost all sales were geared towards government institutions and Urban Dwellers Associations (Kebele shops). Another important feature of the Derg regime in the area of domestic trade is that inter-regional grain movement was strictly forbidden and prices of commodities

were administratively controlled and fixed.

The restrictive domestic trade policies of the Derg were suspended and replaced by the post 1991/92 liberalization measures. These measures include restructuring of whole sale trading parastatals (EDDC and AMC), decontrol of prices of commodities, privatization of publicly owned retail trade shops and introduction of simplified licensing procedures.

As part of the reform measures, EDDC and AMC have been restructured as Merchandise Wholesale and Import Trade Enterprise and the Ethiopian Grain Trading Enterprise, respectively.

- Of the total 126 retail trade shops offered for privatization, 108 were sold and the remaining 18 are already being earmarked for privatization
- From July 1992 to April 8/1997, investment certificates were given to

117 projects in the area of wholesale and retail trading activities.

- The most important constraints that hamper domestic trade include poor infra-structural facility in the form of road network, transportation system, storage, absence of credit facility, and lack of information and publicity on investment opportunities.

Tourism

The performance of tourism during the military regime had been disappointing, owing to the hostile environment for tourists, restrictions imposed on private sector participation, low level of investment on tourism promotion and development, inadequate tourist facilities and poor transport and other infrastructure.

To mitigate these problems, the government since 1991/92 has devised short, medium, and long-term strategies to facilitate the development of the Tourism sector in the following areas:

- study and develop the country's tourist attractions;
- improve, develop and expand tourist facilities;
- improve and expand tourism infrastructure;
- promote the country's tourism resources

The major tourist attractions of Ethiopia include rich cultural resources, diversified landscape and natural scenery, endemic wildlife, and rich ethnic composition.

With regard to the profile of tourists in Ethiopia, available documents revealed that Business Tourists, Vacation tourists, Transit Passengers and

Conference Participants on average accounted for 26.5, 19.9, 13.6 and 10.8 per cent of tourist inflows, respectively during the period, 1992-1997.

The foreign exchange receipt has increased from Birr 29.6 million in 1987 to Birr 52.3 million in 1990 depicting an annual average growth rate of 21.3 per cent.

The foreign exchange earned from tourism was on average 6.3 and 8.2 per cent compared with the foreign exchange earned from total merchandise exports between 1987-1991 and 1992-1996, respectively.

With regard to private sector participation in the Tourism Sector, commencing July 1992, a total of 295 projects were approved by the Ethiopian Investment Authority of which 25 projects have started service rendering and the other 72 projects being in the implementation phase.

Despite its rich resources for tourism attraction, the development of the Tourism sector in Ethiopia is at its infant stage. The major potential constraints among others, include:

- lack of coherent product identity;
- paucity of effective and strong international marketing strategy;
- shortage of qualified and trained manpower for Tourism promotion in the sector;
- lack of well-defined policies and laws governing the conservation and proper care of wildlife in the country;
- deficiency of infrastructure around tourist attraction areas;
- lack of organized information about the sector;
- limited promotional materials and the like;

Transport and Communication

Transport

The transport sector in Ethiopia is comprised of the road, rail, air and water transport services which were dominantly provided and controlled by the public sector during the Derg regime. Though the sector has been liberalized since 1991/92, the public sector still plays a dominant role except in the road transport sector.

Road transport is by and large the dominant mode of transport in Ethiopia accounting for more than 95 per cent of the domestic cargo and passenger transport. The sector was the first to enjoy the benefits of a deregulated operation with largely market determined tariffs especially for freight operation. As a result of government's effort towards devising incentive mechanisms for the private sector in the form of duty free importation of commercial vehicles; fleet size showed significant increases which contributed partly to the stability of transport tariffs after deregulation. An all round and comprehensive evaluation of actual performance of freight and passenger road transport service was, however, difficult owing to lack of access to data on private road transport activities. In general, an increasing trend was observed with a declining public sector participation both in cargo and passenger transport. The smooth operation of the sector nonetheless requires improved road network with timely and adequate maintenance.

The century old Ethio-Djibuti railway company is staggering with aging and decreasing number of transport equipment and deteriorating rail conditions and reportedly poor

management which rendered the operations of the company unprofitable. Imports and exports handled by the railway company has generally exhibited a declining trend more so with regard to imports even during the post reform period. The number of passengers transported by rail has also been declining in recent years partly because of poor conditions of the passenger wagons. The company has gained importance since the late 1997/98 owing to the Ethio-Eritrian border conflict and modest assistance from donors which has helped improve its capacity.

The performance of the Ethiopian Shipping Lines (ESL) also exhibited a declining trend during the post reform period except modest increases in some aspect of its operations. Even then, they have been well below their pre-reform level of performance. The major attributive factors for poor performance of ESL were the removal of cargo reservation to and from Ethiopia which it used to enjoy prior to the reform program and the loss of competitive edges due to structural and capacity problems. The liners operations are usually profitable though the size of its operating surplus has been shrinking in recent years. As to the future of the enterprise, closer scrutiny needs to be undertaken in view of its current capacity and the international market in which it operates.

The Air Transport sub-sector is by far the most thriving segment of the transport sector withstanding the prevailing fierce international competition and catching up well with the state of the art in air transport. The international passenger and cargo

operations of the Ethiopian Air Line has been increasing during the post reform period and the enterprise has generally been profit making except for few sporadic years. Government supported external loan and own funds are the major sources of finance for capacity enhancement for the EAL.

Communication

The history of telecommunication services in Ethiopia dates back to 1834 which coincided with the introduction of various innovations to Ethiopia during the time of Emperor Menelik II.

Exchange of information/data through communication technologies has significantly accelerated the pace of modern civilization. The availability of advanced meanses of communication are nowadays taken as one of the indicators of socio-economic development. Communication services in Ethiopia include Telecommunications, Postal, and Media (radio, press, TV) services.

As to postal services, the Proclamation providing for the establishment of the Postal Office (No. 240/1966) laid the administrative infrastructure for the improvement, expansion and modernization of the Ethiopian postal system.

With regard to the development of Media Service in Ethiopia, press was the pioneer in this area. The first Amharic Weekly news paper "Aiemro" was published in 1895 and had been distributed among Royal family members.

The TGE's economic policy towards communication emphasized the need for maintaining communication under

state control as an essential public services with possibilities of subsequently exploring modalities for private sector participation in the subsector. With the objective of discharging its responsibilities efficiently, the then Ethiopian Telecommunication Authority (ETA) has undergone organizational changes which culminated with a split of the Authority in to two organizations: the Ethiopian Telecommunication Agency (ETA) and the Ethiopian Telecommunication Corporation (ETC), the former being responsible for devising regulatory mechanisms and the latter for operational issues and provision of basic services.

The Ethiopian Telecommunication Corporation (ETC) has been providing its service to the public through the use of an integrated system of cables such as Manual, Semi-Automatic, Automatic exchanges, VHF/UHF, Microwave radio relay systems, satellite earth stations as well as Customer Premises Equipments (CPE), Digital Radio Multi-Access System (DRMAS), and the internet system of information exchange for international as well as national use since the beginning of the 1997/98 fiscal year.

The number of service centers connected with the above integrated system of cables indicated an average growth rate of 1 per cent per annum for the period spanning 1985/86 - 1995/96. The towns and cities that have been provided with Automatic Exchange during this period registered an annual average growth rate of 5.8 per cent while those with Manual Exchange System have declined at an average rate of 4 per cent per annum. Similarly, installed capacity of the Automatic Exchange System increased at an

average annual rate of 4.8 per cent during the period 1994/95 - 1995/96.

The total number of telephone subscribers connected to Automatic, Semi-Automatic and Manual exchanges increased and reached 148,739 in 1995/96 from 103,186 in 1985/86 showing an annual average growth rate of 3.7 per cent. During the period 1988/89 to 1995/96, exchange capacity, telephone main lines, and waiting list for telephone subscribers have registered an annual average growth rate of 2.3, 3.6 and 14.8 per cent, respectively. The 56 per cent rate of satisfaction in the overall expressed demand in 1988/89 has declined to 43 per cent in 1995/96 indicating that supply has been falling short of demand during this period. During the period 1994/95 - 1995/96, 61 per cent of the total telephone subscribers were residential subscribers followed by business subscribers accounting for 19 per cent of the total telephone subscription. The number of residential subscribers has been increasing at the rate of a little less than 4 per cent while that of business subscribers during this period increased at an annual average rate of 7 per cent.

During fiscal year 1995/96 the urban, inter-urban, and international telephone call services altogether accounted for some 90 per cent of the gross revenue generated by the ETC. During the years spanning the period 1985/86 - 1995/96, the gross revenue of ETC has been increasing at the rate of 16 per cent per annum.

With regard to tariff revisions, the second tariff revision was effected on July 1, 1994 after a period of 14 years (First Revision took place in 1980). Accordingly, urban call charges have been raised by 43 per cent (14c to 20c), subscription charges by 165 per cent

(115 to 305 Birr), Rental charges for Residential by 60 per cent (5 to 8 Birr), Rental charges for Business by 240 per cent (5 to 17 Birr), and international call charges by an average of 75 per cent.

Postal services have been expanding since 1991/92 showing an average growth rate of 5.6 per cent per annum until 1995/96. During fiscal year 1995/96, domestic postal services had been dominant in terms of volume by accounting for 54 per cent of the total postal traffic.

Mass media services in Ethiopia are currently handled by three government owned institutions: the Ethiopian Radio and Television Enterprise, Ethiopian News Agency, and the Ethiopian Press Agency. A number of independent press agencies have come to the scene publishing and distributing news papers and magazines to the public since the declaration of freedom of the press in October 1992.

With regard to developmental expenditures launched towards modernizing the Ethiopian Telecommunication System, the first Development Program commenced with the rehabilitation and reconstruction of the communication infrastructure destroyed during the Italian fascist invasion and occupation. Six Development Programs have been launched since then. The seventh Five Year Development Program (1995 - 1999) with a total estimated project outlay of 169 million USD is on the verge of completion.

As to the development in the postal services, between the period 1981 and 1996, total expenditure on development programs was estimated at 7.7 million Birr which is believed to have lagged far behind the outlay required to

accommodate the demand for postal services.

Education

Parallel with the political, ideological and administrative changes that took place in the country, the Ethiopian educational system has been changed a number of times. During the Imperial and Derg regimes the school structure was 4-4-4 (4 years of elementary, 4 years junior secondary and 4 years of senior secondary) and 6-2-4, respectively. However, according to the new educational and training Policy introduced by the Federal Democratic Republic of Ethiopia in the year 1993/94, the schooling setup was changed to 8 years of primary, 2 years of general secondary and 2 years of preparatory senior secondary education.

Primary school enrollment rate has increased from 19.7 per cent in the year 1992/93 to 34.6 per cent in 1995/96. During the same period the participation gap of boys and girls widened from 7% to 17%. Between the years 1993/94 to 1996/97, the number of primary schools and teachers have increased from 8674 and 86372 to 10204 and 92528, respectively. On the other hand, student to teacher and student to class room ratios have increased from 27 and 40 to 43 and 56, respectively during the same period.

Secondary school enrollment rate has also been increasing at an average rate of 5.7% per annum during the period 1992/93 - 1996/97. During the same period, the number of secondary schools has increased by about 6% per annum. However, due to fewer number of secondary schools, the student to class room ratio increased from 44 to 65 in the same period which is believed to have led to poor quality of education by reducing the chance for closer follow-up of students.

In Ethiopia, there are a number of technical and vocational training schools and institutions below university level both in the public and private agencies. The Ethiopian government has established 25 vocational training centers in Tigray, Amhara, Oromiya and SNNP regions in the year 1996 to alleviate the shortage of skilled manpower in those regions. Most of the participants are secondary school graduates who have not been able to join higher education institutions. Moreover, there are currently 17 technical and vocational institutions which are under the management and supervision of the Ministry of Education providing 21 specialized training courses for three years for those who are eligible and have completed grade 10. Of these 17 technical and vocational schools, five of them are being administered by Missionaries. In 1995/96, 2,738 students were enrolled in the training programs of these 17 technical schools.

There are thirteen elementary school Teachers' Training Institutions (TTI) in six regional states. In these thirteen training centers, on average, 5,000 teachers for the first cycle (grades 1-6) graduate with certificate every year. Teachers for the second-cycle (grades 7-8) of primary schools are recruited from graduates of junior colleges or Higher Education institutions. Since 1996, four Teachers Training Colleges have been opened in Addis Ababa, Tigray, Oromiya and Amhara regions by upgrading former TTIs. Teachers for the Secondary schools (grades 9-12) are recruited from different Higher Education institutions awarding Bachelor degrees. For instance, in the

year 1995/96, a total of 463 teachers have graduated. There are altogether 17 Higher Education Institutions in Ethiopia of which 2 are universities, 12 are colleges and 3 are multidisciplinary higher education institutions. In the years 1993/94, 1994/95 and 1995/96, the number of graduates in the regular program had been 3663, 4438 and 3314, respectively.

During the period of the Derg, the share of capital expenditure in education averaged 3.7 per cent of the total. During the Transition period, however, its share has increased to 7.9 per cent. Government capital outlays on education sector increased from 43.2 million Birr in 1990/91 to 442.2 million Birr in 1995/96. During the last decade of the Derg ending in 1990/91, capital expenditure on general education, on average, accounted for 76 per cent of the education sector capital spending in contrast to its share which averaged about 63 per cent during the period 1991/92 - 1995/96. The remaining 37 per cent was spent on expanding

higher education. As general education lies within their jurisdiction, regional governments allocated some 90 and 86 per cent of their education sector spending on general education in 1993/94 and 1995/96.

During the period of the Derg, most private schools were converted to public schools and their status has not improved since then. The Transitional Government of Ethiopia, however, liberalized the education sector by allowing and promoting private sector participation at all levels. Along this line, the investment code provided incentives to investors in the education sector in terms of tax holidays and duty free importation of materials and equipment. From 1992/93 up to the first 9 months of the F.Y. 1997/98, investment certificates were given to 108 projects in the education sector. However, only 3 projects are reported to have been operational during the same period.

Health

The overriding objectives of the health policy issued in 1993 by the Transitional Government of Ethiopia were the prioritization of the preventive components of health care and equitable distribution of health care to social groups and geographic areas. Hence, the new five year Health Sector Investment Program is based on the basic strategy of improving access to primary health care in the country.

As per the new setup of the MoH, health service is being provided through the 4-tier health delivery system, which includes Primary Health Care Unit, District Rural Hospital, Zonal Hospital and Referral Hospital. In the year 1991/92, there were 12106 health posts,

2,222 health stations, 160 health centers and 89 hospitals. In the year 1995/96 for the population of 52.3 million, there were only 1223 health posts, 2037 health stations, 231 health centers and 86 hospitals. At the country level, the health facility to population ratio was 1:20,877 for health station, 1:242,121 for health center and 1:608,118 for hospitals showing that the status of health services in the country is still very low. Another major problem of the health sector is the skewed distribution of the existing facilities. On average, 30 per cent of all hospital beds, 62% of doctors, and 46% of nurses are located in Addis Ababa.

The health delivery system of the country is in general characterized by shortage, uneven distribution, and lack of necessary skills in its manpower. During the last 16 years (1978-1994), except for medical specialists, the ratio of health personnel to population has shown some improvement as reflected in the increase in the number of nurses per population from 1:20,400 to 1:13,973 during the period 1978 - 1994.

Existing health sector indicators revealed that health service delivery is still low even by the standard of sub-Saharan African Countries (SSA). In the year 1990, life expectancy at birth stood at only 51.8 and 54.1 years for male and female, respectively. During the year 1993, the infant mortality rates was 105 per 1000 live births while the maternal mortality rate was estimated at 5 to 6 per 1000 live births in 1995. The coverage of safe water supply and sanitation facilities has been also very low. During the year 1994, only 19% of the rural and 76% of the urban population has access to safe water supply. According to the (PHRD) study, the major causes of death in the country

were pre maternal conditions, ARI/Pneumonia, and malaria

The share of the health budget in the public capital expenditure increased from 3.3% in 1990/91 to 6.2% in 1997/98. During the same period, the share of the health services in total recurrent expenditure increased from 1% to 1.3%. In 1993/94, of the total health sector recurrent budget, 84% was allocated to the regions.

The private sector and NGOs could contribute to the improvement of health care. Therefore, the new health policy incorporates the promotion of the participation of the private sector and NGOs in the provision of health care services. The Ethiopian Investment Authority approved 13 private health service projects from 1992 to 1996. The existing investment policy has had incentive packages to promote private sector participation in the provision of health care services in terms of tax holiday, exemption from customs duty on imports of health equipment, and access to land at reasonable price (lease fee).

The Social Security System

Since 1985, Ethiopia has been a member of the International Social Security Association (ISSA) which is known for its best research and documentation center in the field. According to sources from the Social Security Authority (SSA), social security may be defined as "a series of public measures established to provide protection against the consequences of contingencies which threaten or adversely affect standards of living". The nine most basic social security programs are Old Age Pension, Invalidity Pension, Survivors Pension, Work Injury Benefit, Maternity Benefit,

Sickness Benefit, Family Allowance, Unemployment Benefit and Medical Care. Article 90 of the constitution of the Federal Democratic Republic of Ethiopia (1995) declares that "to the extent the country's capabilities allow, all Ethiopians shall be provided with Social Security".

In Ethiopia, the concept of "Pension" in its present context was first introduced after the Battle of Adwa Waged in 1896. The Ethiopian Pension Scheme is managed publicly and apply to all who have Ethiopian nationality and it covers the direct pensioner and his closest

family members (survivors). Presently, the schemes covered civil servants, the military and employees of government owned undertakings.

Since 1974, the age of retirement for both male and female civil servants and employees of public enterprises has been 55 years and it ranges from 50 to 55 years for the military depending on rank. However, any public servants can be retained in service after the retirement age for a period not more than ten years.

In Ethiopia, Pension Benefits are financed by the contribution of the employer, amounting to 6 per cent of the salary in the case of Civil Servants as well as those working in enterprises, and 16 per cent in the case of the military. The employee in both cases contributes 4 per cent. The total population estimate of Ethiopia in 1994 was 53.5 million of which 3.8 million or 6.9 per cent was within the Pensionable age group.

Social security benefits are either paid in the form of pension for life or gratuities in a lump sum. In the 1996/97 F.Y.

there were a total of 416,514 pensioners for life in the country. During the same year, the total number of new entrant beneficiaries was 29,407 of which 87 per cent were pensioners for life and the remaining 13 per cent were recipients of lump sum gratuities. In the same year, out of the total new entrant beneficiaries, 37 per cent was civil, 35 per cent military and 28 per cent employees of government undertakings. Their share in the total fund (21.2 million birr) was 42, 18 and 40 per cent, respectively. When compared with that of 1987/88, the number of beneficiaries for the period 1990/91 and 1992/93 has increased by 133 per cent and 176 per cent, respectively.

A study made by the Social Security Authority, indicated that the number of private enterprises with 10 and more employees, and their permanent employees were 1313 and 56,255, respectively. From 1992 - June 1997, the Ethiopian Investment Authority revealed that the employment that would be created by the projects approved was estimated at 215,010 persons.

Social Welfare Situation

In Ethiopia, owing to the low level of economic development and higher population growth, the country's social problems have worsened from time to time. The major social problems are unemployment, beggary, drug substance abuse (recent phenomenon), juvenile delinquency prostitution, the problem of street children, etc. According to a study by the Ministry of Labour and Social Affairs (MOLSA) in 1986, the total number of prostitutes in the Urban centers of Ethiopia stood at 44,707. As estimated by the United

Nation Children's Fund (UNICEF), the number of street children in Addis Ababa stood at around 20,000 in 1993.

During the year 1992, the poverty line for urban people with a family of five has been put at Birr 2,928 per annum. It is believed that 60 per cent of the Addis Ababa Population live below this level. At present, the average annual growth rate of population is estimated at 5.8 per cent per annum in Addis Ababa.

As per the studies by the World Health Organization (WHO), the causes of

disability are communicable and non-communicable diseases, malnutrition, accident, mental and emotional disturbance, alcoholic beverages and drug addictions. According to WHO's estimate, at least 10 per cent of the total population in developing countries is believed to be disabled. If this rate applies to Ethiopia, about 5.8 million of the current total population of Ethiopia is estimated to be disabled.

The root causes of destitute and neglected children in the Ethiopian urban centers, among others are: widespread poverty, armed conflict urbanization and lack of adequate health, shelter, education and other services. According to UNICEF, there are nine categories of destitute and neglected children. Although all categories are believed to be found in Ethiopia, information is made available only on street children, orphans, children with insufficient family support, and disabled children.

The number of street children has been growing rapidly in major towns and is becoming a major social problem. According to UNICEF, the main causes of streetism in Ethiopia are: poverty, unemployment, broken homes, and rural urban migration. According to estimates of MOLSA (1995), about 100,000 children are believed to have led street life throughout the country. An orphan is a child who has lost both his parents due to circumstances beyond his control. There are in general three categories of orphans. These are: war, drought/famine, and AIDS orphans. Data on the number of displaced and unaccompanied minors are difficult to obtain. However, in 1987, as estimated by the former RRC, the number was put at 250,000 out of which 10 per cent was believed to be orphans. The total number of children (aged 0-14 years)

who are believed to be disabled could reach some 2.6 million.

Children with insufficient family support are estimated to be large and numerous. When compared to the total number who seek help, the number of children who have been presently receiving services in orphanages is insignificant. For instance, according to some study reports, over 16,000 children have been taken care of in orphanages run by governmental and non-governmental organizations in 1988.

The social welfare policy formulated and issued recently has aimed at harnessing and coordinating the efforts of concerned governmental organizations, NGOs as well as the public and individuals engaged in the fight against social problems. In this connection, the regional administrative structures would play or be an instrument to win grass-root participation in each region for this important national endeavor.

Key Socio-economic Indicators

S.N.	Indicators	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
1	Population (in Million)	48.8	50.3	51.9	53.8	54.6	56.4	58.2	59.9
2	GDP at Current Market Prices (Billion Birr)	19.2	20.8	26.7	28.4	33.8	37.9	41.5	45.2
3	GDP Growth Rate at 1980/81 Constant factor cost (%)	-4.4	-3.7	12.0	1.7	5.4	10.6	5.6	0.5
4	Production of Major crops ('000 Quintals)	70240	68362	80304	70520	75010	103279	104368	83489
	4.1 Cereals	57131	55603	70639	61912	65891	92654	93591	74349
	4.2 Pulses	9968	9702	8425	7501	7947	8662	8609	7323
	4.3 Oil Seeds	3141	3057	1240	1107	1172	1863	2168	1817
5	Aren Cultivated Under Major Crops ('000 Hectares)	5144.9	5007.7	5848.9	6603.6	7710.1	9070.6	8933.7	7874.5
	5.1 Cereals	4199.0	4087.0	4443.0	5414.0	6448.5	7670.5	7437.0	6619.0
	5.2 Pulses	701.9	683.2	1032.6	567.5	919.6	1005.6	1012.3	938.0
	5.3 Oil Seeds	244.0	237.5	373.3	322.1	342.0	394.4	484.5	416.0
6	Coffee Production (Tonnes)	210000	216000	210000	222000	228000	230000	228000	230000
7	Manufacturing Gross Value of Output (Million Birr)	2192.3	1762.3	2674.2	4010.7	4930.5	5799.1	5996.2	-
8	Cement Production (Tonnes)	-	-	-	377085.0	464396.0	609260.0	672483.0	-
9	Coffee Exported ('000 Tonnes)	53.5	36.1	69.4	73.0	78.4	101.8	117.9	121.4
10	Export of Goods & Non-Factor Services as % of GDP	5.5	4.5	8.3	11.4	14.3	13.1	15.5	16.1
	10.1 Merchandise Export as a ratio to GDP at CMP	3.0	1.5	3.6	5.7	8.4	6.8	9.4	9.2
	Coffee	1.4	0.8	2.0	3.2	5.3	4.5	5.6	6.4
	Other Exports	1.6	0.7	1.6	2.5	3.1	2.3	3.8	2.8
11	Import of Goods & Non-Factor Services as % of GDP	12.5	10.7	16.9	21.5	24.1	25.6	26.3	27.3
	11.1 Merchandise Import as a ratio to GDP at CMP	11.1	8.7	16.8	18.7	19.7	23.6	2.2	21.3
	Fuel	1.2	1.2	3.2	4.5	3.1	3.6	3.6	3.7
	Other Imports	9.9	7.5	13.6	14.2	16.5	20.0	18.4	17.6
12	Trade Balance as % of GDP at CMP	-8.3	-7.2	-13.1	-13.0	-11.2	-16.6	-12.5	-12.2
13	Private Transfers (as reported in the BOP) as ratio to GDP at CMP	2.2	3.1	4.0	5.0	5.8	5.2	4.0	4.8
14	Current Account Balance Excluding Off. Transfer as % of GDP	-6.3	-3.8	-9.7	-7.7	-4.4	-10.0	-7.0	-5.8
15	Annual Average Exchange Rate (Birr/USD)	2.07	2.07	4.270	5.798	6.250	6.320	6.506	6.884
16	Inflation (%)	20.9	21.0	10.0	1.7	13.4	0.9	-6.2	2.3

(Continued)

S.N.	Indicators	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
17	Nominal Interest Rate (%)								
	17.1 Minimum Interest Rate on Time & Saving Deposit					10.0	11.0	10.0	7.0
	17.2 Maximum Lending Rate by Commercial Banks & other Financial Institutions except for central Govt.					15.0	16.0	15.0	10.5
	17.3 Central Govt. Lending Rate					12.0	12.0	12.0	12.0
18	Broad Money as % of GDP	41.1	43.3	39.3	40.8	43.5	42.0	39.8	41.2
19	Growth In Broad Money (M2)	18.5	13.3	12.7	14.4	20.7	11.28	5.7	10.0
20	Narrow Money as % of GDP	31.8	32.7	28.8	29.6	29.3	28.1	23.5	24.1
21	Narrow money as % of Broad Money	77.1	75.0	73.0	72.0	72.0	63.0	60.0	59.0
22	Domestic Revenue (Million Birr)	2706.3	2208.0	3191.2	3938.9	5912.8	6966.1	7970.8	8388.3
23	Government Revenue Including Grants (Million Birr)	3189.8	2751.0	3657.3	4926.0	7044.5	8062.9	9481.1	10057.9
24	Government Expenditure (Million Birr)	4854.1	4205.3	5219.4	7093.8	8372.0	10194.0	10001.7	10886.1
	24.1 Recurrent	3640.1	3253.5	3434.5	4399.5	5215.5	5582.2	5717.4	5805.7
	24.2 Capital	1214.1	951.8	1784.9	2694.3	3156.5	3562.2	4284.3	4580.4
25	Government Expenditure on Balance as %age of Total Recurrent Expenditure	48.2	22.4	24.1	19.9	19.0	20.0	18.3	17.6
26	Social Sector Expenditure as % of Total Current Expenditure	15.8	19.7	23.1	23.0	22.2	22.8	23.9	25.8
	26.1 Education	12.3	15.1	17.6	16.8	16.6	16.9	18.0	19.7
	26.2 Health	3.5	4.6	5.4	6.2	5.6	5.9	5.9	5.9
27	Government Deficit as % of GDP								
	27.1 Including Grants	8.5	7.0	5.9	7.7	3.6	5.2	1.2	1.3
	27.2 Excluding Grants	10.8	9.6	7.6	11.1	6.6	7.8	4.8	4.8
28	Domestic Bank Financing of the Deficit as %age of Deficit Excluding Grants	-55.5	-58.2	-54.6	-23.1	16.3	4.2	39.3	8.2
29	Gross Domestic Capital Formation as % of GDP	10.4	9.2	14.2	15.1	16.5	19.1	19.1	20.0
30	Electricity production in Million Kilo Watt Hours	1126	1146.0	1278.0	1398.0	1452.5	1549.5	1614.3	1892.0
31	Rail freight Transport (Million-Ton-Kilometers)	138	100	111.6	102.3	93.03	103.9	106.04	-
32	New Registration of Vehicles	-	60769.0	64520.0	69719.0	83279.0	91857.0	96502.0	-

* Lending Rates under columns "1994/95", "1995/96", "1996/97" and "1997/98" strictly refer to the periods January 2, 1995 - Nov. 30, 1995; December 1, 1995 - May 30, 1996; June 1, 1996 - Sept. 15, 1996; and Sept. 16, 1996 - Dec. 1997; respectively.

S.N.	Indicators	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
33	Education Enrollment in Government Schools(#)	-	2838828	2568383	2998261	3469418	4190672	4894789	5558339
	33.1 Primary	-	2063635	1855894	2283638	2722192	3380068	4005708	4607733
	33.2 Junior Secondary	-	359111	348803	357428	376330	407851	462586	482937
	33.3 Senior Secondary	-	416082	363686	357195	370896	402753	426495	467669
34	Number of Hospital Beds	-	9569	9569	-	10120	11492	-	-
35	Passanger-km. Handled by the Ethloplan Airlines ('000)	916059	984022	1748349	1633028	1721508	1837681	1915171	-
	35.1 International	848696	905368	1605002	1503135	1600561	1727281	1805826	-
	35.2 Domestic	67363	78654	143347	129893	120947	110400	109345	-

PART II

DEVELOPMENTS OF THE
MACROECONOMY

Chapter 1

Aggregate Output and Inflation

1.1. Developments In Aggregate Output

1.1.1 Background

The economic performance of Ethiopia as measured by overall real GDP growth was very dismal during the whole period of the Derg. GDP by industrial origin at 1980/81 constant factor cost which averaged 4 per cent per annum during the period 1965-1973, fell to about 1.5 per cent per annum during the period spanning 1974 to 1991. In the face of average population growth rate which increased from 2.5 per cent per annum during 1965-73 to some 2.9 per cent during 1974-91, this shows that real per capita GDP had been declining at the rate of about 1.4 per cent per annum over the same period.

On the demand side, investment and saving were in a state of good shape during the pre-Revolution period ending in 1973/74. Domestic saving had averaged 14 per cent of GDP at current market prices in 1973/74 and had enabled finance more than 90 per cent of Gross Domestic Capital Formation (GDCF) during the same period.

During the 1974-91 period, gross domestic saving rate ranged between a low of 0.2 per cent of GDP and a high of 7.5 per cent of GDP. Given the rate of gross domestic capital formation which declined immediately after the revolution and rose later, this had given rise to a widening resource gap.

These outcomes were the direct reflections of the economic management system that had

prevailed during the period of the Derg. The economic system of this regime had been characterized by the mobilization and allocation of resources through central planning and state control of almost all economic infrastructures in the country. The private sector had been deprived of its complementary role towards boosting economic growth and there by improving the standard of living of the populous.

After the seizure of power by the then Transitional Government of Ethiopia (TGE) in 1991, most of the policy distortions of the Derg were rectified. The new Economic Policy of Ethiopia adopted by the TGE was a step forward in the economic history of Ethiopia where government systematically pursued a market oriented economy by rationalizing its role and enhancing greater participation of the private sector.

To revitalize the economy and spur growth, an Economic Reform Program (ERP) was launched in 1992/93 by the then TGE which was further strengthened and deepened by the Federal Democratic Republic of Ethiopia (FDRE) to redress the structural bottlenecks of the Ethiopian economy.

The review in the sections that follow mainly focuses on the performance of the real sector of the economy during the post-reform period of 1992/93 to 1997/98. Although the main focus is on the post-reform period, a contrast with the average pre-reform performance indicators will be made to shade light on impact of the reform measures on the performance of the real sector.

1.1. 2. The Supply Side

During the period 1992/93 to 1997/98, real GDP by industrial origin grew by an average of about 5.5 per cent per annum. The highest growth attained was in 1992/93 which was about 12 per cent followed by a 10.6 per cent increase in 1995/96. Much of the growth in 1992/93 came from industry and service sectors which registered a strong recovery after a steady decline during the preceding three years. The 1993/94 performance was the lowest recorded during the post-reform period. This is primarily owing to bad weather conditions which resulted in to a poor performance of the agriculture sector. In 1996/97, real GDP grew by 5.6 per cent. The agriculture sector recorded a less than satisfactory growth of 3.7 per cent for the same fiscal year (1996/97).

A basic feature of the Ethiopian economy is the dominance of the agricultural sector in terms of employment, value added generation, and export earnings. Hence, the performance of the economy as a whole is greatly influenced by what happened in the agriculture sector. During the period under review (1992/93 to 1997/98), the agriculture sector grew by 3.4 per cent per annum in real terms. The highest growth recorded was 17.5 per cent in 1995/96 which contrasted with a 3.7 percent fall in 1993/94. The fluctuation in the overall growth of the economy is to a great extent attributable to the performance of the agriculture sector which accounts for about half of total GDP.

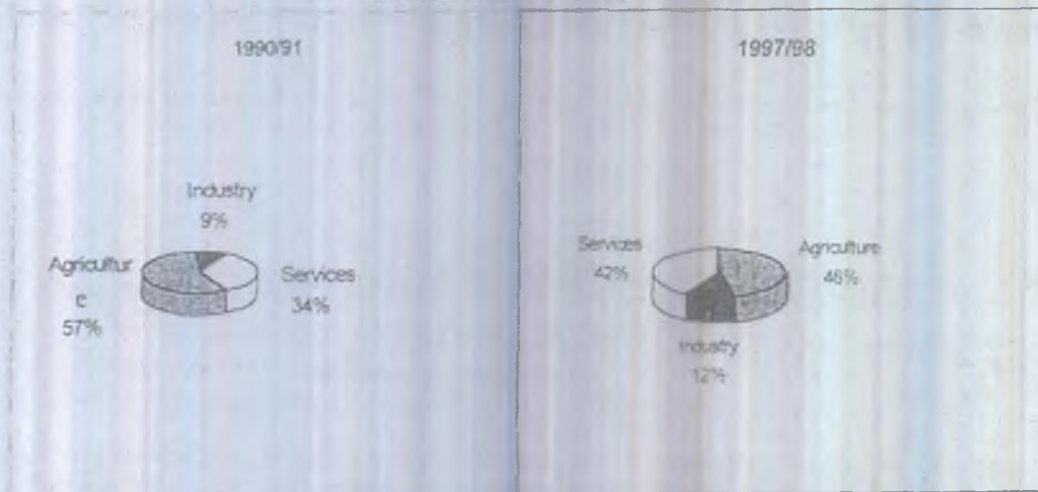
The performance of the industrial sector which comprises mining and quarrying, manufacturing, electricity and water, and construction during the

post reform period was stable and satisfactory. Improved availability of inputs and spare parts to the highly incapacitated manufacturing sector made possible by the intensive recovery and rehabilitation effort and the accompanied economic reform program which helped rectify distortions are the major factors behind the profound growth registered in the industrial sector. The growth of this sector averaged 7.3 per cent per annum over the post-reform period. The industrial base of the Ethiopian economy has, however, still remained weak as it accounts for around 11.7 per cent of overall GDP in 1997/98.

The "services" sector which consists of Trade, Transport and Communications, Banking, Insurance and Real Estate, Public Administration and Defense, Education, Health and, Domestic and Other Personal services has increased by an average of about 7.7 percent per annum over the period 1992/93 to 1997/98. The sector's contribution to GDP averaged 40.5 per cent in 1997/98. Within the overall service sector, the Distributive Services sub-sector accounts for 36.8 per cent of the value added for the sector in 1997/98. The residual is accounted for by the "other" services sub-sector which consists of Banking, Insurance, Real Estate and ownership of Dwellings, Public Administration and Defense, Education, Health, and Domestic and Personal services. The Distributive services sub sector has witnessed an annual average growth rate of 8.8 per cent over the post-reform period ending in the 1997/98 F.Y. That of the "other services" sub sector has also increased at an average annual rate of 8.1 percent over the same period (See Table 1.1 below).

Figure 1a:

Trends in the Composition of GDP at 1980/81
Constant Factor Cost



Gross Domestic Product by Industrial Origin
at Constant Factor Cost

Table 1.1

(Million Birr)

Activity/year	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	Annual Average Growth Rate (%)*
1. Agriculture & Allied Activities	6114.89	5947.60	6308.32	6078.00	6284.0	7206.2	7453.9	6887.4	3.4
Agriculture	5330.71	5147.39	5488.27	5271.85	5450.03	6519.76	6879.29	-	6.6
Forestry	779.48	795.20	814.77	800.57	828.60	856.80	887.60	-	-
Fishing	4.70	5.01	5.28	5.58	5.90	6.10	6.40	-	-
2. Industry	1024.14	951.41	1222.33	1307.21	1412.5	1492.1	1609.2	1785.0	7.3
Mining & Quarrying	52.10	38.98	57.10	45.00	49.0	55.74	62.6	70.7	6.2
Large & Medium scale Manufacturing	336.40	306.90	456.39	514.15	562.4	606.2	640.9	707.7	8.4
Small Scale industry & Handicrafts	200.76	201.33	234.25	237.48	256.5	274.8	291.9	316.2	6.2
Electricity & Water	179.90	186.86	197.80	207.90	219.3	206.4	234.2	272.2	5.4
Construction	254.97	218.15	276.78	302.67	325.3	349.3	379.6	418.2	8.0
3. All Services	3729.1	3572.5	4193.7	4525.2	4834.2	5292	5704.7	6162.1	7.7
3.1 Distributive services	1364.92	1272.14	1555.13	1650.98	1757.3	1914.7	2093.7	2266.5	7.7
Trade, Hotels & Restaurants	760.82	648.51	887.40	945.22	1027.7	1115.5	1208.9	1296.4	8.5
Transport & communication	544.09	623.63	667.73	705.76	729.6	799.2	884.8	970.1	7.5
3.2 Other services	2424.22	2300.42	2638.64	2874.15	3190.5	3377.3	3611.0	3895.6	7.7
Banking & Insurance Real Estate & Ownership Dwellings	636.56	623.19	681.06	747.42	810.3	879.7	954.5	1051.0	8.7
Public Administration & Defense	913.45	776.64	1017.84	1125.04	1327.8	1391.5	1483.4	1588.6	8.9
Education	271.30	278.50	271.10	278.20	287.94	298.0	318.3	340.6	4.5
Health	90.80	100.00	114.70	136.80	146.51	154	160.1	167.1	6.7
Domestic & Other Services	492.11	522.09	553.94	585.68	618.0	654.1	694.7	738.3	5.7
GDP at 1980/8 constant Factor cost	10868.16	10471.56	11724.42	11910.33	12644.3	13990.3	14767.8	14834.5	5.5

Source: MEDaC

* Average Growth Rate for the Period 1992/93-1997/98 (OLS method)

The annual average growth rates of GDP in real terms over the post-reform period of 1992/93 to 1997/98 outlined above sharply contrasts with the pre-reform period spanning 1980/81 to 1991/92. The average annual growth rate of GDP at 1980/81 constant factor cost throughout the pre-reform years beginning in 1980/81 averaged a mere 1.7 per cent. This was largely attributed to a dismal performance of the agricultural sector as reflected by a marginal growth averaging around 1.4 per cent per annum through 1980/81 to 1991/92. Industry as a whole stagnated over the same period. The only sector that had exhibited positive real growth rate was that of overall services which averaged 4.1 per cent per annum throughout 1980/81 to 1991/92.

The most important contributor to such a positive real growth rate in the service sector is the Public Administration and Defense component within the "other services" sub sector. The share of Public Administration and defense in over all GDP ranges between a low of 6 per cent in 1980/81 and a peak of 9.4 per cent in 1989/90 which coincided with the climax of the protracted civil war. The growth rate of Public Administration and Defense averaged 4.5 per cent over the period 1980/81 to 1991/92. If the period

1980/81 to 1990/91 is considered, as the civil war was intensified in 1988/89 and 1989/90, public Administration and Defense had exhibited a still higher growth rate averaging 5.8 per cent per annum through 1980/81 to 1990/91. As a result, the "other Service" sub sector had been increasing at the rate of 5.2 per cent per annum over the same period. Growth of Other Services "sector" averaged 4.2 per cent over the period 1980/81 to 1990/91. On the other hand, the Distributive Service sub sector had been increasing at a marginal annual average rate of 0.9 per cent during the whole of the pre-reform period (1980/81 to 1991/92).

Annual average real GDP growth rate spanning the whole of the pre and post-reform periods (1980/81 to 1997/98) stood at about 2.7 per cent per annum. As average population growth over the same period has been a little less than 3 per cent per annum, per capita GDP has at best stagnated and at worse declined over the period. On the other hand, per capita real GDP over the post-reform period has been increasing at about 3 per cent per annum. For annual average growth rate of sectoral value added for the four sub-periods see Table 1.2 below.

Figure 1b:

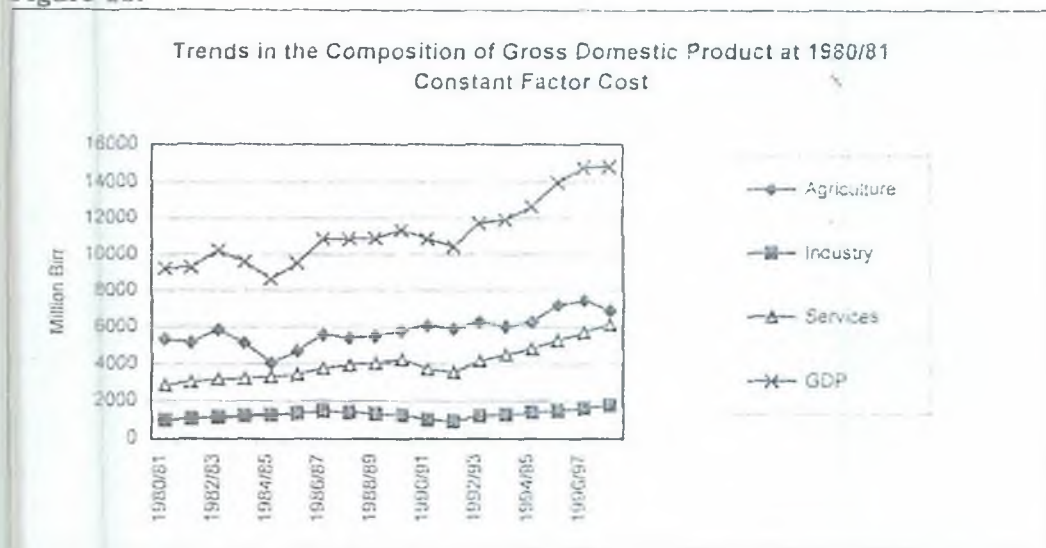


Table 1.2 Annual Average Growth Rates of GDP by Industrial Origin at 1980/81 Constant Factor Cost.

	Sector/Sub sector	Annual Average Growth Rates (%) ^a			
		1980/81 - 1990/91	1980/81 - 1991/92	1980/81 - 1997/98	1992/93 - 1997/98
1	Agriculture and Allied Activities	1.2	1.4	2.1	3.4
	Agriculture (proper)	1.0	1.2	2.3	6.6
2	Industry	1.3	0	1.7	7.3
	Mining & Quarrying	7.9	8.6	10.0	8.2
	Large and Medium Scale Manufacturing	1.3	-0.7	1.7	8.4
	Small Scale Industries and Hand crafts	0.6	0.1	1.8	6.2
	Electricity and Water	4.6	4.5	4.5	5.4
	Construction	0.6	-2.4	-0.5	8.0
3	All Services	3.6	2.8	3.9	7.7
3.1	Distributive Services	1.9	0.9	2.3	7.7
	Trade, Hotels and Rests	-7.8	-6.8	3.3	8.5
	Transport + Communication	4.9	4.7	5.1	7.5
3.2	"Other" Services	4.8	4.1	4.9	7.7
	Banking + Insurance and Real Estate and Ownership of Dwellings	3.4	2.8	3.7	8.7
	Public Administration & Defense	5.8	4.5	5.6	8.9
	Education	3.0	3.2	3.2	4.5
	Health	3.7	3.7	5.6	6.7
	Domestic & Other personal services	6.1	6.2	6.1	5.7
4	GDP at 1980/81 Constant F.C	2.0	1.7	2.7	5.5
5	Population	2.6	2.7	2.9	3.1
6	Real Per capita GDP	-0.4	-1.0	-0.1	3.2

^a NB: All Growth Rates shown have been computed by using the Least-Squares Method.

1.1.3 The Demand Side

1.1.3.1 Trends in Expenditure Aggregates During the Post- reform Period

With regard to the expenditure side of GDP, private final consumption expenditure which accounts for the lion's share and stood at 82 percent in 1997/98 has recorded an annual average growth rate of 10.1 percent over the post-reform period (1992/93 to 1997/98) in nominal terms.

Expenditures of producers of government services referred to as Government Final Consumption Expenditure (GFCE) accounted for about 11 per cent of GDP in 1997/98 showing an annual average growth rate of about 12.1 per cent over the same period.

Consumption Expenditure on GDP which consists of PFCE and GFCE and which altogether accounts for some 93 per cent of GDP in 1997/98 has increased at the rate of 10.3 per cent per annum over the post-reform period.

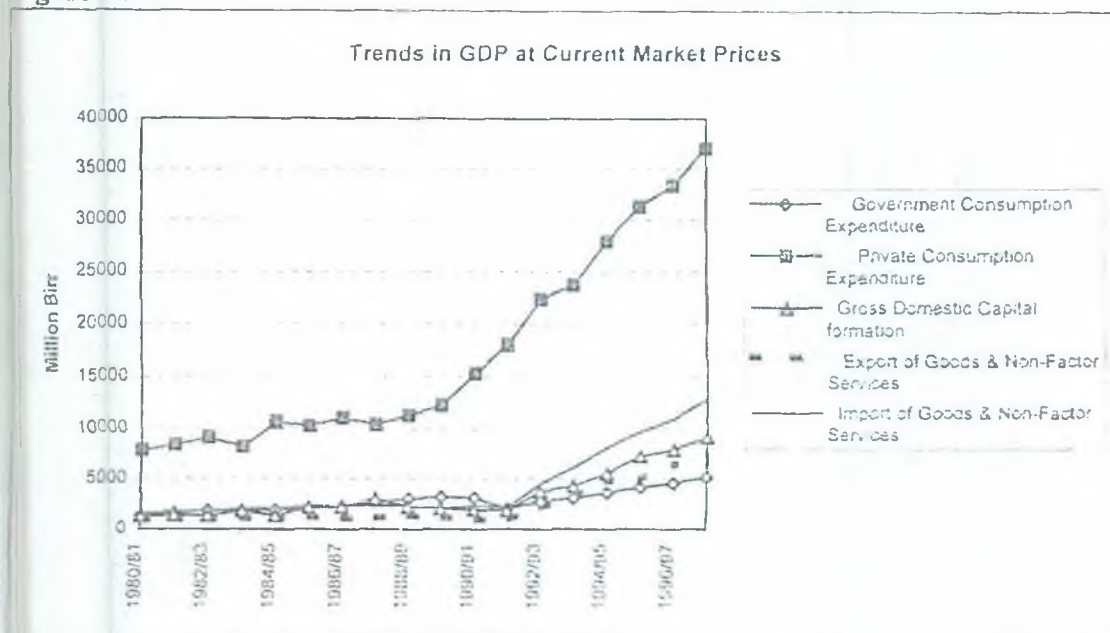
The most important determinant of output growth, Gross Domestic Capital Formation (GDCF), which

accounts for some 20 per cent of GDP in 1997/98 has increased at about 23.9 per cent per annum in nominal terms over the period 1992/93 to 1997/98.

Gross Domestic Expenditure which is the sum of Consumption Expenditure and GDCF accounts for some 113.4 percent of GDP has been growing at about 11.6 per cent per annum over the same period (1992/93 to 1997/98). This indicator shows that our domestic expenditure far exceeds our domestic supply. For instance, the above indicator shows that Ethiopia's domestic expenditure on asset building and current consumption exceeds domestic production by 13.4 per cent in 1997/98.

The last two components of the demand side GDP are exports and imports of goods and non-factor services to and from the rest of the world. The net exports which is commonly referred to as the resource balance measured as the difference between exports and imports of goods and non-factor services which accounts for some 13.4 per cent of GDP in 1997/98 has recorded an annual average growth rate of 29.4 per cent over the post-reform period.

Figure 1c



The widening resource gap as reflected by the growth rate of the resource balance is the outcome of the increasing share of imports of goods and non-factor services in GDP. Although exports of goods and non-factor services witnessed an annual average growth rate of 23.9 per cent in nominal terms in the face of a 19.9 per cent growth for imports of goods and non-factor services over the post-reform period, the export base of Ethiopia has still remained weak as reflected by a 15 per cent share in GDP in contrast with a more than 28 per cent share in GDP for imports in 1997/98. The share of exports of goods and non-factor services has increased from a mere 4.5 per cent of GDP in 1991/92 to 15 per cent of GDP in 1997/98 where as the share of imports has increased to 28 per cent of GDP in 1997/98.

The stabilization measures during phase I of the ERP (1992/93 to

1994/95) and the subsequent structural reform measures in the later phases seem to have helped improve the performance of the export sector. The external environment has also been conducive for the export sector as witnessed by the Coffee boom of 1994/95 which resulted from increased price of coffee in the international market. Ethiopia has fared positively from the international coffee market since then, except for a modest decline during the first half of the 1995/96 F.Y. This has also been partially offset by an increase in the volume of coffee export during the period.

GDP at current market prices, which is the sum of Gross Domestic Expenditure (GDE) and the resource balance (net exports) has increased at about 11.1 per cent per annum throughout the post-reform period ending in 1997/98 (see Table 1.3 below).

Table 1.3

Expenditure on GDP at Current Market Prices

Million Birr

Expenditure components	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	Annual Average Growth Rates (%) ^a
Gross domestic Expenditure	20531.32	22077.90	28969.40	31196.40	37186.20	42694.90	45944.50	51260.40	11.6
Consumption Expenditure	18534.94	20166.80	25177.30	26902.70	31617.20	35448.80	38024.70	42126.40	10.3
Government	3165.79	2107.80	2818.80	3155.20	3675.30	4158.10	4585.30	5128.60	12.1
Private	15369.15	18059.00	22358.50	23747.50	27941.90	31290.70	33439.40	36997.80	10.1
Gross Capital Formation	1996.38	1911.10	3792.10	4293.70	5569.00	7246.10	7919.80	9134.00	15.3
Resource Balance	-1335.99	-1285.90	-2298.00	-2867.50	-3301.20	-4757.30	-4479.40	-6046.40	29.4
Export of G & NFS	1062.21	937.50	2222.50	3223.00	4852.30	4961.70	6441.30	6790.00	23.9
Import of G & NFS	2398.20	2223.40	4520.50	6090.50	8153.50	9719.00	10920.70	12832.40	19.9
GDP at Current Market Prices	19195.34	20792.00	26671.40	28328.90	33885.00	37937.60	41465.10	45218.00	11.1
Domestic Saving	660.40	625.20	1494.10	1476.20	2267.80	2488.80	3440.40	3091.60	22.1
Net Factor Income from RoW	-142.31	-178.80	14.10	-459.60	-377.50	-275.40	-107.70	-252.00	5.9
Net Current Transfers from RoW	557.11	1011.10	1930.40	2275.80	3651.90	3701.80	2877.70	3411.10	11.8
Gross National Savings	1075.20	1457.50	3010.40	3242.50	5542.20	5915.20	6210.40	6250.70	19.0
Gross National Product at Current Market Price	19053.03	20613.20	26257.30	27869.30	33507.50	37682.20	41357.40	44966.00	11.4
Gross National Disposable Income	19010.14	21624.30	28187.70	30145.20	37159.30	41364.00	44235.00	48377	11.4

Source: MEDaC

^a NB: Growth Rates refer to the period 1992/93 to 1997/98. All Growth Rates have been computed by using the Least-square Growth Method except that of the Resource Balance.

The foregoing discussion was confined to reviewing performance indicators of the demand side of the real sector with reference to the post-reform period (1992/93 to 1997/98). The growth of GDP at current market prices throughout the pre-reform period spanning the years 1980/81 to 1991/92 averaged 6.3 per cent per annum. If the sub-period 1980/81 to 1990/91 is considered, GDP growth on an annual basis averaged 6.0 per cent. The remarkable performance of the economy since the launching of the reform program is evidenced by comparing the growth rates of GDP and its components: Gross Domestic Capital Formation, Private Final Consumption Expenditure, Government Final Consumption Expenditure, Exports, Gross Domestic Saving, etc. in the pre-reform and

post-reform periods. Details of the performance of these indicators for four sub-periods is depicted in Table 1.4 below.

1.1.3.2 Saving and Investment

Domestic Saving (DS) measured as residual between GDP at current market prices and consumption expenditure on GDP is the domestic source of finance for gross domestic capital formation (GDCF). The GDCF and Domestic Saving (DS) have shown a sign of recovery in the post-reform period. Both GDCF and DS have exhibited an increasing trend in both absolute terms and relative to GDP at current market prices throughout the post-reform years ending in the 1997/98 FY.

Annual Average Growth Rates of Expenditure on GDP at Current Market Prices (%)

Table 1.4

S.N	Expenditure Components	Annual Average Growth Rates (%)			
		1980/81 - 1990/91	1980/81 - 1991/92	1980/81 - 1997/98	1992/93 - 1997/98
1	Gross domestic Expenditure	5.9	6.2	9.3	11.6
1.1	Consumption Expenditure	5.9	6.4	9.1	10.3
	• private Final Consumption Exp	5.1	6.4	9.5	10.1
	• Government Final Consumption Exp	8.1	6.0	6.2	12.1
1.2	Gross Domestic Capital Formation	5.6	4.4	10.2	15.3
2	Resource Balance	2.7	7.1	14.5	29.4
	• Exports of Goods & NFs	1.8	0.6	11.3	23.9
	• Imports of Goods & NFs	3.0	2.5	11.5	19.9
3	GDP at Current Market Prices	6.0	6.3	9.1	11.1
4	Gross Domestic Saving	6.5	3.6	9.2	22.1
5	Gross National Savings	7.4	6.4	12.8	11.0

• All Growth Rates have been computed based on the Least-squares Method

Figure 1d:



Gross Domestic Capital Formation as a share of GDP at current market prices has increased from a pre-reform (1990/91) level of around 10.6 per cent to 20.2 per cent in 1997/98. Domestic saving increased from 3.5 per cent of GDP in 1990/91 to around 7 per cent of GDP in 1997/98. In terms of financing GDCF with own-source, a little more than one-third of the GDCF was financed by Domestic Saving in 1990/91 F.Y. Not much improvement has been made even in the post-reform period as a still greater proportion of the GDCF is being financed from external sources. For instance, domestic saving was able to finance only 34 per cent of GDCF in 1997/98 although the GDS has increased from a pre-reform (1990/91) level of 660.4 million Birr to about 3.1 billion in 1997/98.

The still widening gap between GDCF and GDS shows that an increasing proportion of the GDCF is being financed by external sources. As this has a negative implication on debt and balance of payment positions, dependence on external sources of finance is not sustainable and dependable. Encouraging domestic savings through maintaining tight fiscal policy and promoting private saving endeavors should be given the utmost priority

in a country like Ethiopia which is a net debtor of factor incomes to the rest of the world receipts in terms of labour and investment income fall far short of payments to the rest of the world (ROW). Hence, the Gross National Product (GNP) at current market prices has been below that of GDP at current market prices. Hence, the GNP figure at current market price stood at about 45 billion Birr or 99.4 per cent of GDP at current market prices in 1997/98 F.Y.

An important aggregate that ultimately determines a nation's capacity of asset building (financing GDCF) and meeting consumption requirements is that of Gross National Disposable Income (GNDI). The GNDI which is the sum of GNP at current market prices and net unrequited current transfers from ROW stood at 48.4 billion Birr in 1997/98 FY. It has been increasing at 14.4 per cent per annum throughout the post-reform period ending in 1997/98.

Gross National Saving (GNS) which is the difference between the GNDI and total consumption expenditure increased from a pre-reform (1990/91) level of 1075.2 million Birr (5.6 per cent of GDP) to 6250.7 million Birr (about 14 per cent of

GDP) in 1997/98 F.Y. The GNS has been increasing at about 23 percent per annum over the period 1992/93 to 1997/98. The GNS has enabled finance some 68 percent of the GDCF in 1997/98 F.Y. (see Table 1.5 and 1.6 below for details)

Resource Balance & Its Financing

Table 1.5

(Million Birr)

Resource Balance & Financing Sources	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	Annual average Growth Rates (%)
Resource Balance	-1336	-1285.9	-2298	-2867.5	-3301.2	-4757.3	-4479.4	-6042.4	29.4
Gross Domestic Saving	660.4	625.2	1494.1	1426.2	2267.8	2488.8	3440.4	3091.6	25.1
Net Factor Income from Abroad	-142.3	-178.8	14.1	-459.6	-377.5	-275.4	-107.7	-252	5.9
Net Unrequited current Transfers	557.1	1011.1	1930.4	2275.8	3651.9	3701.8	2877.7	3411.1	22.5
Gross National Savings	1075.2	1457.5	3438.6	3242.4	5542.2	5915.2	6210.4	6250.7	22.9
Official Transfer (net)	604.3	893.5	1709.7	1647.9	2671.9	2483.4	1471.9	2030.7	14.7
Total financing Sources	1679.5	2351	5148.3	4890.3	8214.1	8398.6	7682.3	8281.4	23.4
Gross Domestic Capital Formation	1996.4	1911.1	3792.1	4293.7	5569	7246.1	7919.8	9134	23.9

Source: Macroplanning and Economic Policy analysis Department (MEDaC)

Financing Sources as a Share of
Gross Domestic Capital Formation (%)

Table 1.6

Resource Balance & Financing Sources	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Resource Balance	-66.9	-67.3	-60.6	-66.8	-59.3	-65.7	-56.6	-66.2
Gross Domestic Saving	33.1	32.7	39.4	33.2	40.7	34.3	43.4	33.8
Net Factor Income from Abroad	-7.1	-9.4	0.4	-10.7	-6.8	-3.8	-1.4	-2.8
Net Unrequited current Transfers	27.9	52.9	50.9	53.0	65.6	51.1	36.3	37.3
Gross National Savings	53.9	76.3	90.7	75.5	99.5	81.6	78.4	68.4
Official Transfer (net)	30.3	46.8	45.1	38.4	48.0	34.3	18.6	22.2
Total financing Sources	84.1	123.0	135.8	113.9	147.5	115.9	97.0	90.7
Gross Domestic Capital Formation	100	100	100	100	100	100	100	100

Source: Computed Based on Data From Table 1.5 above

NB: Growth Rates refer to Annual Average Growth Rates encompassing the period 1992/93 to 1997/98.

1.2 Trends in Inflation

1.2.1 Background

In the exchange of goods and services, prices serve as a measure of value either in terms of other commodities or expressed in monetary units. Therefore changes in prices are crucial measure of relative scarcity of factors of production (Commodities) in a situation where they are market determined. Thus, prices are the primary tools of decision making both by producers and consumers entailing them one of the most important macro economic variables.

However, a wide range of goods and services necessitates a means of consolidating individual prices (changes in prices) to come up with a meaningful macro economic indicator. In this regard, Consumer Price Indices and GDP deflators are the most important indicators of changes in aggregate price levels. A consumer price index is constructed with a careful and scientific selection of baskets of consumer goods for a specific group of consumers. Weights are attached to various baskets of goods/services based on their share in total household expenditure observed when household income, consumption and expenditure surveys are conducted. Subsequent changes in prices over the base year prices are therefore indicated in per cent which are the indices of each basket. The General Index, which is a weighted average of all group indices is very important in that its change over a given period provides a measure of a change in the general price level- inflation.

1.2.2 The Addis Ababa Retail Price Index(1963=100)

The Development of the Index

The old series of the Addis Ababa Retail Price Index was the first consumer price index in Ethiopia. The index ever constructed was based on the spending

patterns indicated by the Household Income, Consumption and Expenditure Survey conducted in 1963. The survey was undertaken by the then Central Statistical Office (CSO) with some technical assistance from the United Nations Economic Commission for Africa. The survey was conducted for one year beginning January 9, 1963 but the index began to be published on monthly basis in 1966.

Owing to limited financial resources and expertise, the survey was conducted on 600 households selected from 50 enumeration areas. All income groups were included without discrimination and each household was interviewed daily for a period of one month. Detailed questionnaire was administered to record the expenditure and consumption pattern of each household over a period of one month.

The final result of the survey had enabled generate the following expenditure weights upon which the Construction of the Addis Ababa Retail Price Index was based.

Expenditure Weights of the 1963 based AARPI

Table 1.7

No.	Consumer Baskets	Expenditure Weight (%)
1	FOOD	49.98
1.1	Cereals	13.14
1.2	Pulses	1.67
1.3	Meat	5.68
1.4	Fish	0.11
1.5	Dairy Products	9.53
1.6	Vegetables and Fruits	2.24
1.7	Spices	2.04
1.8	Other Food Items	7.64
1.9	Drinks and Tobacco	6.63
2	HOUSEHOLD ITEMS	14.60
2.1	Fuel and Light	10.23
2.2	Domestic utensils	4.37
3	TRANSPORTATION	4.52
4	MEDICAL CARE	1.53
5	PERSONAL CARE	0.91
6	READING & RECREATION	2.57
7	OTHER GOODS & SERVICES	5.43
8	HOUSE RENT	14.55
	TOTAL	100.00

Source: Central statistics Authority

A total of 73 individual items of consumption (with a cut-off point of 0.05% share and above in total expenditure) were included in the above 9 baskets of consumption. The last item, House Rent, with a significant share of 14.55% in total expenditure was however excluded from the first index for reasons not explicitly indicated.

Inflation According to The Old AARPI

Inflation as measured by the change in the period average (usually a year) of the general index had never reflected a serious and persistent erosion in the purchasing power of consumers. Throughout the 1980s, for instance, the highest rate of inflation recorded was 18.5 per cent during the drought year of 1984/85. Other years of relatively higher inflation were 1981/82 and 1988/89 when the general index grew by 7.3 and 9.5 per cent, respectively. Otherwise, inflation was very low (less than 5 per cent) and fell below zero in some years, like -9.5 per cent in 1986/87.

The last years of the Derg (1990/91) was, however, marked by 20.5 per cent inflation which also lingered in the ensuing year (1991/92) at 21 per cent. As social disturbances (upheavals) usually render economic disruptions, inflation recorded in 1990/91 and 1991/92 hardly reflects the normal trend of prices in Ethiopia.

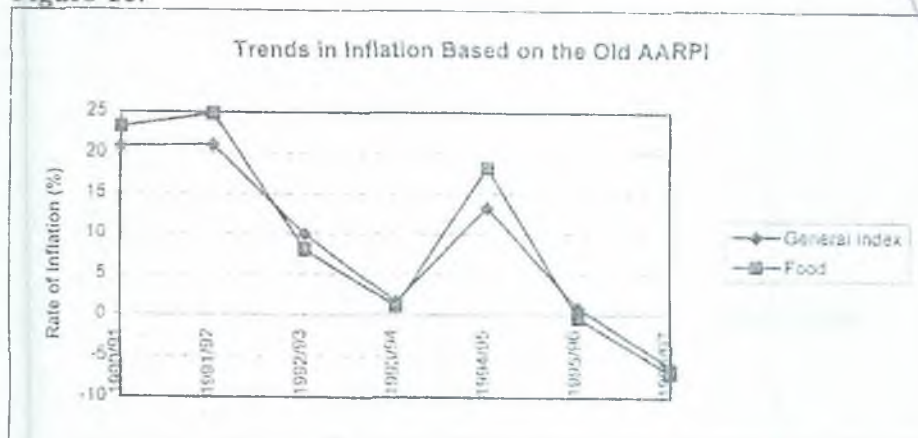
Following the attainment of peace and stability, and the introduction of the comprehensive Economic Reform Program by the Transitional Government of Ethiopia, growth in the general price level slowed down compared to the years of turmoil. In 1992/93 inflation was only 10 per cent, an unexpected out turn in the face of price liberalization and other macro economic policy changes. In 1993/94 too, inflation further moved down to 1.2 per cent largely because of the

preceding year's good crop harvest. The fiscal year 1994/95 witnessed the highest post-reform rate of inflation at 13.4 per cent which, however, subsided to a mere 0.9 per cent inflation in 1995/96. In the last year of its use, the old price index for Addis Ababa exhibited negative rate of inflation, culminating at -6.2 per cent at the end of the 1996/97 F.Y.

Why inflation did not go out of control in Ethiopia as it did in some African and Latin American countries (which experienced three digit inflation) may not be easy to explain. Nevertheless, some features of the Ethiopian economy like the level of economic development (subsistence economy), the degree of monetization, macro economic policies and management, are believed to have strong bearings on this. Apart from this, the technicalities construction of the index to do with limitations of these indices for measuring inflation in Ethiopia

The Ethiopian economy is agrarian based with the agriculture sector still having a dominant role in GDP and employment generation. Agricultural production in turn employs little of the so called modern practices and inputs making it less susceptible to price changes in other sectors. Therefore, the general price level would increase only marginally as long as agriculture performs satisfactorily or normally. In years of bumper harvest, like that of 1995/96, and 1996/97, inflation could even level close to zero (or be negative) as food gets cheaper and cheaper. It has been mentioned above that about 50 per cent of any change in the food index at any time will be reflected in the General Index. The pattern of consumption in the country is also dominated by domestic food-stuffs giving rise to a strong linkage between changes in agricultural production and prices.

Figure 1e:



A related aspect of development which is believed to have impaired fast growth of price indices is the degree of monetization of the economy. This could roughly be represented by the ratio of the monetary base (M_2) to GDP at current market price. This ratio had been about 35 per cent on average during the fiscal years 1985/86 to 1989/90, and picked up to 40 per cent during the six years after the fall of the Derg. This implies that less than half of the annual production of goods and services goes through markets while the rest is generated and consumed at home.

Regardless of the growing fiscal deficits in the decade leading to the fall of the Derg in 1990/91 and their inflationary financing through domestic bank borrowing, inflation had never appeared top in the agenda of macro economic management because of the counter effect of other policy measures. Direct price control, limitation of private sector participation and wage freezes in the civil service were some of the policies that suppressed demand and cost increase on industrial production. As such policies erode efficiency in the public sector and create disincentive to the private sector, productivity and capacity utilization have declined in

the same period rendering supply to fall even behind the suppressed demand. The standard of living had, therefore, declined in effect though the Addis Ababa consumer Price Index (AARPI) exhibited only moderate inflation.

Another explanation that may be cited for low inflation experienced in Ethiopia was the nature of the index itself. Mainly because of its poor coverage in terms of sample size and outdated basket of consumer goods, the old AACPI had long been blamed for inadequate measurement of inflation. A section here under is devoted to discussion on the weakness of the AARPI.

Trends in Individual Indices

Trends in inflation in Ethiopia in general has been closely associated with trends in the food index as food accounts for about 50 per cent of household expenditure. Accordingly, periods of high inflation were invariably periods of higher increase in the food index. An index with relatively high rate of growth during most of the 1980s was that of household equipment which grew by 8 to 10 per cent. Its growth had, however, declined drastically during the reform.

Ethiopia Agricultural Research Organization Library Central

Trends in Inflation Based on the Old AARPI

Table 1.8

Commodity Groups	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
General Index	20.86	21.03	9.99	1.71	13.35	0.92	-6.20
Food	23.32	24.88	8.13	1.16	18.26	-0.34	-7.06
Household items	22.96	15.31	-2.23	1.62	0.00	6.64	-10.35
clothing	10.44	14.01	55.37	-8.09	-0.78	2.60	7.61
Transportation	3.11	-0.93	24.85	17.82	2.11	3.49	-3.77
Medical Care	0.86	5.86	60.89	35.02	32.98	-17.33	-15.45
Personal Care	6.41	22.07	87.55	5.23	-0.70	9.08	6.67
Reading and Recreation	16.02	12.35	-3.04	7.79	2.66	15.41	20.24
Other Goods and Services	2.86	5.60	16.99	1.57	3.29	3.82	2.02

Source: CSA

period except for the "abnormal" years of 190/91 and 1991/92. The index of clothing, on the other hand, remained more or less stable during the 1980's and exhibited sudden jump during the period 1990/91 to 1992/93. Thereafter, it was on the decline except a 7.6 per cent increase in 1996/97.

Likewise, the index of transport and communication remained stable during the 1980's (in general) and experienced significant growth following the deregulation of the transport sector in 1992/93, however it has stabilized since 1994/95. The 1st half of the 1980's witnessed to a decline in the index of medical care though it was largely stable until the beginning of the Reform Program. Substantial growth in the index of medical care was observed between 1992/93 and 1994/95 which gave way to a reversal of trend during 1995/96 and 1996/97.

Drawbacks of the Addis Ababa Retail Price Index (1963= 100)

Despite its use as the only measure of inflation for about three decades, the Addis Ababa Retail Price Index was fraught with various flaws and limitation. These shortcomings are

linked with problems of coverage and classification for the most part, and sheer obsolescence to represent current consumption pattern in the country.

A report of the Central Statistical Authority had revealed that the sample structure of the 1963 Addis Ababa Household Income and Expenditure Survey had not been large enough to cover all enumeration areas and sufficient sample of households for the period. As some enumeration areas deliberately omitted, the survey is believed to have given a distorted pattern of expenditure and hence affect the relative weights of individual consumer baskets. Particularly, weights of most commodity groups were found underestimated as compared to the expenditure patterns of some African countries during that period.

identification of goods and services to form consumer baskets could be another problem area of the old AARPI. The CSA has revealed that there had not been an International Standard Classification when the 1963 price index was constructed. The United Nations System of Nation Accounts which established the first standard classification of household

goods and services was issued in 1968, five years after the AARPI was developed. As a result of this the food group in the AARPI was made to include Cigarettes and Tobacco, and Alcoholic Beverages. Moreover, the group labeled "Other Goods and Services" had embraced irrelevant items of Transport and Communication, Personal care, etc.

Such categorization of goods and services may in the first place distort the movement of the index (and the underlying inflation) for the index is using the price relatives of heterogeneous items/groups. A change in the price relative of cigarettes and tobacco, for instance can not and need not represent any change in the food index, under normal conditions. Such wrong classifications sometimes may result into erratic movements of a particular index. This feature of the index makes it internally inconsistent (difficult to make trend analysis) and externally incomparable because of lack of compatibility.

Besides the exclusion of a major consumer basket, House Rent, from the basket and hence the general index, the old AARPI is currently obsolete to represent adequately existing consumption (expenditure) pattern. It is believed that a number of imported as well as domestic goods and services have entered the new consumer basket which drastically change the pattern and weight of expenditure. It is to be recalled that only 73 goods and services (grouped in seven baskets) were included in the old price index for Addis Ababa.

1.2.3 The New CPI (1995/96=100)

The need to construct a new consumer price index emanated from

the inherent weaknesses of the old AARPI and its limited geographic coverage to be representative of price trends at national level. Therefore, a Household Income, Consumption and Expenditure Survey was conducted in 1995/96 for rural and urban areas simultaneously. The objective of the survey was to assess the current consumption pattern of households and establish weights for the construction of consumer price indices at the rural, urban and country (National) level. The construction of the new consumer price index is therefore expected to provide a better and broader measurement of inflationary trends which is crucial for a reliable measurement of other macro economic indicators.

The survey was conducted in 608 enumeration areas representing the rural areas and 323 enumeration areas for urban centers. All Regional states were included in the survey which was undertaken twice in 1995/96 i.e. once for the wet (slack) season and the other during the dry (peak) season. Expenditure weights were thus established for four areas, i.e. the Addis Ababa CPI, the Rural CPI, the Urban CPI, and the Country Level CPI which is presented in the table below.

Compared with the old AARPI, which has only seven group (baskets) of consumer items, the new indices portray 11 baskets of commodities which better represent the current pattern of consumption. More items were also included in the new baskets of commodities as compared to only 73 items in the old AACPI. There are 175 individual consumption items in the Country level CPI, 140 items for the Rural CPI, 176 and 177 items for All Urban and Addis Ababa CPIs, respectively. The number of items for

**Basket of Commodities and Weights of the New Consumer
Price Indices for National, Urban and Rural Areas**

Table 1.9

		NATIONAL	URBAN	RURAL	ADDIS ABABA
1	Food	57.79	55.31	58.64	53.03
2	Beverage	1.49	1.2	1.58	0.74
3	Cigarettes & Tobacco	0.45	0.46	0.45	0.3
4	Clothing & Foot wear	10.54	10.84	10.49	10.7
5	House rent, construction material, fuel, Water & power	17.17	17.13	17.24	18.61
6	Furniture, furnishing, H H operation & domestic service	5.14	5.38	5.13	5.31
7	Medical care & Health	1.22	1.36	1.23	1.44
8	Transport & Communication	1.7	3.63	1.2	4.69
9	Recreation, Entertainment & Education	0.59	1.78	0.42	2.76
10	Personal Care & Effects	1.48	1.61	1.45	1.72
11	Miscellaneous	2.33	1.3	2.17	0.7

Source: CSA

each CPI group was decided using a cut-off point (weight) which is 0.05 per cent for the Rural index and 0.04 per cent alike for the National, Urban and Addis Ababa consumer price indices.

Inflation Based on the 1995/96 HICES

Country Level

The new consumer price index exhibited a 2.33 per cent inflation rate at the country level by the end of the 1997/98 fiscal year. Among the indices that contributed to the observed growth in the general index at the national level were that of Food and, House rent, construction materials, and household utilities which grew by 3.8 and 6.7 per cent on 12 months moving average basis, respectively. These two consumer items account for about 75 per cent of the total household expenditure at the national level.

Despite their small expenditure weight (less than 3 per cent together), the price indices of Transport and communication, and Recreation, entertainment and education have also increased by 7.3 and 8.9 per cent, respectively, at the end of June

1998 on 12 months moving average basis.

On the other hand, price indices of Beverage, Medical Care and Health, and Cigarettes and tobacco exhibited 4.5, 9.1 and 11.2 per cent decline in 1997/98, respectively, regardless of their relatively higher import contents. Other items with a declining index at the country level during the year under review include Clothing and footwear, and Furniture, furnishing and household equipment at respective rates of 2.6 and 3.6 per cent.

Urban

The rate of inflation for Urban areas stood at 4.23 per cent in 1997/98 which is almost 2 percentage points higher than the national level. The majority of the urban consumer baskets exhibited an upward movement in their respective indices as compared to the preceding fiscal year except for four items. The latter four include the indices of Cigarettes and tobacco, Medical care and health, and Miscellaneous goods which declined by 1.5, 4.6 and 7.3 per cent respectively on 12 months moving average basis. These items however

account for only 3 per cent of urban household expenditure. The fourth item was that of Clothing and footwear (with about 11 per cent weight) whose index dropped by 2.8 per cent in 1997/98.

The indices of Food and, House rent, construction materials, and utilities increased by 4.5 and 10.6 per cent respectively during the period under review, accounting for the relatively strong inflation in urban areas. Items of Furniture, furnishing and household equipment, and Transport and communication exhibited only marginal (less than one per cent) increase in their respective indices though they are the fourth and fifth import consumer items in urban areas

Rural

A 3.85 per cent inflation was recorded for rural areas during the 1997/98 fiscal year on 12 months moving average basis. Growth in the rural food index was nearly equal to that of urban areas at 4.4 per cent. Index of House rent, construction materials and utilities also grew by 8.55 per cent. Unlike for urban centers, rural Ethiopia had experienced about 1.7 per cent increase on the index of Clothing and footwear. These three items explain the majority of rural inflation as they account for about 86.4 per cent of rural household consumption expenditure.

Indices of Medical care and health, Cigarette and tobacco, and Beverage have on the other hand, went down by 9.9, 9.3 and 3 per cent respectively in the period under review. Despite its small weight, index of rural transport tended to increase during 1997/98 which averaged at 4.2 per cent by the end of June 1998 on 12 months moving average basis

1.2.4 The Implicit GDP Deflator

This indicator measures the trend in the general price level of final goods and services that constitute overall GDP including those of the Government sector. It is not directly derived from price data but is the ratio of nominal to real GDP. It is calculated as follows:

$$\text{GDP Deflator (\%)} = \frac{\text{GDP at current factor cost}}{\text{GDP at constant factor cost}} \times 100$$

In line with the UN System of National Accounts (SNA), periodic GDP estimates are derived from a production account for each major economic activity or sector as the difference between the gross value of production at current prices and value of intermediate purchases at current prices.

On the other hand, estimates of GDP at constant prices are measured as the difference between the gross value of output at constant producers' prices and value of intermediate inputs at constant purchasers' prices. The ratio of the two indicators (current versus constant) gives rise to the GDP deflator. Hence the GDP deflator is essentially a measure of trends in general price level of goods and services that constitute GDP. Hence the GDP deflator being discussed here reflects general price changes of goods and services produced within the domestic economy. It also reflects changes in factor incomes like wages, interest rates, and profits. Significant differences in the rate of change of the prices of goods and services included in the GDP deflator and the consumer price index will be evident in periods when the international terms of trade and the exchange rate are changing rapidly.

Comparison of Implicit GDP Deflator and the Addis Ababa General Retail Price Index (1963 = 100)

Table 1.10

Item	Fiscal Years						
	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
GDP at Current Factor Cost	15698.5	17978.8	19997.2	25209.3	36282.7	31434.4	35093.4
GDP at 1980/81 Constant Factor Cost	11349.6	10868.2	10471.8	11724.4	11910.3	12644.3	13990.3
GDP Deflators (%)	138.3	165.4	190	215.0	220.7	244.6	250.8
Addis Ababa General Retail Price Index (1963=100)	527.7	637.8	771.9	849.0	858.9	973.6	982.5
Inflation Based on the GDP Deflator(%)	4.5	19.6	14.9	13.2	2.6	10.8	2.5
Inflation Based on General Retail Price Index(%)	5.2	20.9	21.0	10.0	1.2	13.4	0.5

Source: MEDaC

Up until 1996/97, when the new Country level Urban and Rural Consumer price Indices were made available based on a Household Income Consumption and Expenditure Survey conducted in 1995/96, change in the general price level known as inflation had been measured in Ethiopia based on the Addis Ababa General Retail Price Index that used to have been released since the mid-1960's for almost 30 years. The salient features of the new indices have been discussed in the previous sections.

As shown in Table 1.10 above, our discussion has not extended to the 1997/98 F.Y. as the new indices are not comparable with the old one both in terms of item coverage (composition of the "basket") and spatial coverage as the old index has been applicable only to Addis Ababa. The time horizon will also be narrower if we take the period since the new indices have been released.

As depicted in Table 1.10 above, change in the general price level measured by the Addis Ababa Consumer Price Index has been consistently on the higher side up until

1991/92 F.Y. (Immediately before the reform program was launched). The pattern has been reversed since then except in 1994/95 when the general price change as per the Addis Ababa General Retail Price Index (13.8 per cent) had been slightly higher than that obtained based on the Implicit GDP Deflator, which was 10.8 per cent as per the Implicit GDP deflator and 13.4 per cent as per the Addis Ababa General Consumer Price Index. The reform measures towards the liberalization of prices across sectors may have contributed for the observed reversal of trends which indicates to a positive outcome in terms of higher prices for producers of goods and services. Even prior to the reform, the general price changes as per the Implicit GDP deflator have been catching up with that computed based on the Addis Ababa General Consumer Price Index (19.6 versus 20.9, 14.9 versus 21.0 in 1990/91 and 1991/92 respectively). Deregulation of Producer's prices of agricultural commodities via the Decree of the Mixed Economy of the Derg in March 1990 explains part of the increase in the GDP deflator on the on set of the 1990's

CHAPTER 2

External Sector and The Balance of Payments

2.1 Background

As the world got practical lessons from the failure of the command and controlled system of economic management with inward looking economic outlook, there is now a days an increasing effort to build a market economy in which external competitiveness has been accorded prime importance. The increasing concern to render economies externally competitive emanated from the need to tap the benefits from comparative advantage offered by expanding world markets, the technology transfer associated with exchange of commodities and the dynamism induced to the domestic economy through allowing greater specialization in production and enhanced efficiency in the use of scarce resources

It is to be recalled that African countries, especially sub-Saharan Africa (SSA), suffered from a drastic decline in their export earnings and a deterioration in the balance of payments during the 1980's while East Asian countries experienced a more than 7 per cent real annual average growth rate in their export performance. The external sector in African economies remained weak and incompetent owing by and large to policy constraints as featured in their highly overvalued exchange rates, restrictive trade policies, government control of markets and prices restrictions and disincentives on private sector participation and lax fiscal and financial discipline which resulted in to severe macroeconomic imbalances.

Starting from the mid 1980's, however, many African countries have launched Economic Reform Programs which involved massive adjustments to correct distortions in the external sector. The Exchange rate was devalued, govern-

ment monopolies were abolished, domestic markets and imports were liberalized and export disincentives have been largely rectified. Following the fall of the Derg regime, Ethiopia also launched an Economic Reform Program with a more or less similar pattern of adjustment. Apart from exchange rate adjustments and progressive liberalization of import and export trade which directly affect the external sector, the Ethiopian government is also committed to strict fiscal and monetary discipline to contain inflation and maintain a healthy external balance. This survey report focuses on reviewing reform measures undertaken on the external sector, analyzing the performance and structure of export and import trade and reviewing the balance of payments situation of the country.

The external sector in Ethiopia suffered from stagnation and even decline in overall performance and signaled worsening imbalances in the external payments during the whole of the Derg period. Export earning during the 1980's, for instance, averaged about 400 million USD per annum reaching a high of 455 million USD in 1985/86, which averaged only 6 per cent of GDP. In the latter years of the Derg, export as a share of GDP fell below 5 per cent.

Imports, on the other hand, tended to grow at an average rate of 7 per cent per annum especially in the first half of the 1980's though its value stagnated in the latter half of the decade. As a result of this, the share of imports in GDP declined from an average of 15 per cent during the first half of the 1980's to about 12 per cent during the second half of the 1980's. However, the decline in export earning had been reflected in an ever smaller coverage of the import bill out of export earning, i.e., worsening trade deficit. In

the first half of the 1980's export earning financed about 45 per cent of the annual import bill and further dropped to about 37 per cent on average during the second half.

Given the very low level of private transfer (through official channels) the current account deficit stood at about 6 per cent of GDP during the first half of the 1980's and slightly increased to 5.5 per cent during the second half owing to modest increase in private transfer.

During the pre-reform years the major factors that played the leading role for the poor performance of the external sector include the overvalued exchange rate which was a disincentive for exporters; the marginalization of the role of the private sector in external trade while the role of public enterprises had been intensified. There had also been high tariff rates on imports besides restriction on the imports of certain commodities. In general, the external sector was highly regulated partly due to Government's interest on revenue generation from the sector and partly because of the severe shortage of foreign reserves which, however, had worsened as a result of Government's own intervention.

2.2 Review of External Sector Reform Measures

One of the main components of the economic reform program introduced since 1992/93 has thus been the liberalization of the external sector so as to redress the prevailing huge external imbalances and there by improve the continually depleted foreign exchange reserve position of the country. Quite a number of measures which are believed to address directly or indirectly the aforementioned problem areas have been enforced since then. The Economic Reform Programme (ERP) commenced with the devaluation of the exchange rate by 58 percent in US dollar terms from 2.07

Birr/USD to 5 Birr per USD in October 1992.

In a country like Ethiopia where there has been very active illicit trade activities in some of its exportables (particularly coffee and live animals), besides hoping for positive supply response, devaluation is believed to divert substantial quantities of exportables from the unofficial market to the official channels. The active illicit trade was largely the outcome of the overvalued exchange rate which resulted into a high premium on the parallel market rate.

The government has also introduced a bi-weekly foreign exchange auction market since May 1993. The marginal rate (the market clearing rate), established at the auction was used as a secondary rate applicable to all current and capital account transactions until the next auction with the exception of a limited number of payments for which foreign exchange was made available at the official rate. However, the two rates have been unified on July 25, 1995 and a weekly foreign exchange auction was introduced a year later. Since August 1998, the Government has replaced the retail auction market by a wholesale auctioning where commercial banks, foreign exchange bureaux and investors in need of large amounts of foreign exchange (above 500,000 USD) per auction participate. An inter bank market for foreign exchange is also being introduced which is supposed to substitute the wholesale market in the future.

The other main external reform measure was the suspension of taxes and duties levied on export goods except on coffee which was introduced in January 1993. This measure provides a strong incentive to exporters together with the devaluation as it allows them to receive the equivalent of the world prices for exportables. Government's subsidy to exporters was also terminated when export taxes were lifted. Complementary to this measure,

the government introduced export duty drawback scheme in August 1993 to further encourage investment in the production of exportables. There are two versions embedded in this incentive scheme. The first is the duty draw back scheme which provides persons or enterprises wholly, partially or occasionally engaged in exporting their products to get a refund on the duty paid on raw materials (whether imported or locally produced) used in the production of exportables. The duty draw back scheme has had two terms of conditions. The first term states that when the raw material or commodity on which duty to be drawn-back is re-exported in the same condition, 95% of the duty will be refunded. The second term stipulates that if the raw material or commodity on which duty to be drawn back is exported after being processed or used for packing or containing, 100% of the duty will be refunded. However, this scheme will be applicable if the commodity produced using the raw material is exported within one year from the date on which such raw material has been imported or purchased locally.

The Second version of the scheme is known as the duty free importation scheme. This scheme authorizes organizations and persons wholly engaged in supplying their products to foreign market to import or locally purchase raw materials they use in production of such commodities free of duty. Similar to the earlier scheme, this scheme requires exporters to export their commodities within one year from the date on which the raw materials used have been imported or locally purchased

Further more, within the framework of promoting exports, measures of reducing license fees for coffee exporters and simplifying the procedure of getting licenses were undertaken. An action program for the liberalization of the coffee sector has also been developed

Since 1996/97, the Government has reduced the 100 per cent foreign exchange surrender requirement on exporters to the National Bank of Ethiopia to 50 per cent and allowed them to open foreign exchange saving accounts at commercial banks and save 10 per cent of their proceeds at a given transaction. The remaining 40 per cent of their earning is to be exchanged for Birr within three weeks at a rate they found to be favorable. This saving is to be used for investment and other expenditures related with the development of the export sector.

With respect to import trade liberalization, the government has been introducing a step by step policies which reduce the level and dispersion of effective rates of protection, average nominal tariff rates and the number of import duty exemptions. For example, maximum import duties were lowered from 280 percent to 80 percent during the first move of import liberalization and currently stood at 50 per cent. In addition, efforts are being made to correct legal and administrative impediments towards import liberalization through a simplification of the system of granting import licenses and permits. Substantial measures are also taken to reduce/eliminate the negative list which limits access to foreign exchange for specific items of imports

In line with government's policy to build a market based economy, the external sector has also benefited from the abolition of monopolistic operations of public enterprises which used to dominate the export and import sector alike. Since then the private sector has been encouraged (including the simplification of entry to market) to participate in the external sector. Concrete results were realized in this regard.

2.3 Structure and Performance of the Export Sector

2.3.1 The Structure of Exports

The structure and level of development of an economy, its openness, resource endowments, and past economic policies pursued to a large extent determine the export structure of a country. Being underdeveloped economy that heavily depend on agriculture, the structure of Ethiopian exports is dominated by agricultural products which alone accounted for more than 90% of the export proceeds of the country. Among the agricultural products, coffee accounts for the lion's share with around 70% of agricultural export and 60% of total export proceeds. Hides and skins and "Chat" distantly follow second and third accounting on average for 12% and 7% of total exports, respectively.

Coffee has been the dominant export item as far back as the 1960's making-up on average 55-60% of total exports. Recent

data indicates that coffee has now becoming even more dominant. From 1994/95-1996/97, coffee alone accounted for 65% of total exports on average. Hides and skins were the second important export items which had successively showed a general trend of improvement until it reached its peak of 21% of total export in 1991/92. From this year onwards, as can be seen from Figure 2a, hides and skins (as a percentage of total exports) has exhibited consistently declining trend. Pulses and oilseed had been the third export items prior to the beginning of the 1990's which has been recently taken over by "Chat" (see Table 2.1).

As shown on Table 2.1 above, Ethiopia's export has been and still is highly dependent on few agricultural products. Undoubtedly, this structure of exports renders the country's external sector susceptible to adverse shocks that affect both the agricultural and the industrial sectors of the Ethiopian economy.

Figure 2a:



Table 2.1 Value of Exports by Major Commodity Groups in '000 Birr

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Coffee	288451	168324	475127	718019	1799035	1724008	2307394	2827947.2
Hides and Skins	92206	58645	134515	203610	373549	321001	372253	347642
Pulses and Oil Seeds	19349	769	5236	71891	153419	119162	161279	417798.8
Pulses	15716	385	4050	27704	103288	77224	87263	103200
Oil Seeds	3633	383	1186	4187	50130	41938	74016	314598.8
Chat	20422	5073	65727	107932	172339	174444	217958	272606.4
Total Exports	542485	279026	800814	1238729	2732044	2539056	3517790	3865994.4

Source: National Bank of Ethiopia

2.3.2 Export Earning (Public Versus Private Exporters)

The performance of the export sub-sector during the 1980's was characterized by stagnation with some erratic fluctuations in some sporadic years. During the late 1980's and early 1990's, however, a clear trend of decline in export earnings was observed further compromising the performance of the external sector. Export earnings during this period had declined so drastically that it financed only 17% of imports in 1991/92 which was an all time low compared to the 43% level in 1988/89. In absolute terms, export earnings had declined from 443.6 million USD in 1988/89 to 154.2 million in 1991/92.

The introduction of the reform measures in 1992 seems to have a positive impact on export performance. Export earnings have showed a continuous revival in the years following the reform reaching a level of 453.6 million USD in 1994/95 restoring export earnings capacity of financing imports back to the 1988/89 level. As a share of GDP, the relative importance of exports increased from 1.5% in 1991/92 to 8.3% in 1994/95. As shown in figure 2b below, a considerable growth in export earnings was particularly registered in

1994/95 mainly due to windfall gains from an increase in the world price for coffee. A marginal decline in export earnings was observed in 1995/96 which was mainly attributed to the reversal of trends in world coffee prices as compared to the previous year. The preliminary estimates for 1996/97 showed that exports increased to about 600 million USD, implying a nominal increase of 46.3% over the preceding year.

In a nutshell, the performance of export earnings since 1992/93 has been encouraging but still a lot remains to be done given the fact that exports still fail short of financing the import bill.

Public Vs Private Sector Exports

The private sector development initiative that began to thrive during the imperial regime had culminated prematurely with the advent of the totalitarian move of the Derg regime. As was the case in other areas of economic activity, private sector participation in the export sector was marginalized with government enterprises taking the dominant role. During the last five years of the Derg, for instance, the share of private sector in the total export earnings had never exceeded 16 per cent.

Figure 2b:

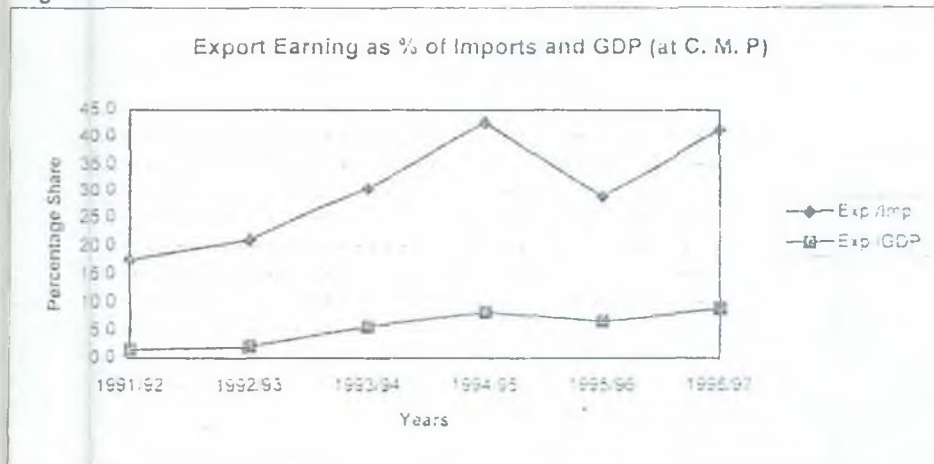


Figure 2c:



Following the introduction of the economic reform program which among others instigated a market oriented system through rationalizing the role of the state in the economy and encouraging private sector participation the share of the private sector in export marketing has grown continuously from 16% in 1990/91 to 48.2% in 1994/95 and then to 63% in 1996/97 (see Figure 2c). This trend was intensified further in 1997/98 where about 80 per cent of our export was undertaken by private exporters.

The general improvement in private sector participation on the export sector has not been accompanied either by a significant increase in the volume nor in the diversification of export products. Just as in the case of overall export, the composition of private sector exports is dominated by coffee, oil seeds, and pulses, and "Chat" which altogether account for 85% of private sectors annual export earnings. Coffee dominates private sector's export accounting for 55% of their total revenue from exports.

2.4 Coffee Export and Earnings

Volume of Arrival and Export

The supply of coffee export decelerated after it reached its peak in 1988/89 where 109.3 thousand tones of coffee arrived at the central auction market. It declined by 17% and 15% in the subsequent two years, falling to 60.2 thousand tones in 1991/92. From 1992/93 onwards, however, a strong resurgence in the supply of coffee (volume of arrival) was observed showing an increase of 46% and 30% in 1992/93 and 1993/94, respectively. Indeed, the supply of coffee has surpassed the 1988/89 peak and stood at 113.7 thousand tones in 1993/94. After a slight decline to 102.3 thousand tones in 1994/95, the supply has increased significantly to 141.4 thousand tones in 1995/96 and further to 165.5 thousand tones in 1996/97. The growth momentum was slightly halted in 1997/98 when 155.4 thousand tones arrived to the central auction market (see Table 2.3).

Annual Foreign Exchange Earnings from Merchandise Export

Table 2.2 (In '000 Birr)

OPERATORS	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 (5 months)
PRIVATE SECTOR	125.8	93.4	74.7	158.8	264.4	317.8	1344.4	2087.0	923.6
GOVERNMENT	649.2	504	316.7	393.3	267.2	1418.4	1150.5	1223.8	252.6

Source: Ministry of Trade and Industry

Volume of Domestic Supply and Actual Export of Coffee in Tons
Table 2.3

	Domestic Supply		Actual Export		Actual Export as % of Domestic Supply
	Level	% Growth	Level	% Growth	
1986/87	88275		72876		82.6
1987/88	83411	-5.5	72262	-0.8	86.6
1988/89	109299	31.04	77707	7.5	71.1
1989/90	90550	-17.06	83251	7.1	91.8
1990/91	77316	-14.7	53457	-35.6	69.1
1991/92	60155	-22.2	36078	-32.5	60.0
1992/93	87669	45.7	85382	92.2	79.1
1993/94	113680	29.7	73004	5.2	64.2
1994/95	102302	-10	78420	7.4	76.6
1995/96	141361	38.2	101623	29.6	72.0
1996/97	165536	17.1	117979	13.7	71.3
1997/98	155377	-6.1	121365	2.9	78.1

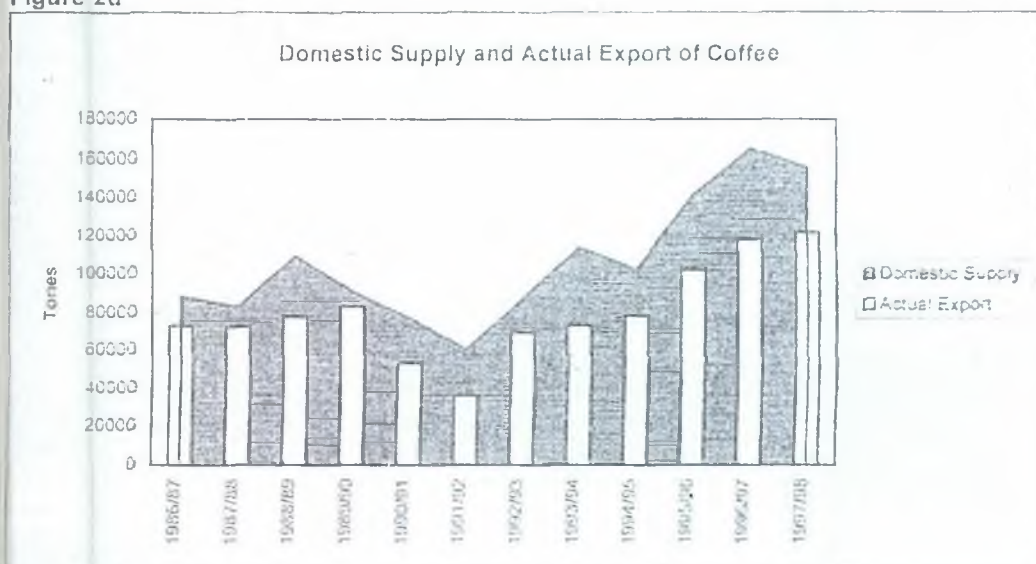
Source: Coffee and Tea Authority.

Not all coffee supplied to central auction market has been exported. The actual volume of export depends on the quality of the domestic supply which meets the demand specifications of the importers. In 1988/89, for example, only 78 thousand tons i.e., 71% of the domestic supply was actually exported. Although the quantity supplied was lower in 1989/90, the actual export was higher than the previous year level making up 92% of the domestic supply. A significant slow down in coffee

export was registered in the years 1990/91 and 1991/92. Coffee export has recorded an all time low of a mere 36 thousand tons in 1991/92 which constitute 60% of the domestic supply.

Since 1992/93, coffee export has recovered consistently over the years. In 1992/93 the volume of coffee export has almost doubled from the previous year level (showing a 92% increase).

Figure 2d



In 1993/94 and 1994/95, the volume of coffee export increased further though at a slower pace. It increased significantly in 1995/96 to 102 thousand tones, showing a growth rate of 30% over the previous year. It further increased to 118 thousand tones in 1996/97. Actual coffee export in the recent years ranged between 70-75% of supply which is below the level during the late 1980's which used to be in the range of 80-85% of domestic supply.

Earnings from Coffee Export

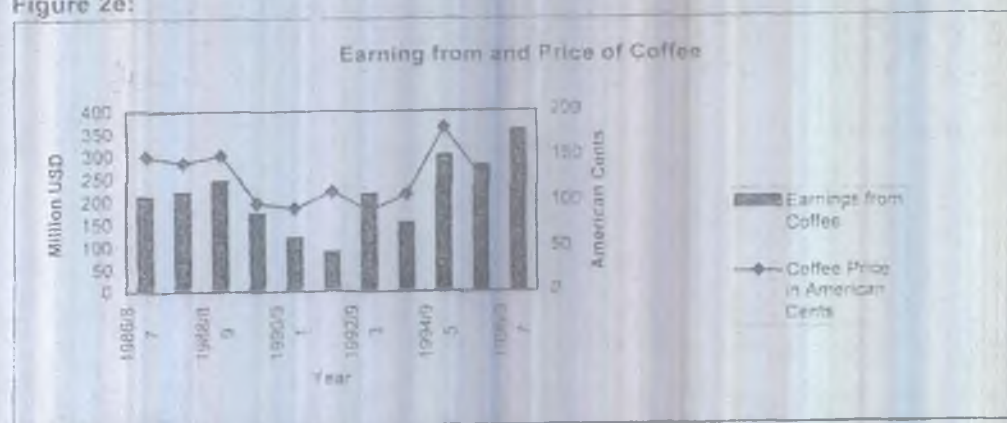
Coffee is the major export item contributing on average 60-66% to overall foreign exchange earnings of the country. Data on coffee export indicates that foreign exchange earning from coffee has drastically declined during the period 1988/89 to 1991/92. This was the period where an overall decline across all export commodities was registered. The earning from coffee was 90 million USD in 1991/92 which was a mere 36.5% of the 1988/89 level. A quick recovery was recorded in 1992/93 in which earnings from coffee jumped to 217 million USD a comparable performance with that of the late 1980's. It dropped to 153 million in 1993/94 and reached 300 million in 1994/95. The leap in 1994/95 was partly explained by the coffee price boom of the period. Although the volume of coffee increased by 30% in 1995/96, earnings from coffee declined slightly to 279.5

million due to the immediate reversal of the price boom of the preceding fiscal year. In 1996/97, earnings from coffee has increased to 359 million USD because of the moderate increase in the price as well as in the volume of coffee.

2.5 World Prices of Ethiopian Coffee

Ethiopia is a price taker in almost all of its export commodities. The world price for Ethiopian coffee usually depends on the performance of the major coffee suppliers (like Brazil and Colombia) to the world market. In most cases, Ethiopian coffee price booms were associated with some form of supply shortfalls from major coffee suppliers. As can be seen from the above figure, the price of Ethiopian coffee was characterized by erratic fluctuations over the years. In 1988/89, the price of Ethiopian coffee was 151 U.S. cents per pound. It dropped to 99 U.S. cents per Pound in 1989/90 and further to 93 U.S. cents per pound in 1990/91. A modest recovery was recorded in 1991/92 but immediately reversed in the following year. Again, the price of Ethiopian coffee had registered a significant leap in 1994/95 when a pound of coffee fetched 182 U.S. cents. This had resulted in a windfall gain in foreign exchange earnings to Ethiopia.

Figure 2e:



However, the wind fall gain was short-lived as price immediately declined to 125 US cents per Pound in the following year (1995/96).

2.6 Structure and Performance of Imports

2.6.1 Trends in Value of Imports

In the second half of the 1980's, imports had stabilized at around 1 billion USD. Except a slight decline in 1991/92 to 875.8 million and 915 million in 1992/93 the level of imports remained, more or less stable within the same order of magnitude up until 1994/95. A sudden jump in imports, however, were registered in 1995/96 where imports increased to 1.4 billion showing a nominal growth of 32.9% over the previous year. The preliminary estimate for 1996/97 and 1997/98 indicated that import stabilized within the range of the 1995/96 level. In fact imports was estimated at 1.4 billion USD for 1996/97 and 1.45 billion USD in the year 1997/98. As a share of GDP, import had consistently increased from 8.7% in 1991/92 to 23% in 1995/96 but slightly declined to 2% in 1996/97.

The annual average growth rate for the reform period far exceeds its performance during the 1980's. The reconstruction and

rehabilitation efforts following the initiation of the reform and the balance of payments support from external financiers has enhanced growth of imports.

2.6.2 Imports by End Use

From end use perspective, Ethiopian imports are usually classified into five major categories: raw materials, semi finished goods, fuel, capital and consumer goods. The data for the period 1991/92 to 1996/97 showed that import of capital goods were dominant throughout the period except for the years 1993/94 and 1994/95 where import of consumer goods account for a slightly larger share. Imports of consumer goods followed imports of capital goods. The third import category as had been import of fuel till 1993/94 which on wards was overtaken by expanding imports of semi finished goods. The share of imports of raw materials was quite insignificant which stood at 2% of total imports during the whole period. The average share of each import category for the years 1991/92 to 1996/97 was presented in the following pie chart.

Some of the categories of imports by end use are so broad that a detailed analysis is required for a better understanding of the subject under consideration. Beginning with capital good imports they

Figure 2f:

Imports By End Use



used to be mainly comprised of transport and industrial goods. For the years 1991/92 and 1992/93, imports of transport goods were heavily dominant accounting for about 68.2% of import of capital goods. However, after a significant decline in the import of capital goods (which was almost wholly reflected on transport goods) in 1993/94, industrial imports gained importance and has remained to be slightly dominant thereafter. For instance, imports of industrial and transport goods stood at around 249.6 million and 254 million USD respectively in 1996/97. Imports of agricultural goods were also registered although they represented very small proportions over the whole period (see Table 2.4).

With regard to consumer goods, non-durable consumer goods have remained dominant over the whole of the post reform period even if a relatively consistent expansion in durable consumer goods was also observed. Non-durable consumer goods represented, on average, 72% of consumer goods imports over the period 1991/92-1996/97. In turn, non-durable consumable imports were largely concentrated in food imports

followed distantly by imports of medical and textile materials.

Imports of semi-finished goods were composed of a number of items among which imports of fertilizers and chemicals were substantial. Imports of chemicals were fairly large in 1992/93 and 1993/94 representing 37% and 26% of imports of semi-finished goods while imports of fertilizers were low constituting less than 10% of semi-finished good imports. Starting 1994/95, imports of fertilizers have revived significantly which even surpassed imports of chemicals. In 1996/97, imports of fertilizers and chemicals stood at 109 million (40.4% of semi-finished goods) and 58.9 million USD (21.7%), respectively.

2.7 Direction of Trade

The direction of external trade of Ethiopia by continent for the period 1992-1995 is depicted in Figure 2g below. As can be clearly seen from the figure, the major route of Ethiopia's external trade is towards Europe being followed by Asia. On average, 45% of Ethiopian exports found their way to Europe from where

Imports by End Use (In Million USD)

Table 2.4

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Raw Materials	3.7	20.6	14.9	18.9	29	31.2	32.6
Semi Finished G.	76.8	94.9	129.3	188.8	253.2	269.8	267.5
Chemicals	7.9	35.3	33.1	118.6	51	58.9	57.1
Fertilizers	43.6	5.8	11.8	44.3	101.4	109	110.9
Textile M.	8.7	11	11.8	23.4	24.3	26	25.9
Fuel	170.4	199	222.3	196.9	214.9	231.9	224.5
Capital Goods	276.9	382.6	236.6	333.7	460.2	515	485.7
Transport	162.6	251.9	199.6	142.2	192.2	234.1	201.3
Agricultural	1.2	2.7	5.8	20.4	28.2	32.3	35.10
Industrial	62.3	127.4	129.2	173.1	239.8	248.6	249.3
Consumer Goods	260.2	334.3	321.3	340	425.1	322.5	406.9
Durables	66.4	81.6	78.7	96.9	113.7	118.6	114.0
Non Durables	193.8	252.7	242.6	243.1	311.4	203.9	292.8
Food	171.0	167.4	136.4	186.6	215	109.9	208.5
Medical	18.5	36.2	37.3	35.2	41.4	41.7	40.9
Textiles	34.3	21.3	20	20.2	25.3	25.8	25.7
Total	874.8	1051.8	674.6	1163	1412.9	1403.1	1450.5

Source: NBE

about 42% of Ethiopian imports originated. Around 33% of both exports and imports of Ethiopia are destined to and originated from Asia. The remaining 20-25% of external trade is being fairly distributed to Africa and America while trade with Australia is almost non-existent (see Table 2.5)

With regard to external trade by individual countries, Germany, Japan, Saudi Arabia, USA, Italy and Djibouti are the six major trade partners of Ethiopia. These

countries altogether absorbed on average about 70% of Ethiopia's exports and supplied 50% of Ethiopia's imports during the period 1989/90-1994/95. In terms of export destination, Germany was the major importer of Ethiopia's exports accounting for 21% of the total exports while Japan followed with an average of 18%. Saudi Arabia, Djibouti, USA and Italy have been also important destination for Ethiopia's exports, each accounting for 8-9% on average (see Table 2.6)

External Trade Routes of Ethiopia By Continent

Table 2.5 ('000 Birr)

	1992		1993		1994		1995	
	Export	Import	Export	Import	Export	Import	Export	Import
Africa	36434	215829	135506	320278	185056	453111	299083	462878
Europe	214437	854256	425369	1621036	1114594	2252289	1374280	3034050
America	23284	145370	130724	439710	156719	833749	192415	944419
Asia	225414	689827	345393	1352888	601611	1648694	740262	2419033
Total	503979	1987839	1007483	3552334	2162364	6650756	2502305	7041748

Source: National Bank of Ethiopia

Figure 2g:



Exports By Destination and Import By Country of Origin

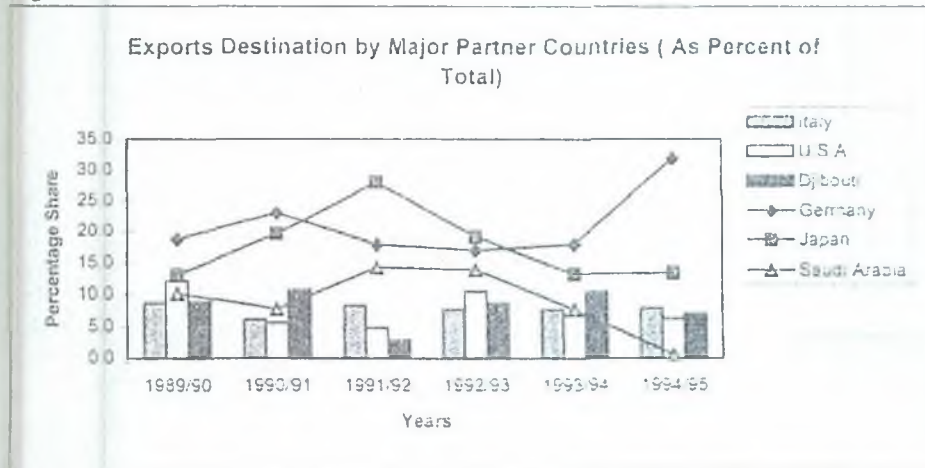
Table 2.6

('000 Birr)

	1987/88		1988/89		1989/90		1990/91		1991/92		1992/93		1993/94		1994/95	
	Export D.	Import O.	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
Germany	185011	283634	209395	234041	138487	203936	114830	223560	49886	84502	141225	345521	258479	435591	873905	625059
Italy	95191	382297	58246	331183	64420	300044	30704	285407	23107	82842	63553	233323	110092	547800	215058	729889
UK	15002	158967	12394	198752	20856	134051	53603	131155	19824	73904	43419	190287	46544	227905	160032	315050
U.S.S.R.	48167	236384	57789	274235	77718	247541	2164	179307	189	1163	96	6600	208	2673	129	1425
U.S.A.	107508	286501	111972	216804	89624	93413	27995	316538	13519	124270	86937	228108	97802	484225	171372	850332
Japan	102023	196678	89218	144087	96856	109659	97739	152326	70269	92995	159001	103540	160843	269265	367441	397320
Saudi Arabia	57265	30299	52048	15072	75517	34778	38815	74841	39954	107157	115977	749060	110605	611794	16758	587539
Djibouti	52013	21731	30803	15129	65185	21995	53400	36048	8241	70721	71949	144071	149110	240537	192754	222796
Kenya	1238	24619	1648	28679	3281	43148	1809	43567	768	31951	68	102323	2	141761	567	150152
Total	773674	2274633	903235	2110360	736809	1824159	466076	213033	279026	1011988	928534	1126654	1433319	4740319	2731754	6540270

Source: NBE

Figure 2h:



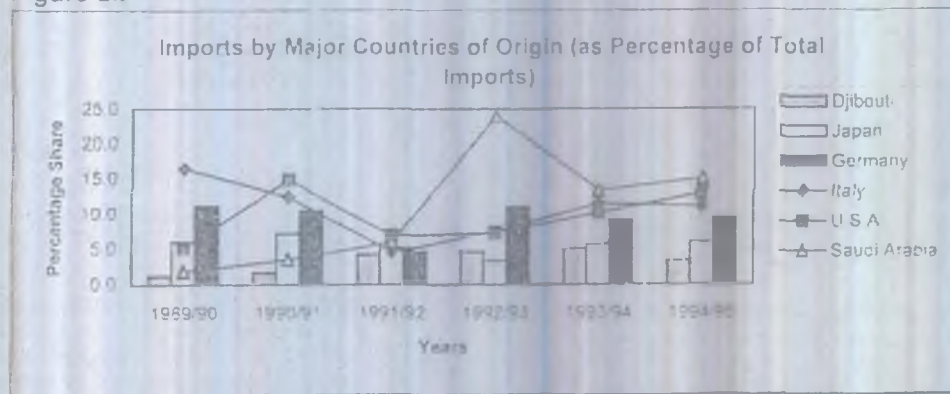
When we consider export destination by country over the years, some fluctuations have been witnessed (see Figure 2h). For instance, in the years 1991/92 and 1992/93, Japan was the major destination for Ethiopia's exports. During these two years most of Ethiopia's exports had been directed to three countries: Japan, Germany and Saudi Arabia. Besides, the 1994/95 data indicated that much of the exports have been directed towards Germany with insignificant share destined to Saudi Arabia.

As to the origin of imports, Germany, USA and Italy are the major suppliers of Ethiopia's imports. Since 1992/93, however, imports from Saudi Arabia have increased sharply reaching 24% of total

imports in the first year and then leveling off around 14%. This sharp jump in imports from Saudi Arabia coincided with the period of the Franco-Valuta imports particularly with importation of passenger and freight commercial transport vehicles free from all duties and taxes in April 1992.

There has not been any major shifts in the direction of Ethiopia's external trade except that some yearly fluctuations have been prevalent and one major trade partner of Ethiopia (Russia) during the years prior to the 1991/92 has had an insignificant share in external trade. What is striking is that trade with African countries has been

Figure 2i:



insignificant except with a handful of neighboring countries (mainly Djibouti and to a lesser extent Kenya).

2.8 Developments in the Balance of Payments

2.8.1 Trade Balance

A chronic trade deficit has remained the dominant feature of Ethiopia's merchandise external trade in the past two decades. Figure 2j below presents the trend in merchandise trade and its balance for the period 1991/92-1997/98. With relatively small, but fairly expanding exports and sizable imports, the trade deficit has generally been widening throughout the period. However, a clear trend of decline in the trade deficit has been exhibited from 829.4 million in 1992/93 to 635.1 million in 1993/94 and further to 609.4 in 1994/95. In 1995/96, it peaked up and reached 1002.7 million and later narrowed to 798.7 million in 1996/97. The trade deficit is estimated at

850.5 million in 1997/98. The trade deficit has been in a general state of expansion since 1995/96 owing to the increase in imports much faster than export earnings.

2.8.2 Current Account Balance

Services account has been the only components of the balance of payments of Ethiopia that most often used to register a positive balance. Net services stood at -23.1 million in 1992/93. It subsequently turned positive and stood at 10.9 million USD in 1993/94 which in latter years showed a consistent and substantial increase. Preliminary estimates for 1996/97 and 1997/98 indicate that net services stood at 99.6 and 86.3 million USD respectively. The increase has come particularly from the improvement of earnings from other services (particularly transport service earnings) on the one hand and from the decline in the net interest payment (see figure 2k below).

Figure 2j:

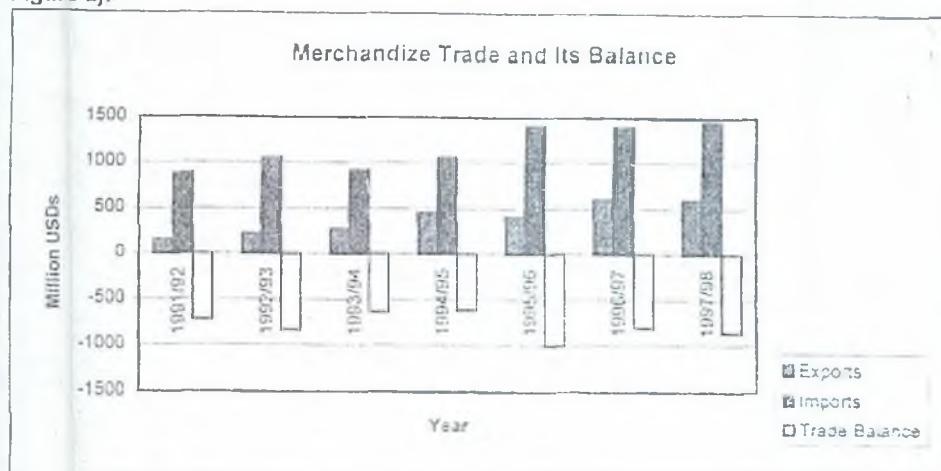
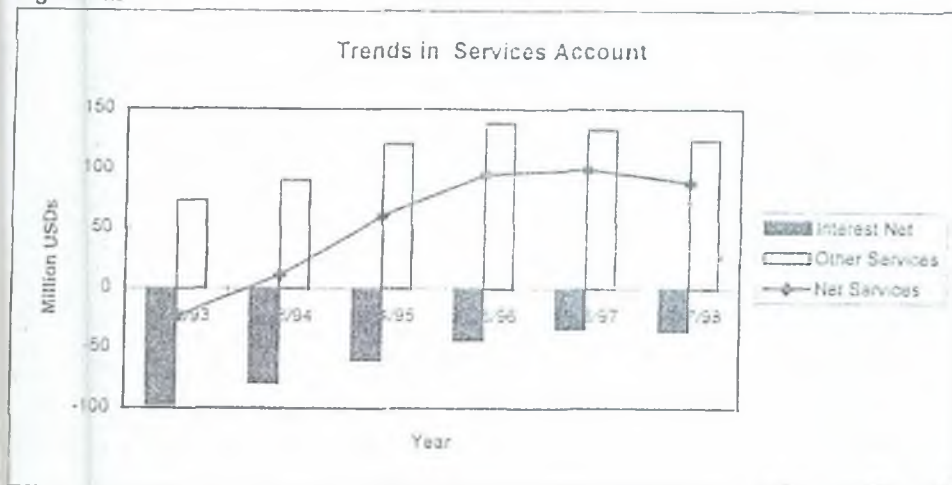


Figure 2k:



The successive decline in net interest payment to the rest of the world is a result of two factors: the first refers to the decline in our interest payments on external debt which is attributed to efforts of debt cancellation and rescheduling. The other factor is interest we received on our foreign reserves in foreign banks and interest earned on foreign securities tended to increase since 1994/95.

Despite a substantial private transfers inflow and a small but increasing net receipt from services, the current account balance has continued to experience deficit during the years spanning 1992/93 to 1997/98. Indeed following a

deceleration in the trade deficit combined with an improvement in net services and private transfers, the current account deficit has showed a significant improvement in the years 1993/94 and 1994/95. In absolute terms, it declined from a deficit level of 604.6 million USD in 1992/93 to 237.5 million in 1994/95. A surge in the trade deficit in 1995/96, however, has been reversed to its current account deficit level of 1992/93. Preliminary estimates for 1996/97 and 1997/98 indicated that current account deficit excluding official transfer stood at 441 million and 482 million USD, respectively (see Table 2.7).

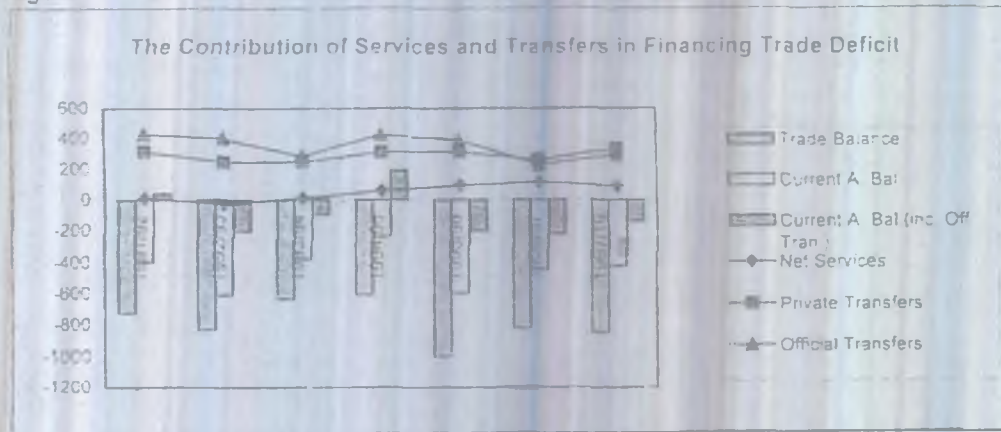
Summary of Balance of Payments (in Million USD)

Table 2.7

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Exports	222.4	279.6	453.6	410.2	604.4	600
Imports	1051.8	914.6	1063	1412.9	1403.1	1450.5
Trade Balance	-829.4	-635.1	-609.4	-1002.7	-798.7	-850.5
Net Services	-23.1	10.9	60.8	95.1	99.6	88.7
Private Transfers	247.9	248.9	311.2	313.4	258.1	334.1
Current Account Balance	-604.6	-377.2	-237.4	-594.2	-448.7	-427.8
Capital Account	-128	236.3	8.6	-11.3	-54.9	174.8
Errors and Omissions	233.5	23.5	-37.1	124.7	-116.9	-145.9
Overall Balance	-98.8	167.7	161.6	-89.1	-386.7	-107.5
Reserve in weeks of import	14.7	26.3	30.2	33.1	22.6	18

Source: NBE

Figure 21:



2.8.3 Reserve Position

Measured in weeks of import (net of air craft and extra food), the reserve position of the country in 1991/92 was almost nil, i.e., enough only for a mere 1.3 weeks of import. A relatively better reserve position was achieved in 1992/93 where reserves increased to 14.7 weeks of import. It went on increasing to 26.3 weeks of import in 1993/94 and 33.1 weeks of import in 1995/96. A decline was, however, registered in 1996/97 where the reserve position declined moderately to 22.6 weeks of import. The preliminary estimate

for 1997/98 exhibited a further decline in the reserve position of the country to 18 weeks of import. The recovery in the foreign reserve position is attributed mainly to the balance of payments support provided by international financial organization and other donors augmented by the increase in export earnings. The fact that such a reserve position could not be sustained at higher level of imports shows that our reserve is largely dependent on external assistance indicating the urgent need to boosting our export sector and earnings capacity.

Chapter 3

Public Finance

3.1 Background

The expanded role of government in the Ethiopian economy during the period 1974 to 1991 marked a phenomenal development of the public sector relative to others. Government posing to provide basic infrastructure and social services while at the same time engaging in the production and distribution of basic goods entailed the development of a number of institutions and public enterprises. An important outcome of such developments was the formidable pressure on government budget which led to persistent and widening fiscal deficit and other macroeconomic imbalances. Looking back to the first half of the 1950's, for instance, government budget was in surplus which was followed by a decade of balanced budget. Even during the period 1965-74, when government began to undertake significant investment on infrastructure and creation of modern institutions, the practice of "fiscal conservatism" kept fiscal deficit at a very low level.

Leaving aside the question of the desirability and feasibility of growing public sector, the decade 1980/81 to 1989/90 marked significant growth both in total government expenditure and revenue. However, annual growth in total expenditure (averaging 8 per cent) has exceeded growth in revenue which averaged 6.4 percent per annum during this period. By 1989/90, total government expenditure stood at Birr 5369.2 million (30 per cent of GDP) while revenue stood at Birr 3142.8 million (17.6 per cent of GDP). Both revenue and expenditure attained their peak performance level during the

Derg period in 1988/89 amounting to 23 and 35 per cent of nominal GDP, respectively.

Apart from outstripping growth in revenue, government expenditure during the Derg period had also serious structural problems. Capital expenditure during this period accounted for around 29 per cent of total expenditure on average while the remaining 71 per cent went for recurrent outlays. A significant portion of the recurrent budget was allocated for defense outlays which in the latter years of the Derg claimed more than 40 per cent of the total recurrent expenditure. With in capital expenditure the allocation for economic development projects increased from 85 per cent in 1980/81 to 88.6 per cent in 1990/91. Emphasis on social development was minimal and its share of capital expenditure declined from 13 per cent to about 10 per cent during the same period. Government has been allocating less than two per cent of total capital budget for general development other than economic and social projects.

Despite remarkable growth in revenue, the Derg period was marked by worsening budget deficit because of faster growth in expenditure. Between 1980/81 and 1989/90, deficit as a ratio to GDP increased from 5 per cent to about 12 per cent. The growing deficit was financed by and large through borrowing from the central bank and external loan which had nearly equal share in deficit financing.

Against such background, the Transitional Government of Ethiopia, established in 1991, initiated a new economic policy followed by a comprehensive economic reform

program. One of the major objectives of the reform program was to rectify the fiscal ills and attain a consolidated government budget. This objective called for rationalizing the state's role in the economy, implying reorientation of government expenditure, and enhancing revenue performance at the same time. A number of policy and institutional measures have been taken along this line to achieve the stated objectives.

The purpose of this chapter is, therefore, to review the fiscal performance of the Ethiopian Government focusing in the main on the period 1991/92-1997/98.

3.2 Review of Fiscal Policies.

The first phase of the Economic Reform Program for the period 1992/93 to 1995/96 focused primarily on two broad objectives, i.e., liberalizing the economy and fostering stabilization. While liberalization meant removal of government control mainly on prices (and markets) and private sector entry to economic activities, stabilization refers to containing inflation and reducing domestic and external imbalances. Government budget was thus an important policy target on the domestic front for stabilization towards which government took a number of policy measures.

The fiscal policies of the Transitional Government of Ethiopia and later the Federal Government, could be looked at in five major categories. First comes government's policy pursued towards managing fiscal deficit at a sustainable level and avoid inflationary financing especially from the banking system. This entails policy measures which enhance government revenue on the one hand, and rationalize and control growth in government expenditure on the other. The other two policy packages are largely institutional, i.e., fiscal federalism and improving

efficiency of fiscal administration (by restructuring the Inland Revenue and Customs authorities).

3.2.1 Managing Fiscal Deficit

Government policies on revenue and expenditure finally get their expression through the level of deficit. Therefore, the magnitude of budget deficit and its mode of financing determine the soundness of fiscal policy. Along this line, the Government has committed itself to keeping its overall deficit at a pre-determined level (ratio to GDP) as stated in the sequence of Policy Framework Papers. It is also anticipated that fiscal deficit as a ratio of GDP will be subsequently reduced.

Regarding the financing of the deficit, Government's policy has been aimed at a gradual elimination of inflationary financing through borrowing from the banking system. More reliance was therefore made on external finances (for deficit) and gradually building the market for Treasury-Bills. The intent of such policy measures was to maintain macroeconomic stability on the one hand, and foster private sector's access to financial resources, on the other.

3.2.2 Tax policy

On the revenue side, the Government's primary focus was improving revenue generation while at the same time paying due consideration for equity & the incentive/disincentive effect of taxes on the level of economic activity. To this effect, government has taken measures to broaden the tax base (which also includes introduction of new taxes), and reform the tax structure. Most of these measures were passed as proclamations among which the major ones are Personal Income Tax Amendment Proclamations No. 30/1992 and No. 107/1994, Sales

tax and Excise tax Proclamation No. 68/1993, and Mining Income Tax Proclamation No. 108/1994.

In the area of direct taxes paid on income and profits, the Government has pushed the tax exempted lower income bracket upwards while reducing the maximum marginal tax rate on higher income brackets. Personal income and business profit tax were subject to a maximum of 85 and 59 per cent tax prior to the reform program

which were reduced to 40 and 35 per cent by now, respectively. Income tax on employee earnings has been revised twice by personal income tax amendment proclamations No. 32/1992 and No. 107/1994. As per the former, personal income upto Birr 105 was tax exempted with a progressive tax structure ranging from 10 to 50 per cent on higher income brackets. This tax schedule was further amended in 1994 as depicted below :

Table 3.1 Personal Income Tax Brackets

Taxable income per month (in Birr)	Tax rate on Additional income (in %)
up to 120	Free
121-600 on the next 480	10
601-1200 on the next 600	15
1201-2000 on the next 800	20
2001-3000 on the next 1000	30
3001 or more	40

Source: Proclamation No 107/1994

As indicated in the tax schedule, the tax exempted level of income was raised to Birr 120 per month while the number of taxable income brackets was reduced from 9 to 5 to render the tax administration easy and avoid the disincentive effect of taxes. Proclamation No. 107/1994 has also reduced the highest marginal tax rate on corporate and non-corporate business profit from 50 per cent to 40 per cent. Further amendment was made by Proclamation No. 36/1996 where by corporate tax was reduced to 35 per cent.

On the other hand, Mining Income Tax was introduced by Proclamation No. 53/1993 which demands large and small scale mining licensees to pay 45 and 35 per cent of their taxable income, respectively. Both large and small scale miners were made to pay a 35 per cent tax on mining income according to proclamation No. 23/1996.

Other taxes introduced and re-introduced were capital gains tax (by proclamation No.

108/1994) and rental income tax (by proclamation No. 62/1993). These taxes were designed to compensate for revenue losses due to reduction of tax rates and removal of other taxes. According to the former, the rate of tax levied on gains realized from the increase in the value of capital assets, namely, shares, bonds, and urban houses is 30%. Regional governments are entitled to impose additional 10% on the same. Aggregate annual gains of less than Birr 10,000 realized upon sale of capital assets shall, however, be exempted from capital gains tax. According to proclamation No. 62/1993, rental income tax was re-introduced after the Derg period. It is imposed on income derived from renting houses, buildings, materials and goods. The law exempted the first 1200 Birr annual income and imposes tax rate ranging from 10% to 45% on additional income as shown below:

Table 3.2. Rental Income Tax

Annual Taxable Income (In Birr)	Tax rate on additional income(%)
Up to 1200	Free
1201 - 6000	10
6001 - 12500	15
12501 - 21500	21
21501 - 33500	28
33501 - 50000	36
50001 or more	45

Source: Proclamation No. 62/1993

Revised agricultural income taxes and urban land lease fee have also been introduced to boost the revenue bases of regional governments.

In the area of indirect taxes, i.e. tax on goods and services, a new proclamation was issued for the payment of sales and excise taxes (proclamation No. 68/1993). According to this proclamation a 5% sales tax is paid on selected list of agricultural and essential goods such as live animals and products, vegetables and fruits, food, pharmaceuticals, books and printed materials, hides and skins, and cotton be it produced or imported; and a uniform 12% sales tax on other goods. In addition, it imposes a 5% service sales tax on civil works contractors and for those whose daily income is between Birr 25 and 50, and 10% for the sale of other services. The sales tax which prior to the reform program was made to include a number of indirect taxes was also split into sales and excise taxes to promote equity considerations and help excise taxes pay their desired role.

Concerning foreign trade taxes, government has canceled all taxes levied on export goods except on coffee (Proclamation No. 38/1993). Besides the cancellation of export taxes, government has also introduced a duty drawback scheme by Proclamation No. 69/1993 to the benefit of persons wholly or partially engaged in production for export or export trading.

Another important facet of tax policy on foreign trade was the revision of import tariff. The tariff structure prior to the in-depth revision in 1992 had serious defects hampering both effective administration and government revenue. Much of the administrative problem has to do with the prevalence of specific duties rather than ad-valorem rates. Specific duties are

difficult to administer as they are based on the number or weight of the goods imported than on value. There had also been large number of goods which were imported duty free, reducing potential revenue to be generated on the one hand and necessitating the imposition of high tariff rates on the import of other items.

Following successive tariff revision measures, currently specific duties have almost completely been removed while the proportion of goods imported duty free were slashed from about 60 per cent to 3 per cent of total imports by the end of 1996. A uniform 5 per cent tax was levied on previously duty free imports. In general, the maximum tariff rate was reduced from 230 per cent to 50 per cent and tariff bands have been reduced from 24 to 7. Tariff dispersion (the gap between the maximum and minimum tariff), therefore, stood at 45 per cent down from 225 per cent.

3.2.3 Expenditure Policy

On the expenditure side, fiscal policies aimed at reducing growth in expenditure and thereby contain deficit on the one hand, and rationalizing (switching) expenditure to areas which enhance economic growth. In this regard, the task of transformation from a centrally planned economy to a market based one has a number of bearings. Firstly, government needs to withdraw from direct involvement in production and service delivery while opening the door for private sector participation. Secondly, government has to reorient its capital and recurrent expenditure towards the provision of basic social services (like education and health), and economic infrastructure. These are areas where public investment is expected to facilitate overall economic performances including private sector participation. Moreover, government

expenditure particularly during the transitional period was made to focus on hitherto neglected regions and war devastated infrastructure.

The achievement of peace and stability immediately after the establishment of the Transitional Government of Ethiopia (TGE) had also enabled government effect substantial reduction of outlays on defense. The so called "peace dividend" realized in this way has been increasingly diverted to social services. Government also took a serious measure to stop budget subsidies to public enterprises while providing them management autonomy. Such a policy has eased the stress on government budget by transferring financial responsibility to each government owned enterprise.

3.2.4 Fiscal Federalism

Fiscal federalism (decentralization) has originated from the "Transition Period Charter of Ethiopia" which postulates respect of the rights of nations, nationalities and peoples to administer their own affairs within their defined territory. This provision was implemented by passing proclamation No. 7/1992 which declared the establishment of Regional Governments. This political endeavor was followed by proclamation No. 33/1992 which provided for the sharing of revenue between the Federal Government and Regional Governments. Since the 1993/94 fiscal year, therefore, budget preparation, administration and control have been undertaken along the lines of fiscal federalism.

Accordingly, proclamation No. 33 gave the legal basis for revenue collection by the national/regional self governments. Article 5 of the proclamation divides the revenue sources into central, regional and joint. The revenue sources for the federal government include duties, taxes, and

other charges on imports and exports, personal income tax collected from employees of the federal government and international organizations, including NGOs, personal income tax, profit tax, and sales tax collected from enterprises owned by the federal government, taxes collected from national lotteries and other chance winning prizes; taxes collected on income from air, train and marine transport activities; taxes collected from the rent of houses and properties owned by the federal government; and charges and fees on licenses and services issued or rendered by the federal government.

The revenue sources allocated to national/regional governments include: personal income tax collected from employees of regional governments, rural land use fee, agricultural income tax from farmers not incorporated in an organization; profit and sales tax collected from individual traders; tax on income from inland water transportation; taxes collected from rent of houses and properties owned by the regional governments; income tax, royalties and rent of land levied on small to medium scale mining activities; and charges and fees on licenses and services issued or rendered by regional governments.

Finally, joint revenue sources are: profit, personal income and sales taxes collected from enterprises jointly owned by the federal and regional governments; profit, dividend and sales taxes collected from corporate business organizations; profit tax, royalty and rent of land collected from large scale mining, petroleum and gas operation, and forest royalty.

The federal government has agreed to redistribute part of the revenue allotted to it with the regional governments based on a budget subsidy formula. According to Art. 36 of proclamation No 7/1992 and Art. 7(2) of proclamation No 33/1992, the Federal Government provides the regional

governments with financial grants for the following purposes: to promoting social services and economic development, to accelerating the development of the hitherto neglected or forgotten areas; to narrowing per capita income gaps between regions; to mitigating negative and promoting positive externalities within and between regions; to increasing foreign exchange earnings, and for undertaking other projects of national interest.

The expenditure side of the budget has also been decentralized. Art. 10(5) of proclamation No. 7/1992 gives each national/regional self government the right to prepare, approve and implement its own budgets. Art. 10(3) of the same proclamation gives the right to plan, direct and supervise social and economic development programs. These provisions are the basis for decentralization of government expenditure.

3.2.5 Administrative and Restructuring Measures

An important policy objective necessitating administrative and restructuring measures has been to improve transparency of the revenue collection and expenditure process and thereby avoid corruption and enhance efficiency of tax collection. Measures in this regard include the streamlining and central management of counterpart fund flows. Accordingly, all grants received by government agencies and ministries were channeled through the central treasury to augment the annual budget.

The establishment of the Federal Revenue Administration Board as an institution independent of the Ministry of Finance was also a step forward in improving financial administration. This board which consists of the Customs Authority, Inland Revenue Authority, and National Lottery assumes all responsibility on revenue

collection while leaving the Ministry of Finance to engage fully in administering government expenditure. Restructuring and capacity building of the Customs Authority has also been undertaken to improve the collection of customs duties and taxes by systematizing tariff payments which also relieved importers from unnecessary discomfort.

3.3. Performance of Public Finance (Post 1991/92)

3.3.1. Government Revenue

Revenue collection is a function of tax policies and overall economic performance. Conducive tax structures coupled with strong economic growth is expected to yield higher domestic revenue. As discussed in the section on fiscal policies, government has revised the tax structure and broadened the tax base while improving administration of revenue collection. Except for some sporadic years, the Ethiopian economy has also been on a firm path of recovery during the period 1991/92 to 1997/98. Government revenue, therefore showed a remarkable and steady growth during the post reform period (1991/92 to 1997/98).

In 1991/92 FY, domestic revenue was only about Birr 2.2 billion which, after successive growth, stood at Birr 7.87 billion by 1996/97 and an estimated Birr 8.4 billion in 1997/98. Domestic revenue has been growing at an average rate of about 22 per cent per annum during this period. Revenue collection gained even strong growth momentum from 1994/95 onwards, which could partly be explained by higher world prices for coffee and other export items in 1994/95, the recovery in capacity utilization and profitability of public enterprises, the agricultural bumper harvest in 1995/96, and the growth in

imports associated with overall economic growth. In general, domestic direct taxes indirect taxes, and foreign trade taxes have been growing on average by 20.6, 13.4 and 26.9 per cent, respectively during the period 1991/92 to 1997/98.

In terms of composition, however, total domestic revenue revealed some important structural changes during the period under review. The share of tax

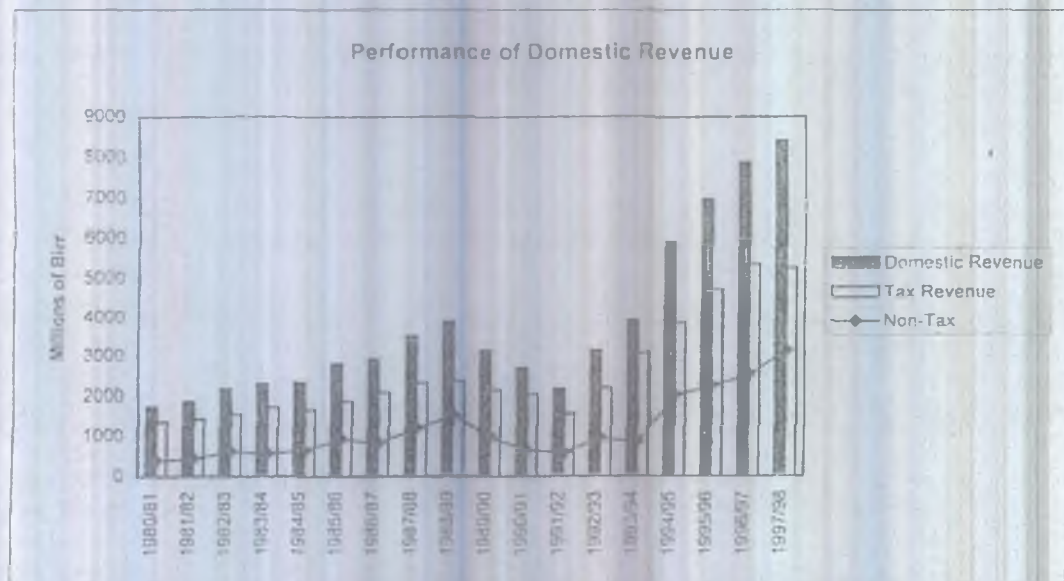
revenue (tax on income, goods and services, and international trade) in total domestic revenue declined from about 73 per cent in 1991/92 to about 63 per cent in 1997/98 FY while the share of non-tax revenue, (i.e. revenue from state dividend from public enterprises, proceeds from privatization and sugar auction sales, etc.) grew from 27 per cent to 37 per cent. All sources of revenue have, however, increased substantially in absolute terms.

Table 3.3: The Percentage Contributions of Tax and Non-Tax Revenues To Total Domestic Revenues

Fiscal Year	TAXES				Non - Tax
	Direct Tax	Indirect Tax	Foreign T. Tax	Total Tax	
1991/92	28.9	24.7	19.2	72.8	27.2
1992/93	23.4	23.7	22.9	70.0	30.0
1993/94	24.0	21.2	32.9	78.1	22.0
1994/95	22.2	16	27.4	65.6	34.4
1995/96	25.8	16.6	26.0	67.8	32.2
1996/97	24.2	16.3	27.5	68.0	32.0
1997/98*	22.2	14.1	26.4	62.7	37.3
Period Average	24.3	18.9	26.0	69.3	30.7

Source: MOF * preliminary actual

Figure 3a:



Within the domain of tax revenue, the contribution of direct taxes (tax on income) declined from about 29 per cent in 1991/92 to nearly 24 per cent in 1996/97. The contribution of tax on goods and services (the so called domestic indirect taxes), however, dropped significantly from 25 per cent to 16 per cent in the period under review. The fall in the contribution of domestic indirect taxes is attributable to the successive reduction in excise taxes levied on alcoholic beverages and tobacco products. Preliminary estimates for the 1997/98 F.Y. show that the share of direct taxes declined to 22 per cent while that of domestic indirect tax fell to 14 per cent. The reduction in domestic direct and indirect taxes was partially compensated by the growth in the share of foreign trade taxes from 19 per cent in 1991/92 to 26 per cent in 1997/98. As export taxes have been eliminated (except for coffee), the growth in foreign trade taxes was by and

large a reflections of performance of customs duty and, sales and excise taxes on imports. Foreign trade tax has risen from Birr 420.1 million in 1991/92 to Birr 2218.4 million by 1997/98. Such a remarkable growth (about 32 per cent per annum) is attributable to:

- the reduction in the number of duty free import items;
- exchange rate devaluation and the successive depreciation in the auction market;
- the banning of franco-valuta imports and reduction of specific duties;
- simplification of import duty collection through restructuring the Customs Authority and rationalization of the tariff structure;
- absolute increase in the volumes of imports due to availability of foreign exchange.

Table 3.4 General Government Revenue & Grants, 1991/92-1997/98

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
			Actual			Pre Actual	
Tax revenue	5322.2	7277.7	8076.5	8878.6	4723.3	5358.2	5261.1
Income and profits taxes	21.2	22.6	22.5	22.8	21.8	13.4%	-1.6%
Corporate income	21.2	22.6	22.5	22.8	21.8	13.4%	-1.6%
Personal income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business profits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rural land use fee	0.0	0.0	45.8	51.1	37.2	26.6	97.8
Urban land lease fee	0.0	0.0	0.0	22.8	27.8	52.8	115.6
Domestic indirect taxes	5299.0	7232.5	8034.2	8654.8	4464.3	5222.2	5167.6
Excise duties	2100.0	2100.0	2100.0	2100.0	2100.0	2100.0	2100.0
General sales tax	3199.0	5132.5	5934.2	6554.8	2364.3	3122.2	3067.6
Stamp duties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Import duties and taxes	1199.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0
Export taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax revenue	1199.0	2100.0	2100.0	2100.0	2100.0	2100.0	2100.0
Dividend income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales of goods & services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government investment income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Patent rights & royalties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other extrabudgetary	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Domestic Revenue	6521.2	9377.7	10176.5	10978.6	6823.3	7478.2	7361.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Ministry of Finance

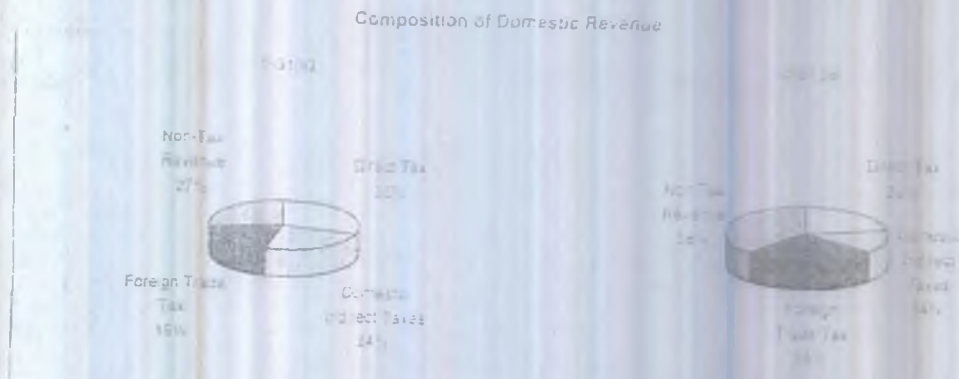
¹ introduced since July, 1993² introduced since July, 1993³ represents lease on urban lands collected by Addis Ababa City Administration⁴ general sales tax in 1989/90, 1992/93, excise and sales tax 1993/94 afterwards⁵ introduced in May, 1990⁶ Since December, 1994 excise tax (except coffee) on other commodities are eliminated⁷ In 1992/93 transfer for the evacuation of Feasha, in 1995/96 coffee traders' surcharge, sugar auction sales, customs deposit and drought relief sales, 1996/97 onwards proceeds from sugar auction sales only

Table 3.5: Total Domestic Revenue
The Regional - Federal Nexus

Year	Major Items	Regional	Federal
1993/94	Direct Tax	44.5	55.5
	Indirect Tax	11.8	88.2
	Foreign Trade Tax		100.0
	Total Tax	17.3	82.7
	Total Non-Tax	19.0	81.0
	Total Revenue	17.6	82.4
1994/95	Direct Tax	40.4	59.6
	Indirect Tax	13.0	87.0
	Foreign Trade Tax		100.0
	Total Tax	16.8	83.2
	Total Non-Tax	11.5	88.5
	Total Revenue	15.5	84.5
1995/96	Direct Tax	35.5	64.5
	Indirect Tax	18.0	82.0
	Foreign Trade Tax		100.0
	Total Tax	17.6	82.4
	Total Non-Tax	13.3	86.7
	Total Revenue	16.2	83.8
1996/97	Direct Tax	38.7	61.3
	Indirect Tax	17.9	82.1
	Foreign Trade Tax		
	Total Tax	18.0	82.0
	Total Non-Tax	15.2	84.8
	Total Revenue	17.2	82.8
1997/98 Pre. Estimate	Direct Tax	45.2	54.8
	Indirect Tax	19.9	80.1
	Foreign Trade Tax		100.0
	Total Tax	20.2	79.8
	Total Non-Tax	16.0	84.0
	Total Revenue	18.7	81.3
Period Average (1993/94 to 1997/98)	Direct Tax	40.8	59.2
	Indirect Tax	16.1	83.9
	Foreign Trade Tax		100.0
	Total Tax	18.0	82.0
	Total Non-Tax	15.0	85.0
	Total Revenue	17	83.0

Source: MOF

Figure 3b



Government revenue as a ratio to GDP has also been increasing during the period 1991/92 to 1997/98 fiscal years. The revenue to GDP ratio was at its historic low in 1991/92 (10.5 per cent) and grew to about 19 per cent in 1996/97 and 1997/98. This improvement however has brought us only near to what was achieved five to six years prior to the reform program. In 1987/88 and 1988/89 for instance the revenue to GDP ratios were 21 and 23 per cent, respectively. This shows that a lot needs to be done to exploit the revenue potential of the economy.

Since 1993/94 FY revenue collection has been carried out at the Federal and Regional States level. Except foreign trade taxes which accrue solely to the Federal Government regional states collect a certain proportion of other sources of revenue. Their major source of

revenue has been direct taxes of which land use fee and agricultural income tax are totally under their jurisdiction. In 1993/94 FY regional states have collected about 44 per cent of direct taxes which however declined to 38 per cent by 1996/97. Though the proportion has declined its absolute level has been on the increase and in 1997/98 their share in direct taxes rebounded to 45 per cent. As indicated on Table 3.5 below the contribution of regional states to total domestic revenue has remained stable at about 16 to 17 per cent in the past five years. Though this share is low the expectation is that as the capacity to administer land use fees and agricultural income tax are increased in all regions and as few investment endeavors proceed well the revenue generating capacity of regions will also be augmented.

3.3.2 Government Expenditure

As stipulated in public expenditure policies, the post-reform period has witnessed reduction of government spending on such productive sectors as industry, transport, trade and tourism, and agriculture. The rationale for this shift was the expected wider involvement of the private sector in these sectors. Public expenditure on defense has also declined substantially relieving huge resources for spending on social and infrastructure sectors development.

Notwithstanding the developments stated above, total expenditure during the fiscal years 1991/92 to 1997/98 increased at an

annual average rate of 16.7 per cent per annum. Though both recurrent and capital expenditure have been rising, capital spending accounted for a larger part of the increase in total spending. Similarly, recurrent expenditure as a ratio to GDP has declined during the post-reform period while that of capital expenditure increased from their pre-reform levels. Much of the increase in capital expenditure was accounted for by spending on roads, energy, education and health sectors. On the recurrent side, wages and operating expenses, and debt servicing took the lion's share during the period under review.

Table 3.6 The Structure of Government Expenditure (1985/86-1997/98)
In million Birr

Year	Recurrent Exp.	% of Total	Capital Exp.	% Total	Total Exp.	Capital Exp. As % of GDP	Recurrent Exp. As % of GDP	Total Exp. As % of GDP
1985/86	2659.3	64.4	1471.8	35.6	4131.1	10.2	18.3	28.5
1986/87	2754.1	66.6	1362.2	33.4	4116.3	8.9	17.6	26.7
1987/88	3593.9	71.2	1459.2	28.8	5053.1	9.1	22.6	31.6
1988/89	3972.7	67.2	1939.7	32.8	5912.4	11.6	23.5	35.0
1989/90	3929.1	73.2	1440.1	26.8	5369.2	8.1	22.0	30.0
1990/91	3640.1	75.3	1214.1	24.7	4854.2	8.1	18.4	24.5
1991/92	3253.5	77.6	951.5	22.4	4205.0	4.6	15.6	20.2
1992/93	3434.5	65.8	1784.9	34.2	5219.4	5.7	12.6	18.7
1993/94	4399.5	62.0	2694.3	38.0	7093.8	9.5	15.5	25.0
1994/95	5215.5	62.3	3166.5	37.7	8382.0	9.3	15.5	24.8
1995/96*	6582.2	54.8	3582.6	34.9	10164.8	10.2	14.2	24.3
1996/97	6716.4	57.1	4269.9	42.9	10986.3	10.4	13.6	24.2
1997/98*	7054.9	61.9	4365.1	47.2	11420.0	11.4	15.7	26.4

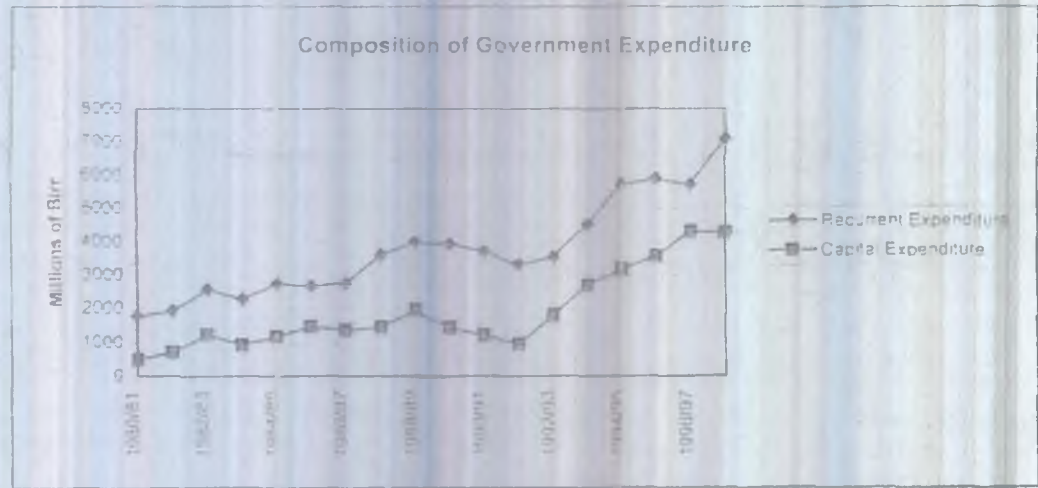
Source: MoF Revenue and Expenditure accounts

* Total Expenditure includes Birr 1049.2 & 100 million equity contribution (sinking fund) for 1995/96 & 1997/98, respectively

Another important development observed during the post reform period was the increasing tendency to fully finance recurrent expenditure through domestic revenue, which enabled government to realize savings for capital expenditure. Government budget deficit has also been contained at about 7 per cent of GDP in nominal terms and most of the deficit was

financed through counterpart funds and external loan. In recent years (1995 onwards), the use of treasury-bills as a non-inflationary means of deficit financing has also gained momentum.

Figure 3c:



3.3.2.1 Capital Expenditure

Capital expenditure is broadly defined as an outlay on development projects that result in the acquisition of fixed assets and thereby enhance the capacity of the economy for the production of goods and the provision of economic and social services. Such outlays include spending on land development, construction of power plants, buildings, dams, roads and other construction, and purchase of machinery and equipment. It also includes payments for project study and design, management supervision, and direct labor costs. However, some expenditures of capital nature are treated in recurrent budget as some recurrent outlays also appear in the capital budget.

Capital expenditure has three major components, viz., Economic Development, Social Development, and General Developments. Economic Development comprises projects in the agriculture, natural resources, mining, industry, and economic infrastructure sectors (roads, energy, communication etc.) while capital projects in the education, health, social welfare, culture and sports are included in the social sector. The general development category includes capital budget for mapping and statistical authorities, and construction of administrative buildings.

Except for the first fiscal year of the Transitional Governments of Ethiopia (1991/92), significant increase has been witnessed in capital expenditure during the

post reform period. It grew by 87.5, 51, and 17 per cent in nominal terms successively between 1992/93 and 1994/95. This was triggered by an all out effort for rehabilitation and reconstruction of war devastated infrastructure and uplifting the status of hitherto neglected regions. In 1995/96 and 1996/97 fiscal years, capital spending also grew by about 13 and 21 per cent, respectively. Such significant annual increases lifted the share of capital expenditure in total expenditure from 22.6 per cent in 1991/92 to 42 per cent by 1996/97. Only in 1997/98 did growth in capital expenditure halted and its share in total spending declined to 38 per cent. On the average, the share of capital expenditure was 36 per cent of total government expenditure in the post reform period while its annual average growth rates stood at 23.3 per cent per annum between 1991/92 and 1997/98. This contrasts sharply with the 5.6 per cent annual average growth during the 1990's.

In absolute terms government spent an estimated Birr 4.26 billion on development projects in 1997/98 up from Birr 0.95 billion in 1991/92. As a ratio to nominal GDP, capital expenditure in 1992/93 and 1993/94 fiscal years stood at 6.7 and 9.5 per cent, respectively, and more or less stabilized at about 9.5 per cent afterwards except a slight increase to 10.4 per cent in 1996/97. In the pre-reform periods, especially between 1985/86 to 1989/90, capital expenditure averaged also around 9 per cent of GDP and even reached as high as 11.5 per cent of GDP by 1989/90.

Figure 3d: The Structure of Capital Expenditure



Sectoral performance of capital expenditure is more important than global indicators. Among the three broad categories of development expenditures, the post reform period witnessed a reduction in allocation to Economic Development, a substantial increase in Social Development, and marginal increase in General Development. Accordingly, the proportion of capital spending on economic development declined from about 90 per cent of total capital expenditure (average of 1985/86 to 1990/91 FYs) to about 70 per cent by

1996/97 and to 57 per cent by 1997/98. Allocation to the social sector on the other hand, grew from about 7 per cent of total in the pre reform period to 19.6 and 23.8 per cent by 1996/97 and 1997/98, respectively. This development is consistent with government development priority which among others focuses on enhanced social service. The full scale operation of the five year education and health sector development programs is expected to increase their share in total expenditure further.

Table 3.7 Government Capital Expenditure

Million Birr

SECTOR	1985/86- 1990/91 Average	Actual					Pre-Actual	
		1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
TOTAL CAPITAL EXPENDITURE	1482.3	951.8	1785.0	2694.4	3156.5	3562.5	4299.9	4265.1
ECONOMIC DEVELOPMENT	1345.3	841.5	1501.1	1974.8	2446.5	2618.7	3000.5	2451.2
Agriculture	335.6	242.0	323.7	373.3	292.3	357.7	277.2	376.2
Mining and Energy	298.4	139.5	146.3	251.4	267.5	381.4	796.0	423.0
Natural Resources	234.1	152.2	315.5	347.8	464.5	423.2	513.2	464.1
Industry	211.9	146.5	310.5	264.5	326.9	356.3	286.1	93.2
Trade & Tourism	10.1		7.4	3.7	1.4	0.5	0.3	1.5
Transport Construction	93.9	61.2	196.2	414.5	749.6	676.6	742.1	898.5
Transport & Communication	119.9	67.5	139.8	260.0	185.3	216.0	385.5	194.7
Financial Agencies	29.0	32.6	61.7	59.6	158.9	207.1	0.0	0.0
SOCIAL DEVELOPMENT	102.9	91.2	257.8	621.0	507.5	712.0	843.5	1013.3
Education	43.7	38.2	141.8	256.0	269.2	441.9	421.9	436.8
Health	35.7	37.4	66.6	68.6	119.9	153.9	251.8	276.9
Urban Dev't & Housing	17.8	13.8	24.8	160.8	109.5	99.5	144.8	204.7
Social Welfare	3.1	1.4	22.9	130.3	2.9	10.2	12.7	81.2
Culture & Sports	1.9	0.4	1.7	5.3	5.8	6.6	12.3	13.7
GENERAL SERVICES*	29.8	15.3	22.5	80.6	187.0	218.7	293.1	291.6
Compensation Payment	4.15	3.8	3.6	18.0	15.5	13.1	12.8	14.0
External Assistance**	-	-	-	-	-	-	150.0	495.0

Source: MOF Revenue & Expenditure Accounts

*Includes Mapping, Science & Technology, Public Buildings & others

** Estimate, sectoral breakdown not available

Table 3.8 Percentage Share of Capital Expenditure by Sector

SECTOR	1985/86- 1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
ECONOMIC DEVELOPMENT	91	88.4	84.5	73.3	77.5	73.5	69.8	57.5
Agriculture	23	25.4	18.2	13.9	9.3	10.0	6.4	8.8
Mining and Energy*	20	14.7	8.3	9.3	8.5	10.7	18.5	9.9
Natural Res. & Settlement	16	16.0	17.8	12.9	14.7	11.9	11.9	10.9
Industry	14	15.4	17.3	9.8	10.4	10.0	6.7	2.3
Road Construction	6	6.4	11.1	15.4	23.7	19.0	17.3	21.1
Transport & Communication	8	7.1	7.9	9.6	5.9	6.1	9.0	4.6
Financial Agencies	2	3.4	3.4	2.2	5.0	5.8	0.0	0.0
SOCIAL DEVELOPMENT	7	9.6	14.0	23.0	16.1	20.0	19.6	23.8
Education	3	4.0	7.5	9.5	8.5	12.4	9.8	10.2
Health	2	3.9	3.8	2.6	3.8	4.3	5.9	6.5
Urban Dev't & Housing	1	10.2	1.4	5.9	3.5	2.8	3.4	4.8
GENERAL SERVICES	2	1.6	1.3	3.0	5.9	6.1	5.1	6.8
Compensation Payment		0.4	0.2	0.7	0.5	0.4	0.3	0.3
External Assistance							3.5	11.6

Within the economic development category, budget reduction was more pronounced in the agriculture and industry sectors. The share of capital expenditure on agriculture declined from a pre reform (six years) average of 23 per cent to 6 per cent by 1996/97. Government investment in the industrial sector as a share of total capital outlay increased in 1991/92 and 1992/93 fiscal years (to 15 and 17 per cent) from the pre reform level (14 per cent). Between 1993/94 and 1995/96, however, its share remained at about 10 per cent and declined further to 7 per cent by 1996/97. The reduction in the proportion of capital expenditure in the agricultural and industrial sectors was by and large the result of public enterprises reform which rendered them managerial autonomy and financial accountability while gradually detaching them from government budget. In 1997/98, agriculture's share slightly improved to 8.8 per cent while that of industry dropped to 2.3 per cent of total capital expenditure.

In accordance with the government's development priority, capital spending on the roads sector showed significant increases in the reform period. During the last six years of the Derg, investment on roads accounted only for 6.3 per cent of total capital expenditure which was also the case in 1991/92. From 1992/93 onwards, roads began to absorb huge investment and its share in total capital expenditure grew from 11 per cent in 1992/93 to 21 per cent by 1997/98.

In the social sector, due consideration has been accorded to education and health. Capital expenditure in these sectors accounted for about 10 and 6.5 per cent of total capital expenditure in 1997/98 respectively, sharply contrasting with the pre reform average of 3 and 2 per cent, respectively. During most of the post reform years, about 40 to 50 per cent of capital budget for the social sector went to education development (mainly primary education) while health absorbed 20 to 27 per cent.

Table 3.9 Financing of Capital Expenditure
(1985/86-1997/98)

In Million Birr

Source	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
1 Central Treasury	771.6	767.5	747.5	840.9	707.0	594.1	465.1	922.4	1919.3	2249.3	2693.0	3268.8	2733.6
Share %	52.4	55.5	52.0	48.5	49.1	48.9	48.9	51.7	71.2	71.3	75.8	78.0	84.0
2 External Assist.	163.4	121.9	154.7	249.9	180.4	153.3	135.9	277.3	117.8	185.1	142.8	150.0	495.0
Share %	11.1	8.8	10.8	12.9	12.5	12.6	14.3	15.5	4.4	6.9	4.0	3.5	11.8
3 External Loans	536.8	493.7	536.5	748.8	552.7	466.6	350.8	585.2	657.2	722.1	725.8	881.1	1036.5
Share %	36.5	35.7	37.3	38.8	38.4	38.4	38.9	32.8	24.4	23.9	20.4	20.5	24.3
Total	1471.8	1383.1	1438.7	1939.6	1440.1	1214.0	951.8	1784.9	2694.3	3156.5	3562.6	4299.9	4265.1
% Change		-8.0	4.0	34.8	-25.8	-15.7	-21.8	87.5	51.0	17.2	12.5	20.7	-0.5

Source: MOF

Regarding the financing of capital expenditure, allocation from central treasury accounted for 71 per cent of total capital budget in 1993/94 and 1994/95 and more than 75 per cent of the budget in 1995/96 and 1996/97. As indicated on Table 3.9 above the share of treasury declined in the 1997/98 fiscal year to 64 percent partly due to a relative increase in the inflow of external finance. On the other hand, reliance on external loan and assistance for up to 50 per cent or more of capital expenditure until the eve of the reform program has fallen below 30 per cent in the post-reform years. This is a solid confirmation to attaining fiscal soundness which has proved to be a difficult task for many Sub-Saharan African Countries. The increasing reliance on domestic sources of finance is also believed to have enhanced the implementation rate of development projects by reducing the inefficiencies of disbursement of external loan and assistance.

3.3.2.2 Recurrent Expenditure

Unlike capital expenditure, recurrent spending is comprised of expenditure items which are recurring in the process of delivering government economic and social services. Wages and salaries, operation and maintenance, pension and price subsidies, and debt servicing are among the major components of recurrent expenditure.

During the period 1991/92 to 1997/98, annual growth rates of recurrent expenditure (averaging 12.8 per cent) were less than that of capital expenditure. Government policy which aimed at growth in recurrent expenditure which does not exceed growth in nominal GDP has

therefore been met successfully. During the 1991/92 fiscal year, total recurrent expenditure amounted to Birr 3253.5 million, 10.6 per cent down from the preceding year level. An increasing trend was attained in the subsequent years where by recurrent spending grew by 5.5 per cent in 1992/93, and by 28 and 18.5 per cent in 1993/94 and 1994/95 fiscal years, respectively. In 1995/96 and 1996/97, total recurrent expenditure increased by 7 and 5.6 per cent respectively and grew by 24 per cent again (to 7.1 billion) in 1997/98 owing to the war initiated by the Eritrean government.

Recurrent expenditure as a share of GDP, though still higher than that of capital expenditure, has been on the decline during the post reform period. Three years prior to the establishment of the TGE, the share of recurrent spending to GDP averaged 22 per cent which declined to an average of 15 per cent between 1991/92 and 1994/95 fiscal years. This ratio has further declined to 14 per cent in the fiscal years 1995/96 and 1996/97. In 1997/98, however, its share rebounded to 15.7 per cent of nominal GDP. The proportion of current expenditure in total government expenditure successively declined from 77.6 per cent in 1991/92 to 57 per cent 1996/97. Its share slightly increased to about 62 per cent in 1997/98.

Table 3.10 Recurrent Expenditure by Functional Classification (1991/92-1997/98)

No.		Actual						Preliminary Actual	
		1985/86- 1990/91 Avg	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
1	General Services	1770.9	1060.6	1163.1	1353.1	1657.2	1949.5	1860.2	3215.9
	- Defense	1413.8	634.0	660.8	663.0	772.1	771.6	834.8	2089.5
	- Others	357.1	426.6	482.3	690.1	885.1	1177.9	1025.4	1126.4
	% share	52.7	32.6	33.9	30.7	31.8	34.9	33.1	45.6
2	Economic Services	189.7	243.8	335.5	445.8	567.2	620.5	661.0	659.9
	- Agricul. and water	104.2	135.1	173.6	250.2	337.0	387.6	408.0	486.0
	- Construction	53.9	70.6	85.3	110.0	153.3	154.9	169.7	89.8
	- Others	31.6	38.1	76.5	85.6	76.9	87.0	83.3	83.8
	% share	5.6	7.8	9.8	10.1	10.9	11.1	11.6	9.3
3	Social Services	615.0	791.1	958.8	1212.1	1402.7	1422.0	1485.4	1723.1
	- Education	410.0	490.3	604.0	741.0	863.5	941.0	1025.7	1126.8
	- Health	119.6	151.5	189.2	250.7	310.2	328.1	331.5	400.4
	- Others	85.4	149.3	165.2	190.4	229.0	152.9	131.2	195.9
	% share	18.3	24.3	27.9	27.5	26.9	25.5	28.0	24.3
4	Various Expenditures	488.7	750.8	844.6	1335.4	1374.8	1447.5	1450.2	1336.0
	Interest & Charges	349.4	307.3	530.5	957.0	838.8	922.5	918.7	835.6
	Pension	135.7	194.2	228.2	274.9	274.4	290.6	303.2	308.7
	Others	3.6	249.3	85.9	103.5	261.6	234.4	228.3	191.7
	% share	14.5	23.1	24.6	30.3	26.4	25.9	25.4	8.8
5	External Assistance	295.6	407.1	132.5	53.3	213.5	142.7	258.5	160.0
	% share	8.8	12.5	3.8	1.2	4.1	2.8	4.5	2.2
	Total	3359.9	3253.5	3434.5	4399.7	5215.5	5582.2	5716.4	7094.9

Source: Compiled from MOF Revenue and Expenditure Accounts

Apart from this, significant reduction of government spending on defense was an important feature of the recurrent budget during the post reform years. During the last three years of the Derg, i.e. 1988/89 to 1990/91, defense outlays accounted for 42, 48 and 44 per cent of total recurrent expenditure, respectively. Following the achievement of peace and security under the TGE, the share of defense sharply declined to 19 and 20 per cent in 1991/92 and 1992/93 fiscal years, respectively. Between 1994/95 and 1996/97 however, expenditure on defense seemed to settle at around 14 to 15 per cent of recurrent expenditure. Owing to the Ethio-Entrean

border conflict that erupted in the third quarter of 1997/98, the share of defense rose to 29 per cent of recurrent spending. As a result of such decline on defense outlays, the share of Administrative and General Services in total recurrent expenditure dropped to a little more than 30 per cent in the post reform period ending in 1996/97 from the pre reform average of above 50 per cent. Details are depicted on table 3.10 above.

On the other hand, allocation of recurrent budget to economic services (mainly agriculture and water) increased from 5.5 per cent of total recurrent expenditure during the pre-reform six years to 11 per

cent in 1996/97. This development is underpinned by the new agricultural extension system and the running cost of all rural and most urban water supply systems. Likewise, the share of social services in total recurrent expenditure grew by 7 percentage points, i.e. from a

pre reform average of 18 per cent to 26 per cent by 1996/97. This is closely associated with Government's emphasis on upgrading the education and health service standards of the country.

TABLE 3.11: Recurrent Expenditure by Economic Classification
(1985/86-1996/97)

Item No.		In Million Birr							
		Actual					Pre Actual		
		1985/86-1990/91Av.	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
1	Wages and Operating Expenditure	2333.1	1799.4	2208.7	2811.5	3290.0	3652.3	3780.8	5509.9
	Wages & Salaries	1394.3	917.6	1477.0	1762.2	1893.0	2101.3	2172.9	2653.4
	Materials & equipment	938.7	881.8	731.7	1049.4	1397.0	1551.0	1607.9	2856.5
	% share	69.4	59.9	64.3	62.4	63.9	70.0	67.7	77.7
2	Grants and Contributions	174.5	485.6	328.6	217.8	385.0	387.5	326.9	278.5
	% share	5.2	14.0	9.5	5.0	6.8	7.4	5.6	3.9
3	Price Subsidies	74.7	59.8	6.0	85.1	149.8	174.5	126.5	-
	% share	2.1	1.9	0.2	1.9	3.7	3.1	2.2	-
4	Pension	132.6	194.3	228.2	274.9	274.4	290.6	303.4	308.7
	% share	4.1	5.9	6.6	6.2	5.3	5.2	5.3	4.4
5	Interest & Charges	349.4	307.3	530.5	956.9	838.6	922.5	918.7	835.7
	- Internal Debt	196.1	246.0	408.9	809.9	596.8	609.9	635.3	526.1
	- External Debt	152.4	61.3	121.6	147.0	241.8	312.9	283.4	309.6
	% share	10.4	9.4	15.4	21.7	16.1	16.5	16.1	11.8
6	Safety Net	-	-	-	-	64.1	12.2	4.5	2.1
	% share	-	0.0	0.0	0.0	1.2	0.2	0.1	0.0
7	External Assistance	295.6	407.1	132.5	53.3	213.5	142.7	256.5	160.0
	% share	8.6	12.5	3.6	1.2	4.1	2.5	4.5	2.2
	Total	3359.9	3253.5	3434.5	4399.6	5215.5	5582.2	5716.4	7094.9

Source: Compiled from MOF Revenue and Expenditure Accounts.

In terms of expenditure by economic classification, wages and operating expense claim the lion's share of recurrent expenditure both in the pre and post reform periods. Allocation to this category, though it declined to 62 per cent of recurrent expenditure in 1993/94 (from a pre-reform average of 68 per cent) has increased to an average of 70 per cent in 1995/96 and 77 per cent in 1997/98 fiscal years. The adoption of the new salary scales in the civil service and the expansion of the emerging regions seems to be the major reason for the observed growth in recent years. In absolute terms, wages and salaries (the major component of operating expense) increased from a pre reform annual average of Birr 1.4 billion to 2.65 billion by 1997/98. See table 3.11 above for details.

Another economic category of recurrent expenditure which showed significant increase in the period under review was payment of interest and charges on government domestic and external borrowings. Its share out of total recurrent expenditure increased by about 6 percentage points, i.e., from a pre reform average of 10 per cent to 16 per cent between 1994/95 and 1996/97. In 1997/98 its share declined to about 12 per cent of recurrent spending. Debt services of external origins amounted to 34 per cent of the total payment (domestic plus external) on average during 1995/96 and 1997/98 fiscal years, from an average of 21 per cent during 1991/92 to 1994/95. About Birr 835.7 million was spent on debt servicing in 1997/98 which was more than twice the average for the pre reform five years. This is an indication to government's commitment to relieve external debt burden on timely basis although the figures on Table 3.11 do not include payment of the principal.

3.4 Government Budget Deficit and Financing

It has been indicated that government expenditure during the Darg period grew faster than revenue collection leading to the widening of the budget deficit. In nominal terms, fiscal deficit increased from Birr 535.4 million in 1980/81 to Birr 2.2 billion in 1989/90 with annual average growth rate of 11.6 per cent. Absolute increase in the size of the deficit was also witnessed via the gradual rise in the deficit to GDP ratio which rose from 5 per cent of GDP in 1980/81 to 12.5 per cent in 1989/90.

Budget deficit excluding grants has, however, remained more or less stable since 1991/92 as government enhanced its revenue collection on the one hand, and restrained growth in expenditure on the other. Overall deficit excluding grants stood at Birr 2.0 billion in 1991/92, and rose to Birr 3.23 billion in 1995/96 (the maximum for the post reform period) and then declined to an estimated Birr 3.06 billion in 1997/98.

In general, the post reform period of 1991/92 to 1997/98 witnessed marginal expansion of deficit in absolute terms showing 4.2 per cent annual average growth. As a result of this, the ratio of deficit to nominal GDP excluding grants dropped from 10 per cent in 1991/92 to 5 per cent in 1996/97 which rose moderately to 6.8 per cent in 1997/98 fiscal year. The level of deficit including grants for the period under review stood at about 5 per cent of GDP on average.

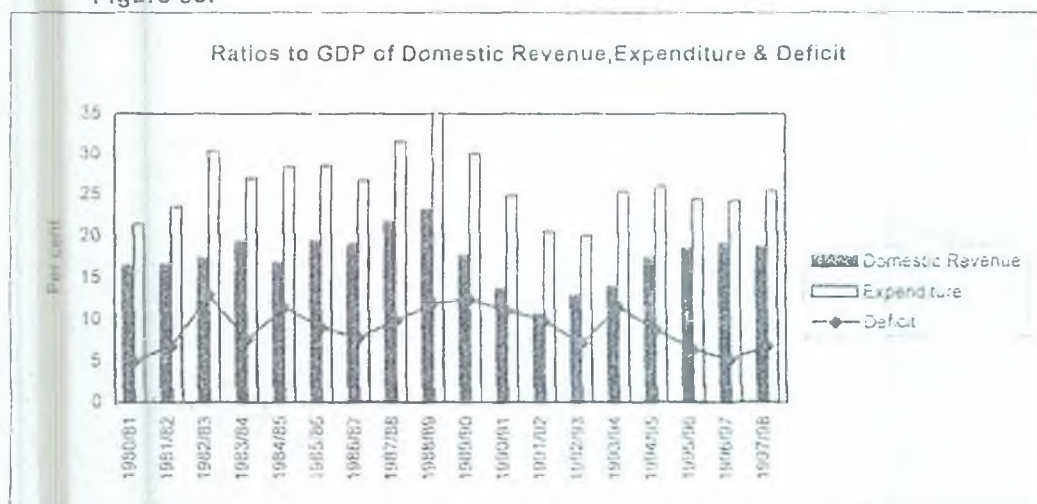
Table 3.12 below provides the details on budget deficit and financing.

Table 3.12 Summary of Government Finance

	Million Birr							
	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Domestic Revenue	2706.7	2207.9	3191.2	3938.8	5912.7	6966.1	7877.4	8400.1
External Grants	463.3	543.0	466.1	987.2	1131.7	1096.8	1504.0	1273.3
Total Revenue & Grants	3170.0	2750.9	3657.3	4926.0	7044.4	8062.9	9381.4	9673.4
Recurrent Expenditure	3640.1	3253.5	3434.5	4399.5	5215.5	5582.2	5716.4	7094.9
Capital Expenditure	1214.1	951.8	1784.9	2694.3	3156.5	3562.6	4299.9	4265.1
Total Expenditure	4854.2	4205.3	5219.4	7093.8	8372.0	10194.0	10016.3	11460.0
Current Saving	-933.4	-1045.6	-21.8	-460.7	697.2	1383.9	2161.0	1305.2
Overall Balance								
Excluding Grants	-2145.7	-1997.4	-2028.2	-3155.0	-2459.3	-3227.9	-2139.8	-3059.9
Including Grants	-1682.4	-1454.4	-1562.1	-2167.8	-1327.6	-2131.1	-635.8	-1786.6
Financing	1682.4	1454.4	1562.1	2167.8	1327.6	2131.1	635.8	1786.6
External (net)	420.8	299.2	720.6	1689.9	1245.9	1388.3	727.9	779.5
Gross borrowing	466.7	350.8	806.8	1798.7	1413.5	1645.1	1012.0	1120.9
Amortization paid	45.9	51.6	86.2	108.8	167.6	256.8	284.1	341.4
Domestic (net)	1263.8	1155.1	841.5	477.8	81.6	742.8	-92.1	1007.0
Banking system	1191.6	1162.0	1107.0	925.0	287.9	-113.6	-824.0	575.0
Nonbank sources		0.0	0.0		262.6	222.0	403.2	17.0
Other and residual	72.2	-6.9	-265.5	-447.2	-468.9	579.3	328.7	415.0
Deficit to GDP Ratio								
Excluding Grants	-10.8	-9.6	-7.6	-11.1	-7.2	-8.3	-5.2	-6.8
Including Grants	-8.5	-7.0	-5.9	-7.6	-3.9	-5.5	-1.5	-4.0

Source: MoF

Figure 3e:



Apart from the success in containing expansion of deficit, the post reform period was also marked by the shift in the mode of deficit financing from domestic to external sources. In 1990/91, about 25 per cent of the deficit (including grants) was financed from external borrowing (net) while domestic sources financed 55 per cent of it. The proportion of deficit financed by external borrowing rose to as high as 79 and 94 per cent in 1993/94 and 1994/95, and it outstripped the level of deficit in 1996/97. In 1995/96 and 1997/98, however, net inflow of external borrowing covered 65 and 44 per cent of the deficit including grants, respectively.

A major change was also observed with regard to the domestic sources of financing fiscal deficit. Deficit financed through domestic sources of finance sharply declined from 79 per cent in 1991/92 to 6 per cent in 1994/95. In 1995/96 domestic sources financed 35 per cent of the deficit which increased to 56 per cent in 1997/98 while there was net repayment of loan owed to them in 1996/97.

Within the domestic sources of finance, borrowing from the banking system steadily declined from Birr 1162.0 million in 1991/92 (80 % of deficit) to Birr 1.6 million (21 %) in 1994/95. Moreover the

banking system received net transfer of financial resources in 1995/96 and 1996/97 to the tune of Birr 113.6 and 842.0 million, respectively. In 1997/98, however, government financed 32 per cent of its deficit through borrowing from the banking system which could be attributed to the absolute increase in the level of the deficit and the reduction in the net inflow of external financial resources. The repayment of loan to the banking system in 1995/96 and 1996/97 was made possible partly because of government's ability to raise non-bank means of finance (auctioning of treasury bills) which financed 10.4 and 63 per cent of the deficit including grants. Their share declined to 1 per cent of deficit in 1997/98.

The overall development of fiscal deficit and its mode of financing revealed that both external assistance and loan have had significant role in reducing and financing the deficit during the post reform period. Although this had helped government to reduce/avoid inflationary financing of the deficit particularly by borrowing from the banking system, its impact on debt accumulation needs to be closely monitored. Moreover, the variability and unpredictability of external resources may entail a resort to domestic sources of financing resulting in macro-economic instability and inconsistency.

Chapter 4

MONEY AND BANKING

4.1 Money

4.1.1 Background

The monetary base of a country has two major determinants i.e., the net foreign asset holdings of the banking system and total domestic credit. Foreign assets in turn is composed of foreign securities, gold, special drawing rights (SDR) and foreign exchange reserves. Domestic credit in turn has two components, namely: claims on central government and claims on other sector (including public enterprises, cooperatives, the private sector and non-bank financial institutions). Broad money (M_2) is also influenced by "Other items net" which is a balancing item. The Other item net component consists of a wide range of assets and liabilities of both the Central Bank and commercial banks; the balance is added to or deducted from the sum of the two major determinants to arrive at M_2 .

The components of Broad Money, on the liability side, is sub-divided into two broad categories: Narrow money (M_1) and Quasi-money. Narrow money, also called the stock of money, comprises the most liquid items, i.e., currency in circulation and non-interest bearing (demand) deposits. Interest bearing (saving and time) deposits make up the so called Quasi Money.

Monetary aggregates, i.e., determinants and components of the monetary base, are important macroeconomic variables which reflect the combined effects of fiscal, monetary and exchange rate policies. The level of fiscal deficit and its mode of financing, credit policies, interest rate management, and the flexibility of

the foreign exchange regime directly affect the level of aggregate demand and their overall impact is being felt through monetary aggregates. Along with supply side responses, such policies ultimately influence the rate of inflation and the overall macro-economic environment. Therefore, annual changes in monetary aggregates, rather than their absolute magnitudes, are crucial indicators of overall macroeconomic stability.

The fiscal environment during the Derg period was characterized by a fast growing government expenditure which had not been accompanied by an equal pace of revenue generation. The only viable means for financing budget deficit was the domestic banking system. As a result of this, bank claims on central government had been growing substantially starting from the late 1970's through the 1980's. Extension of credit to sectors other than the central government had been growing relatively slowly because of the restrictions on the economic activities of the private sector. Therefore, credit intake by the central government had to do a lot with the behavior of money supply during the Derg period.

Though foreign assets are important sources for the expansion of the monetary base, their apparent scarcity resulting from poor external sector policies had seriously hampered their impact on monetary expansion during the same period.

Despite the prevalence of negative real interest rates for most of the Derg period, deposits kept on growing mainly because of lower demand for money in the private sector.

Government also imposed artificially lower nominal interest rates on the deposits of profitable public enterprises and non-bank financial institutions like pension funds and insurance companies. This enabled government to avail sufficient financial resources to the socialized sector at preferential interest rates. The problem was however, with the inefficiency and poor productivity performances that had been prevalent in the socialized sector, leading to inefficient utilization of funds channeled to them. This was evident with a number of public enterprises which were incurring operational losses and yet supported by budget subsidy. Later on, this development had resulted in to a large sum of non-performing loans incurred mainly by the then Agricultural and Industrial Development Bank

Hence, the Derg policy of expanding the public and socialized sector at the expense of the private sector proved to be a failure and unsustainable because of inadequate monetary policies, among others, which impaired development of the financial sector.

Apart from increasing pressure on domestic financial resources, Government's endeavor to expand the public sector was constrained by the availability of foreign exchange (as is the case for any developing country) necessitating external borrowing (and assistance). Since borrowing had also been effected for non-development (defense) purposes, the resulting external indebtedness had not been sustainable. The exchange rate was, thus, fixed at a very low level to prevent growth in the domestic cost of foreign currencies. This has however, penalized the export sector which has not developed from the beginning. To restrain effective demand for foreign exchange, government has introduced

a number of restrictive measures like; restriction on the imports of some commodities (especially consumer goods), foreign exchange rationing through licensing, introduction of high and protective tariff rates and the like. However, both exports and imports got their way through smuggling leading to the proliferation of a parallel market for foreign exchange. The net foreign asset positions of banks was, therefore, very weak regardless of all government regulations to increase export (through forced supply of exportables to public exporters) and restrict demand for import as stated above.

Despite huge government borrowing from the banking system, growth in money supply during the Derg era had been partially offset by suppressed private sector borrowing, weak foreign assets positions of banks; and forced saving by the private sector, profit making public enterprises and non-bank financial institutions. Relative stability in macroeconomic situations was achieved at the cost of overall economic growth because of limited private sector participation, on the one hand, and poor resource utilization (productivity) in the socialized sector on the other. Financial intermediation and the development of the financial sector were also severely affected by lack of adequate incentive.

4.1.2 Review of Monetary and Financial Policies

Reforming monetary policies and the financial sector has been important component of the on-going Economic Reform Program (ERP) with broader objectives of stabilizing the macroeconomic environment and creating an effective and efficient financial sector that facilitates economic growth.

As an important instrument of stabilization, monetary policies in the reform period has been aimed at maintaining the growth rates of broad money parallel with growth in nominal GDP so that inflation could be contained and external balances maintained at a sustainable level. In doing so, government sought to ensuring adequate growth of credit to meet the requirements of the non-government productive sector, (largely the emerging private sector).

To this end, government has progressively introduced several monetary policy instruments (i.e., adjusting interest rates and introduction of open market operations for government securities (Treasury Bills). An important measure in this regard was the maintenance of positive real interest rates both for depositors and lenders. Since 1994/95, government sets only the minimum deposit and maximum lending rates. The existence of positive real rates of interest has helped improve financial intermediation where by resources (saving) mobilization is enhanced and the foundation for the development of the financial sector laid. Removal of discriminatory interest rates (especially lending rates) among sectors was the first measure taken with regard to adjusting interest rates. Since January 1998, the Government has suspended the ceiling on lending rates leaving them to be market determined.

Auctioning of government securities to the public and financial institutions was started in January 1994/95 and currently there are three categories of treasury bills with maturity periods of 28, 91, and 182 days on the market. Both private and public enterprises participate in this bi-weekly auctioning. Apart from being a non-inflationary financing instrument to the

government, T-bills help avoid crowding out effects of government borrowing from the banking system and help prepare the ground for the development of capital markets.

A major structural reform in the monetary and financial sector during the reform program has also been the introduction of a competitive financial sector which included the establishment of private banking and insurance companies. The establishment of an effective financial sector has necessitated a strong regulatory and supervisory framework. The Government has been strengthening the capacity of the National Bank of Ethiopia so as to enable it undertake this task.

Apart from opening the financial sector for private sector participation, the government has restructured the two specialized banks, the then Housing and Saving Bank and Agricultural and Industrial Development Bank; to undertake commercial banking operations. Moreover, the Government has passed a regulation for the establishment of micro-financing institutions specialized in providing credit to emerging small and micro enterprises and farmers. A study has also been completed for the establishment of non-bank financial institutions (e.g. leasing companies, merchant banks, financial cooperatives, etc.).

4.1.3 Development in Monetary Aggregates

During the period 1980/81 to 1990/91, broad money (M_2) grew at an average of rate of 11.6 per cent per annum. A steady growth in M_2 (about 12.5 per cent) was witnessed in the first half of the 1980's whose growth declined to an 8 to 9 per cent between the 1986/87 and 1988/89 fiscal years. During the last two years of the Derg

(including 1990/91), M_2 further expanded by 17.6 and 18.7 per cent, respectively. Such growth rates in M_2 had associated with growth in the net claims of banks on the central government.

Despite steady growth rates in the first half of the 1980's and fast expansion in 1989/90 and 1990/91, broad money as a ratio to nominal GDP has remained low for most of the Derg period. Between 1980/81 & 1985/86, for instance, this ratio increased from 22 per cent to 31 per cent and further to 37 per cent by 1989/90. Only in 1990/91 did it hit a peak of 40 per cent of GDP. This was a reflection of the low level of monetization of the Ethiopian economy, on the one hand, and reason behind the maintenance of a somehow stable macroeconomic conditions (except the last three years of the Derg period) in the face of high growth rates of M_2 (11.6 per cent) relative to annual growth rates of nominal GDP (about 6 per cent) during the period under review.

Since foreign reserves accounted for less than 10 per cent of the monetary

base (except for the three years ending in 1990/91), growth in M_2 has by and large been determined by domestic credit during the Derg period. During the 11 years up until the eve of the fall of the Derg, domestic credit grew by 12 per cent on average, faster than the growth in M_2 . In absolute terms, domestic credit had increased from Birr 2.6 billion in 1980/81 to Birr 8.9 billion in 1990/91. Much of this growth was accounted for by credit to the central government, which grew by 15.7 per cent on average during the period under review. In the mean time, bank claims on other sectors other than the central government, grew by 7.5 per cent on average. In 1988/89 and 1989/90, net claims on "other sectors" grew by only 4 and 1 per cent, respectively, and declined by 1 per cent in 1990/91. As a result, claims on "other sectors" accounted for 33 per cent of domestic credit in 1990/91, down from 58 per cent in 1980/81. Claims on government however, increased from 42 per cent to 67 per cent of domestic credit during the same period.

Trends In Monetary Aggregates

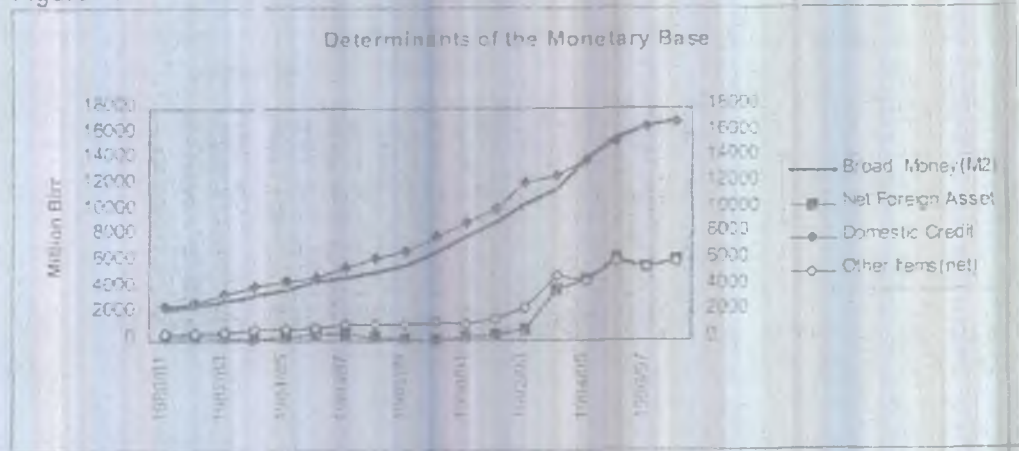
Table 4.1

Million Birr

Item	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1980/81- 1990/91	1991/92- 1997/98
Domestic Credit	8937	10106	12167	12744	13673	15411	17146	18931	12.0	9.5
• Claims on Gov't	6022	7032	7825	9616	9024	7888	8797	9372	15.7	3.2
• Claims on Others	2915	3072	4342	3128	4649	7523	8349	9559	7.6	20
Foreign Assets (net)	288	403	810	3765	4659	6236	5551	5724	-4.1	48
• National Bank	138	108	159	2143	2345	4501	2874	1963		
• Commercial Banks	150	295	651	1622	2314	1335	2677	3761		
Other Items (net)	1263	1498	2455	4910	4829	5691	6135	6034		
Broad Money (M_2)	7962	9011	10522	11599	14703	18858	18511	18621	11.6	12.1
Money (M_1)	6135	6645	7712	8375	9669	9917	9960	10970	12.2	7.5
• Demand Deposits	2314	2529	2627	3214	4068	4261	4503	5220	13	14.4
• Cur. In circulation	3821	4316	4885	5159	5601	5657	5178	4750	11.6	1.8
Quasi Money	1827	2166	2810	3226	4034	5737	6531	7651	9.7	21.6
• Saving Deposits	1679	2002	2459	2845	3649	4984	5699	6485	13.1	20.6
• Time Deposits	148	164	351	381	445	753	832	1166	-6.1	29.6

Source: National Bank of Ethiopia (NBE)

Figure 4a:



With a shift in the economic policy following the establishment of the Transitional Government of Ethiopia, government access to domestic bank financing of fiscal deficit was very much limited while restrictions on the private sector activities were lifted. Efforts were also made to enhance the foreign reserve position of the country coupled with the effort in the mobilization of external assistance has proved to be a crucial factor in undertaking the economic reform program successfully.

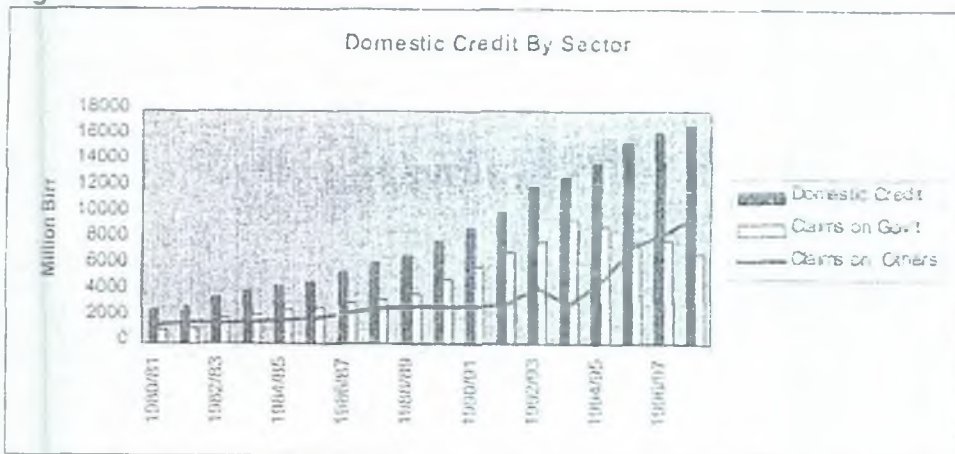
Average growth rate of the monetary base during the period 1991/92 to 1997/98 stood at 12 per cent per annum which has been only slightly above the average rate of growth in the 1980's, i.e., about 11.6 per cent. A relatively faster growth has been observed in broad money in 1994/95 since the beginning of the reform averaging about 21 per cent. This has been partly attributed to the windfall gain from coffee export and the substantial increase in credit expansion to the private sector during the period. Since 1995/96, however, growth in M_2 slowed down and tended to stabilize as a result of successive decline in government borrowing from the banking system on one side and only marginal changes in the external

reserve position of the country on the other.

Annual growth rates of domestic credit showed a decelerating tendency during most of the reform period except in 1991/92 and 1992/93 when it grew by 13 and 20 per cent, respectively. After a sharp decline in the subsequent two years, annual growth in domestic credit stabilized at around 11 per cent since 1995/96. Average growth rate of domestic credit for the period 1991/92 to 1997/98 was thus 9.8 per cent per annum down from the 12 per cent average growth during the decade ending in the early 1990s.

During the period 1980/81 to 1990/91, a significant part of annual credit expansion came from central government borrowing which grew by about 16 per cent per annum. Credit to "others" increased by half that rate during the same period. This situation was reversed after the launching of the reform program and bank claims on government grew on average by 3.2 per cent while claims on non-government borrowers (mainly private including public enterprises and cooperatives) increased by 20 per cent per annum. The stock of government debt owed to domestic banks had even declined in 1994/95.

Figure 4b:



and 1995/96 in absolute terms as the government has started repayment of its loan to the banking system since then. In 1996/97 and 1997/98, however, outstanding loan to the government has increased by about 11 and 6 per cent, respectively. Outstanding loan to the government remained at 21 per cent of GDP between 1995/96 and 1997/98 down from more than 30 per cent in the pre reform period.

As a result of the aforementioned developments, claims on government which was close to 70 per cent of domestic credit in 1991/92 shrank to 49 per cent by 1997/98. On the other hand, credit disbursed to non-government borrowers accounted for 51 per cent of total domestic credit up from 30 per cent in 1991/92. This indicates that credit disbursement to the private sector is becoming a major

determinant for the expansion of the monetary base in recent years unlike the Derg period when government borrowing alone used to determine most of the growth in M_2 .

The other important development in the determinants of the monetary base is the significant increase in net foreign assets especially since 1993/94. The recovery in export earnings, the receipt of official development assistance to support the Reform Program and the devaluation of the exchange rate has helped attain a large build-up in net foreign assets expressed in terms of local currency. Without adjusting for exchange rate devaluation, the share of net foreign asset in broad money has been above 33 per cent (from a less than 10 per cent during the Derg) since 1993/94. Its share has slightly dropped to 31 per cent of M_2 by 1997/98.

Figure 4c:



Annual growth rates of net foreign assets during the decade ending in 1990/91 (1980/81-1990/91), averaged -4.1 per cent owing to successive declines since 1986/87. Owing to a more than three fold increase in 1993/94, annual growth rate of net foreign assets during the period 1991/92 to 1997/98 averaged 48 per cent. The performance of foreign reserves slightly recovered in 1997/98 from nearly 10 per cent drop in 1996/97. The remarkable growth in monetary aggregates through the period 1993/94 to 1995/96 was attributed mainly to high growth rates in the net foreign assets of the

National Bank of Ethiopia which largely came from official transfers.

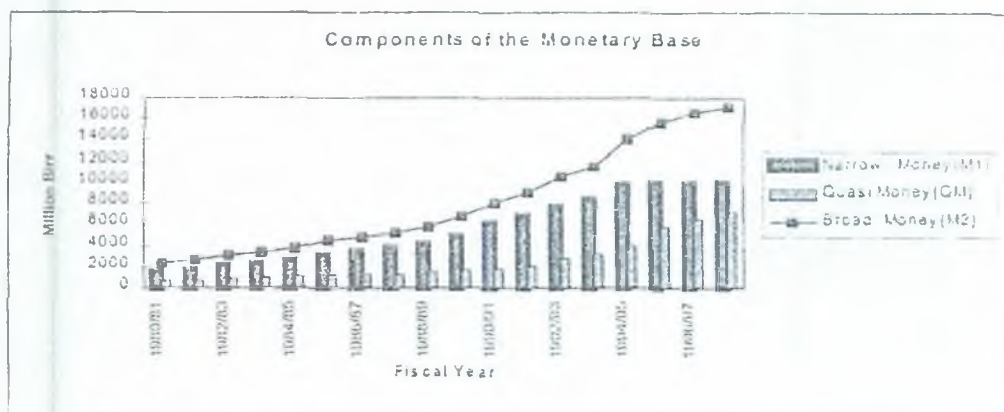
The net foreign assets position of commercial banks, on the other hand, showed a steady growth since the reform program except a 42 per cent decline in 1995/96 when export gains also declined. In 1997/98, net foreign assets of commercial banks exceeded that of the NBE in absolute terms. This shows that commercial banks handle more of commercial related foreign assets (foreign transactions) than the NBE and are gaining importance in overall foreign reserve holdings.

Indicators of Developments in Monetary Aggregates

Table 4.2 (in Percent)

Indicator	Average 1980/81-1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	Average 1991/92 - 1997/98
M_2 /GDP	30	43	40	41	41	40	39	41	41
DC/ M_2	115	112	115	110	99	98	104	101	106
NFA/ M_2	7	4	8	32	33	40	34	31	26
M_1 / M_2	73	75	73	72	72	63	60	59	68
QM/ M_2	27	25	27	28	28	37	40	41	32
CIC/ M_1	54	53	63	62	59	57	52	43	57
DD/ M_1	46	37	37	39	41	43	48	57	43

Figure 4d



The components of the monetary base (items on the liability side) include currency in circulation (CIC) and demand deposits which constitute the stock of Money (M_1) and, saving and time deposits which constitute Quasi Money. During the period 1980/81 to 1990/91, narrow money grew by an average rate of 12.3 per cent per annum. Both currency in circulation and demand deposits increased steadily during this period at annual average rates of 11.6 and 13 per cent, respectively. Currency in circulation was, however, larger in absolute terms than demand deposits during the Derg period except for the period 1985/86 - 1987/88.

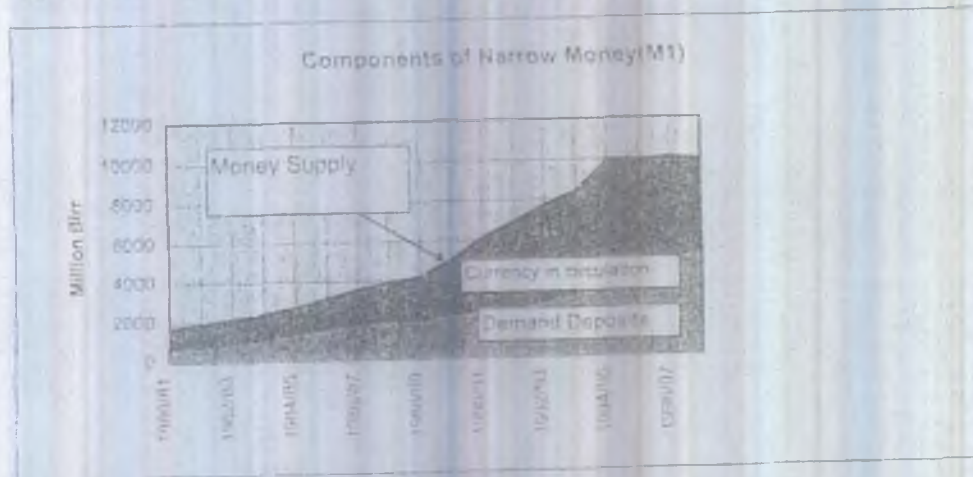
With regard to the post reform period, currency in circulation increased consistently during the period 1991/92 - 1994/95. It has been increasing by 13 per cent per annum during this period. A 5.6 per cent growth was observed in 1993/94. Since 1995/96, however, currency in circulation actually declined by 3, 8.5, and 8.0 per cent, respectively, until 1997/98. Demand deposit, on the other hand, has been increasing throughout the reform period though at varying rates. Average growth rates of currency in circulation during the reform period

was less than 2 per cent while that of demand deposits stood at a little above 14 per cent per annum. Because of such developments, the proportion of CIC in M_1 declined from 63 per cent in 1991/92 to 46 per cent in 1997/98 while that of DD increased from 37 per cent to 57 per cent during the same period.

The absolute and relative decline in the volume of currency in circulation reflects the increased cost of holding cash in terms of forgone interest earning during the reform period prompting the tendency to save or acquire interest bearing assets other than cash. On the other hand, fast expansion of demand deposits (against which checks can be written) indicates the expansion of business activities necessitating cash transfer through checks.

In the early years of the reform program, therefore, M_1 was growing at an annual average rate of 13 per cent. As the two components of M_1 took different growth directions since 1995/96, however, growth in M_1 has been literally checked showing only marginal changes.

Figure 4e:



Apart from the growing demand deposits, actual decline in currency in circulation was accompanied by expansion of saving and time deposits. Quasi Money (saving plus time deposit) which grew on average by 9.8 per cent during the Derg period registered an annual average growth rate of 21 per cent during the reform period. In absolute terms, Quasi Money increased from Birr 2.16 billion in 1991/92 to Birr 7.6 billion in 1997/1998 witnessing to the favorable environment for savings which largely resulted from the attainment of positive real rates of interest and increased national income during the period under review. This is a good

indication to the expansion of financial intermediation service which serve as a basis for a healthy financial sector development.

Within Quasi Money, growth in time deposits (TD) has been stronger than that of saving deposits during the reform period. Average growth rate of TD during this period has been close to 30 per cent per annum while growth in SD stood at around 21 per cent. However, SD still accounts for a substantial part of interest bearing deposits accounting for 88 per cent of Quasi Money during the reform period. Its share declined to 85 per cent with that of TD accounting only for 15 per cent in 1997/98 F.Y.

various financial assets and transactions. Besides the NBE's autonomy in handling monetary matters, the relatively liberal state of the financial sector until 1974 was witnessed by the existence of private and foreign commercial banks.

Such a liberalized financial system was disrupted in 1974 by the take over of power by the Derg which subsequently nationalized all bank and non-bank financial institutions. A monetary and banking proclamation was issued in 1976 to regulate the operations of nationalized banks and deprived the autonomy of the NBE. Instead of being a monetary authority, the NBE thus became a financial arm of the state required to provide loan and advance to the government (whenever revenue falls short of expenditure) and/or demanding banks to buy government securities. After subsequent revisions, for instance, the limits on direct advances allowed to the government from the NBE were raised to 70 per cent of annual revenue from the 1963 level of 15 per cent.

The financial sector during the period 1974 to 1990 was restructured to serve the state and the development of the socialized sector which severely stifled the strength of the NBE and hindered the expansion of modern financial services. The contribution of Banks to overall economic development had been marginalized as a result of their pre-occupation with the inefficient and loss making socialized sectors during the period of the Derg.

The policy deviation to a market based economy following the take over of power by Transitional Government of Ethiopia (TGE) in 1991 entailed, among others, the restructuring of the financial sector to render it efficient and effective. The requirements were

(thus clear, i.e., granting autonomy to the NBE and strengthening its capacity, granting Commercial Banks with adequate autonomy to operate within the general financial policy framework provided by the NBE, and introduce a competitive (bank and non-bank) financial sector by allowing private sector participation in the sector, and by gradually moving towards the full liberalization of the financial sector.

4.2.2 Deposits Mobilization

Banks mobilize three types of deposits, viz., demand, saving and time deposits. Among these deposits, banks usually don't pay interest rates on demand deposits for they are transitory. Saving and time deposits, however, earn interest payments, the rates on the latter being higher than that of the former. Deposits are mobilized almost from all economic agents including individuals, private and public business enterprises, financial institutions and the government (The discussion that follows does not, however, deal with government deposits).

Regardless of the persistence of negative real rates of interest, interest earning deposits have been increasing during the Derg period. For instance, during the period 1980/81 to 1990/91, total deposit grew by 10.6 per cent per annum on average. Much of this growth in deposits was attributed to saving deposits (SD) which grew by 15.5 per cent on average during the same period. Though it was not affected by the rate of interest, demand deposit also grew, on average, by 11 per cent per annum during the Derg period. However, time deposits (TD) were declining by 5.4 per cent reflecting the direct disincentive effect of negative real interest rates on resource mobilization, on the one hand, and the weak

capacity of the domestic economy to set aside long term deposits, on the other.

The variations in the growth rates among these types of deposits was also expressed in trends in the proportion of the different types of deposits in total deposits mobilized. During the period 1980/81 to 1990/91, the share of DD in total deposits grew from 49 per cent to 51 while that of SD increased from 27 per cent to 43 per cent, respectively. The share of TD, however, declined sharply from 24 per cent to about 6 per cent during the same period.

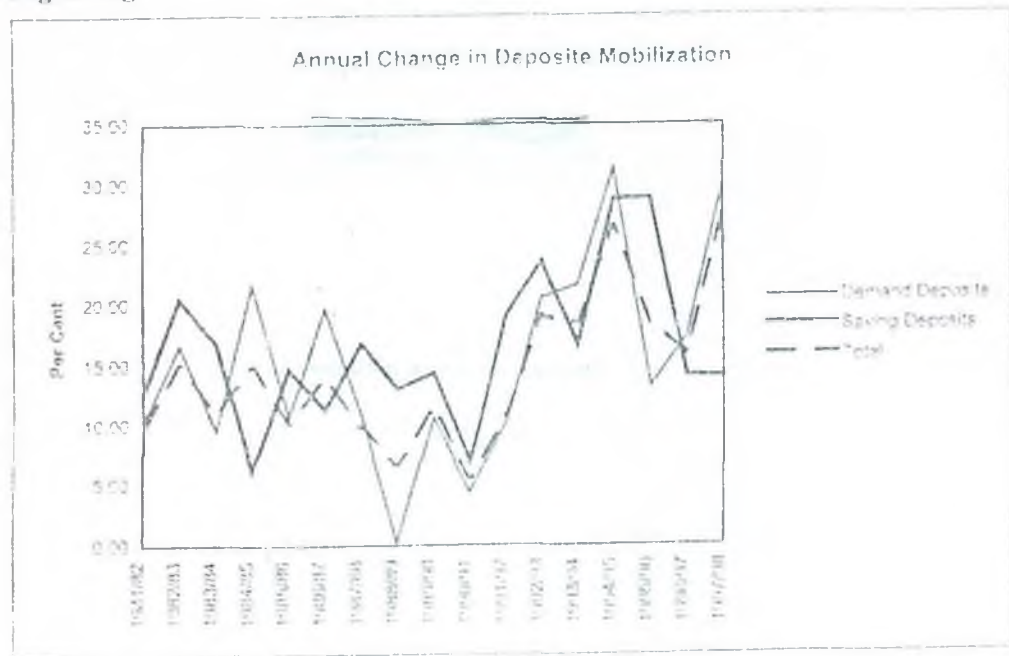
The Derg period witnessed higher growth in annual flow of funds to the specialized banks, i.e., DEE (formerly AIDB) and CBB (formerly HSB) as compared to that of the CBE. Thus, DBE's deposit showed an annual average growth rate of 17 per cent; followed by 12 per cent growth for that of CBB. CBE's deposits grew by 10 per cent per annum during the period.

As the specialized banks had not undertaken commercial banking operations during the Derg period, demand deposits were mobilized solely by the CBE. The remarkable growth in deposits going to the

specialized banks was by and large the effect of forced saving by public enterprises and non-bank financial institutions that were required to put their deposits in these banks at a rate far lower than the official deposit rate (i.e. only 1%). The main purpose of this arrangement was to finance investment or provide credit to the socialized sector and urban housing construction at a lower interest rate.

Nevertheless, the share of CBB and DBE in total deposit were very small during the Derg period, amounting on average to 9 and 27 per cent, respectively. The Commercial Bank of Ethiopia was dominant accounting for about 88 per cent of total deposit. Beginning from 1984/85, however, CBB's share in saving deposits showed a sudden jump averaging 23 per cent of total SD until 1990/91 (between 1980/81-84/85 its share was about 4 per cent on average). Likewise, the proportion of TD of the DBE averaged 45 per cent of total TD during the period 1986/87 - 1990/91, up from an average of 11 per cent share during the period 1980/81 - 1985/86. As a result of this, CBE's share in total SD and TD declined from 97 and 53 per cent in 1980/81 to 76 and 42 per cent, respectively, in 1990/91.

Figure 4g



Mobilization of deposits gained even greater momentum during the post-reform years spanning the period 1991/92 - 1997/98, owing mainly to the maintenance of real interest rates, on the one hand, and the recovery of economic growth on the other. Growth rate of total deposits in this period averaged 17.5 per cent per annum

where by DD, SD and TD grew on average by 18, 16.3 and 19.7 per cent, respectively. The reversal in the growth rates of TD from a negative pre-reform average to the highest post-reform average has been solely attributed to the change in the incentive structure of the financial system.

Figure 4h

Composition of Deposits Mobilized by Commercial Banks



DEPOSIT BY MOBILIZING BANK

Table 4.3

Million Birr

Item	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
ALL BANKS	5121	5672	6750	7992	10111	11976	13878	17705
CBE	4415	5022	6228	7436	9598	11194	12702	15518.1
DD	2603	2870	3461	4211	5504	6038	7065	9197.5
SD	1677	1999	2451	2844	3649	4585	5090	5623.1
TD	135	153	316	381	445	571	547	697.5
CBB	521	485	359	386	393	409	557	568.1
DD					11	38	37	26.8
SD	76	87	126	181	201	219	261	256
TD	445	398	233	225	181	152	259	285.3
DBE	185	165	163	170	86	10	38	632
DD						9.4	36	29.6
SD							2.1	2
TD	185	165	163	170	86	0.3	0.1	600.4
PRIVAT					34	363	581	986.8
DD					15.1	174.7	205.5	292.3
SD					18.5	180.7	334.3	602.6
TD						7.8	40.9	91.9

Unlike the Derg period, much of the new deposits in the post reform period has been flowing to the CBE whose deposits liabilities has been increasing at an average annual rate of 17.5 per cent during 1991/92 to 1997/98. The flow of deposits to the DBE, on the other hand, declined at an annual rate of about 10.6 per cent. The CBB also managed to

show modest increase in deposits mobilization, averaging 4.6 per cent during the same period. The fact that public enterprises and non-bank financial institutions are no more required to channel their deposits to the CBB & DBE explains much of the apparent slow down in deposit mobilization of these banks in the post reform period*.

* It is important to recognize that the specialized banks were not instituted for the primary purpose of mobilizing financial resources on commercial basis but to provide credit for sectors of special priority and agents using funds administratively channelled to them.

DEPOSIT BY TYPE

Table 4.4

Million Birr

Item	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Demand Deposits	2603	2870	3461	4211	5530.1	6260.1	7343.5	9546.2
Saving Deposits	1753	2086	2577	3065	3868.5	4984.7	5587.4	6483.7
Time Deposits	765	716	712	776	712	731.1	847	1675.1
Total	5121	5672	6750	7992	10110.6	11975.9	13877.9	17705

Source: NBE

As a result of such developments, the dominance of the CBE has been even further pronounced during the period 1991/92 to 1997/98 as witnessed by its mobilization of 92 per cent of total deposits on average. The share of CBB has declined from the Derg period average of 9 per cent to 4.8 per cent during the period 1991/92 to 1997/98. Until its re-establishment in November 1997 DBE's share in total deposits particularly between 1994/95 and 1996/97, was less than one per cent. An important development with respect to the CBB was, however, the increase in the share of time deposits since 1993/94 (averaging 25.2 per cent of total TD) which has been in line with its objective of providing medium to long term credit especially for construction purposes.

The emergence of private banks since 1994/95 was a new feature in the financial sector and their share in total deposits increased from 0.33 per cent in 1994/95 to 4.62 per cent by 1997/98. In terms of types of deposits, 7 per cent of total SD, 4 per cent of total TD and 3 per cent of total DD has been mobilized by these banks by 1997/98.

4.2.3 Loan Disbursements

Users of bank credit other than the central government are classified into three broad categories, i.e., the private sector, government owned enterprises, and cooperatives. This classification helps understand the role of different economic agents and

their access to bank credit under different economic policy environments.

The Derg period, especially that spanning the period, 1980/81 - 1990/91, witnessed a substantial growth of credit to the central government necessitated by the ever widening budget deficit. Apart from this, however, credit to the non-central government economic agents mentioned above showed a declining tendency at an average annual rate of 6 per cent per annum during the period 1980/81 - 1990/91. Credit flow to the private sector decelerated by an average rate of 5 per cent per annum owing to limitation on private sector activity on the one hand, and administrative bottlenecks encountered during the process of acquiring credit (like strict collateral requirement, lengthy paper works and regulations) and higher interest rates on credit.

Despite the importance attached to public enterprises, their absorption of credit during the Derg period also declined at an annual average rate of 10 per cent. This shows the lack of managerial autonomy of public enterprises on the one hand and for lack of dynamism on the other. The fact that new investment and expansion of public enterprises were undertaken through government capital budget is the major factor behind the decline in their credit intake. Credit to cooperatives, however, maintained a steady increase during this period averaging

16 per cent per annum though their share in total credit was about 11 per cent.*

Regardless of the decline in volume of credit channeled to public enterprises, it accounted for an average of 61 per cent of total credit disbursed during the period 1980/81 - 1990/91. The private sector also managed to draw about 28 per cent of annual credit disbursement in the same period except for the last year of the Derg where its share rose to 40 per cent, owing to a sharp decline in the share of public enterprises in that particular year.

One of the Government's important policy intervention in the post reform period has been the creation of a level playing field for private and public enterprises in terms of entry to market and access to resources. This has been ensured through amending the investment code, relaxation of business licensing requirements and regulations, and avoiding discriminatory interest rates instituted by the Derg regime. The objective was the achievement of a broader economic role of the private sector and a competitive market based economic system which ultimately leads to growth and development.

* Cooperatives share of total credit averaged less than 5% in the first half of the 1980's and grew to about 20% in the second half.

CREDIT DISBURSMENT BY CLIENT

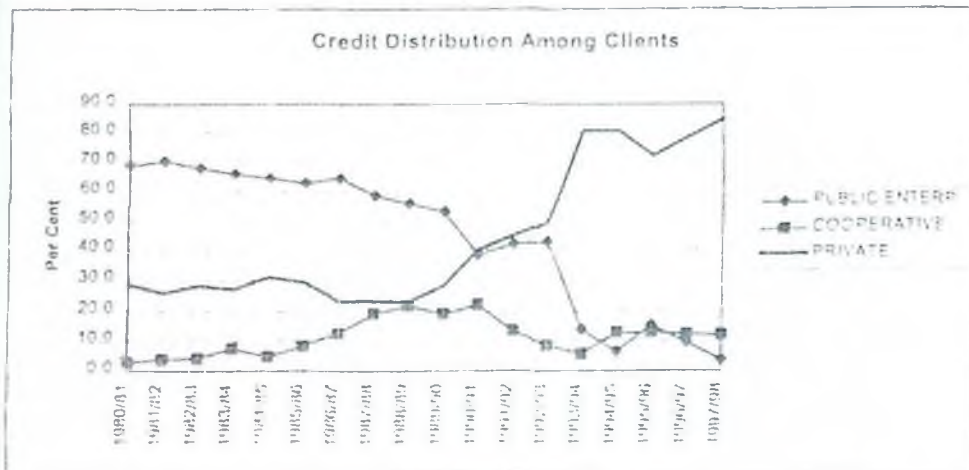
Table 4.5

Million Birr

CLIENT	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	Average	Share(%)
PUBLIC ENTERP	229.8	627.8	239.7	216.8	621	379.1	164	354	12.5
COOPERATIVE	74	124.7	99.4	425.4	524.7	494.5	550	327.6	11.6
PRIVATE	247.1	723.8	1411	2695.9	2947.9	3145.3	3867	2148.3	75.9
TOTAL	550.9	1476.3	1750.1	3338.1	4093.6	4018.9	4531.3	2829.9	

Source NBE

Figure 4i



Credit to public enterprises, however, kept on declining in the post reform period, though the rate of decline (5 per cent) is only half the average rate of decline during the Derg period. The on going privatization of public enterprises on the one hand and the managerial autonomy granted and the concomitant competitiveness on the other, the same play in different directions on the credit intake by public enterprises rendering the mixed results in recent years.

Government reform policies have thus succeeded in shifting the direction of flow of financial resources to more efficient sectors as evidenced by the structure of credit disbursement in the post-reform period. The average share of private sector credit during

the period 1991/92 to 1997/98 rose to 70 per cent while that of public enterprises dropped to about 19 per cent. The proportion of total credit disbursed to cooperatives have stood at its pre-reform average of about 11 per cent. The preliminary figures for 1997/98 indicate that 84 per cent of total credit will be absorbed by the private sector with the remaining 12 and 4 per cent going to cooperatives and public enterprises, respectively.

The decline in the annual flow of credit during the Derg period had been experienced almost by all sectors except that of industry (mainly manufacturing) and housing construction. The later two sectors enjoyed an average credit growth of 4.7 and 4 per cent per annum.

CREDIT DISBURSMENT BY SECTOR

Table 4.6

Million Birr

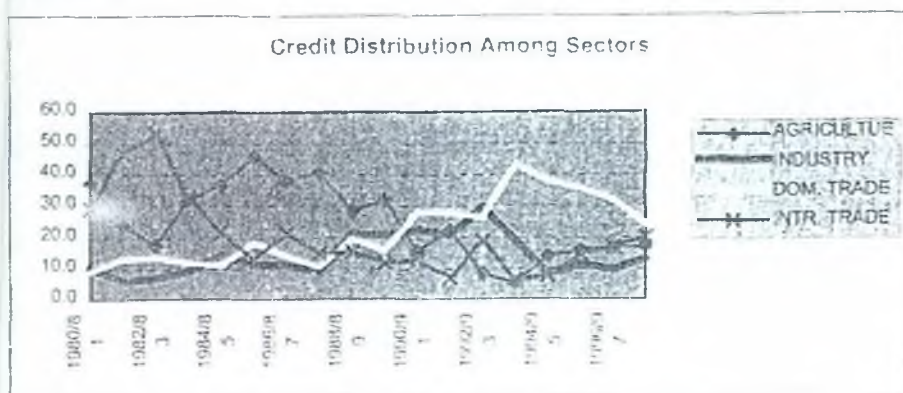
Item	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	Average	Share(%) average
AGRICULTUE	119.4	125.1	92.5	461.3	664.4	679.8	764.4	415.3	14.7
INDUSTRY	112.5	426.7	325.4	271.3	484.5	387.5	600.8	327.7	13.2
DOM TRADE	148.9	381.8	741.2	1249.7	1490.1	1274.4	1087.4	910.5	32.2
INTR TRADE	38.4	273.4	111.5	255.6	614.6	673.9	918.4	398.0	14.1
EXPORT	27.6	127.4	49.3	111.2	255.7	317	169.3	151.1	5.3
IMPORT	10.8	146	62.2	144.4	258.9	356.8	749	246.9	8.7
HOUSING & CON	62.1	57.9	123.7	124.8	130.3	194.7	125.6	117.0	4.1
TOTAL	550.9	1476.4	1750.1	3338.1	4093.6	4018.9	4581.3	2829.6	

Source: National Bank of Ethiopia

respectively while credit to agriculture and domestic trade declined by 2 and 3.4 per cent, respectively. A sharp decline had even been observed in credit flow to international trade, especially that of imports (20 per cent). Credit to agriculture and international trade has been growing at the rate of 40 and 48 per cent respectively, since the onset of the ERP ending in the 1997/98 F.Y. Average growth rate of credit to the industrial sector and domestic trade also stood at 20 and 32 per cent per annum, respectively during the post

reform period. However, the proportion of total credit extended to the agricultural sector and international trade averaged 15 and 14 per cent, respectively, during the post reform period down from their predominant positions of 32 and 25 per cent during the period of the Derg. More credit was channeled to domestic trade during the years 1991/92 to 1997/98 accounting for 32 per cent of total credit followed by the industrial sector which absorbed about 18 per cent of annual credit disbursement.

Figure 4j



It has been shown that about three-fifth of total credit during the Derg period went to public enterprises. A significant part of this loan came from the specialized bank, i.e., the then Agricultural and Industrial Development Bank which handled more than 35 per cent of total credit during the years 1980/81 to 1990/91. Credit discharged by the Commercial Bank of Ethiopia was 59 per cent on average while that of Construction and Business Bank averaged only 6 per cent during the same period.

With the abolition of preferential credit to public enterprises from specialized banks, a substantial part of loans during the post reform period came from the CBE (averaging 77 per cent) while the share of DBE, still important in the credit market, declined to about 15 per cent. Private banks in recent years have proved to be important sources of financial resources

channeling 16.7 per cent of total credit in 1997/98 (this figure was 6 per cent a year before).

Private banks as a whole are expected to disburse Birr 719.0 million loan during the fiscal year 1997/98 approaching some where around to the annual average volume of credit disbursement level during the Derg period (Birr 895 million). It is impressive to notice that the average level of credit during the post reform years was three times the average for the Derg period. It can be concluded that the period 1991/92 - 1997/98, witnessed a remarkable growth in credit disbursement, mainly to the private sector, through commercial banks than the specialized banks with an active involvement of private banks in the recent two years (1996/97 and 1997/98).

CREDIT BY SOURCE

Table 4.7

Million Birr

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	Average	Share(%)
TOTAL	550.9	1476.4	1750.1	3338.1	4093.6	4018.9	4561.3	2829.9	
CBE	364.3	1271	1455	2885.8	3436.5	3004.6	2586.2	2143.4	75.7
DBE	158.4	165	165.2	336.3	447.7	595	975.3	409.0	14.4
CBB	28.2	40.4	109.9	115	209.4	179.1	225.4	129.6	4.5
PRIVATE	--	--	--	--	--	240.2	794.2		

Source: NBE

Chapter 5

Population And Development

5.1 Background

Key conceptual consideration in development planning is the recognition that population is central in development issues and hence population concerns should be treated as an integral part of the broader socioeconomic system. The frame-work for integrating population in the development planning process requires an appreciation of the relationship between socioeconomic, and demographic issues and their implications for alternative development plans and programs.

The need for integrating population and development planning is based on the recognition of the facts that :

- People are the beneficiaries as well as the vehicle of development
- Development processes affect people and they, in turn, react to development efforts that affect their lives.
- Socioeconomic, demographic, physical, cultural and other factors interact with one another and influence the processes of development at the family and up to the national levels.
- A clear understanding of the interaction of demographic, socioeconomic and physical factor and their impact on the processes of development help policy makers and planners direct development processes to a desired end that will benefit the greatest number of people.

Particularly, in the Ethiopian context the most important questions which justify the importance of integrating population in the country's development plans are:

- How could Ethiopia produce enough food for a minimum of an additional 1.8 million mouths each year when we are unable to adequately feed the prevailing population?
- How could Ethiopia provide basic education and health services to all having a population growing by 1.8 million persons each year when we could not even provide enough services for our present population?
- How could Ethiopia be expected to create thousands of additional productive jobs every year when we cannot provide enough jobs for those unemployed currently?

These are practical problems arising from the rapid population growth rates with which policy makers and planners have to deal. Even with a decline in population growth, maintaining the present unacceptable socioeconomic indicators for the coming generation is a challenge to the country.

Therefore, integrating population issues into development plans at national and regional levels with the goals of achieving sustainable development, alleviating poverty and improving the quality of life of the people should receive greater attention and should be considered as a joint challenge.

The presentation that follows is intended to highlight some of the country's demographic features hoping that this will help policy makers and planners in making informed decisions about the trend in the country's population growth and development programs.

5.2 Population Size, Distribution and Structure

As human resource is one of the factors of production to satisfy society's needs, understanding the size, distribution and structure of population is extremely important for policy formulation and development planning. For instance, assessment of the size of the domestic market for manufactured products, establishing the size of the labour force and hence the rate of unemployment, Government's intention to expand the coverage of education and health service facilities, setting up social security schemes, etc. require the availability of at least bench-mark data on population size, distribution, and structure.

Population Size (Historical Perspective)

Ethiopia ranks third in (SSA) in terms of population size with an estimated population of nearly 60 million persons as of June 1998. Following Nigeria (121.8 million) and Egypt (65.7 million). A consideration of the historical perspective of Ethiopia's population shows that it was increasing at a very slow pace until about 1960 and the rate

of growth accelerated since then. At the turn of the century, it was estimated that the country had only 11.8 million people. This increased to 16.3 million in 1940, to 19.2 million in 1950 to 23.5 million in 1960. The first ever Population and Housing Census of May 1984 put the population of Ethiopia excluding Eritrea at 40.2 million persons.

As shown in Table 5.1 above, the rate of population growth increased to 2 per cent by 1950 and to 2.9 per cent at the time of the 1984 population census. As is also evident from the table above, the time required for the population to double has been getting shorter and shorter. It took 60 years for the population at the turn of the century to double and reach 23.5 million in 1960 but only 24 years for the 1960 population to increase to 42.6 million (40.2 million excluding Eritrea).

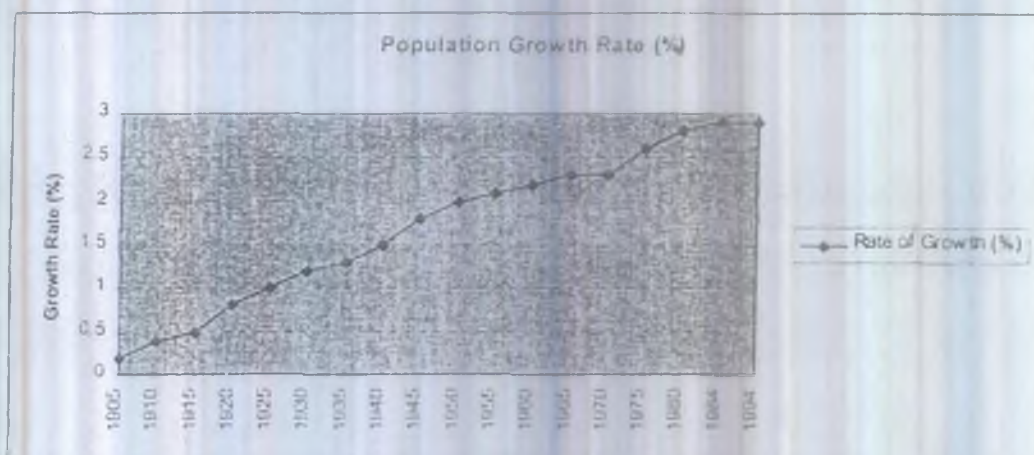
The second Population and Housing census of 1994 recorded a total population of 53.5 million which is an increase of 33 per cent (13.3 million persons) in ten years. This shows that the population of Ethiopia has been increasing at 2.9 per cent per annum through the inter-census years (1984 to 1994).

Population Estimates and Corresponding Growth Rates, 1900-1984.
Table 5.1

Year	Population (000)	Rate of Growth (%)	Year	Population (000)	Rate of Growth (%)
1900	11754.3	-	1945	17534.6	1.8
1905	11871.8	0.2	1950	19182.9	2.0
1910	12121.1	0.4	1955	21197.1	2.1
1915	12424.1	0.5	1960	23550.0	2.2
1920	12933.5	0.8	1965	26281.8	2.3
1925	13606.0	1.0	1970	29488.2	2.3
1930	14367.9	1.2	1975	33085.8	2.6
1935	15258.7	1.3	1980	37684.7	2.8
1940	16281.0	1.5	1984	42616.9	2.9
			1994	53480.0	3.0

Source: CSA, 1994 and Various other Issues

Figure 5a



If current trends continue unabated, the population of Ethiopia is expected to double in 24 years- some 120 million by the year 2022.

Population Distribution

The Ethiopian population is concentrated in the highlands. Nearly half of the population lives at 2200 meters above sea level while 11 per cent lives at altitude below 1400 meters. The remaining 40 per cent live between 1400 meters and 2200 meters. Population

density varies substantially with altitude. The highest population density prevails in the Enset zone with 500 or more persons per square kilometer and the lowest with ten or fewer persons per square kilometer in the lowland areas bordering Sudan, Kenya, and Somalia. It is estimated that nearly 80 per cent of the population live on 37 per cent of the total area of the country while the remaining 20 per cent live on the 63 per cent of the country's land area as the Table 5.3 below demonstrates.

Population size of Ethiopia by Region Urban and Rural Areas, October 1994
Table 5.2
(in 1000)

	Region/Administratio n	Male	Female	Total	Rural	Urban
1	Oromiya	9371.2	9361.3	18731.5	16762.4	1970.1
2	Amhara	6947.6	6886.8	13834.4	12569.0	1265.4
3	SNNP	5161.8	5215.2	10377.0	9672.2	704.8
4	Somalie	1744.8	1453.8	3198.6	2761.5	437.1
5	Tigray	1542.2	1594.1	3136.3	2667.8	468.5
6	Addis Ababa	1023.5	1089.3	2112.8	28.2	2084.6
7	Afar	601.0	459.6	1060.6	980.7	79.9
8	Benishangul/Gumuze	233.0	227.5	460.5	424.4	36.1
9	Dire Dawa	127.3	124.6	251.9	78.7	173.2
10	Gambella	92.9	89.0	181.9	154.4	27.5
11	Haran	65.6	65.6	131.2	54.8	76.4
	Ethiopia	26910.9	26566.2	53477.7	46154.1	7323.6

Source: CSA, 1994 Population and Housing Census, June 1998

Population Distribution and Density by Altitude in 1998

Table 5.3

S. N	Altitude above Sea level(meter)	Area			Population			
		'000 KM ²	% of total	Cumulated (%)	'000	% of total	Cumulated (%)	per Km ²
1	2,600+	63.1	5.8	5.8	6228	10.4	10.4	99
2	2,200-2600	128.4	17.8	11	23474	39.2	49.6	183
3	1800-2200	211.2	19.4	37.0	16707	27.9	77.5	79
4	1400-1800	306.0	28.1	65.1	6886	11.5	89.0	23
5	100-1400	145.9	13.4	78.5	4910	8.2	97.2	34
	<1000	234.0	21.5	100.0	1677	2.8	100.0	7
	Total	1088.6	100.0		59882			

Source: Adopted from Assefa (1994) and Adjusted for current Area and Population

5.3 Urbanization

The country is characterized by a small proportion of its population living in urban areas and at the same time by a rapid rate of urban growth. For instance, only 13.7 per cent of the population lived in urban areas in 1998, a level much lower even by African standards and the rate of urban growth was estimated at 5 per cent per annum.

More over, urban centers are characterized by small size settlements and the dominance of a single primate city, the national capital, as the main administrative, economic and financial center accounting for nearly 30 per cent of the total urban population in 1998.

In spite of the low level of urbanization, inadequate housing resulting in homelessness, overcrowded living arrangements, poor sanitation, shortage of health and educational

services are common features of most urban centers in Ethiopia.

5.4 Population Age structure

The age structure is both the determinant and consequence of population growth. The Ethiopian population is characterized by a young age structure with a median age of not more than 18 years a feature of rapidly growing population. Table 5.4 below shows the age distribution of the population for the last two decades and a half. On the whole, the table shows that the proportion of total population under 15 years of age was a little over 45 per cent in 1970 and 1981 but it increased to 48 per cent in 1984 and to 50 per cent in 1990. The proportion of working age population on the other hand declined from about 52 per cent in 1970 to about 44 per cent in 1990. The proportion of those aged 65 years and over increased from 3.2 per cent in 1970 to 6.2 per cent in 1990.

Age Distribution of the Ethiopian population, 1970-1994

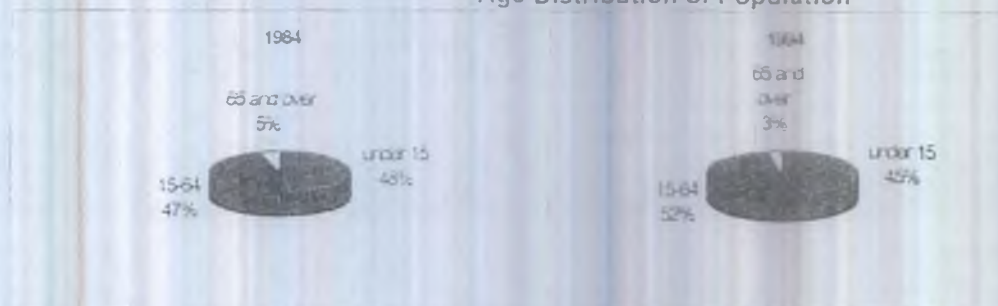
Table 5.4

Year of survey census	under 15	15-64	65 and over
1970	45.3	51.5	3.2
1981	45.5	51.0	3.5
1984	48.1	47.1	4.8
1990	50.0	43.8	6.2
1994	45.4	51.4	3.2

Source: CSO, 1970 and 1985; CSA, 1994

Figure 5b:

Age Distribution of Population



5.5 The Dependency Burden

One important implication of the age structure is the concept of dependency. As a matter of convention, those aged between 15 to 64 years are considered the population of working age while those under 15 years of age and those 65 years and over are their dependents.

At the aggregate level, dependency burden is measured by the ratio of the size of the dependent population the

sum of those people under 15 years of age and those 65 years and over to that of the working age population (15 to 64 years of age).

Since the needs of children and the nature of support they require differ from those of the elderly dependents, dependency ratio are often decomposed according to those two groups of dependents. Table 5.5 below presents the ratios for the population of Ethiopia for the last two decades and a half.

Dependency Ratios per 100 Persons of Working Age, 1970-1994

Table 5.5

S.N	Year of Survey/Census	Dependency Ratio per 100 persons		
		Youth	Elderly	Total
1	1970	88	6	94
2	1981	89	7	96
3	1984	101.9	9.2	111.1
4	1990	114	14	128
5	1994	83.8	6.6	90.4

Source: CSA Various Issues

It may be observed from the Table 5.5 above that dependency ratios have been increasing during the period 1970 to 1994. The youth dependency ratio increased from 88 dependents for every 100 persons of working age in 1970 to 114 in 1990 while the old age dependency increased from 6 in 1970 to 14 in 1990. One possible explanation for such a trend could be the increase in fertility and moderate decline in mortality rates.

Population data from the 1994 Population and Housing Census have indicated a decline in overall dependency ratio from 128 in 1990 to 90.4 in 1994. Youth dependency ratio has also declined from 114 in 1990 to 83.8 in 1994. Old age dependency ratio still show a decreasing trend from 9.2 in 1984 to 6.6 in 1994.

5.6 Trends in Fertility and Mortality

Fertility Rates

Fertility rates in Ethiopia had been high and increasing up until 1990, and took a declining trend thereafter as the results of the 1994 population and housing census have revealed. This is confirmed by the data presented in Table 5.6 below which shows the age specific fertility rates since 1970. The table demonstrates that the population is characterized by a broadly peaked age pattern of fertility that falls slowly with advancing age. This is a characteristics of populations where there is little parity-specific control. The table also shows that fertility had been increasing up until 1990. Total fertility, i.e. the number of children a woman would have during her lifetime if she were to experience the age specific fertility rates of the period, increased significantly from 5.2 in 1970 to 7.7 in 1990. A moderate decline has

been observed as we have moved from 1984 to 1994 where by total fertility declined from 7.5 to 6.7, respectively.

Fertility appears to have increased in rural areas during the period 1970 to 1990 while in urban areas it increased between 1970 and 1984 and then declined moderately. In rural Ethiopia, total fertility rate increased from 5.8 Children per woman in 1970 to 8.1 in 1984 and 8.2 in 1990. In urban areas, however, it increased from 4.7 children per woman in 1970 to 6.3 in 1984 but declined to 5.7 in 1990.

The 1994 Population and Housing Census results have revealed that urban fertility declined from 6.3 in 1984 to 4.5 in 1994 while rural fertility also declined from 8.1 in 1984 to 7.2 in 1994. The decline in urban fertility may partly be due to the rising age at marriage and partly due to the increasing use of contraceptives among urban women. For instance, it was reported that among urban women who married before 1970, the mean age at first marriage was 15.8 years but for those who married after 1976, it was 19 years indicating an increase of nearly four years. Moreover, 24.5 percent of currently married fecund women were reported to be using contraceptives in 1990 (CSA, 1993)



Age Specific Fertility and Total Fertility Rates
by Place of Residence (1970 - 1994)

Table 5.6

Age Group	Residence	Year of survey			
		1970	1984	1990	1994
15-19	Urban	0.095	0.066	0.046	0.035
	Rural	0.163	0.146	0.134	0.083
	Total	0.145	0.127	0.143	0.073
20-24	Urban	0.253	0.225	0.258	0.153
	Rural	0.287	0.314	0.349	0.269
	Total	0.255	0.296	0.352	0.245
25-29	Urban	0.223	0.290	0.323	0.219
	Rural	0.263	0.333	0.360	0.317
	Total	0.234	0.322	0.335	0.300
30-34	Urban	0.191	0.267	0.231	0.213
	Rural	0.188	0.303	0.323	0.286
	Total	0.167	0.292	0.311	0.275
35-39	Urban	0.110	0.223	0.153	0.156
	Rural	0.150	0.262	0.259	0.245
	Total	0.133	0.251	0.235	0.231
40-44	Urban	0.037	0.119	0.103	0.074
	Rural	0.064	0.149	0.131	0.137
	Total	0.057	0.145	0.108	0.128
45-49	Urban	0.025	0.076	0.020	0.050
	Rural	0.044	0.108	0.073	0.103
	Total	0.045	0.101	0.059	0.095
TFR	Urban	4.7	6.3	5.7	4.5
	Rural	5.8	8.1	8.2	7.2
	Total	5.2	7.5	7.7	6.74

Sources: CSO, 1985; CSA, OPHCC, 1991, 1993.

TFR= total fertility rate

As Table 5.6 above illustrates, there is significant difference between urban and rural fertility. Rural women had nearly two and a half more children than their urban counter-parts in 1990 (8.2 against 5.7). The corresponding figure for 1994 was more than two and a half more children (7.2 against 4.5). However, because of the fact that nearly 85 per cent of the population is living in rural areas the national average total fertility rate is closer to that of the rural in 1990 (7.7 against 8.2). The corresponding total fertility for the country as a whole stood at 6.7 in 1994 as is demonstrated in Table 5.6 above.

Mortality Rates

Some decline in mortality level has been observed in the population during the last two and a half decades. Mortality indices such as the crude death rate (CDR), infant mortality rate, and life expectancy at birth shown in Table 5.7 below reveal a pattern of mortality decline. The CDR declined from 20 deaths per 1000 population in 1970 to 16.4 deaths per 1000 population in 1990. This further declined to 14.9 deaths per 1000 population in 1994. Infant mortality rate slightly increased from 110 per 1000 population in 1984 to 116 per 1000 population in 1994. Life expectancy at birth increased from about 44 years in 1970 to about 54 years in 1990, an increase of about half a year per annum.

Crude Death Rate, Infant Mortality Rate and Life Expectancy at Birth

Table 5.7

Year of Survey	Crude Death Rate			Infant Mortality			Life Expectancy		
	Rural	Urban	Country	Rural	Urban	Country	Rural	Urban	Country
1970	20.0	16.9	20.0	155	134	153	43.8	45.0	NA
1981	18.1	15.7	17.9	141	117	139	46.5	50.8	NA
1984	17.2	14.7	17.1	112	94	110	51.7	55.06	NA
1990	NA	NA	16.4	111.6	94.2	110.1	53.2	56.7	54
1994	NA	NA	14.9	121	98	116	49.9	54.3	50.7

Source: CSA, 1988 OPHCC, 1991, CSA 1994

However, mortality is still at a very high level in the country. As depicted in Table 5.7 above, infant mortality stands at about 110 per 1000 live births. Maternal mortality ranges between 200 and 500 per 100,000 live births (Assefa, 1994). This puts the country as having one of the highest mortality rates. For several countries, infant mortality has reached half the level registered for Ethiopia and life expectancy is also much higher than 54. Moreover, the decline in mortality is rather sluggish in Ethiopia compared to that observed in other countries.

As per the 1984 population and Housing census results, the age-sex pattern of mortality appears to be heavier among infants and children under 5 than any other age group. According to this Census result infant deaths accounted for a quarter of all deaths while deaths to children between 1 and 4 years of age accounted for a little over a quarter implying that more than 50 per cent (52.7 per cent for males and 50.1 per cent for females) of all deaths occurred to children under 5 years of age. Table 8 below presents the age-sex pattern of mortality as per the 1984

population and Housing census results.

The share of deaths of children aged between 5 and 14 years was around 13 per cent (13.3 per cent for males and 13.4 per cent for females) while that of those in the 15-49 age group was about 18 per cent (16.7 per cent for males and 19.2 per cent for females), and for those in the age range of 50 and over it was 17.3 per cent. The greater number of female deaths during their reproductive years may be due to the higher probabilities among females of dying due to complications arising from pregnancy and child birth.

5.7 Migration

Data are lacking to examine the scope and trends in migration in Ethiopia. However, both temporary and permanent internal migration (movement of people within the country) have always been a common phenomenon of Ethiopian society. In the 1960s and early 1970s, for instance, partly because of the feudal type of land holding system and low productivity of peasant

Percentage Share Of Deaths By Broad Age Group And Crude
Death Rates By Sex And Rural/Urban Areas, 1984.

Table 5.8

Residence	Sex	Age Group					Total	CDR
		<1	1-4	4-14	15-49	50+		
Rural	Male	27.4	26.3	13.8	15.9	16.6	100	10.1
	Female	23.8	27.3	13.9	18.8	16.2	100	8.2
Urban	Male	24.0	19.1	9.6	22.9	24.4	100	6.9
	Female	20.3	20.5	9.2	21.2	28.8	100	4.7
Total	Male	27.1	25.6	13.3	16.7	17.3	100	9.7
	Female	23.4	26.7	13.4	19.2	17.3	100	7.7

Source: OPHCC, 1991

agriculture, and partly because of the expansion of mechanized farms, tens of thousands of persons migrated to the urban centers, and to the cotton and sugar plantations in the rift valley to work as seasonal and permanent farm laborers. A substantial number of the peasants and pastoral nomads lost their traditional farming and grazing areas when these lands were taken over by the emerging commercial farmers in the 1960s and early 1970s and as a result many migrated to coffee growing areas to work as coffee pickers or laborers in the expanding farms. This type of migration increased in proportion of overall migration (Berhanu, 1985) in the late 1960s and early 1970s.

In addition to rural-rural migration, significant rural-urban migration also existed in pre-1974 Ethiopia. For instance, rural-urban migration accounted for half of the growth of the urban population in Ethiopia in the 1970s (Hailu, 1982). Although the military government imposed restriction on population movements immediately after 1975, some form of population movement continued throughout the period.

Local movement of people also continued because of the unpopular and coercive villagization and resettlement programs of the military

government in addition to the more extensive movement of drought and war victims. In 1984, 16.4 percent of the total population enumerated by the Population and Housing census were reported to be migrants (OPHCC, 1991).

There has also been some international migration of small magnitude up until the eve of the 1974 Revolution. After the coming to power of the Derg in 1974 it increased tremendously. Throughout the 17 years of the Military Regime that culminated in its overthrow in 1991, population movements across international borders increased substantially due to drought, famine and war. Large numbers of Ethiopians migrated to the bordering countries of Djibouti, Kenya, Somalia and Sudan as refugees although their magnitude is not known with certainty. A significant number of them returned soon after the establishment of the Transitional Government of Ethiopia (TGE) in mid-1991. A number of highly trained Ethiopians also fled to countries in Europe, the United States and Canada. Ethiopia sustained a tremendous loss in trained manpower during the 17 years of the Derg and had become one of the few countries severely affected by brain drain.

5.8 Implications on Economic and Social Development.

Accelerated population growth is likely to continue even if fertility drops to the

replacement level due to what is known as population momentum which refers to the in-built tendency for a population to continue growing because of its present disproportionately youthful age structure. As the high proportion of children under 15 years grow and enter the reproductive ages, the cohort of child bearing age will continuously increase in size and produce more children overall, even with a declining number of children per woman.

Population growth, its structure, age and sex composition, spatial distribution, etc., are important factors in determining the present and future development needs

In the short-term, high fertility increases the dependency burden and reduces the saving and investment required to expand the production capacity of the economy. The high dependency burden may also shift the pattern of investment to a "welfare" type investment (health, education, housing, etc.) from directly productive type investment (plants, factories, etc.). Hence, the level and composition of net investment resulting from the effects of increased dependency burden would tend to reduce growth in total output or per capita income.

In the medium-term, high fertility will increase the size and the rate of growth of the labour force which requires a given level of investment to provide them with productive employment. In the long-run the cumulative impact would lead to a high density of labour force relative to resources (land and capital) with a consequent adverse impact on the growth of output.

On the social front, provision of adequate education, health and housing services to the growing population has become a formidable challenge to planners and policy makers in Ethiopia. More than half of

the school age population (7-12 years) still remain outside the educational system. More over the quality of education has been deteriorating. As to health facilities, it is estimated that about 47 per cent of the Ethiopian population lives within a radius of 10 kilometers from health care facilities. The ratio of population to doctors is approximately 30,700 and the ratio of population to a nurse is 15,000.

The aforementioned socioeconomic indicators suggest that the expenditures on the social sector (health and education) has to increase substantially even to maintain the current level of service provisions assuming that the cost per unit remains unchanged.

The utmost high emphasis accorded to the social sector and infrastructure by the TGE which is further strengthened by the Federal Democratic Republic of Ethiopia (FDRE) is a step towards alleviating the social and economic problems brought about as a result of high population growth accompanied by a dismal performance of the Ethiopian economy in the late 1970s and that of the 1980s.

5.9 Population Programs Implementation

Until recently there was no explicit population policy in Ethiopia. In April 1993 the Transitional Government of Ethiopia approved and promulgated the National Population Policy with the goal of maximizing the welfare of the country by harmonizing rates of population and economic growth. The policy specifically calls for:

- reducing the TFR to 4 by the year 2015;
- increasing the contraceptive prevalence rate (CPR) to 44 per cent by 2015; and
- reducing maternal, infant and child morbidity and mortality rates

The policy identified four major areas of population activities requiring priority attention. These were:

- improvements in the quality and scope of reproductive health service delivery;
- population research, data collection and dissemination,
- expansion and strengthening of domestic capacity for training in population; and
- expansion of IEC activities and social mobilization.

After the adoption of the policy, a Plan of Action was formulated for implementing the policy, for the period 1994-1999. In order to consider new developments such as the ICPD Program of Action (Cairo 1994) and decentralization process, the Plan of Action was revised and renamed as National Program covering the period 1997-2001. The program is divided into three main components: Population Information, Education and Communication (POPIEC); Reproductive Health/Family Planning; and Population and Development. The population and development component gives focus on data collection, research and training.

5.10 Population Projection and Its Implications Population Projection

Population projections are estimates of the future size of the population at specified dates using different assumptions on the future trends of

fertility, mortality and migration. These projections are essential in development planning, specifically in planning for the provision of food, education, housing and other basic social services for the coming years.

For the purposes of this paper, the CSA projection made based on the 1994 census result is used. This projection is prepared to serve as an interim source of population information until the 1994 census analytical report is issued.

The population projection prepared by the CSA covers the period 1995-2030. The base year data used for the projection is the latest 1994 census data. The projection is made separately for regions. The aggregate for regions resulted in the projection at country level. The method used for the projection is the Cohort Component Method which assumes different fertility and mortality rates taking into account the changes in the country's socioeconomic structure and policies directed towards family planning. In this projection, it is assumed that fertility will decline from 6.52 in 1995 to 3.32 in 2030. The projection results refer to the first of July of the corresponding year.

The projection result showed that the population of Ethiopia will grow from 54.6 million in 1995 to 129.1 million in 2030, or by about 74.5 million over the 1995 population. This shows that the population will grow annually by 2.46 per cent between the years 1995-2030. The projection result for the years 1995-2000 is presented in Table 6.9 below.

Projected Population of Ethiopia by Regions (in '000)

Table 5.9

Region	1995	1996	1997	1998	1999	2000	Annual Increase (%) ^a (1995-2000)
Oromiya	19158	19779	20409	21046	21694	22354	3.09
Amhara	14128	14552	14980	15412	15850	16295	2.85
SNNP	10627	11001	11376	11753	12132	12515	3.27
Somali	3249	3332	3420	3510	3602	3698	2.59
Tigray	3203	3299	3396	3494	3593	3694	2.85
Addis Ababa	2157	2220	2286	2354	2424	2495	2.91
Afar	1079	1106	1133	1160	1188	1216	2.39
Benishangul	470	483	495	509	523	537	2.66
Dire Dawa	259	271	282	294	306	318	4.10
Gambella	185	190	195	200	206	211	2.63
Harari	135	139	145	150	154	160	3.40
Country	54649	56372	58117	59882	61672	63495	3.00

Source: CSA, 1994 Population and Housing Census of Ethiopia, Results at Country Level, volume 1 Statistical Report, June 1998, Addis Ababa.

Average annual increase between 1995 and 2000 is computed based on an exponential method.

Projection Implications

The results of the projection have strong implications on resource requirements and future prospects of education, health, agriculture, environment, employment and other sectors of the economy in the country.

While it may be argued that educational progress has been and is being made in Ethiopia, and that larger numbers of children are entering the school system than ever before, it will take enormous effort to expand the country's school system quantitatively and improve qualitatively to the point where the opportunity is accessed to all children.

According to the Ministry of Education, primary school enrollment increased from 451.5 thousands in 1968 to 2.28 million in 1994. On the other hand, the number of out-of-school children in primary education increased from around 4.5 million in 1968 to around 7 million in 1994.

In 1995, there were about 9.1 million children of elementary school-age (7-12). In the projection, these children will increase to 9.8 million by the year 2000, and to 17 million by the year 2030. The huge gap between actual enrollment and potential school-age population clearly shows the role of demographic factors in determining the ability of the government to meet the educational requirements of the people.

The demand for educational facilities and services in Ethiopia for the next decades is reflected in the potential school age population at each level of education. Estimates of the potential school age population for the next three decades indicate that the school age population at primary, junior and senior secondary levels will increase from year to year.

The benefits of lower fertility, which will reduce the school-age population and the amount of resources required for the education of children, will be immediately felt in 7 years. This is because children enter first grade at the age of 7. This reduction will help in the attainment of goals such as improvement in the quality

of education. Thus, in the long run, checking population growth will result in resource savings that can be utilized to increase the quality of education at all levels.

With regard to health, a rapidly growing population will most certainly generate heavy demand for all types of health services. In order to maintain the current level of basic services to the growing population of Ethiopia by about 1.6 million persons annually, facilities and the number of health care personnel must expand accordingly.

In a high fertility country like Ethiopia, provision of primary health services should emphasize on the care of mothers and children. The number of women who require Maternal and Child Health Care Program (females in the reproductive age 15-49) is estimated at about 12.2 million in the year 1994 and this number is expected to grow to 14.3 million by the year 2000. Access to health service is a right but not privilege. As such, its preservation and improvement is of great importance. However, in the environment of rapid growth of population, expansion and sustained improvements in Health Care is a great challenge to the country.

Because of the rising trend in population the needs for housing, employment, agricultural land and food in the future are also enormous. Rapid population growth has short and long term effects on social and economic development that hinder the achievement of development objectives. Implementing the population policy effectively can enhance the development efforts in a number of ways. Among others, it would have an immediate effect on the health of mothers and children and would begin to affect school enrollment.

In summary, the rapid growth of population, more so when the pace of development cannot keep up with it, is a major obstacle to economic and social development. It makes more difficult the attainment of sustained economic growth. The country's demographic future indicates that each year, it is estimated that close to 1.8 million more are added to the population. Due to the inherent momentum of population growth, the population of Ethiopia will continue to grow for the next century even if fertility can be brought down rapidly to the desired level. This is because tomorrow's parents have already been born, and will remain at the peak of their reproductive period for the next three decades or so. In the face of this trend in the growth rate and the already sizable population base, Ethiopians will face the challenge of such growth over the coming years.

The paramount intent of public policy, after all, is to promote improved living standards. Arguably, the slow pace of development cannot be blamed on unchecked population growth alone, nor will reducing population growth can complement other development efforts in enhancing welfare and help improve the quality of life. The interrelationship between population and development is born out by the fact that success cannot be achieved if government does not act simultaneously on both fronts. Therefore, sustainable development requires equal commitment to a rational population program as a crucial part of the effort to improve the lives of Ethiopians.

Chapter 6

Employment

6.1 Background

In the Ethiopian context, the challenge of employment generation is tantamount to achieving the objectives of sustained growth and reduction of poverty. In fact, they are inseparable and interdependent long-run development goals. Thus, in the face of the rapid rate of population growth and its very young age structure with a median age of around 19 years, the economically active population of Ethiopia has been increasing at an accelerating pace. If the new entrants into the labor force are to be engaged in productive employment, the rate of growth of both output and labor productivity have to surpass that of the labor force.

The poverty dimension of employment is also critical given the structure of labor absorption of the economy where the subsistence rural economy still supports more than 50 per cent of the country's poorest segment of the population. Moreover, the mounting open unemployment and the ever expanding informal sector calls for measures that could simultaneously address poverty alleviation and employment promotion.

This survey report on Employment/unemployment attempts to review policy and strategic measures and national programs adopted since the onset of the Economic Reform Program (ERP). The objectives of direct and/or indirect employment creation (generation) is at the heart of these various multidimensional programs and policies as well as strategic measures. This will be followed by a review of the labor market, the unemployment/under

employment problem and future prospects. Paucity of statistics on the many faceted unemployment problems has limited the scope of the review exercise to providing an overall picture on the employment/unemployment scene in Ethiopia.

6.2 The Policy Environment

Development policies and strategies, as well as medium to long-term development programs adopted by the then TGE and the now FDRE since the launching of the Economic Reform Program has encompassed employment objectives: increase labor absorption, ease structural limitation of the labor market that hinder labor mobility, enhance labor productivity and check the current pace at which the labour force is increasing. Among the measures taken so far include, the poverty focused Agricultural Development Led Industrialization (ADLI) strategy, the reform taken to improve the performance of the labor market in line with the market-oriented economic system and the private sector development centered reform packages.

Moreover, measures related to food security, micro and small-scale enterprise development strategies, social sector development programs, steps taken to enhance women participation in the economy, and the population policy have been both poverty and employment oriented measures. Apart from the aforementioned medium to long term measures, the government has also attempted to address transitory unemployment and other social

problems through measures including the safety-net program to address the social dimension of adjustment and the employment implication of public sector reform programs. The Labor Intensive Works (LIW) including food for work programs has also been effected to cope with the problem of post war social disruption and displacement.

6.2.1 Poverty and Employment Focused Policies and Programs

The long term development strategy of Ethiopia adopted since 1993 was one of the notable steps taken by the Transitional Government of Ethiopia (TGE) to address the structural bottlenecks of the economy while at the same time tackling the deep rooted and wide spread problem of poverty. The main thrust of the ADLI strategy rests upon enhancing productive employment in the rural economy through the promotion of both supply and absorption oriented measures. The promotion of productive employment is at the heart of the medium and long term objective of poverty reduction and its ultimate eradication.

The ERP launched since 1992/93 which aimed at rehabilitating the badly managed and war-thorn economy through a package of stabilization and structural adjustment measures has also had an implicit employment promotion objective. Firstly, the steps taken to improve the functioning of the various commodity and factor markets have been crucial to enhance employment through the increased supply and efficient utilization of non-labor factors of production to enhance the absorption of one of the country's major resource endowment-labor. The progress made so far in creating an enabling environment for private

investment and the encouraging participation that has been witnessed so far is of paramount importance in increasing employment. The progress in rationalizing public expenditure, most importantly, the steps that have been taken towards the development of human resource through adopting appropriate sector development policies and SIPs have been critical to enhancing labor absorption and its productivity.

The National Policy on Women and the effort to mainstream women across all aspects of developmental endeavor has had an important implication for employment generation. The integrated gender oriented strategy is comprised of a number of employment generation dimensions. Along this line, a policy guideline on women's employment has been developed to provide directives and incentive schemes that help ensure the equal treatment of men and women. Besides, measures being taken to improve women's access to resource and public services such as education, serves as a corner stone for employment generation and poverty reduction.

The Small Scale and Micro Industry Development Strategy (SSMID) and the accompanying programs such as rural credit and micro financing schemes are crucial in terms of generating rural non-farm employment. Such efforts have also been critical to enhance employment creation in the informal sector. To this end the various vocational training programs being conducted in some regional towns to alleviate the prevailing acute shortage of skilled man power in regions have also contributed to promoting productive employment.

With regard to the public sector in

general and the civil service in particular, reform measures have been aimed at enhancing the efficiency and productivity of employees. To ameliorate the harmful transitory impact of retrenchment, the government has taken measures including redeployment of public employees and the launching and subsequent implementation of a safety net program.

On the supply side, the population policy adopted in 1993/94 has attempted to address the ever widening growth gap between population and development. In this regard, specific targets set on the fertility, structure, and rate of growth of the population has helped slow down the accelerating growth of the labor force.

6.2.2 Policy Towards Improving the Labour Market Performance

As an integral part of the overall reform program, the TGE has taken a step towards reforming the labor code. The new labor code adopted in 1993 has been aimed at changing the socialist oriented labor code of 1975.

From the outset, the two labor codes are meant to serve two distinctly different purposes. The labor proclamation No. 64/75 was aimed at promoting a socialist system characterized by its "labor right"-centered measures including protection of labor right and improving condition of work; and ensuring fair remuneration within the context of socialist principles. Consistently, the right to form union was reserved for labor primarily for non-economic objectives, to serve as a vehicle for attaining political consciousness.

The 1993 labor code, on the other hand, defines its main purpose as a legal framework for worker - employer

relation. Accordingly, the Labor Proclamation of 42/93 has explicitly articulated the right and obligations of both employer and employee that are consistent with a market oriented economic principles. The outstanding objectives of this labor code include: maintaining industrial peace, establish a system in which employers and employees work in the spirit of harmony and cooperation, guarantee the right to form associations for both workers and employers, re-define the role of the state that is, from a direct interventionist to that of a supervisory role so as to ensure that the legal framework is observed by the two parties. Unlike the previous labor code, the 1993 code has taken into account international conventions and legal commitments to which Ethiopia is a signatory.

The liberalization of the labor market has been marked by the termination of the article in the previous labor code that enforced an obligatory "Employment Exchange" under the previous socialist system. According to Section 2 and article 2 of Labor Proclamation 64/75, the government through the employment office reserves the right to register job seekers and recommend job seekers to undertakings for employment. As per this regulation (Labor Code), no undertaking shall employ workers directly from the market except in the absence of employment offices. This code is now revoked opening the chance for market oriented and decentralized recruitment and employment procedures. Amendments have also been effected on other aspects of the code that have not been compatible with principles of a deregulated labour market. Some of the changes from the 64/75 labour code are:

- the employment relation while contracting has been relaxed by excluding the article in the 1975 labor code which states "no worker is required to provide a guarantee or monetary security".
- the duration of contract was further relaxed to allow for more flexibility while recruitment. Specifically, the new labor code allows employers to recruit a worker on a temporary basis on jobs which might have a continuous nature whenever required, for example, in the event of abnormal pressure of work. The probation period for new recruit has been lowered from a maximum of 90 days to 45 days. Further improvement was also made regarding gender with an explicit provision for the protection of women employees.
- the legal basis providing strong protection against cancellation of contract of employment was made flexible under the new Labor Code. The scope for modification of contract of employment and conditions for modification extended to include a number of unforeseen events. Moreover, the scope for lay off of workers has been relaxed under the new Code along with the phases and sequences to be followed while cutting back on employment. Although the right of workers to resign was incorporated in previous labor code, its implementation had been blocked through directives & internal memos, resulting into limited labor mobility. Since the adoption of the new Labor Code, this provision has been widely practiced allowing for free labor mobility.
- further amendment has also been effected regarding minimum

condition of work with the spirit of providing more room for flexibility for employers and better condition for the workers as reflected in the increase in maternity leave from 45 days to 90 days. Regarding wage, while the 1975 labor code explicitly stated that it shall not be less than the minimum wage fixed in accordance with the law or collective agreement, the new labor code neither explicitly nor implicitly set minimum wage.

- while relaxing the terms and conditions of employment to ensure a liberal labor market, the new labor code also underscore the need for a strong legal basis for safety of working environment by including relevant articles defining obligations of both parties in maintaining occupational safety, health, and working condition.

With respect to the civil service, on the other hand, it is still governed by laws issued more than two decades ago. These legal notices include: No. 23 of 1961 (amended by order NO. 28/62) to establish the then Central Personnel Agency (CPA) and the now Federal Civil Service Commission (FCSC), legal notice No. 269 of 1962 issued to establish the Civil Service which laid down the procedures for personnel functions; and legal notice No. 19 of 1972 cited as the "Public Service Position Classification and Scale Regulation No. 2 of 1972". On the other hand, the previous minimum wage level has been revised upward from Birr 30 per month to 105 per month. An upward adjustment was also made for low-income category pensioners. Moreover, the two-decades old wage freeze enforced on the civil service has been lifted. Apart from the above interim measures, currently a comprehensive

Civil Service Reform program is under implementation to overhaul the system and ensure quality, transparency and efficiency of service delivery.

As a separate agenda, the TGE also made a significant move regarding rural labor market by lifting the restriction to hire labor for agricultural activities. Employment of daily labor on individual private farms was forbidden under the previous regime on the ground that such employment would lead to the exploitation of the poor by the rich.

6.3 Size and Structure of the Labor Force

The two Population and Housing Censuses conducted by the CSA in May 1984 and October 1994 provided comprehensive information on the size and structure of population and demographic characteristics of the country. The disproportionately young age population (a little less than 50 per cent of the population being under 19 years of age), has serious implication on the size and composition of the labour force.

Table 6.1 below depicts the size and composition of the labor force. Thus, the total number of population of ages 10 and over in 1994 was estimated at about 36.6 million. The increase in the population of this age group at an accelerating pace has changed the population structure. Accordingly, the

proportion of the population of ages 10 and over increased from about 51 per cent in 1984 to about 68 per cent in 1994. Such a pace in the structure of the population has an obvious impact on the labour force and hence unemployment given the current employment generation capacity of the modern sector of the Ethiopian economy. Consistent with the age structure of the population, the size of the labor force (Economically Active Population) has shown a significant increase from 14.7 million in 1984 to 26.5 million in 1994. At least three factors could be attributed for the accelerating labor force: the growth of the population at an increasing pace, the shift in the structure of the population, and the observed upward shift in activity rate.

As shown in Table 6.2 and the graphs below, the increase in activity rate during the period 1984-1994 has not been uniform between male and female. The structural shift has been more pronounced for female than male between the two censuses years in both rural and urban areas. With respect to age, the activity rate of the second and third youngest age categories (15 - 19 and 20 - 24) has exhibited a substantial increase between 1984 and 1994. On the other hand, despite the relatively higher increase in female participation rate, the level remains still lower than that for men. (See also Annex 1)

Population Ten Years and Over and the Economically Active Population

Table 6.1

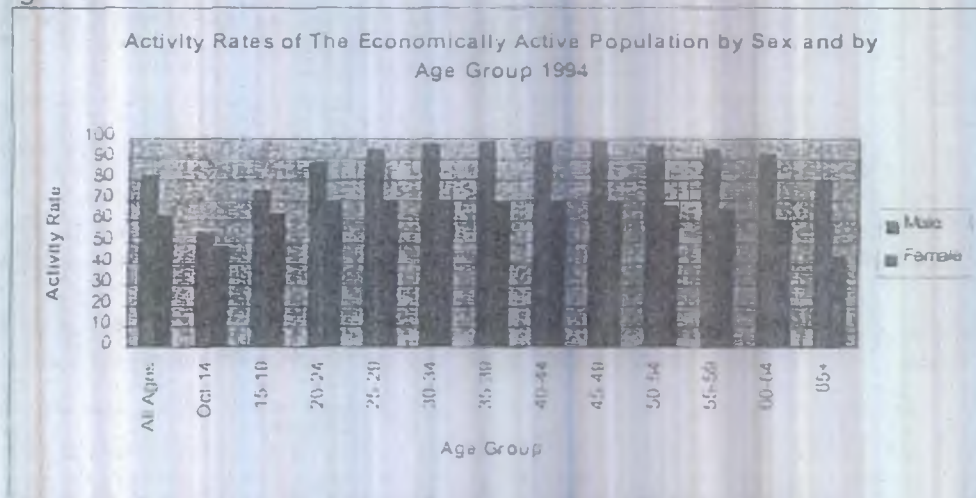
Item	1984	1994	Annual Average Growth Rate (%)
Total population	42828500	53477265	
Total Number (Age 10 & above)	21928738	36626388	5.3
- Active	14742541	26503054	5.9
- Inactive	7186197	10040831	3.3
Activity Rate	67.2	72.52	

Source: Based on 1984 and 1994 Population and Housing Census estimates, CSA.

Figure 6a:



Figure 6b



According to the census results, the decline in the proportion of the young who are attending school, home makers and disabled population in the total

population of ages 10 and over were among the major attributive factors for the observed increase in activity rate. School attendance which is cited among

the factors for not working has exhibited a much higher drop for men than women. (Table 6.3).

A relatively higher school attendance in urban areas has been reflected in the relatively lower activity rate in urban area than that of rural area. The gap in the activity rate between urban and rural female population has remained wider than the gap for men partly reflecting the relatively lower attendance rate for female in rural areas.

The burden of creating productive employment was more formidable than ever during the launching of the ERP. The challenge of creating productive employment for the growing labour force was further compounded by the demobilized ex-soldiers (about half a million) and the approximately 450,000 refugee returnees from neighboring countries. This exogenous factor is believed to have contributed for the substantial increase in the 1994 labour force.

Population Aged 10 and Above and Activity Rate
By Sex for Rural and Urban Areas

Table 6.2

Area	1984		1994		Annual Average Growth Rate (%)
	Population (age 10+)	Activity Rate (%)	Population (age 10+)	Activity Rate (%)	
Urban + Rural					
- Both sexes	21938738	67.2	36526393	72.5	5.3
- Male	10835370	72.2	18342332	82.1	5.4
- Female	11103368	55.5	18284061	62.9	5.1
Urban					
- Both sexes	3335964	43.5	5549307	50.0	5.2
- Male	1513816	59.2	2637122	62.0	5.7
- Female	1822146	31.2	2912185	39.1	4.8
Rural					
- Both sexes	18602774	71.5	31077086	76.5	5.3
- Male	9321552	82.6	15705210	85.5	5.4
- Female	9281222	60.3	15371876	67.4	5.2

Source: Based on the Population and Housing Census Estimates of 1984 and 1994. CSA. The growth rate is calculated based on the compound formula.

Percentage Distribution of Economically
In-Active Population by Sex and Reason for not Working

Table 6.3

Reason for Not-Working	1984			1994		
	Total	Male	Female	Total	Male	Female
Students	29.2	53.7	18.1	27.2	48.1	17.0
Home makers	39.4	5.2	53.7	38.4	5.8	54.2
Disabled	3.2	3.7	2.9	2.2	3.2	1.7
Prostitutes	0.7	-	1.0	-0.1	-	0.1
Too-young	27.5	39.3	24.4	31.8	42.9	26.5
Pensioners and others						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total In-Active Population	7196197	2253858	4942339	10040834	3272933	6767901

Source: CSA.

The increase in the urban labour force could be partly attributed to rural - urban migration. As depicted in Table 6.4 below, rural - urban migration is more prevalent than other forms of migration accounting for about 40 per cent in 1984. The pattern of migration has, however, changed since 1984 as reflected by a little less than 50 per cent share of rural - rural migration and an about 25 per cent share of rural - urban migration in 1994. As per the 1994 census results, intra - rural (rural - rural) migration has become a dominant form of migration in Ethiopia.

6.4 The Level and Pattern of Employment

The labor market in Ethiopia is basically composed of two segments the unregulated traditional sector and the regulated modern sector employment. Under the first category, the rural small holders peasant sector and the informal sector account for more than 90 per cent of the economically active labor force. The latter include wage employment associated with the modern rural and urban sector employment.

As can easily be arrived from the results of Table 6.2 above, the proportion of the urban labor force is put at about 15 per cent of the total. The urban share increased marginally (by a little less than 1 per cent) between 1984 and 1994. Table 6.5 and 6.6 provide additional information on the structure of labor absorption in both rural and urban economies of Ethiopia.

Of the total labor force, close to 90 per cent is believed to be engaged in agriculture and this proportion has remained stable during the ten years period (1984 - 1994). Despite a 4

percentage point increase in the proportion of urban labour force engaged in agricultural activities between 1984 and 1994, the activity has remained to be largely rural dominated accounting for about 97 per cent of gainful employment in the total rural labor force.

For the economy as a whole, distributive services activities (trade, hotels and restaurants and transport and communication) and the "other" services sectors distantly follow agriculture in terms of labour absorption. One important observation regarding the structure of labor absorption for the economy as a whole is the significant drop in the share of labor absorbed by public administration and defense and compulsory social security sector i.e. from 5.1 per cent in 1984 to only 1 per cent in 1994. The observed fall has been partially offset by an increase in employment in the distributive services and the industrial sectors. However, the greater proportion of the observed decline in absorption by public administration and defense sector seems to have aggravated the unemployment problem.

Table 6.5 further indicates the gradual shift in labor absorption towards commodity producing and distributive services sectors. The highest increase in labor absorption in the urban area was noted for agriculture whose share rose from 9.1 to 13.4 per cent while the share of the "other" service sector (particularly that of defense) between 1984 and 1994 has been profound as reflected by the sharp drop from 44.5 per cent in 1984 to 10.4 per cent in 1994. This is believed to have a direct bearing on urban unemployment.

Percentage Distributions of Migrants by Origin and Destination

Table 6.4

Form of Migration	Percentage Distribution of Migrates	
	1984	1994
Rural - Rural	36.7	48.8
Urban - Rural	2.5	7.3
Rural - Urban	40.0	24.8
Urban - Urban	20.8	18.9
No. of Migrants	112820	691655.3

Source: CSA

Distribution of Economically Active Population by Major Industrial Division for Urban and Rural Areas (%)

Table 6.5

Major Industrial Division	1984			1994		
	Total	Rural	Urban	Total	Rural	Urban
Agriculture, hunting, forestry and fishing	88.6	96.7	9.1	89.3	95.6	13.4
Mining and quarrying	-	-	0.3	0.1	0.02	0.3
Manufacturing	1.6	0.5	10.7	1.8	0.8	12.2
Electricity, gas and waters	-	-	0.7	0.1	-	1.0
Construction	0.3	-	2.2	0.3	0.4	3.1
Wholesale and retail trade repair of vehicle, personal and household goods	3.8	1.4	27.8	2.4	0.8	19.2
Hotels and restaurants	-	-	-	1.8	0.9	11.7
Transport, storage and communication	0.4	-	3.9	0.6	0.1	5.8
Financial inter-mediation	-	-	0.8	0.03	-	0.4
Real estate, renting and business activities	-	-	-	0.04	-	0.5
Public administration and defense, compulsory social security	5.3	1.3	44.5	1.0	0.1	10.4
Education, health and social works	-	-	-	0.7	0.2	6.4
Others	-	-	-	1.9	0.5	15.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSA

The other interesting feature of the Ethiopian labor market is that related to the subsistence nature of the economy in which the self employed and unpaid family workers account for more than 90 per cent of the employed labor force. Between 1984 and 1994, a shift has been observed within this composition: self-employment dropped from 57.1 to 39.5 per cent while that of unpaid family workers rose from 34.2 to 51.1 per cent. Moreover, there seems also to be a shift in the pattern of employment from government to private sector. Both

sexes follow similar pattern in terms of employment status between 1984 and 1994.

With regard to the spatial distribution of economically active population, self-employment and unpaid family workers account for about 90 per cent of rural employment while self-employment, government and private sector employment absorb the bulk of the labor force in urban areas. About 70 per cent of urban employment was accounted for by the self-employed,

government and private sector in 1994. The proportion of unpaid family workers in urban areas increased from 1.5 per cent in 1984 to 10.5 per cent in 1994. This same indicator has risen from 37.5 per cent to 55 per cent in rural areas during the same period.

Informal sector employment is regarded as the residual labour market especially in urban areas. The extensive nationalization measures of the Derg in the mid 70s and the subsequent

endeavor towards the promotion of the socialized sectors had significantly reduced the size of the once thriving private formal sector employment. Urban private sector formal employment had been marginalized during those years.

Limited available job opportunities in the formal sector coupled with the increasing urban labour force on account of demographic and other

Percentage Distribution of Economically Active Population (EAP) By Employment Status for Rural and Urban Areas (%)

Table 6.6

Form of Employment	1984		1994	
	Rural	Urban	Rural	Urban
Employer	0.8	1.7	2.6	3.0
Self employed	58.8*	40.8	39.6	39.0
Government employee	1.0	32.8	0.7	24.5
Private employee	0.5	18.6	1.6	17.0
Member of cooperatives	0.7	0.7	0.1	0.3
Unpaid family workers	37.5	1.5	55.0	10.5
"Other" Activities	0.8	3.0	6.04	0.7
Not stated	-	-	0.4	4.9
Economic Activity Population (million)	13.3	1.4	23.6	2.3

Source: CSA.

* Self-employed in the 1984 census refers to own-account worker

factors already mentioned has given rise to the ever expanding informal sector employment in Urban Ethiopia. According to ILO estimate (1993), labor absorption by this "sector" in urban areas could reach up to 60 per cent of urban employment. As there has not been recent information on urban informal sector employment until 1996, the subsequent discussion is based on urban informal sector survey conducted by the CSA in 1996.

According to the ILO definition which is also adopted by the CSA, an enterprise

is in the informal sector if it has one or more of the following characteristics: owner managed with less than 10 wage employees including the case of one person enterprise, engagement of members of the family of the owner, considerable dependence on indigenous technologies, lack of proper accounting system, lack of licensing by tax or supervising authorities and not benefiting from the formal markets for factors of production.

As per the definition adopted, the 1996 survey result indicates that a total of 730,969 persons were employed under

the informal sector in urban Ethiopia. The distribution of informal sector employment by selected industries for Addis Ababa Administration is provided in Table 6.7 below so as to shade light on the relative importance of informal sector in labour absorption. According to Table 6.7, the informal sector has engaged some 51 per cent of the economically active population in Addis Ababa

In terms of occupational distribution service workers, shop and market sales workers and crafts and related trade workers account for the lion's share (about 85 %) of urban informal sector employment as depicted in Table 6.8 below. The residual is accounted for by other elementary occupations and skilled agricultural and fishery workers, etc. as depicted in the same table

Number of Persons Engaged in Informal Sector By Industrial Group
(Selected Industries) Addis Ababa Administration

Table 6.7

Industry Group	Economically Active Population	Informal Sector Employment	Informal sector's share
	1	2	3=2/1
Agriculture, hunting, forestry and fishing	7050	4940	70.1
Mining quarrying	2081	172	8.5
Manufacturing	113106	71189	62.9
construction	31566	4275	13.5
Trade, hotels and restaurants	151316	70779	46.8
community and perusal service	21874	14938	68.3
Total	326993	166303	50.9

Source: Urban Informal Sector Survey, 1996, CSA

Distribution of Urban Informal Sector Employment by Major Occupational Groups (1996)

Table 6.8

Occupational Group	All Urban	Addis Ababa	Share of Each Industry in Total Employment (%) (All Urbans)	Addis Ababa's share By Industry
	1	2	3	4=2/1
Legislators, senior officials and managers	1450	269	0.20	18.42
Professionals	357	168	0.05	45.78
Technicians and Asso. pro officials	6923	3814	0.95	55.09
Clerks	1050	340	0.14	32.38
Service workers, shop and market sales workers	274237	60422	37.52	22.03
Skilled agricultural and fishery workers	28214	4586	3.96	15.86
Crafts and related trade workers	344794	74418	47.17	21.58
Plant and machine operators, and assemblers	797	185	0.11	23.21
Elementary occupation	72424	22202	9.91	30.66
Total Employment	730966	166404	100.00	22.76

Source: Urban Informal sector survey, CSA, 1996

Distribution of Informal Sector Employment By Sex, 1996

Table 6.9

Sex	Number	%
Male	256309	35.1
Female	474570	64.9
Total	730969	100.0

Unlike in the case of economically active population, women accounts for about 65 per cent of urban informal sector

6.5 Unemployment

Unemployment is said to occur when persons actively seeking for jobs could not find it. This partly takes place when the economy fails to generate adequate and well paying job opportunities for the labor force. The availability of job opportunities in turn depends upon the overall economic performance. Real GDP was growing by less than 2 per cent per annum during the 1980's while population expanded by about 3 per cent per annum on average.

The relatively high capital intensity of public enterprises coupled with the curtailment of private sector endeavors is believed to have hindered employment expansion during the 1980's and early 1990's.

Although paucity of a well disaggregated employment/unemployment statistics has prevented us from establishing reliable indicators on the magnitude, structure, and nature of unemployment in Ethiopia, existing sources indicate that open unemployment is a characteristic feature of urban areas while underemployment is believed to be a rural phenomenon.

Underemployment may vary among regions and households with in a given

employment while men accounts for the residual (Table 6.9).

locality depending up on the pattern of labour allocation and the availability of cultivated land (per capita land availability).

The declining trend in per capita land availability (particularly in the highlands) is believed to have aggravated the underemployment problem in rural Ethiopia.

With regard to open unemployment, the only available reasonable statistics to measuring unemployment are the results of the 1984 and 1994 population and Housing Census Statistics. As indicated under Table 6.10 below, open unemployment is more of an urban phenomenon. For instance, in 1994, the rate of unemployment in the urban areas was about 22 per cent while that of the rural areas stood at less than 1 per cent. The sex-wise distribution of unemployment indicate that unemployment is sever among women population than that of men. Urban open unemployment has become critical as reflected in the substantial increase of the unemployment rate from 7.9 per cent to 22 per cent during the 1984 - 1994 period.

As shown in Table 6.11 below, the age distribution of unemployment depicts that youth unemployment has become severe in Ethiopia. At national level, in Rural Ethiopia 4.3, 6.6, and 3.9 per cent

of those with in 15 - 19, 20 - 24, and 25 - 29 age groups were unemployed according to the 1994 Population and Housing Census, respectively. The rate of unemployment sharply declines for the age group of 30 years and over in both Urban and Rural areas. Unemployment rate stood at 38 and 39

per cent within the age groups of 15-19 and 20-24 respectively in Urban Ethiopia in 1994. Urban unemployment rates of 23 and 15 per cent were also registered for those in the mid to late 20s and early to mid 30s, respectively in 1994.

Unemployment By Sex and Rural and Urban Areas

Table 6.10

Area	Sex	1984			1994		
		EAP in (Mill)	Unemployed pop (000)	Unemployment Rate (%)	EAP in (Mill)	Unemployed pop (000)	Unemployment Rate (%)
Total	Male	8.6	83.1	1.0	15.0	415.7	2.77
	Female	6.2	85.5	1.4	11.5	335.1	3.09
	Total	14.7	169.6	1.2	26.5	770.8	2.9
Rural	Male	7.7	22.8	0.3	13.4	83.9	.63
	Female	5.6	32.6	0.6	10.3	81.1	.78
	Total	13.3	55.5	0.4	23.7	165.0	.69
Urban	Male	0.9	60.2	6.8	1.6	331.8	20.4
	Female	0.5	53.9	9.5	1.1	274.0	24.2
	Total	1.4	114.2	7.9	2.8	605.8	22.0

Source: CSA.

Unemployment Rate by Sex, Age Group, and Urban and Rural Areas

Table 6.11

Age Group	1984						1994					
	Total		Male		Female		Total		Male		Female	
	rural	Urban	rural	Urban	rural	Urban	rural	Urban	rural	Urban	Rural	Urban
Total	1.2	7.9	1.0	6.8	1.4	9.5	2.91	21.97	2.77	20.47	3.09	24.19
10-14	1.4	9	1.1	9.5	1.5	9.4	1.64	28.54	1.43	27.53	1.90	29.6
15-19	2.5	19.2	1.9	18.8	3.3	19.7	4.33	37.47	3.72	35.91	5.05	37.98
20-24	2.1	14.6	1.8	12.8	2.5	16.4	3.55	38.48	5.12	35.03	7.12	41.25
25-29	1.0	7.2	0.9	6.3	1.1	8.3	3.93	23.11	4.00	21.65	3.85	25.16
30-34	0.8	5.0	0.8	4.5	0.9	6.2	2.28	14.53	2.58	14.58	1.92	14.44
35-39	0.7	4.2	0.6	3.9	0.7	4.8	1.73	11.10	2.01	11.72	1.39	10.08
40-44	0.6	4.3	0.6	4.2	0.6	4.4	1.44	10.22	1.75	11.35	1.01	7.84
45-49	0.6	4.7	0.6	4.2	0.6	3.8	1.29	9.44	1.53	10.73	0.89	6.55
50-54	0.6	4.5	0.6	4.9	0.6	3.9	1.13	9.35	1.27	10.53	0.93	7.23
55-59	0.6	4.8	0.6	5.6	0.6	3.1	1.13	9.26	1.20	10.33	1.01	7.25
60-64	0.6	4.9	0.6	5.0	0.6	2.8	1.07	9.77	1.11	11.59	0.99	6.77
65-69	0.6	4.8	0.6	5.9	0.6	3.1	1.26	9.93	1.13	10.67	1.56	8.51
70+	0.7	4.8	0.6	5.5	1.1	2.6	-	-	-	-	-	-
N/S	1.0	2.8	1.0	2.7	0.9	2.9	-	-	-	-	-	-

Source: CSA.

Note: For 1994 the rate for the group 65-69 also includes those unemployed above the age of 69.

A cursory look at the educational attainments of the unemployed at the country level reveals that about 15.7 and 18.9 per cent attained elementary and high school education while 24.6 per cent of them has already completed grade 12. On the other extreme, 35 per cent of the unemployed are illiterate.

Thus, more than 60 per cent of the army of the unemployed in Ethiopia (including those beyond Grade 12) have formal education of a certain level. As depicted in table 6.12 below, 41 and 33 per cent of the unemployed who are in the 20s are grade 12 complete while more than 45 per cent of the unemployed in the age groups of 40 years and over are illiterate.

The problem of unemployment has also exhibited interesting spatial pattern in Ethiopia particularly with respect to urban areas. According to the 1994 census results, urban unemployment was severe in the city states of Addis Ababa, Dire Dawa and Harar with an unemployment rate of 35.4, 35.1, and 27.1 per cent, respectively. Apart from the city-states already indicated, the Somali region has the highest urban unemployment rate averaging 32 per cent. This is distantly followed by Oromiya Regional State with an urban unemployment rate of 15.4 per cent. The regional states of Afar, Amhara, SNNP and Gambela have registered the same rates of urban unemployment of about 11 per cent. Tigray and Benshangul/Gumuz regional states have recorded the least unemployment rates of 9.8 and 7.2 per cent, respectively.

In general, open unemployment in Ethiopia seems to be an urban phenomenon being prevalent in the city-states with the majority of the

unemployed being young people with modest levels of formal education. Enhancing employment in agriculture and non-farm activities in rural areas should be given due attention since one of the root cause of high unemployment in urban areas is believed to be rural-urban migration. Apart from this, the issue of promoting productive education along with sustained private sector investment is believed to be crucial in reducing urban youth unemployment.

6.6 Employment Prospects

Creating gainful employment opportunities for their fast growing labor force remains to be one of the major challenges of developing countries. Sharing the same problem with a weak domestic economy and young age population, the challenge for Ethiopia is rather formidable. Employment is directly related to economic performance, which determines the generation of employment opportunities. During the past six to seven years following the launching of the economic reform program, macroeconomic performance seems to be generally on the right track. Real GDP has been growing by 6 per cent per annum during the post-reform period. Inflation was contained below 5 per cent. Export and import as a ratio to GDP stood at 16 and 26 per cent of GDP in 1996/97 from a pre-reform level of less than 5 and 10 per cent, respectively. Gross domestic investment as a ratio to GDP has more than tripled reaching 21 per cent. If such positive trends are sustained and strengthened over a long period of time, their impact on growth and employment will undoubtedly be significant.

The growing public sector through the expansion of civil service in emerging

Unemployment %
2.77
3.09
2.9
63
78
69
20.4
24.2
22.0

Percentage Distribution of Unemployed Population
By Level of Education and Sex

Table 6.12

Level of Education	1984			1994		
	Total	Male	Female	Total	Male	Female
Illiterate	46.1	39.7	52.2	35.4	31.8	39.6
Non-regular	5.1	6.9	3.4	2.5	2.8	2.1
Grade 1-3	14.0	15.2	12.8	4.9	5.1	4.7
Grade 4-6	8.5	10.9	6.1	10.8	11.9	9.4
Grade 7-8	3.5	4.4	2.7	9.5	10.3	8.5
Grade 9-11	4.7	5.4	4.1	9.4	10.4	8.3
Grade 12 complete	16.8	16.2	17.4	24.6	24.4	24.8
Beyond grade 12	1.2	1.2	1.1	28.9	3.2	2.5
Not stated	0.1	0.2	0.1	0.1	0.1	0.1

Source: CSA

regions, and the increasing capital expenditure on development projects are also some positive developments for better prospects of employment opportunities in the future.

An even greater employment prospect is expected from the growing private sector economic activities since the liberalization of restrictions on private sector endeavors. Each year, quite a number of private investment projects are awarded investment certificates by the Ethiopian Investment Authority (EIA) and the Regional Investment Bureaus (RIB). Between 1992/93 and 1997/98, a total of 4398 projects with an estimated initial investment cost of Birr 36.6 billion have been awarded investment

certificates. These projects have an employment potential for an estimated 227 and 440 thousand permanent and temporary employees, respectively. Up until the end of 1997/98, 1184 (26 per cent) of the licensed projects have become operational expected to provide jobs for 64 thousand permanent and 301 thousand temporary employees.

By the end of the 1997/98 fiscal year, a total of 706 projects worth Birr 6.2 billion are also reported to be under implementation with a potential employment opportunity for about 37 thousand permanent and 17 thousand temporary workers. See Table 6.13 below.

Private Sector Projects Approved By EIA (July 1992 - June 1998)

Table 6.13

No. of Projects	Licensed		No. of Projects	Operational		No. of Projects	Under Implementation	
	Investment Capital in Billion Birr	Planned Employment		Investment Capital in Billion Birr	Expected Employment		Investment Capital in Billion Birr	Planned Employment
4,398	36.6	227,191 (P)	1,184	8.7	64,203 (P)	706	6.2	36,588 (P)
		436,672 (T)			301,180 (T)			17,175 (T)

Source: EIA

N.B: T: Temporary

P: Permanent

PART III

REVIEW OF SECTORAL DEVELOPMENTS

Chapter 7

Agriculture And Food Security

7.1 Agriculture (Crop, Livestock and Fisheries)

them, especially during the period of the Derg

7.1.1 Background

7.1.2 Review of the Agricultural Resource Base

Agriculture is the mainstay of the Ethiopian Economy. It accounts for about 50 percent of the gross domestic product (GDP), provides employment for 85 percent of the population, generates about 90 percent of the export earnings, and it supplies about 70 percent of the country's raw material requirement for large and medium sized industries that are agro-based. As per the National Accounts estimates of agriculture; crop production is estimated to contribute on average around 60 percent, livestock accounts for around 27 percent and forestry and other sub-sectors around 13 percent of the total agricultural value added. Agriculture is the foundation of the country's food production and hence the major contributing sector to food security.

Ethiopia is endowed with abundant natural resources for agriculture. It has diverse physical features in climate, terrain, etc. and comprised of 18 major agro-ecological zones and 62 sub-zones having their own physical and biological potentials. Therefore, the country possesses one of the largest and most diverse genetic resources in the world. Land is the basic resource for agriculture in which farmers depend upon for their livelihood. The total land area of the country is about 111.5 million hectares (1.115 million km²) of which about 66 % is estimated to be suitable for agriculture. Out of the total land suitable for agriculture, 16.5 million hectares of land is estimated to be under cultivation for the production of annual and perennial crops.

The sector is dominated by small scale farmers who have been adopting low input and low output rain-fed mixed farming with traditional technologies. Small scale farmers on average account for 95 percent of the total area under crop and for more than 90 percent of the total agricultural output. Moreover, 94 percent of food crops and 98 percent of coffee is produced by small scale farmers while the remaining 6 percent of food crops and 2 percent of coffee is generated from commercial farms (state and private). Commercial and/or State farms comprise about 4 percent of the total cultivated land and 3 percent of the crop output. The major crops grown under state commercial farms include cotton, coffee, fruits and vegetables. Most of these farms have been owned and operated by the state and they had been at a very low level of productivity relative to the investment made on

The highlands with altitude 1500 meters above sea level constitute 36.3 % of the total land area. It supports about 88 % of the human and 70 % of the livestock population, and contributes over 90 % of the cropland as well. However, it suffers from massive land degradation due to soil erosion (1 billion ton per year) caused by high pressure on land. The lowlands which constitute about 63.7 % of the total land area of the country, supports 30 % of the livestock and 12 % of the human population. However, it is infested with malaria, Tsetse flies and other vectors which rendered the area unfavorable for human settlement and cattle raising.

Though Ethiopia's agriculture is dependent on climatic factors, mainly conditioned by availability of rainfall, there exist abundant water resources

which have tremendous irrigation potential. There are ten major rivers (7,000 Kms long) and lakes (7,400 sq km in area). The country's annual flow of water is about 110 billion cubic meters whereas that of ground water is around 2.2 billion cubic meters. Nearly 6 billion cubic meters of water finds its way into the Mediterranean sea annually from the river Nile alone. Because of this, the country is called the "Water Tower" of Northeastern Africa. The land potential for irrigated agriculture is currently estimated at 3.7 million hectares, of which only about 4.4% (about 0.166 million hectares) is under irrigation, contributing to only about 3% of the annual food production. Of the 0.166 million hectares of land under irrigation, large scale schemes mostly operated by the government comprised 96,200 hectares, while the balance goes to small schemes based on traditional farming systems.

The country has the largest livestock population in Africa with the current estimate comprising about 27-33 million cattle, 23-24 million sheep, 17-18 million goats, 7 million equines and 1 million camels. There are also about 56 million poultry in the country. The per capita livestock for the above group stood at 2.5 per head. Despite the fact that, the country has the largest livestock population in Africa, productivity per head is very low with milk production per local cow per lactation ranging from 200-300 kg, local mature ox weighing about 250 kg and egg production of local bird per year ranging from 40-60 eggs. This low level of productivity is mainly ascribed to poor nutrition, poor health of local animals.

Two main livestock production systems exist in the country: the highland and the lowland production systems. In the highland production system, livestock are part of the mixed farming complex (input oriented) providing integrated inputs for crop production (i.e., traction, threshing, transport and manure), followed by output supply (output

oriented), providing milk, meat, eggs, wool, hides and skins. In the lowland production system, livestock are generally the sole sources of livelihood, providing milk, meat and transport at large, while hide and skins provides additional income. Lowland cattle provide about 20% of the draft animals for the highlands. In both systems livestock provide a living insurance, as a store of value for financing modest level of investment against uncertainties in crop production.

Furthermore, the country has enormous river resources known for their abundant fish resources. The annual fish production capacity of 6 major rivers alone is estimated at 23,500 tons. There are also 11 major lakes with a total area of 750,000 hectares. Although the annual fish production capacity from these inland water bodies is estimated at 30,000-40,000 tones per year the actual production capacity is not more than 6,000 tones which is equivalent to only 15% of the potential. Ethiopia has also about 10 million bee colonies. But it is mainly carried out by small-holders by using traditional beehives that produce honey and wax for domestic consumption and also for export. The modern beehive production capacity per harvesting season is 15-20 kg of honey while the traditional is about 5 kg per season.

7.1.3 Review of Agriculture Policies and Strategies

Government Policies either encourage or discourage economic growth and hence development. Sound and prudent government policies serve as a tool of development. On the contrary, ill-conceived and non-flexible government policies stultify development which eventually lead to poverty. Macroeconomic and sectoral policies were among those affecting agricultural development during the past regimes, coupled with recurrent droughts and other natural calamities. These economic policies were inconsistent with

the country's social and economic conditions. State control of the economy was over-extended. There were no circumstances which had been encouraging private sector participation in economic activity. Allocation of productive manpower and other resources as well as the bulk of government budget were focused on the industrial and services sectors (apart from the protracted civil war) neglecting the dominant agricultural sector.

The agricultural sector policies of the Derg regime were characterized by nationalization of all private and commercial farms, prohibition of private investments in the agricultural sector, involuntary collectivization of peasants into producers and service cooperatives, forced villagization, government control of all agricultural markets, forced food grain quota deliveries at predetermined low price and restriction of the movement of agricultural outputs from one part of the country to another. Up until the fall of the Derg in 1991, these ill-conceived government interventions largely contributed to the lack of success in the development of agriculture being the bottle-necks for improved productivity of subsistence small scale farmers who made up the majority of the agricultural production system. Far reaching macroeconomic policies, have been adopted to rectify these policy constraints since the seizure of power by the TGE in 1991.

The announcement in November 1991 of the New Economic Policy by the Transitional Government of Ethiopia (TGE) with the objective of replacing the previous centrally planned economy with market-oriented economic system and its implementation depending on the principles of decentralization, autonomy, competition, efficiency and profit maximization; has steadily improved the overall policy environment in the agricultural sector. As a result, Producer's Cooperatives have been dissolved, small-holders and private commercial farms have been

encouraged, public investment in state farms has been drastically reduced, all compulsory food grain quotas have been abolished and free trade has been restored. Some of these measures have, also been initiated by the Derg's Mixed Economic policy in the late 1980's.

The country's development strategy is expected to revolve around productivity enhancement of small-holder agriculture and industrialization based on utilization of domestic raw materials via adopting labour intensive technology. This strategy is popularly known as the "Agricultural Development Led Industrialization (ADLI)", tailored to fit the Ethiopian context. The strategy visualizes export-led growth which is expected to serve as a propeller for an inter-dependent agricultural and industrial development. By and large, the strategy of ADLI in the context of Ethiopia focuses primarily on agricultural development. This is to be attained through improvement of productivity under small-holdings and expansion of large scale private commercial farms (particularly in the lowlands) which is conceived in two ways: (a) agriculture will provide commodities for exports, fulfill domestic food requirement and supply industrial inputs and development of agriculture help expand market for domestic manufactures as a result of increased incomes of small holders.

The small-holder farmers are the major sources of staple food production for national food supply. Food security could only be achieved through promoting small-holder development in a sustainable manner. In the light of this, special emphasis to encourage small-holder farmers to raise their productivity, designing incentive packages (access to fertile land, credit and tax incentives), improve budgetary allocation on manpower development in agriculture, provision of inputs, building of infrastructure, etc. is given high priority.

In general, the government's intention in the agricultural sector is to withdraw from most productive type of activities in favor of increased private sector participation

Agricultural extension is the basis for raising the productivity of the small holder farmers, the main actors and participants at the grass root level. Thus, a new system of agricultural extension, named "Participatory, Demonstration and Training Extension System (PADETES)" is formulated. The system is based on demonstrating and training of farmers on proven technologies in line with the philosophy of bottom-up development approaches. The strategy gives special emphasis to human resource development (organization, mobilization, empowerment) along with its efforts in transferring appropriate technology. As to the implementation of the strategy, it involves a package approach geared towards three different agro-ecological zones namely reliable moisture, moisture stress and nomadic pastoralist. According to rapid appraisal made in the reliable moisture areas, the results achieved in 1994/95 and 1995/96 have demonstrated high output and yield that concretize the effectiveness of the strategy and justify that it is possible to overcome chronic food shortages in a short period of time if the strategy is implemented at a wider scope.

7.1.4 The Performance of the Agriculture Sector

Although Agriculture has still remained to be the most important determinant of the country's economic fate, its performance had been dismal in the 1980 and early 1990's

During the period of the Derg, encompassing the years 1980/81 to 1990/91, the growth performance of the value added of agriculture and allied activities averaged a mere 1 per cent per annum. Agriculture constituting crop and livestock subsectors (proper

agriculture), forestry, and fishing exhibited a 0.8, 2.6 and 4.6 per cent annual average growth rates, respectively for the period. In the face of population growth rate of about 2.9 percent per annum over the period 1980/81 to 1990/91, per capita agricultural value added has been declining at a little less than 2 per cent per annum over the period.

Various productivity constraints restrain the performance of the Agricultural sector. These include, among others, frequent occurrence of drought, environmental degradation induced by high population pressure and natural calamities, the policy environment (which was in favor of the socialized sector during the period of the Derg), and poor infrastructure.

Table 7.1 and 7.2 below depict the performance of Agriculture and Allied Activities throughout the 1980s ending in 1990/91 FY

Gross Value Of Production And Value Added Of Agriculture And Allied Activities At 1980/81 Constant Factor Cost
(1980/81 - 1990/91)

Table 7.1

(value in million Birr)

S.N	Years (F.Y)	Gross Value of Production						Gross value of production of livestock and Hunting	Value Added of Agriculture*	Gross value added of forestry	Gross value Added of Fishery	Total Gross value Added
		Major Crops				Other Crops						
		Coreals	pulses	oil seeds	Total	Cash crops	Other crops					
1	1980/81	2198.0	317.1	76.5	2591.6	551.3	749.4	1377.3	4934.5	641.1	3.6	5579.2
2	1981/82	2063.1	281.7	50.0	2394.9	559.9	692.7	1401.9	4717.5	665.3	3.7	5386.5
3	1982/83	2556.1	328.3	71.2	2955.5	582.4	851.9	1431.3	5445.4	689.0	3.9	6138.3
4	1983/84	2187.9	246.2	58.4	2492.6	588.9	730.5	1251.6	4666.4	714.5	4.0	5378.9
5	1984/85	1521.4	170.1	60.4	1751.8	471.5	516.9	1073.9	3559.5	677.6	4.2	4241.3
6	1985/86	1770.8	168.1	63.2	2002.2	518.6	577.3	1361.0	4173.7	754.0	4.4	4932.1
7	1986/87	2424.4	208.2	61.7	2694.3	563.6	790.2	1397.6	5055.7	771.7	4.6	5832.0
8	1987/88	2286.4	210.8	52.0	2549.2	542.8	750.4	1425.9	4904.6	786.4	4.8	5695.8
9	1988/89	2224.3	224.5	51.2	2500.0	563.3	748.6	1452.6	4880.6	801.9	5.1	5687.6
10	1989/90	2349.7	257.5	60.5	2667.7	569.8	761.2	1477.9	5160.5	818.0	5.4	5983.9
11	1990/91	2378.3	390.2	193.5	2962.1	355.7	777.3	1496.9	5313.9	831.7	5.7	6151.3
	Annual Average Growth Rate (%)	1.0	(0.5)	3.8	1.0	(2.0)	0.6	1.1	0.8	2.6	4.6	1.0

Source: National Accounts of Ethiopia, Revised Services, MOPED, 1994.

* This constitutes crop and livestock subsectors only

Gross value of production and value Added of Agriculture and Allied Activities at current Factor Cost
(1980/81 - 1990/91)

(value in million Birr)

Table 7.2

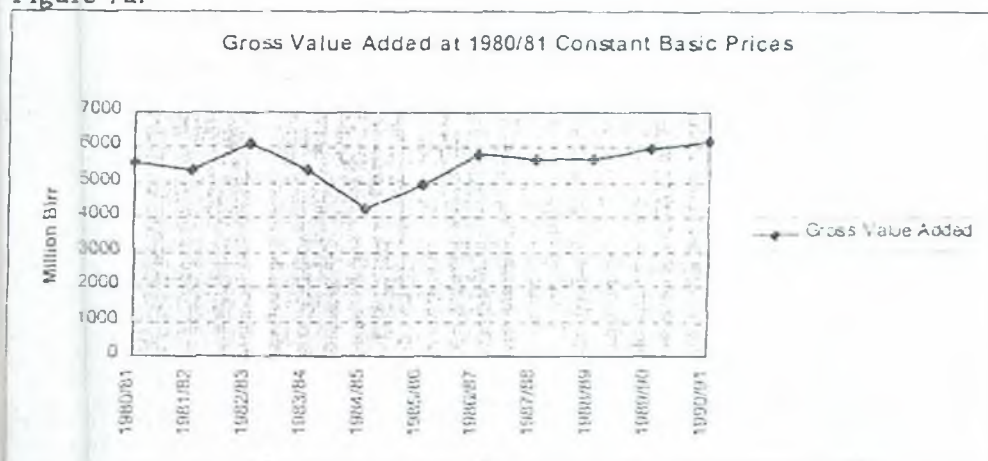
S N	Years (F.Y)	Gross Value of Production						Gross value of production of livestock and Hunting	Value Added of Agriculture	Gross value added of forestry	Gross value Added of Fishery	Total Gross value Added
		Major Crops				Other Crops						
		Cereals	pulses	oil seeds	Total	Cash crops	Other crops					
1	1980/81	2198.0	317.1	76.5	2591.6	551.3	749.4	1377.3	4934.5	641.1	3.6	5579.2
2	1981/82	2058.2	292.2	46.7	2397.0	622.9	682.0	1471.2	4831.2	822.5	3.8	5657.5
3	1982/83	2583.2	359.4	63.9	3006.6	618.2	843.5	1599.6	5675.7	909.0	4.3	6589.0
4	1983/84	1992.5	252.1	50.8	2295.3	621.5	650.0	1147.5	4317.9	942.9	4.8	5260.8
5	1984/85	2994.7	372.7	78.5	3445.9	477.6	990.3	1336.2	5769.3	1091.0	5.8	6866.1
6	1985/86	2718.0	304.3	72.2	3094.5	635.6	888.0	1607.8	5768.7	1166.0	6.4	6941.1
7	1986/87	2605.7	282.5	67.5	2955.7	647.2	835.4	1823.4	5805.3	1301.6	6.9	7113.8
8	1987/88	2739.8	340.3	68.6	3148.7	576.4	893.6	1853.8	6011.4	1215.9	7.6	7234.9
9	1988/89	2696.7	358.4	69.7	3124.8	642.7	917.1	2170.3	6346.7	1202.8	8.4	7557.9
10	1989/90	2859.6	385.8	83.4	3328.8	563.7	969.3	2455.9	6881.8	1317.4	9.3	8208.5
11	1990/91	4083.2	681.2	316.8	5081.6	594.4	1338.3	3059.9	9566.7	1379.2	10.5	10956.4

Source: National Accounts of Ethiopia, Revised Series MOPED, 1994

In sharp contrast with the period of the Derg, agricultural value added has witnessed an average annual growth rate of 4.6 per cent per annum throughout the post-reform period encompassing the 1992/93 to 1996/97 fiscal years. Thus, per capita value added in agriculture has been increasing at the rate of about 1.3 per cent per annum over the period. The highest growth rate recorded during the post-reform period was 14 per cent in 1995/96 which contrasts with a 3.7 per cent decline in 1993/94. Hence, the

fluctuation in the average growth rate of the economy is to a greater extent attributable to the performance of the agriculture sector which accounts for almost half of the GDP. The lowest growth rate of GDP recorded in 1993/94 (1.7 per cent) was largely the outcome of the poor performance of the agriculture sector. Detailed indicators of the performance of Agriculture and Allied Activities by major sub sectors is presented in (Table 7.3 below).

Figure 7a:



The performance of the value added of Agriculture and Allied Activities at 1980/81 constant Factor Cost (Post-Reform Period)
(Million Birr)

Table 7.3

Sub Sector	Fiscal Years						Growth Rate (%) (92/93-96/97)
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	
Crop SubSector (Private)	3614.2	3954.2	3684.2	3833.1	4735.3	4918.8	6.4
Crop SubSector (State Farm)	142.6	119.8	128.3	135.2	135.6	141.3	-0.2
Total Crops Sub Sector	3756.9	4073.8	3812.5	3968.3	4871.9	5060.3	6.1
Livestock & Hunting	1401.5	1425.4	1480.1	1484.6	1456.0	1532.9	1.8
Total Agriculture	5158.4	5499.2	5272.5	5452.9	6327.8	6593.7	5.0
Forestry	784.3	803.9	799.9	825.2	832.4	854.6	1.7
Fishing	4.9	5.2	5.6	5.9	5.9	6.1	4.5
Agriculture & Allied Activities	5947.6	6308.3	6078.0	6284.0	7205.0	7453.9	4.6

Source: Macro Planning and Economic Policy Analysis Department, MEDaC

7.1.4.1 Crop Production and Area Cultivated for major crops (Private Holders)

Crop Production

The peasant sector, which constitutes about seven million small holder farmers produces about 97 percent of the total crop output, including 98 per cent of the coffee production. The major crops grown in the peasant sector include food crops: cereals, pulses, oil seeds. While Coffee, Cotton and sugarcane have, however, been grown primarily on state farms. Coffee is an export cash crop which generates about 60 percent of the country's export earnings

With considerable agricultural potential, the country had been self-sufficient in staple foods and was classified as a net exporter of food grains till the late

1950s. However, since early 1960s, domestic production was unable even to meet the basic minimum food grain requirements of the Ethiopian peoples and the gap has been partially fulfilled both by commercial imports and food aid. Production of cereals had registered a downward trend for several years. During the 1980s it decreased on average by 1.1 percent per annum. Sharp decline has been particularly observed during the severe draught years 1984/85 (45 million quintals) and 1985/86 (49 million quintals). As a result, with the exception of 1982/83, the country has been a net importer of food grains since 1981/82. In 1982/83, the best year of the decade (1980s), production of food grain reached about 76 million quintals of grain for major crops (See Table 7.4 below for details)

Production of Major Crops by private Peasant Holdings (Both Seasons) for Selected Years

('000 Quintals)

Crop Type	1980/81	82/83	84/85	87/88	91/92	94/95	95/96	96/97	97/98
Cereals	55122	65668	38727	59570	55603	65891	92654	93591	74349
Teff	13906	13312	8658	10212	17848	13427	17926	20371	13476
Barley	10678	10459	8597	11222	7878	9813	11228	9508	10367
Wheat	5205	7833	5675	7086	5975	10397	11120	10425	11425
Maize	8929	14570	9931	17934	13345	18394	31054	29277	24949
Sorghum	13903	13157	4214	9754	6750	11383	18051	20378	11522
Millet	2046	5908	1368	2853	2185	1541	2437	2964	2510
Oats	455	519	283	609	622	436	838	667	596
Pulses	9017	9563	4838	5640	9702	7947	8662	8609	7323
Horse beans	4989	6025	2573	2545	3620	3748	3507	3225	2610
Chicken peas	1252	1158	816	1135	1592	1245	1261	1296	1400
Hancol beans	190	347	259	393	1343	456	1091	1396	856
Field peas	1588	1305	827	724	1724	1485	1493	1125	1024
Lentils	676	404	159	262	621	379	403	360	382
Vetch	313	324	205	576	802	634	807	1207	1050
Soya beans	0	0	0	4					
Oilseeds	1262	1303	1046	881	3057	1172	1963	2168	1817
Neug	791	783	607	428	1685	443	865	835	743
Linseed/Flax	361	371	372	255	621	554	572	679	637
Fenugreek	25	33	47	59	114	63	74	102	162
Rapeseed	79	115	19	92	136	112	252	259	87
Sunflower	0	0	0	4	0	0	24	65	13
Ground nuts	4	0	0	22	0	0	142	125	78
Sesame	1	0	0	22	0	0	33	103	98
Total	65401	76534	44511	66091	68362	75010	103279	104368	83489

Source: Central Statistical Authority, various issues

Since the launching of the first medium term Economic Reform Program, a number of positive factors including the advent of good weather, and the reign of peace and stability in the country, the introduction of coherent policies and strategies, the expansion of the cultivated area, and increased use of improved technologies such as commercial fertilizers and improved seeds co-worked in such a way that production of food grains (cereals, pulses & oil crops) of the peasant sector increased dramatically compared with any years in the past. Estimates of physical quantity of food production therefore leaped from a longer term average of 60 million quintals in the 1980s to 103 million quintals in 1995/96 (end of the first medium term Economic Reform Program). Out of the 1995/96 bumper production, 92.8 million quintals (90%) was the contribution of Meher (main) Season and the remaining was of Belg (small) season. By 1995/96, production of food grains had increased by about 65 percent over the longer term trend. Of the total food grain produced in 1995/96, about 93 million quintals (89.7%) was accounted for by cereals. Pulses and oil seeds accounted for 8.4 and 1.9 percent respectively. Details of crop production data for the post-reform period four years for which CSA surveys had been conducted are given in Table 7.4 above. As is observed from Table 7.4, since 1992/93 (the commencement of the Economic Reform Program), the country has recorded a steady growth in crop production. Crop production grew by

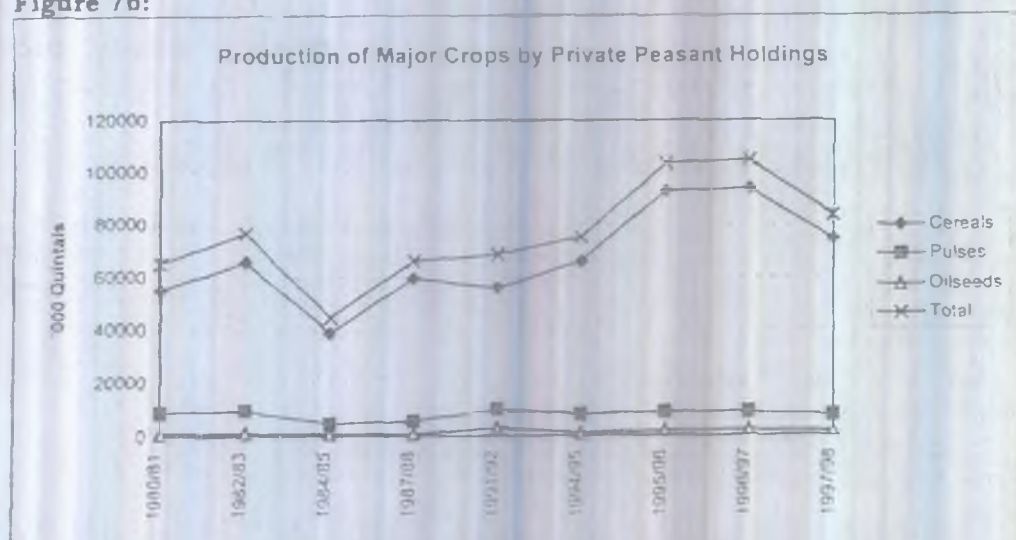
about 6.4 percent in 1994/95 and 37 percent in 1995/96 (end of the first medium term Economic Reform Program). Crop production (major crops), has been increasing at an annual average rate of 5.3 per cent over the post-reform period ending in the 1997/98 FY. This growth sharply contrasts with an annual average growth rate of less than one percent in the period 1980/81 to 1990/91. (See Table 7.5 below).

The performance of major food crops for peasant holdings for both seasons since the beginnings of the 1980s spanning both the period of the Derg and that of the Transitional Government of Ethiopia is also displayed under Table 5 below by subdividing performance indicators into three sub-periods:

Annual average growth rate of production of major crops stood at 0.7 per cent during the period 19980/81 to 1990/91. Cereals showed an annual average growth rate of 0.9 per cent while the growth of that of pulses and oil seeds stood at -1.7 per cent, and 3.3 per cent, respectively.

If the whole of the 1980/81 to 1997/98 period is considered the growth performance of cereals, pulses and oilseeds averaged 2.7, 1.0 and 3.7 per cent, respectively. If only the post-reform period is considered, the growth rate of the respective crops averaged 6.5, 2.3 and 0.4 per cent.

Figure 7b:



Performance of Production of Major Crops
1980/81 - 1997/98

Table 7.5

No	Crop Type	Period Growth Rates (%)		
		1980/81 to 1990/91	1980/81 to 1997/98	1991/92 to 1997/98
1	Cereals	0.9	2.7	6.5
2	Pulses	-1.7	1.0	2.3
3	Oilseeds	3.3	3.7	0.4
	Total	0.7	2.6	5.3

Source: Computed Based on Table 7.4 above

Area cultivated

About 73.6 million hectare (66%) of the country's land area (111.5 million hectares) is believed to be potentially suitable for agricultural production. From the land suitable for agriculture about 22 percent or 16.5 million hectare is estimated to be under cultivation of which about 14.6 million hectares are under annual crops and the remaining being under perennial crops such as enset, coffee & others. The coffee area is estimated to be 0.5 million hectare and forms a crescent in the south west, south and south east highlands.

Around 96 per cent of the cultivated land area is under small-holder farming and the remaining under commercial farms

(state & private commercial farms). For over 80 percent of peasants per capita land holdings averaged less than two hectares including grazing land. Per capita cultivated land holding averaged around 0.5 hectare but is even substantially less in some densely populated high land areas. On the other hand, according to CSA 1996/97 Agricultural Sample Survey, 46.7 percent of the 6.09 million households (excluding Eritrea, Tigry, Assab & Ogaden) have per capita holdings which averaged less than 0.5 hectare on a cumulative basis. 72.1 percent have holdings less than one hectare (average size of holding being 0.73 hectare).

The area under major food crops of the peasant sector in any one crop season had never exceeded nine million

hectares. Whereas the average estimate for the period 1980/81 - 1991/92 provided by the CSA is on the low side, with only 5.5 million hectare of land being under annual crops in anyone year (excluding Entrea and Tigray).

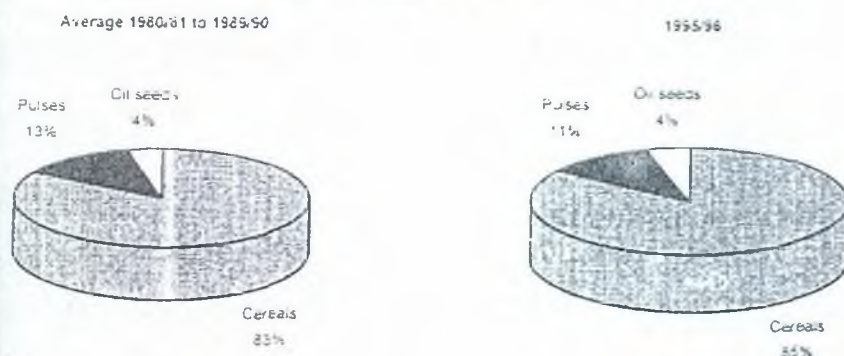
Generally speaking, the area under food crops (cereals, pulses & oil seeds) of the peasant sector, has remained stagnant (close to 6 million hectares) for several years, barring certain exceptional years like 1993/94 (6.6 million hectares), 1994/95 (7 million hectares) and 1995/96 (9.1 million Hectares). In general, during the 1980s, it averaged 5.6 million hectares. By 1995/96 it had increased by about 62 percent over the longer term trend. Out of the total area under major food crops in 1995/96, area under cereals, pulses and oil seeds accounted for 88.7%, 8.7%, and 2.6%

respectively. Table 7.6 below shows estimates of cultivated area under major food crops of the peasant sector for 1990/91 through 1995/96 and an average for years spanning 1980/81 to 1989/90.

Total area cultivated under major crops has been increasing at the rate of 3.3 per cent per annum through out the period 1980/81 to 1997/98. Area cultivated under cereals which account for some 83.3 per cent of major crops in 1980/81 has been increasing at 3.4 percent over the same period. Pulses and oil seeds which on average account for some 13.4 and 3.3 per cent respectively of area cultivated under major crops have been increasing at the rate of 2.3 and 4.6 per cent respectively over the period 1980/81 to 1997/98.

Figure 7c:

Area Cultivated Under Major Crops



Area Cultivated Under Major Crops For Private Peasant Holdings, (Both Seasons)

Table 7.6

Crop Type	('000 Hectares)						
	Average 1980/81 to 1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
Cereals	4648	4199.0	4087.0	4443.0	5414.0	6448.5	7670.5
Pulses	700	701.9	583.2	1032.6	887.5	919.8	1005.6
Oil seeds	222	244.0	237.5	373.3	322.1	342.0	394.4
Total	5570	5144.9	5007.7	5848.9	6603.6	7710.1	9070.3

Source: CSA - Various Issues.

Trends in Area Cultivated Under Major Crops
(1980/81 - 1997/98)

Table 7.7

S.N	Crop Type	Period Growth Rates (%)		
		1980/81 - 1990/91	1980/81 - 1997/98	1991/92 - 1997/98
1	Cereals	-6.6	3.4	5.7
2	Pulses	-9.3	2.3	3.8
3	Oil Seeds	-6.4	4.6	8.6
4	Total	-6.9	3.3	5.6

Source: Computed Based on CSA's Annual Bulletins

If only the period 1980/81 to 1990/91 is considered, total area cultivated under major crops has declined at the rate of 6.9 per cent per annum. Area under cereals, pulses and oil seeds has declined at the rate of 6.6, 9.3 and 6.4 percent per annum, respectively over the same period.

Area under major crops has increased at the rate of 5.6 per cent per annum through the years spanning 1991/92 to 1997/98. Area cultivated under cereals, pulses and oil seeds for the same period have been increasing at the rate of 5.7, 3.8, and 8.6 per cent per annum, respectively. (See Table 7.7 below for details).

7.1.4.2 Livestock and Livestock Products (Private holders)

The Role of Livestock in the Economy

Most small-holders in Ethiopia keep some livestock, in particular poultry, sheep and goats. Cattle and horses are also kept and grazed extensively on lands surrounding the homestead and village. While livestock play a crucial role in the economies of rural populations, livestock rearing in the country is not oriented towards the production of marketable surplus, except in some state and small private commercial sector. Hence, it is rather a subsistence type. Livestock have multitude social and economic functions

in both the highlands and the lowlands/pastoral farming system. Livestock are sources of food, draught power, fuel and cash income. They also provide employment and means of security and investment. The vast majority of Ethiopians are dependent on animal products. The product of principal importance is draught power. Livestock products in approximate order of importance include meat, milk, hides and skins and manure. It has been commonly said that traditional livestock owners accumulate stock for prestige and have an innate aversion to selling them. However, it is now more generally recognized that stock reserves serve one of the following three purposes.

Livestock for a Security

This is common among pastoralists and on a smaller scale among both lowland and highland crop farmers. Animals will normally be sold only as a last resort or when they are too old to work.

Livestock as investment

Livestock may be kept as a reserve for times of hardship, or some times for particular social requirements. These livestock are marketed eventually, but from the owners point of view they are not part of regular sales.

Livestock for sale

Livestock may be kept specifically for regular sale in exchange for commodities required. As stated earlier, the Ethiopian economy is dominated by the agricultural sector which contributes almost 50 per cent to overall GDP. According to the national accounts estimates, livestock sub-sector contribute approximately 12-15% to total GDP & 25-30% to value added of agriculture and allied activities. Next to coffee, livestock exports, though small compared to the potential production constitute a major source of foreign exchange. In particular hides and skins are the single most important commodities next to coffee in generating foreign exchange. In 1995/96, for instance, livestock exports alone accounted for nearly 14% of the value of agricultural exports, 96% of which being accounted for by hides and skins. In the past, beef and beef products have been marginally contributing to foreign exchange earnings while live animal exports seem to have had a bigger share. In 1987/88, for example, export of live animals contributed about 5% of the total value of exports. However, in 1995/96 its share was almost negligible (0.02 percent).

The Nature of Data on Livestock

As indicated in the background section of this survey; no comprehensive livestock survey has been conducted in Ethiopia so far. The existing estimates are based on sporadic surveys conducted by the Ministry of Agriculture (MOA) and that of the Central Statistical Authority (CSA) at different times and for a variety of purposes. The 1976/77 Small Scale Agricultural Sample Census carried out by the MOA is considered to be the first one of its kind. This had, however, excluded the then Tigray and Eritrea Administrative Regions. Besides, it was believed to underestimate the population of sheep

and goats. The other statistics which often has been cited in various publications and documents is that of the AACM 1984, the livestock sector review. The livestock, poultry and beehives survey which had been conducted by the CSA since 1979/80 except for 1992/93 and 1993/94 also serves as a third source of data.

Though the annual livestock population of the CSA has been published regularly since 1979/80, it has had short comings in that the Agricultural Sample Survey was basically designed to cover sedentary rural agricultural population excluding the urban and nomadic areas of the country which are believed to have a considerable size of livestock. More-over, apart from this, some regions like Entrea & Tigray had not been included in the survey for security reasons until the end of the civil war in 1991.

In 1996/97, for instance, out of a total of 69 Zones in the country, the sample survey covered only 56 zones. Of the excluded zones, 9 Zones are in nomadic and lowland areas.

The Macro Planning and Economic Policy Analysis Department of MEDaC, has been using "its own" statistics of livestock population and production estimates of livestock for National Accounts compilation. Although MEDaC has made a reference to livestock data from the CSA annual Agricultural sample surveys, the levels have not been directly utilized in the compilation of livestock value added due to its deficiency mentioned above. However, the trend in the CSA data has been used to establish annual estimates for the different types of livestock. The official livestock population estimate of MOA for 1979/80 and 1988/89 has been used as bench-mark to establish annual figures for the different types of livestock based on death rates, birth rates, off-take rates established for the

preparation of the then Ten Year Perspective Plan (TYPP) for the period 1984/85 to 1993/94. The size of the different types of livestock as cited by various sources show considerable variation. For instance, for years as recent as 1991/92 onwards, these different sources put the number of cattle, sheep and goats in the range of 25 to 35 million, 20 to 33 million and 13 to 18 million heads, respectively. The difference between the maximum and minimum stood on average at 26, 60 and 40 per cent for cattle, sheep and goats, respectively. This has rendered the livestock statistics in Ethiopia generally unreliable and hard to interpret for mainstream livestock sector review. The statistics available on hides and skins have not even dovetailed with off-take levels.

According to the FAO data, the annual population growth rate over the period 1994-1997 for cattle, sheep and goat were 0.48, 0.23 and 0.3 per cent, respectively while it was 1.9, 2.6, and 1.86 per cent, respectively according to MEDaC's data. On the other hand, the CSA data exhibit a rather high growth rate, estimated at 5.2, 7.7 and 4 per cent for cattle, sheep and goats population, respectively which probably is the outcome of coverage variations in

the different years. Generally, the suggested slowly increasing livestock population trend seems more realistic when considering the high incidence of disease and feed shortage in the country and the effect of the encountered recurrent droughts which are believed to inflict on the reproduction of the stock and the herd dynamics as they have a long lasting effect with a subsequent slow recovery.

Historical series and statistics depicting recent developments from two sources, that of FAO and those extracted from MEDaC, are displayed in Tables 7.8 and 7.9 below for the sake of comparison.

As macro indicators such as national accounts aggregates are supposed to be reflections of sectoral performance indicators, detailed analytical review of livestock should be compatible with macro aggregates like livestock value added which measures the contribution of the livestock subsector to agricultural value added and hence over all GDP. To maintain such internal consistency, the forthcoming review on the livestock subsector makes use of livestock statistics of MEDaC being utilized in the compilation of the subsector's value added.

Livestock Population Data of Ethiopia (Private Holdings)

Table 7.8 (1000 Heads)

Year (G.C.)	Cattle	Sheep	Goats
1980	26000	23250	17180
1981	26100	23200	17200
1982	26200	23350	17220
1983	27000	23221	18769
1984	26000	23100	17250
1985	28000	23000	17100
1986	30000	23000	17000
1987	27000	24000	18000
1988	27000	24000	18000
1989	28900	24000	18000
1990	30000	22950	17200
1991	30000	23000	18000
1992	31000	23200	18100
1993	29450	21700	16700
1994	29450	21700	16700
1995	29825	21750	16750
1996	29900	21800	16800
1997	29900	21850	16850
Annual average growth rate (%)	1.0	-0.4	-0.2

Source: FAO 1990-97

Note: Excludes Entrea since 1993

Table 7.9 ('000 Heads.)

Year (G.C.)	Cattle	Sheep	Goats
1980/81	27000	23221	18769
1981/82	27461	23867	19123
1982/83	27929	24531	19483
1983/84	28406	25213	19850
1984/85	28220	24256	18896
1985/86	27470	22103	17020
1986/87	27939	22718	17341
1987/88	28415	23350	17668
1988/89	28900	24000	18000
1989/90	29393	24668	18340
1990/91	29894	25354	18685
1991/92	30404	26059	19037
1992/93	30923	26783	19396
1993/94	31450	27527	19762
1994/95	31985	28243	20133
1995/96	32624	28977	20512
1996/97	33293	29760	20898
Annual average growth rate (%)	1.2	1.4	0.5

Source: MEDaC

As FAO data juxtaposed with that of MEDaC under Tables 7.8 and 7.9 above for the sake of comparison do not show much discrepancy from that of MEDaC estimates in terms of value added won't show much difference on the basis of either sources.

7.1.4.2.1 The Performance of the Livestock Sub-Sector (Private holdings)

As per the livestock data used by MEDaC in the computation of the contribution of the livestock subsector in the value added of the Agriculture sector and overall GDP, the number of cattle, sheep and goats, which stood at 27, 23.2 and 19 million heads, respectively in 1980/81 has reached 33, 30 and 20 million heads by the 1996/97 fiscal year indicating an annual average growth rate of 1.2, 1.4 and 0.5 per cent, respectively. The livestock number prior to the period 1991/92 is expected to include the size of livestock in Entrea

which used to be one of the provinces of Ethiopia up until May 1992. The share of Eritrea in the different types of livestock ranges from 3.2% in the case of sheep to 3.5% and 4.9% in the case of cattle and goats in 1980/81 respectively. The number of poultry in 1980/81 was 19.5 million and has increased to 55.6 in 1993/94. The number of camels has not exceeded 1.1 million as per the data used in the compilation of national accounts of Ethiopia.

In the absence of a comprehensive and reliable official data to estimate the contribution of this subsector to national output, the performance of livestock production as per the statistics used in the compilation of national accounts of Ethiopia is described below.

Total Gross value of production of livestock including cattle, sheep, goats, camel, poultry, and beehives, and animal dung for fuel valued at 1980/81 constant factor cost has increased from

1.3 billion Birr in 1980/81 to 16 billion Birr in 1993/94 showing an annual average growth rate of 1.7 per cent per annum over the period. The value added of livestock at 1980/81 factor cost has exhibited an annual average growth rate of 2.2 per cent per annum over the same period. All this shows that the potential of livestock in Ethiopia has not yet been realized given the fact that Ethiopia has the largest livestock number in Africa. The livestock population which gives rise to the gross value of production and value added indicated above for the period 1980/81 to 1993/94 are depicted in Table 7.10 and Table 7.12, below

Livestock Population of Ethiopia (Excluding Eritrea)

Table 7.10

Items	Unit	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	Annual Average Growth rate
Cattle	1000 heads	26055	26499 00	26951 46	27411 70	27232 3	26508 55	26961 13	27420 47	27888 5	28304 24	28647 71	30404	30822 70	31450 25	1.3
Goats	1000 heads	17840 32	18185 07	18528 33	18877 35	17970 1	16186 02	16401 29	16802 27	17118	17441 34	17769 43	18037	18398	18761 72	11.5
Sheep	1000 heads	22477 03	23103 26	2346 01	24408 18	23479 81	21395 7	21991 02	22602 8	23232	23878 62	24542 87	26059	26783	27527 11	1.2
Camels	1000 heads	945 7	965	985 26	1005 53	998 77	971 75	992 02	1012 28	1032 55	1052 81	1073 48	1134 24	1157	1180 210	1.6
Poultry	millions	49 19	49 60	51 05	48 54	41 81	44 75	47 06	49 85	50 14	50 61	51 08	54 51	55 03	55 55	1.1

Source: Macro Planning and Economic Policy Analysis Department MEDaC

Gross Value of Production & Value Added of Livestock
(Value In Million Birr)

Table 7.11

Items	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	Annual Average Growth rate
GVP at current factor cost	1321 32	1411 07	1535 1	1100 04	1279 71	1540 75	1748 04	1778 6	2086 71	2356 09	2638 77	3093 09	4182 19	4498 07	10.2
GVP at constant factor cost	1321 32	1345 27	1373 64	1196 73	1026 46	1305 94	1337 87	1365 73	1394 46	1418 37	1449 12	1523 06	1568 90	1587 00	1.7
Value Added at current F.C	34 06	40 36	44 2	46 16	46 2	71 58	64 47	52 45	73 06	87 02	105 05	132 35	160 57	184 80	12.0
Value Added at Constant F.C	34 06	36 43	38 00	38 21	33 52	37 33	39 87	38 37	40 51	40 74	41 83	44 72	45 06	47 26	2.2

Source: Macro Planning and Economic Policy Analysis Department MEDaC

Meat Production (Peasant Sector)

As per the livestock data used in the compilation of the Ethiopian national accounts, overall meat production which consists of Beef (Cattle), mutton (sheep), goat meat, camel meat and chicken meat estimated at 339,073 metric ton in 1980/81 has increased to 414,506 metric ton in 1996/97 showing an annual average growth rate of 0.9 per cent per annum over the period. Beef from cattle, mutton, and goat meat account for 61.3, 20.5, and 17.4 per cent respectively of overall meat production in 1980/81. Camel meat and chicken meat account for the residual. The pattern has not changed much even in 1996/97. Hence, Cattle, sheep and

goat in that order are the most important sources of meat supply in Ethiopia. The per capita meat production which stood at 9.4 kg per head per annum in 1980/81 has decreased to 7.4 kg per head per annum in 1996/97. Meat production data in the country is depicted in Table 7.12 below.

In terms of value, overall gross value of meat production which stood at 757 million Birr in 1980/81 has increased to 854 million Birr at 1980/81 constant prices in 1993/94. This is equivalent to an annual average growth rate of meat production of 0.9 per cent per annum over the period. The results are described in Table 7.13 below.

Meat Production in Tons

Table 7.12

Year G.C	Beef	Mutton	Goat meat	Camel meat	Chicken meat	Total	population of Ethiopia ('000')	Per Capita
1980/81	207900.0	69469.0	59100.0	2352.0	40.6	339072.8	36204.1	9.4
1981/82	211420.0	71500.0	60240.0	2400.0	41.2	345701.2	37257.7	9.3
1982/83	215050.0	73590.0	61370.0	2450.0	42.8	352503.2	38350.4	9.2
1983/84	24057.0	83200.0	68180.0	2500.0	38.8	395089.4	39484.0	10.0
1984/85	248920.0	83589.0	66490.0	2484.0	34.7	404568.7	40733.6	9.9
1985/86	211530.0	66310.0	53619.0	2416.0	37.1	333903.9	42094.1	7.8
1986/87	215160.0	68150.0	54820.0	2487.2	39.8	340437.0	43466.8	7.8
1987/88	218780.0	70050.0	55950.0	2517.6	41.3	347048.9	44797.9	7.7
1988/89	222530.0	72000.0	56700.0	2568.0	41.6	340437.0	46188.5	7.4
1989/90	225380.0	74000.0	57700.0	2516.4	41.9	347048.9	47643.7	7.3
1990/91	230186.0	76062.0	58858.0	2564.0	42.3	353839.6	49153.6	7.2
1991/92	234113.0	78177.0	59987.0	2724.0	42.7	375023.7	50759.0	7.4
1992/93	238166.0	80349.0	61057.0	2772.0	43.1	382387.1	52403.5	7.3
1993/94	242165.0	82581.0	62258.0	2832.0	43.5	389571.5	53245.4	7.3
1994/95	246279.0	84728.0	63470.0	2892.0	44.0	397363.0	53477.7	7.4
1995/96	251207.7	86931.0	64613.0	2952.0	44.5	405747.5	54549.0	7.4
1996/97	256356.0	89279.0	65827.0	3000.0	45.0	414506.0	56372.0	7.4
Avg. Growth Rate	1.0	1.2	0.8	1.5	0.9	0.9	6.8	2.0

Source: Calculated Based on the data of the Planning and Economic Policy analysis Department of MEDaC, 1997

Gross Value of Meat Production at 1980/81 Constant Basic Prices
(million Birr)

Table 7.13

Meat by Type of Livestock	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	Annual Average Growth rate %
Beef (Cattle)	351.29	357.19	363.31	366.32	369.08	372.37	363.53	360.63	375.05	382.46	388.96	409.81	416.64	416.04	1.3
Mutton (Sheep)	139.58	143.47	147.48	150.71	167.08	152.87	130.56	140.36	144.27	148.28	152.4	163.83	166.32	170.95	0.9
Goat meat	139.62	110.68	112.78	126.27	125.77	98.49	100.36	102.25	104.17	106.14	108.15	115.86	118.05	120.27	(0.5)
Camel Meat	11.25	11.58	11.82	12.06	11.95	11.68	11.9	12.14	12.38	12.63	12.88	13.61	13.86	14.16	1.0
Chicken Meat	116.18	117.29	121.89	109.93	98.75	105.68	112.27	117.75	118.42	119.54	120.66	128.75	129.87	133.18	1.1
Total	758.62	749.2	757.34	770.39	765.17	708.07	725.0	742.35	755.2	768.05	783.05	829.86	845.16	852.51	0.9

Source: Macro Planning and Economic Policy Analysis Department ME DaC

Milk Production (Peasant Sector)

As per the livestock data used in the compilation of the national accounts of Ethiopia, milk production consisting of milk from cows, goat, and camel estimated at about 999 million liters in 1980/81 has increased to 1219 million liters by 1996/97 showing an annual average growth rate of 1.2 per cent per annum over the period. Milk from cows account for about 68.1 per cent of milk production in 1980/81 with the residual being the contribution of goat and camel in the order of 16.5 and 15.4 per cent for the same year. Per capita milk

production which stood at 27.6 liters per head in 1980/81 has decreased to about 22 liters per head in 1996/97. Milk production data is depicted in Table 7.14 below.

Gross value of milk production estimated at about 168 million Birr at 1980/81 constant prices in 1980/81 has increased to 202 million Birr in 1993/94 showing an annual average growth rate of 1.3 per cent over the period. Estimate of gross value of production of milk is being described in Table 7.15 below.

Milk Production By Private Holdings

Table 7.14

(Million Liters)

Year G.C	Cow milk	Goat Milk	Camel milk	Total	Population of Ethiopia(000)	Per-capita Milk Production (in liters)
1980/81	690.4	164.89	153.65	999.95	36204.1	27.6
1981/82	692.02	158.00	156.80	1016.82	37257.7	27.3
1982/83	703.81	171.16	160.09	1035.06	38350.4	27.0
1983/84	715.83	174.38	163.39	1053.60	39484.0	26.7
1984/85	711.14	166.07	162.29	1039.43	40733.6	25.5
1985/86	692.24	149.52	157.90	999.65	42094.1	23.7
1986/87	704.05	152.34	161.19	1017.59	43466.8	23.4
1987/88	715.05	155.21	164.48	1035.75	44797.9	23.1
1988/89	728.28	158.13	167.79	1054.19	46188.5	22.8
1989/90	740.70	161.12	171.07	1072.89	47643.7	22.5
1990/91	753.30	164.10	174.40	1091.80	49153.6	22.2
1991/92	766.20	167.20	177.90	1111.20	50759.0	21.9
1992/93	779.30	170.40	181.40	1131.10	52403.5	21.6
1993/94	792.50	173.60	185.10	1151.20	53245.4	21.6
1994/95	806.00	176.90	188.80	1171.70	53477.7	21.9
1995/96	822.10	180.20	192.50	1194.80	54649.0	21.9
1996/97	839.00	183.60	196.40	1219.00	56372.0	21.6
Annual Average Growth Rate (%)	1.2	0.5	1.5	1.2	6.8	(1.7)

Source: Computed Based on Livestock Data used in the compilation of National Accounts

Table 7.15

Gross value of milk production

(Million Birr)

Value of Milk from	Fiscal Years														Annual Average Growth rate %
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	
Cows	121.46	123.54	125.64	127.82	126.96	123.56	125.69	127.83	130.01	132.23	134.45	141.74	144.16	146.67	1.3
Goat	28.96	29.52	30.07	30.64	29.16	26.27	26.76	27.56	27.78	28.31	28.84	30.94	31.52	32.12	0.4
Camel	17.61	17.97	18.95	16.34	16.19	15.74	16.09	16.64	16.77	17.11	19.68	21.93	22.37	22.82	2.3
Total	168.03	171.03	171.66	174.8	172.31	165.6	168.54	171.83	174.56	177.65	183.31	194.6	198.05	201.56	1.3

Source: Computed Based on Livestock Data used in the compilation of National Accounts.

Other Livestock Products (Peasant Sector)

The Products in this group include Hides and Skins, Eggs, Bees-wax and sheep wool as used in the computation of the contribution of the livestock subsector in GDP. Hides and skins production was estimated at 14.8 million pieces in 1980/81 has increased to 17.8 million PCs by 1996/97 showing an annual average growth rate of 1.0 per cent per annum over the period. Total skins production which stood at about 13 million PCs in 1980/81 has increased to 16 million showing an annual average growth rate of a little less than one per cent in 1996/97.

Egg production estimated at 624.0 million PCs in 1980/81 has increased to 688 million PCs in 1996/97 showing an annual average growth rate of 0.9 per cent over the period. Per capita production of egg which stood at 17 PCs per head in 1980/81 has decreased to 12 PCs per head in 1996/97.

Bee keeping in Ethiopia is a long-standing tradition and it is being practiced mainly using a traditional single chamber fixed comb hives. Production from traditional hives is very low, 5-6 kg per hive per annum. Ethiopia's geographic location and a diverse botanical base flowering over different seasons has resulted in an annual production of some 24,600 tones of honey (MOA, 1997). This represents about a third of the African continent total honey production. Apiculture in Ethiopia plays an important role in the cash economy of the peasantry, in meeting mainly the beverage requirements of the urban population, and in the national economy though minimal in foreign exchange earnings. Market studies undertaken in 1990/91 indicate that 19-24 percent of the total domestic production of honey is used as table honey while 55-60 percent is used for production of Tej (a fermented beverage). Per capita honey

consumption in the country is about 0.5 kg per annum.

Honey and Bees-wax production estimated at 19600 tons in 1980/81 has increased to 23520 tons in 1996/97 showing an annual average growth rate of 1.5 per cent over the period. Per capita production of honey and bees wax estimated at 0.6 kg per head in 1980/81 has increased to 0.4 kg per head in 1996/97.

Production of sheep wool estimated at 1161 tons in 1980/81 has increased to 1488 tons in 1996/97 showing an annual average growth rate of 1.4 per cent over the period. Production performance of the aforementioned items is depicted in Table 7.16 below.

Overall gross value of production of the above mentioned livestock products: Egg, Honey and Bees wax, and sheep wool estimated at 110 million Birr at 1980/81 constant prices in 1980/81 has increased to 131 million Birr in 1993/94 showing an annual average growth rate of 3.2 per cent over the period. In terms of relative importance Egg, Honey and Bees wax in that order account for 46.1, 52.4, and 1.5 per cent of overall gross value of production of these products in 1980/81. Table 7.17 below summarizes the results.

Other Livestock Products

Table 7.16

Year	Hides ('000 PCs)	Skins ('000 PCs)	Egg (Million PCs)	Honey (Tons)	Bees Wax (Tons)	Wool (Tons)	population of Ethiopia ('000)	Per Capita Production of Egg (pcs)	Per Capita Production of Honey (kg)	Per capita Production of Wax (kg)
1980/81	1890.0	12678.0	624.0	14000.0	5600.0	1161.05	36204.1	17.2	0.4	0.2
1981/82	1922.0	13184.0	630.0	14000.0	5600.0	1193.35	37257.7	16.9	0.4	0.2
1982/83	1955.0	13496.0	655.2	14000.0	5600.0	1226.55	38350.4	17.1	0.4	0.1
1983/84	2187.0	15398.0	590.4	14000.0	5600.0	1260.65	39484.0	14.9	0.4	0.1
1984/85	2272.0	15213.0	530.4	14000.0	5600.0	1212.80	40733.6	13.0	0.3	0.1
1985/86	1923.0	11992.0	567.6	15400.0	6160.0	1105.15	42094.1	13.5	0.4	0.1
1986/87	1956.0	12277.0	608.4	15400.0	6160.0	1135.90	43466.8	14.0	0.4	0.1
1987/88	1989.0	12570.0	632.4	15400.0	6160.0	1167.50	44797.9	14.1	0.3	0.1
1988/89	2023.0	12870.0	636.0	16800.0	6720.0	1200.00	46188.5	13.8	0.4	0.1
1989/90	2058.0	13177.0	642.0	16800.0	6720.0	1233.40	47643.7	13.5	0.4	0.1
1990/91	2092.6	13492.0	648.0	16800.0	6720.0	1267.7	49153.6	13.2	0.3	0.1
1991/92	2128.3	13814.8	654.0	16800.0	6720.0	1303.00	50759.0	12.9	0.3	0.1
1992/93	2164.6	14144.0	660.3	16800.0	6720.0	1339.20	52403.5	12.6	0.3	0.1
1993/94	2201.5	14483.1	666.6	16800.0	6720.0	1376.40	53245.4	12.5	0.3	0.1
1994/95	2238.9	14814.8	673.2	16800.0	6720.0	1412.10	53477.7	12.6	0.3	0.1
1995/96	2283.7	15154.4	680.6	16800.0	6720.0	1448.90	54649.0	12.5	0.3	0.1
1996/97	2330.5	15510.6	688.4	16800.0	6720.0	1488.00	56372.0	12.2	0.3	0.1
Avg. Growth Rate	1.0	0.8	0.9	1.5	1.5	1.4	6.8	(2.0)	(2.1)	(2.5)

Gross Value of production of Egg, Honey and Bees-wax and Sheep Wool at 1980/81 Basic prices
(Million Birr)

Table 7.17

Items	Fiscal Years														Annual
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	Average Growth rate (%)
Eggs	121.46	123.54	125.64	127.82	129.96	123.59	125.89	127.83	130.01	132.23	134.48	141.74	144.16	148.82	1.3
Honey & Bees wax	28.98	20.52	30.07	30.84	29.16	26.27	26.70	27.50	27.78	28.31	28.84	30.94	31.52	32.12	0.4
Sheep Wool	17.81	17.97	15.95	18.34	18.19	15.74	18.09	16.44	16.77	17.11	19.98	21.93	22.37	22.82	2.1
Total	168.03	171.03	171.66	174.8	172.31	165.0	168.54	171.83	174.56	177.45	183.31	194.6	198.05	201.56	1.1

Source: Computed Based on data used in the compilation of National Accounts of Ethiopia.

7.1.4.3 State and/or Commercial Farms (Crop Production and Area Cultivated)

Different sources indicate that the origin of state farms in Ethiopia dates back to the pre-revolution era when pilot farms were established in Awassa and Arbaminch. These farms were later transformed into state farms and research centers on the basis of the Yugoslavian models. After the 1974 revolution, state farms were established by a deliberate government policy based on the "Public Ownership of Rural Land Proclamation NO. 31/1975", that came into effect on March 4/1975 (Eshete 1995).

Twelve commercial farms with a total capital of about Birr 18 million and net worth of about 29 million were nationalized. In addition over 439 private farms came under government ownership. An agricultural department was established in the then Ministry of National Resource Development responsible for the handling and coordination of all the nationalized commercial farms and the great number of scattered privately owned small farms. Later on, the department was transferred to the Ministry of Agriculture and was organized as State Farms Development Authority. The area under state farms at that time amounted to 125,000 hectares. Crops grown on these farms included cereals, cotton and coffee. Citrus fruits were also grown in the Awash valley.

The role of state farms in the Ethiopian economy could be generalized from the following points: 2.8% of cultivated areas and 4.6% of production of crop and insignificant part of livestock production were contributed by state farms, the average share of foreign exchange earnings in the production and export of fruits and vegetables, live animals and coffee by state enterprises for ten years spanning the period

1980/81 and 1989/90 was estimated to be about 4%.

Crop Production and Area Cultivated

The annual hectareage, production and productivity of the state farms during the period 1991/92 - 1994/95 is also shown in Table 7.18 below. Both cultivated land and output over these years reveal a declining trend. The main reason for such a declining trend is the transfer of land from the state farms to the near-by small-holders and other government institutions. Out of the presently existing 26 state farms, 13 are crop producing enterprises. The land holding area of these enterprises was 169,700 hectares in 1991/92 crop season, dropped to 77,400 hectares in 1992/93. The lowest level of production recorded was 1.4 million quintals in 1992/93 and the maximum level was 3.7 million in 1994/95. The average yield per hectare of these enterprises varied from 18 - 31 quintals per hectare. In 1996/97 crop season, the total land holding area of the crop producing enterprises was 156,040 hectare. (Table 7.24 below)

Area and Production of Cereals under State Farms

Table 7.18 (1978/79-1994/95)

Year	Area-cultivated Hectare	Growth Rate (%)	Production in '000 Quintals	Growth Rate (%)	Productivity (QV/Hectare)
1978/79	67,589	-	1506.2	-	22.28
1979/80	143,687	112.5	2275.6	51.1	15.84
1980/81	223,926	55.8	3524.8	54.9	15.74
1981/82	229,864	2.7	3823.9	8.5	16.64
1982/83	212,705	-7.5	3406.6	-10.9	16.02
1983/84	178,568	-16.1	2974.7	-12.7	16.66
1984/85	182,121	2.0	3489.1	17.3	19.16
1985/86	201,880	10.8	4102.5	17.6	20.32
1986/87	203,161	0.6	4806.4	17.2	23.66
1987/88	214,148	5.4	4116.8	-14.3	19.22
1988/89	200,216	-6.5	3982.1	-3.5	19.89
1989/90	188,635	-5.8	3643.3	-8.5	19.31
1990/91	183,113	-2.9	4081.2	12.0	22.29
1991/92	169,690	-7.3	3045.6	-25.4	17.95
1992/93	77,360	-54.4	1441.4	-52.7	18.63
1993/94	93,040	20.3	2448.4	69.9	26.32
1994/95	119,200	28.1	3691.4	50.8	30.97

Source: MOSFD

7.1.4.4 Livestock and Livestock Products (State and/or Commercial Farms)

Despite the utmost emphasis given to the development of state farms, they contributed to about 5% of total annual agricultural output of the country on average. However, they have been drawing on a significant amount of resources both in terms of capital and production since their establishment and heavily burdened with bank debt. They have never measured up to what was expected from them be it in terms of fulfilling their objectives or productivity. Moreover, state farms have been suffering from interrelated and complex problems that are organizational, managerial, technological, marketing and of general policy environment

Most livestock Enterprises were those nationalized during the Derg regime. There were about 21 state farms dealing with livestock out of which 17 were dairy and 4 were cattle fattening farms. In addition, to Shola poultry farm which had more than two satellite stations, four pigeries and three feed processing plants belong to the state farms.

The participation of the state in the operation of dairy farms was extremely limited. Its activities in this area had been largely limited to running nationalized formerly private dairy farms. In addition, the state operated three milk processing plants in Addis Ababa, and Assela with a daily capacity of 60,000, and 2,000 liters of pasteurized milk, respectively. With respect to cattle fattening, four feed lots with a total finishing capacity of 47,400 beef cattle and four pigenes producing 7,500 pigs for slaughter annually were operated by the Ministry of State Farms. It also operated poultry farms which produce annually about 1.1 million dozens of eggs and 122,000 kgs. of chicken meat. Three animal feed processing plants with an annual capacity of 42,000 tones were also operated by the Ministry to supply processed feed to cross-breeding farms.

The nationalized as well as the newly established state farms had all turned out to be financially non-viable undertakings and still they have not carried out the business as expected to day even though they work on the basis of free market economy. Among the

reasons for the poor financial performance of state farms were over dependence on bank loans for both working capital and investment (therefore high principal and interest payments), managerial inefficiency, shortage of trained manpower, the establishment of some farms without adequate prior studies and the rising prices of inputs.

7.1.4.5 Financial Performance of State Farms

Although a complete data base is not available for all the enterprises, the balance sheet of 9 enterprises for the years 1996 and 1997 revealed a negative equity and profit before tax. A

net loss of 32.8 million and 42.2 million Birr is recorded for the years 1996 and 1997, respectively. By the same token a negative equity of 398.6 million and 252 million Birr was eaten up by the stated enterprises in 1996 and 1997 respectively. The average net loss of each enterprise in 1996 is 4.1 million Birr and that of 1997 is 6.0 million Birr, while the average negative equity capital is 49.8 and 36 million Birr. Respectively. Details of current and total assets, current and total liabilities, equity and profit before tax of the enterprises is presented in Table 7.19 below.

Crop Producing Enterprises' Balance sheet (as of June 30, 1996 and 1997)
Table 7.19 ('000 Birr)

SN	Enterprise	Assets		Liabilities		Equity	Profit Before Tax
		current assets	Total assets	Current Liabilities	Total Liabilities		
1	Awassa Agricultural Devt Enterprise						
	1996	58,312	79,871	73,374	89,318	-9,447	-5,992
1997		59,412	78,947	75,092	75,092	1,855	-4,642
2	Arsi Agricultural Devt Enterprise						
	1996	165,687	259,858	45,048	269,737	-9,879	-20,249
1997		129,565	212,466	21,413	256,433	-43,967	-15,830
3	Bale Agricultural Devt Enterprise						
	1996	249,562	289,827	312,242	356,288	-72,461	-635
1997		241,770	281,277	306,850	349,896	-68,619	-4093
4	Tendano Agricultural Devt Enterprise						
	1996	45,638	131,693	45,617	136,039	-4,346	9,410
1997		56,829	49,772	285,663	285,663	-235,891	-11,784
5	Middle Awash Agricultural Devt Enterprise						
	1996	141,417	181,068	118,897	282,844	-101,776	12,840
1997		35,661	65,935	126	182	65,753	27,402
6	Woilega Agricultural Devt Enterprise						
	1996	120,760	242,770	197,846	348,080	-105,310	-34,741
1997		112,584	222,232	205,906	354,886	-132,654	-27,341
7	Gojam-Gonder Agriculture Devt Enterprise	100,356	152,878	156,110	169,735	-16,857	-5,235
8	Semen Ombo	45,893	155,779	104,209	104,673	51,206	-2,844
9	Coffee Plantation	22,300	519,913	104,343	504,961	14,952	3,494
	Total						
1996		858,121	1,428,542	998,393	1,827,113	-398,571	-32,794
1997		827,255	1,334,866	865,221	1,586,879	-252,013	-42,211
	Average						
1996		82,265	178,568	124,799	228,389	-49,821	-4,099
1997		118,181	190,695	128,317	226,697	-36,002	-6,030

Source: Public Enterprises Supervising Authority

The ten years data spanning the period 1975-1984 showed that the performance of livestock enterprises (Dairy development, poultry production, feed processing, livestock development and marketing has been deteriorating. The net equity of the enterprise for the ten years stood at -243, 373 thousand Birr and the total net income of the enterprises excluding fish production and marketing enterprises which is about -72,019 Birr shows that the performance of these enterprises was very dismal. Details are shown in Tables 7.20 through 7.23 below.

Similarly, the performance of the enterprises had not improved as much as expected even after they have been oriented towards market economy. As is clearly shown in the Tables 7.22 and 7.23 below in 1996 and 1997 its equity amounted to -163,087 and -136,647 thousand Birr, respectively. The message from these figures indicates that there is a need for further reform of state farms again to render them more profitable.

Balance sheet of Livestock Enterprises

Table 7.20

'000 Birr

Year	Total Asset	Total Liability	Equity
1975	35496	42073	-6577
1976	67501	74584	-7183
1977	62134	74537	-12403
1978	139668	161972	-22304
1979	177176	196324	-19148
1980	147361	203715	-56354
1981	184914	266617	-81703
1982	288294	320371	-32077
1983	295017	353343	-58326
1984*	45521	44273	1248
Total	1443082.0	1737909.0	-29827
Average	144308.2	173790.9	-29482.7

*Dairy development and poultry production enterprises data are not included.

Source: Public Enterprise Supervising Authority, 1998

Financial Performance By Enterprises (1975-1984 E.C)

Table 7.21

	Enterprise	Net Income	General Reserve
1.	Dairy Development	-31306	-25797
2.	Poultry Development	-6601	-4849
3.	Feed Processing	240	47
4.	Ethiopian Livestock Development Company	-914	3434
5.	Chaffa State Farm	-4829	-5466
6.	Livestock Development and Marketing E.P.	-28609	-22213
7.*	Fish Production & Marketing	1712	1572.0

* 1982-1984 data are not included

Source: Public Enterprise Supervising Authority, 1998

Livestock Enterprises Balance Sheet and Ratio Analysis
As of June 30, 1996

Table 7.22

No	Enterprises	Current Assots	Total Assots	Current Liabilities	Total Liabilities	Equity	Net Sale	Profit before tax	Current Ratio	Ti/TA	Return on Assot	Return on Equity	Profit Margin
1.	Dairy Development	11640	22511	36273	70642	-48131	9735	-3311	0.32	3.14	-0.15	0.07	-0.34
2.	Poultry Development	5217	6994	16841	20304	-13310	6447	-2642	0.31	2.90	-0.38	0.20	-0.41
3.	Akaki Animal Food	1316	1957	676	676	1281	1953	30	1.95	0.35	0.02	0.02	0.02
4.	Kaliti Animal Food	3524	3760	1245	1245	2515	1806	38	2.83	0.33	0.01	0.02	0.02
5.	Livestock Development and Marketing	55427	60205	153902	166180	-105975	8360	-9925	0.36	2.76	-0.16	0.09	-1.19
6.	Fish Production & Marketing	2150	4622	2410	4089	533	5159	374	0.89	0.88	0.08	0.70	0.07
	Total	79274	100049	211347	263136	-163087	33460	-15436	6.66	10.36	-0.58	1.10	-1.83

Source: Public Enterprise supervising Authority, 1988

Livestock Enterprises Balance Sheet as of June 30, 1997

Table 7.23

No	Enterprises	Current Assots	Total Assots	Current Liabilities	Total Liabilities	Equity	Net Sale	Profit before tax	Current Ratio	Ti/TA	Return on Assot	Return on Equity	Profit Margin
1.	Dairy Development	11028	58953	16137	71005	-12052	9889	-5559	0.68	1.20	-0.09	0.46	-0.56
2.	Poultry Development	9698	11288	21417	24880	-13592	4859	1792	0.45	2.20	0.16	-0.13	0.37
3.	Akaki Animal Food	1075	1703	492	492	1211	1313	1	2.18	0.29	0.00	0.00	0.00
4.	Kaliti Animal Food	3332	3646	11009	11009	-7363	1812	128	0.30	3.02	0.04	-0.02	0.07
5.	Livestock Dev't and Marketing	56698	61476	94364	167604	-106128	4909	-8313	0.60	2.73	-0.14	0.08	-1.69
6.	Fish Production & Marketing	1732	3229	1952	1952	1277	5587	481	0.89	0.60	0.15	0.38	0.09
	Total	83563	140295	145308	276942	-136647	28369	-144470	5.10	10.04	0.12	0.77	-1.72

Source: Public Enterprise supervising Authority, 1988

Prospects of State Farms

As clearly stated in the current Economic Policy of the country, unprofitable state farms will be handed over to the surrounding farmers or to employees or to private investors on a concessional terms. In cases where this is not feasible, the assets will be sold and the land returned to the local people. There is a tendency of privatizing the state farms either to domestic or foreign investors. For this purpose the government has adopted different privatization strategies for the short, the medium and the long term. The short-term strategy is aimed at legally transferring farms which were already taken-over by the surrounding farmers and dispose of farms that were generally difficult for the government to manage or administer due to technical deficiencies such as salinity, moisture, distance, destruction and so on. The medium term strategy has aimed at the denationalization of the state farms that were identified as non-viable and those which produce non-strategic products and

services. The long-term strategy refers to state farms which should stay under state management and ownership because of the strategic usefulness of the products and the magnitude of their investment requirements. The products become strategic if they are destined for exports earnings or serve as a substitute for imported products. The Agricultural Enterprises and the size of their land holding is depicted in Table 7.24 below.

7.1.4.6 Fishery

Estimates of potential yield of fish can rarely be regarded as accurate, but in the case of Ethiopian fish resources, there are at present no reliable estimates since no exhaustive and systematic (or regular) stock assessments are done. Estimates of the potential yield have been calculated for individual lakes empirically from surface area, mean depth, and conductivity. However, without proper stock assessment, it is difficult to estimate with precision the Maximum Sustainable Yield (MSY). Conservative estimates

Agricultural Enterprises & Area of their Land Holdings in 1996/97
Crop season

Table 7.24

No.	Name of the Enterprise	Area of Land Holding (ha)
1	Horticulture Dev't Enterprise	2,465
2	Upper Awash Agncultural Dev't	5,922
3	Coffee Plantation	27,376
4	Middle Awash Agricultural Dev't	7,556
5	Tendaho Agncultural Dev't	5,753
6	Gummaro Tea Dev't	1,595
7	Wushwush Tea Dev't	2,217
8	Awassa Agricultural Dev't	4,500
9	Wollega Agncultural Dev't	47,144
10	Semen Omo Agricultural Dev't	4,380
11	Gojam Gondar Agncultural Dev't	15,083
12	Bale Agricultural Dev't	16,349
13	Arsi Agricultural Dev't	15,700
	Total	156,040

Source: MOSED

based on experimental fishing, as initiated by the Lake Fisheries Development Project (LEDP) phase 2 could reflect the reality better than the empirical formula. The total estimated potential yield calculated from the surface area for the major lakes is estimated at 60,000 tones per year. However, in the face of the above uncertainty, a conservative estimated potential yield stood is between 30,000 and 40,000 tones per year for the main water bodies. Further more, the riverine fishery potential is roughly estimated at about 5,000 tones/year (Aubray, 1975). Principal physical characteristics and the recent estimates of potential yield of the main water bodies is presented in Table 7.25 below.

A hundred local fish species have been identified in Ethiopia waters. The bulk of the production is made of Tilapia, Lates, Bargus, Clarias and Labeo species. In the two Southern Rift Valley Lakes, Chamo and Abaya, Nile Perch is caught in

significant quantities. Nile Perch is also found in major riverine fisheries.

7.1.5 Agricultural Inputs Supply and Utilization (Crop Sub-sector)

7.1.5.1 Fertilizer Supply and Utilization

As the current level of food production in Ethiopia does not meet the food requirement of the population, the food deficit has been bridged through food aid and commercial imports. The current trend in population growth if not adequately checked is expected to aggravate the severity of food shortages. Yield per cultivated area has to be significantly improved if the food deficit problems be mitigated in the medium term and ultimately eradicated. Enhancing agricultural crop productivity through the adoption and diffusion of improved technology including the use of fertilizers would play a critical role in our endeavor towards achieving food self-sufficiency.

Physical Parameters and Maximum Sustainable Yield of Main Water Bodies
Table 25

Water Body	Altitude (m)	Area (Km ²)	Length (Km)	Mean Depth (m)	Perimeter (km)	MSY (tones)
Rift Valley						
- Chamo	1282	550	35	13.0	12.0	3100
- Abaya*	1285	1160	30	7.1	225	1000-1300
- Awasa	1708	90	20	11.6	50	1100
- Shala**	1570	410	25	8.6	110	4300
- Langano	1585	230	25	17.0	80	1900
- Abyata**	1575	205	20	7.6	60	2500
- Zhway	1848	435	30	2.5	100	3500
- Koka	1590	255	20	9.0	385	1500
Other Areas						
- Tana	1829	3500	75	8.0	na	13000
- Fincha**	2160	170	30	9.0	na	1700
Riverine Fishery			7000			5000
Total		7005				38900

Source :- MOA, LFDP (phase II) working Paper No 10. 1994
FAO, Ethiopia - Fisheries Sector Review, 1993

MSY of Lake Abaya is the result of the Cadama's estimator
MSY figure is based on lake surface area and are potential annual yield

According to World Bank Sources, inorganic fertilizer was introduced to Ethiopia following the three years (1967-69) fertilizer demonstrations carried out by the MOA with the assistance of FAO's Freedom from Hunger Campaign. As per World Bank Sources, the introduction of chemical fertilizer was warmly received as its effect on yield was quickly realized by farmers.

The most important and commonly used types of chemical fertilizers in Ethiopia have been Urea and DAP. Traditionally, about 85 per cent of all fertilizers has been used by private peasant holdings and the remainder by State farms. Nearly 95 per cent of all fertilizer has been applied on food grain crops.

According to the Annual Agricultural Sample Surveys conducted by the CSA (1989/90 to 1990/91) and as per the more recent Agricultural Inputs Supply Enterprise estimates, the major staple food, 'Teff' accounts for about 40 per cent of all fertilizer used while other cereals like wheat, barley, maize and sorghum altogether account for about 50 per cent of all fertilizer consumption, the residual being used on other crops including coffee, cotton and tobacco.

With regard to spatial distribution (concentration), about 78 per cent of

fertilizer consumption is concentrated in the high lands of Oromiya and Amhara regions. On average, some 80 per cent of fertilizer sales comprised of DAP while Urea and others (like NPK) accounts for the remaining 19 and 1 per cent, respectively.

7.1.5.2 Fertilizer Imports

The most common types of in-organic fertilizers that have been imported to the country are DAP, Urea and NPK (to a lesser extent). According to sources like NFIA, the former AISCO and the Ethiopian Amalgamated and Ambassel Trading House, overall fertilizer imports has increased from 32,997 metric tons in 1985 to 381,908 metric ton in 1998 showing an average growth rate of 20.7 per cent per annum over the period. DAP which account for 24 per cent of total fertilizer import in 1985 has been increasing from 25,000 metric ton in 1985 to 287,471 metric ton in 1998 showing an average growth rate of 20.6 per cent per annum over the same period. Urea has increased from about 8,000 metric ton in 1985 to 94,437 in 1998 showing an average growth rate of 21 per cent per annum. Table 7.26 below depicts both the volume and value of fertilizer imports by type of fertilizers since 1985 when data on fertilizer imports began to be released.

Fertilizer Imports By Type of Fertilizer
(1985 - 1998)

Table 7.26

Years (GC)	Type of Fertilizer					
	DAP		Urea		Total	
	Volume (MT)	Value ('000 Birr)	Volume (MT)	Value ('000 Birr)	Volume (MT)	Value ('000 Birr)
1985	25000	12874.1	7997	4337.3	32997	17211.4
1986	103012	47604.9	33561	9370.4	136573	56975.2
1987	105608	41516.1	21380	6646.6	126988	48162.7
1988	110750	7061.7	23261	65415.7	134011	74322.7
1989	128000	13966.7	32200	88289.4	160200	65534.8
1990	122000	10205.6	32200	75740.4	160200	58926.5
1991	122400	12074.6	18740	71001.0	141140	20816.6
1992	171867	101276.1	50321	20816.6	222188	122092.7
1993	129100	136407.9	-	-	129100	136407.9
1994	68200	67507.6	-	-	68200	67507.6
1995	175247	295958.1	50000	82664.5	225247	378622.6
1996	275480	513046.5	74100	128688.9	344180	641735.4
1997	105000	184774.7	55000	86029.3	160000	270804.0
1998	287471	71330.8	94437	13933.0	381908	85263.8

Source: NFIA, AISCO, Ethiopian Amalgamated, Ambassador Trading House.

The period followed by the adoption of the rural centered Agricultural Development Led Industrialization strategy of the then TGE and now FDRE has witnessed a significant increase in the Import of inorganic fertilizers as demonstrated by the jump in fertilizer imports from around 160 thousand metric tons on the eve of the fall of the Derg to 382 thousand metric tons in 1998. This is tantamount to an annual average fertilizer import growth rate of 11.5 percent per annum during the period spanning 1991 to 1998.

7.1.5.3 Fertilizer Consumption

There have been different package programs which have helped introduce the use of fertilizers in the country. Although these package programs have been implemented for the last 30 years, the utilization of fertilizer has still remained at its low level. Consumption of fertilizer by all types of users (private peasant holdings and other groups of

users) has increased from 947 tons in 1971 to 206,294 tons in 1997.

With regard to recent developments in fertilizer use, utilization by both groups has increased from 145,709 tons in 1990 to 206,294 tons in 1997 showing an annual average growth rate of 5 percent over the period. The share of fertilizer used by peasant holdings has increased from an average of 73 per cent during 1987-1990 to 94 per cent in 1997. This shows that fertilizer use by "others" sector has declined from a share of 27 per cent during 1987-1990 to 6 percent in 1997, the residual being utilized by state and private commercial farms. Of the total fertilizer used by both groups of users in 1997, DAP accounts for 78 per cent and urea for the residual. Trends in fertilizer use along with the selling prices is depicted in Table 7.27 below for recent years.

Fertilizer Sales/Consumption and Selling Price
(Volume in '000 Tons)

Table 7.27

Years	Peasant Sector		Others		Total		Grand Total	% share of peasant Sector	Selling price (Birr/Qt.)	
	DAP	UREA	DAP	UREA	peasant sector	Others			DAP	UREA
1987	76.0	7.8	23.0	14.4	83.8	37.4	121.2	69.1	79.8	63.7
1988	81.3	9.7	25.8	12.8	91.0	38.6	129.5	70.2	81.4	63.7
1989	83.8	10.8	23.2	11.6	94.6	34.8	129.5	73.1	96.6	80.9
1990	99.4	13.8	18.4	14.1	113.2	32.5	145.7	77.7	88.8	75.1
1991	96.0	12.9	21.4	16.7	108.9	38.1	147.0	74.1	91.0	77.3
1992	135.5	17.2	-	-	152.7	-	152.7	100.0	107.1	95.3
1993	78.6	11.6	5.7	5.8	90.2	11.6	101.7	88.6	149.8	132.8
1994	142.0	15.0	1.4	5.0	157.0	6.4	176.0	96.1	143.4	131.2
1995	194.5	37.1	7.8	7.3	231.6	15.1	246.7	93.9	178.0	168.0
1996	205.4	40.5	4.5	2.8	245.9	7.3	253.2	97.1	200.0	190.0
1997	154.5	39.1	7.2	5.5	193.6	12.7	206.3	93.8	262.0	237.0
Annual Average Growth Rate (%)	8.9	20.7	-15.1	-11.8	10.6%	-13.8	6.6%			

source: (1) Transport sector Assessment, USAID (1971-1984)

(2) AISCO (1985-1993)

(3) NFIA (1994-1997)

As depicted in Table 7.27 above, fertilizer price has more than doubled for both DAP and Urea as compared to its level in 1992, the period of the launching of the Economic Reform program. Such an increase in fertilizer price has been largely attributed to the devaluation of the Ethiopian Birr against the USD by 58 per cent in USD terms in 1992 to start with and its subsequent developments following the auction system and the liberalization of fertilizer marketing and distribution.

Despite the increase in the absolute level of fertilizer sold to farmers in Ethiopia, the country has still remained to be one with the lowest rate of fertilizer application even by the standard of sub-Sahara African countries. Ethiopia's fertilizer utilization in terms of nutrient content averaged 7 kg of nutrient per hectare of arable land compared to a sub-Saharan average of 9 kg per hectare of arable land. The world average stood at 65 kg per hectare. Physical application rates of fertilizer by most peasant farmers are well below those recommended by the extension program (100 kg DAP and 50 kg Urea per hectare) and could in some cases be as low as 20-30 kg per hectare. The physical application rate by state farms have been much higher at 130 kg per hectare.

The main reasons for the low physical fertilizer applications, among others, include:

- poor cultural practices which include inappropriate application in terms of timing and dosage, water logging, and run-off;
- shortage of fertilizer as a result of lack of purchasing power during the lean cropping seasons (June - August);
- unpredictable weather which renders farmers to be reluctant to apply fertilizers;

- higher farm gate prices of fertilizers as compared to farmers in other countries. According to some studies, the farm gate price in Ethiopia was estimated at 300 USD per ton in 1993 even after a 15% subsidy.

Owing to the factors outlined above, World Bank studies have disclosed that only 20 per cent of the farmers were believed to have used fertilizer at the end of the 1980's. This rate is expected to have increased to around 25% in recent years.

7.1.5.4 Fertilizer Prices and Marketing

Fertilizer distribution and marketing have been state controlled since its introduction in the beginning of the 1970s. During the period 1970-77, fertilizer distribution and procurement was handled by the Agricultural and Industrial Development Bank. Between the year 1978 and 1984, Agricultural Marketing Corporation was made the sole importer and distributor of fertilizer. Under the Ministry of Agriculture, the then Agricultural Inputs Supply Corporation (now AISE) was established in 1984 with the task of importing, distributing and marketing of agricultural inputs.

The foreign exchange requirements for fertilizer imports was met by government and grant obtained from bilateral and multilateral sources. During the period 1984/85 - 1990/91, donors such as the World Bank, EU, FAO and the government of Italy covered 52 per cent of the total cost of fertilizer imports.

During the past regime, fertilizer prices in Ethiopia had been under state control being pan-territorial. Low interest rate and overvaluation of exchange rate had helped maintain prices below its market rate prior to the Transitional Government of Ethiopia (TGE). Following the new

economic policy of the TGE, a new marketing strategy was designed with the technical assistance of FAO in 1992. The strategy has the overall objective of liberalizing the fertilizer market and creating multi-channel distribution systems. It also allowed for the participation of private fertilizer importers. As a result of this, private companies such as the Ethiopian Amalgamated PLC and Ambassel Trading House have entered into the fertilizer market.

Available data sources revealed that the price of fertilizers has increased from 38 Birr per quintal for DAP and 30 Birr per quintal for Urea in 1971 to 262 Birr for DAP and 237 Birr per quintal for Urea in 1997. A sharp increase in fertilizer price has been observed in 1993 because of the devaluation of the Birr. The Government introduced fertilizer subsidy of 15 percent of the price to absorb the effect of high prices resulting from devaluation. Even after the subsidy, DAP prices increased successively by 19, 33 and 75 percent in 1995, 1996, and 1997, respectively. The increase in price is believed to be the most important reason, if not the only one, for the decline in the amount of fertilizer consumption in 1993. A new fertilizer distribution policy was introduced in 1997 which, called for the elimination of fertilizer subsidies and the system of pan-territorial pricing through the promotion of the involvement of private sectors in importation, distribution and sales of fertilizer. The prices of both DAP and Urea for the period 1993 - 96 used to be subsidized prices. The

amount of subsidy (for the peasant sector only) by type of fertilizer is presented in Table 7.28 below:

The price of DAP and Urea described in 1997 was the whole sale price in Addis Ababa. The retail prices of DAP and urea in 1997 is 2-7 Birr per Quintal higher than the whole sale price depending on the transportation costs incurred to reach the selling centers from Addis Ababa. Details on the prices of DAP and Urea in the period 1971 - 1979 is presented in Table 7.28 above.

In compliance with the workings of a market economy, government has been looking for a phased removal of fertilizer price control and subsidies. Accordingly, government deregulated the retail price of fertilizer on 31 January 1997 immediately after the removal of fertilizer subsidies by the end of 1996. Wholesale prices were decontrolled a year later, i.e. end of 1997. In February 1998 government completely liberalized the market for fertilizer including the distribution systems.

7.1.5.5 Improved Seeds

Development of improved seeds for cereals and other food crops in Ethiopia began with the establishment of the Institute of Agricultural Research (IAR) in 1966. However, adoption of improved seeds by both large and small scale farmers was largely limited to the Arsi area as a result of the presence of a Swedish Assisted Development Project Chilalo Agricultural Development Unit

Government Subsidy by Type of Fertilizer (1993-96)
Table 7.28.

Year	DAP (Birr/Qt.)	Urea (Birr/Qt.)
1993	26.43	23.41
1994	36.96	31.98
1995	78.25	72.27
1996	50.00	50.00

(CADU) and Arsi Rural Development Unit (ARDU-) Since 1967.

The introduction and adoption of agricultural input packages like fertilizer, pesticides, insecticides, etc, complement improved seed in the effort to realize agricultural productivity objectives.

The drought of the 1973 and the subsequent famine during the last years of the Imperial Regime were the factors behind a series of multilateral and bilateral aid efforts designed to enhance productivity of crops and improve food security. One such effort was the World Bank funded first Minimum Package Project (MPP1) which was subsequently extended to the second Minimum Package Project (MPP2). Substantial assistance was extended to the Ethiopian Seed Corporation through the MPP2.

Production of improved commercial seeds for cereal, legume, and oil seed crops was introduced in Ethiopia through the then Ethiopian Seed Corporation (ESC) and its successor the now Ethiopian Seed Enterprise (ESE). The now ESE is directly accountable to the Prime Minister's Office (PMO).

The main objectives of the ESE, among others, are:

- Organize the production and marketing of improved seed developed by the IAR and other agricultural research institutions
- Import reliable high yielding varieties of seeds;
- Organize seed cleaning and processing facilities at selected locations in the country;

Until the beginning of the 1990's, ESE was the sole producer of seeds in the formal seed market. During this period it obtained breeder seeds from the IAR and Alemaya University of Agriculture (AUA)

and used to multiply it into pre-basic and basic seed at the farms of the IAR and AUA. The seeds from those farms have been finally multiplied on state farms.

In July 1990, a joint venture agreement was signed between the Ethiopian Seed Corporation and Pioneer Hybrid International USA to procure, produce process, condition, distribute and sell seeds and other agricultural inputs locally as well as on exports markets. The start up capital of the venture stood at 30 percent for the former and 70 percent for the latter. This joint venture had primarily focused on production of hybrid seeds for maize and latter extended its area of emphasis on testing sunflower and alfalfa seeds and is expected to continue with a program of adaptive research in varieties with commercial potentials.

In October 1992, the TGE issued a National Seed Industry Policy (NSIP) with the objective of laying the ground for the development of a healthy seed industry in which private seed enterprises would be encouraged to actively participate in the production and distribution of improved seeds. Hitherto, private operators had virtually no role in the production and marketing of improved seeds. The principal objectives of the NSIP include:

- Ensure the collection, documentation and utilization of germplasm resource for future use by national research programs;
- Streamline variety evaluation, release, registration, and maintenance activities through a new organizational set up;
- Develop an effective system of producing and supplying high quality seeds for important crops to satisfy the national seed requirement through the active participation of the public and the private sector;

- Encourage farmers participation in germplasm conservation as well as seed production;
- Create a functional and efficient organizational setup to facilitate cooperative linkage and coordination between the various actors in the seed industry;
- Regulate seed quality standards, import export activities of improved seeds, seed trade quarantine, and other seed related issues;

To properly implement the policy, the TGE issued proclamation No 56/1996 to establish the National Seed Industry Agency entrusted with the task of guiding and monitoring the development of the National Seed Industry along sound lines. The National Seed Industry Board (NSIB) was also simultaneously established with the task of defining the role of the public and private sectors in the development of seed industry, promoting active participation among farmers, streamlining the system of seed quality control, etc. The role of the ESE, among others, is to obtain breeder seeds from research institutions (IAR and AUA), multiply breeder seeds into basic and pre-basic seeds, multiply basic seeds into commercial seeds. Certification of seeds is the sole responsibility of the NSIA.

The then Ministry of State Farms Development (MSFD), the Ministry of Agriculture (MOA), and "others" including the then Relief and Rehabilitation Commission and NGOs have been the main actors in the utilization of improved seeds in Ethiopia. In recent years, the ERRP; the Extension program, and private commercial operators have also come in to the scene.

Prior to 1991, almost all of the improved seed was destined to the MSFD, the "other" producers, and the MOA. As per the information made available on sale of

improved seeds to different producers since 1985, the share of improved seeds destined to MSFD was consistently higher than that destined to the "others" followed by the MOA for the period 1988 to 1990 except in 1990 in which the share of MOA was higher than the former. In 1991 the share of the MSFD dramatically declined to around 10 percent and the lion's share, about 66 per cent, was accounted for by "others", the share of MOA being 24 percent.

The ERRP and the Extension Program has also become important actors in the use of improved seed in subsequent years. For instance, the ERRP accounts for about 61 per cent of the use of improved seeds in 1992. The Extension Program also account for some 56 percent of the improved seed utilized in 1995 and 1996, respectively. Improved seed utilized by private commercial farms was about 9 and 6 per cent in 1995 and 1996 respectively for which latest information is available. (See Table 7.29 for details)

The overall annual average seed requirement for cereals, pulses and oil seeds in Ethiopia is estimated at around 4 million quintals. However, the total amount of improved seed sold to different users has not exceeded 45% of the requirement. Sources from the then ESC revealed that overall utilization of improved seeds has not exceeded 2 per cent of the overall seed requirement of the country. Although the lion's share of the crops produced in the country is accounted for by peasant farmers, the proportion of improved seed destined to the socialized agriculture (state farms) during the period 1988 to 1990 was much more than that sold to the former as shown in Table 7.29.

Percentage Distribution of Seeds Sold to Different Producers (1985-1996)
Table 7.29

Years	Producers						Total
	MSFD	MOA	ERRP	Extension	Private	Others	
1985	18.2	25	-	-	-	56.8	100.00
1986	27.8	44.7	-	-	-	27.5	100.00
1987	26.6	18.6	-	-	-	54.8	100.00
1988	43.4	21.9	-	-	-	34.7	100.00
1989	52.4	15.9	-	-	-	31.7	100.00
1990	54.2	32.7	-	-	-	13.1	100.00
1991	10.3	24.0	-	-	-	65.7	100.00
1992	15.0	5.8	60.5	-	-	18.7	100.00
1993	11.7	5.7	28.8	-	-	53.8	100.00
1994	11.9	19.4	7.3	-	-	61.4	100.00
1995	25.5	1.8	-	55.5	9.1	8.1	100.00
1996	16.3	3.7	-	71	6.1	2.9	100.00

Source: ESE, Computed Based on Table 7.31

Sales of improved seeds to all types of users (producers) and for all crops in 1996 reached about 36 percent of its level in 1985 showing an average decline of 8.9 per cent per annum over the period 1985 to 1996. See Table 7.30 below for details.

As shown in table 7.31 below, Maize, Barley and wheat on average account for some 35.3, 8.6, and 47.5 percent of sales of improved seeds, respectively for all users for the year, 1985. "Other" crops which consists of crops like sorghum, Teff, Hancot beans, Soya beans, Rapeseed, Sunflower, Faba Beans, Chickpeas, Field peas, Linseed, Neug, etc., on average account for the residual for the same year. The share in 1996 had been 15.8, 3.5, and 77.4 per cent for maize, barely and wheat, respectively.

Of the improved seed varieties destined to the then MSFD, Maize, Barley and Wheat on average account for 19.5, 48.8, and 25.6 percent of total seed purchase in 1985 respectively. The corresponding share in 1996 had been 11, 9.7 and 78.7 per cent, respectively. With regard to improved seeds sold to MOA, and others

Maize, Barely and Wheat on average account for 37.8, 2.3, and 51.0 percent of total purchase of improved seeds in 1985. Of the improved seed destined to this group of users, Maize, Barely and Wheat account for 16.7, 2.3, and 77.2 percent of total purchases of improved seeds in 1996. "Other" crops destined to MSFD and MOA and "other" users account for 6.1 and 8.9 percent respectively of total purchases of improved seeds in 1985. The same group of crops account for 0.6 and 3.8 percent respectively in 1996.

Sales of Improved Seeds to Different Producers

Table 7.30

In Quintals

Years	MSFD					MOA & Others					Total				Grand Total
	Maizo	Baroly	Wheat	Others	Total	Maizo	Baroly	Whoat	Others	Total	Maizo	Baroly	Wheat	Others	
1985	8503	16263	8529	2010	33305	79519	4812	107247	18867	210445	86022	21075	115778	20877	243750
1986	15721	15192	35735	6516	73184	62324	5229	101923	20422	189898	78045	20421	137658	26938	263062
1987	6007	23171	29734	5230	64742	36525	18057	98349	30912	183853	43132	41228	128083	36142	248585
1988	8503	8968	52220	1442	71131	73098	5873	51780	11979	92730	31801	14834	104000	13421	163861
1989	14852	7596	31883	2204	56535	14716	1297	23923	11356	51292	29588	8893	55806	13560	107827
1990	299	10114	42185	1021	53619	11016	2254	28864	3071	45250	11360	12368	71049	4092	98869
1991	2483	-	9433	510	12428	12804	12295	60181	23012	108292	15287	12295	69614	23522	120718
1992	6772	1350	17953	493	26583	17068	1807	92898	38918	150691	23840	3157	110851	39411	177259
1993	5917	1089	13177	1120	21303	22649	822	105440	31942	160853	28566	1711	118617	33062	181956
1994	5535	584	10427	207	16753	20788	944	90924	11001	124557	78323	1528	101351	12108	168701
1995	3757	2449	24889	-	31095	15135	284	68860	6369	90648	18892	2733	93749	6369	121743
1996	1895	1679	13600	100	17283	14786	2033	68218	1128	88418	16880	3712	81827	3482	105721
Avg. Growth Rate (%)	-10.6	-18.7%	4.3%	-23.9	-9.7	-14.2	-7.5	-4.0	-14.5	-7.6	-13.9	-14.6	-3.1	-15.0	-8.9

Source: Ethiopian Seed Enterprise

Percentage Shares of Sales of Improved Seeds to Different Producers

Table 7.31

Years	MSDF					MOA & Others					Grand Total				
	Maize	Barely	Wheat	Others	Total	Maize	Barely	Wheat	Others	Total	Maize	Barely	Wheat	Others	Total
1985	19.51	48.83	25.61	6.04	100.0	37.79	2.29	50.96	8.79	100.0	35.3	8.5	47.5	8.6	100.0
1986	21.49	20.76	48.84	8.91	100.0	32.82	2.75	53.67	10.75	100.0	29.67	7.76	52.33	10.24	100.0
1987	10.2	35.79	40.93	8.08	100.0	19.87	9.82	53.50	16.81	100.0	17.35	16.59	51.52	14.54	100.0
1988	11.95	12.60	73.41	2.04	100.0	24.91	6.33	55.84	12.92	100.0	19.29	9.06	63.47	8.19	100.0
1989	26.27	13.44	56.40	3.89	100.0	28.69	2.53	46.64	22.14	100.0	27.42	8.25	51.76	12.58	100.0
1990	0.56	18.86	78.68	1.90	100.0	24.44	4.98	63.79	6.79	100.0	11.49	12.51	71.86	4.14	100.0
1991	19.98	-	75.91	4.11	100.0	12.60	5.54	59.22	22.64	100.0	12.66	10.18	57.67	19.49	100.0
1992	25.49	5.08	67.59	1.84	100.0	11.30	1.40	61.52	25.77	100.0	13.45	1.78	62.54	24.01	100.0
1993	27.78	5.12	61.85	5.25	100.0	14.10	0.39	65.63	19.88	100.0	15.70	0.94	65.19	18.17	100.0
1994	33.04	3.49	62.21	1.23	100.0	16.69	0.76	73.00	9.55	100.0	15.60	0.91	60.08	23.41	100.0
1995	12.08	7.88	80.04	-	100.0	16.70	0.31	75.96	7.03	100.0	15.52	2.24	77.01	5.23	100.0
1996	10.96	9.71	78.74	-	100.0	16.02	2.20	73.92	7.86	100.0	15.78	3.51	77.40	3.31	100.0

Source: Computed Based on Table 7.30

In terms of trends in the development of consumption of improved seeds by the two categories of users by crop type, Maize and Barley sold to the MSFD have been declining at the rate of 11 and 19 percent per annum respectively over the period 1985 to 1996 while that for wheat exhibited an about 4 percent annual average growth rate over the period. Other crops sold to the MSFD has also been declining at the rate of 24 percent per annum over the same period. Over all, improved seeds destined to the MSFD has been declining at the rate of about 10 percent over the same period. Improved seeds destined to the two categories of producers altogether has also depicted an average annual decline of about 9 percent over the same period. (see Table 7.31 above for details.)

Pesticides

Besides fertilizer and improved seeds, plant protection chemicals like insecticides, herbicides fungicides and others help improve yields on agricultural crops. Given the limitations on the availability of hard currency in the country, imports of pesticides have historically remained very low. Available sources indicate that the volume of import of pesticides have fluctuated from year to year.

The volume of insecticides which account for 98.7 per cent of total volume of pesticide import in 1983 had decreased to 46.8 per cent of overall pesticide imports in 1996. Herbicides which accounted for 1.3 per cent in 1983 had increased its share to about 50 per cent in 1996. Overall volume of pesticide import has declined from 3319 MT in 1983 to 944.4 MT in 1996 showing an annual average decline of 9% per cent per annum over the period. Overall value of imports of pesticide has increased from about 69 million Birr in 1983 to 278.5 million Birr in 1996.

The extremely low level of pesticide applications is to a large extent attributed to lack of awareness on the importance of pesticides among mainstream peasant farmers. Most of the imported pesticide are believed to have been used by state farms while application by small farmers have remained marginal. This might have improved in recent years via the extension program that has been instituted since the launching of the ADLI strategy in the country.

The volume of pesticide imports and its value is depicted in Table 7.32 below for the period 1983 to 1996.

Import of Pesticides (1983-1996)
Volume-MT; Value in Million Birr

Table 7.32

Years		Insecticides	Herbicides	Fungicides and others	Total
1983	Volume	3276	17	23	3319
	Value	68.47	0.54	0.13	69.14
1984	Volume	2298	51	597	2946
	Value	83.3	0.94	6.00	90.47
1985	Volume	1702	9	780	2491
	Value	40.0	0.20	11.66	52.06
1986	Volume	3285	345	10.0	3730.03
	Value	93.67	6.30	1.57	101.51
1987	Volume	5498	118	2	5618.36
	Value	162.21	4.36	0.43	166.64
1988	Volume	2290	55	2	2347
	Value	162.9	4.29	0.07	167.26
1989	Volume	2666	5681	21	9370
	Value	190.88	42.88	1.21	234.97
1990	Volume	6276	312	21	6609
	Value	187.73	26.40	1.27	217.14
1991	Volume	439	34	1.74	473
	Value	36.31	4.82	0.07	41.20
1992	Volume	1411	111	36	1558
	Value	124.82	8.11	1.01	133.94
1993	Volume	1181	2827	54	4062
	Value	76.05	9179	26.93	194.77
1994	Volume	744	148	41	933
	Value	149.54	49.58	7.57	206.96
1995	Volume	494	675	245.5	1441.5
	Value	98.80	229.50	61.05	389.35
1996	Volume	441.5	467.7	35.25	944.4
	Value	89.62	158.78	31.08	278.48

Source: MOA

7.1.6 The new Extension Program and Development in Agricultural Research

7.1.6.1 Review of the New Extension Program

The Government's new economic development strategy places utmost emphasis on reducing the country's dependency on foreign food donations through increased domestic production. Increased crop production is anticipated to come from expansion of cultivated area when ever possible and intensification of Agriculture through improved cultivation practices and increased use of improved technologies, including irrigation, soil and

water conservation, fertilizer use, improved seeds and pest control.

The Government's crop intensification efforts has started since 1995 by designing and implementation of the new agricultural Extension Program. This package program is being implemented through 1/4-1/2 hectare on-farm demonstration plots of the major cereal crops (maize, wheat, teff, and sorghum) in selected "Woredas" of the country. As per the assessment made over the last two years, the productivity levels of most of the crops considered in the new agricultural extension program were found to be 3-4 times higher than the traditional national averages of the respective crops.

The government was highly convinced by the results of the program over the last two years and designed to include in the program other potential crops (pulses, oil crops, vegetables, etc.) that have higher economic values both in local and foreign markets commencing in the 1997 crop season.

7.1.6.2 Review of Developments in Agricultural Research

Although agriculture is the mainstay of the national economy, the benefit gained from the sector is very much below its expected potential. One of the major causes for low performance of the sector is weak agricultural research system and dissemination of research output. If agriculture is to play the leading role in the overall economic development of the country, it is imperative that improving and strengthening the agricultural research system will be a necessary step to be pursued.

So far, the Government of Ethiopia has been putting some efforts in setting up institutions that deal with agricultural education, research, and extension. These institutions have been operational over the past 3 to 4 decades in carrying out important tasks in the improvement of agricultural productivity. Organization of research and extension service in many parts of the country, a stock of trained manpower, improved crop varieties, livestock breeds and some farm tools are the most important outputs achieved so far just to mention but a few of them.

Informal agricultural research was started in the 1950s with the establishment of agricultural education institutions such as Ambo and Jima Agricultural Schools and Alemaya College of Agriculture. During those periods agricultural research meant simple experiments carried out by

agricultural education institutions limited to their academic interests. Some modest amount of experimentation was also conducted by Ministry of Agriculture and by some private companies dealing with commercial farms. However, such research works were inadequate to meet the increasing demands of agricultural development in the country.

The need for the establishment of a national agricultural research organization was strongly felt by the Ethiopian Government and to this effect, the Institute of Agricultural Research (IAR) was established in 1966 by order number 42/58. The establishment of IAR was financed by the United Nations Development Program (UNDP) assistance and the Ethiopian Government contribution. The UNDP assistance to IAR is one of the long standing and continuous collaboration between the UNDP and the Ethiopian Government in building up the capacity of a single research institution (1966-1989).

The major objective of the establishment of IAR was to increase productivity of the agricultural sector so that the sector could contribute to the overall economic development of the country. To achieve this objective, IAR was mandated to:

- formulate national agricultural research policy guidelines
- undertake crops, livestock and farming systems research
- coordinate agricultural research programs carried out by other organizations in the country.

The IAR has been recently reorganized as the Ethiopian Agricultural Research Organization by Proclamation No. 79/97 in line with the new socio-economic and federal administrative set up of the country. The Ethiopian Agricultural Research Organization (EARO) is a

federal institution responsible, among others, for generating improving and adopting of technologies and over all coordination of agricultural research activities of regional agricultural research institutions and agriculture related research activities by higher education institutions.

7.1.6.3 Organization of the Ethiopian Agricultural Research System

The establishment of IAR with the above mandates marked the beginning of the Ethiopian Agricultural Research System (EARS). Today, the national agricultural research system in Ethiopia is made up of organizations whose primary function is research and those that undertake research as a supplementary function. Research organizations organized as full-time research institutions include IAR, Regional Research Centers (RRC) and Biodiversity Institute.

Organizations whose primary function is not research work but conduct research related to their main activities are higher learning institutions and agricultural development organizations. These include higher learning institutions such as Alemaya University of Agriculture, Awassa College of Agriculture, Jima College of Agriculture, Ambo College of Agriculture and agricultural development organizations such as the Ministry of Agriculture.

7.1.6.4 Agricultural Research Personnel

The number of agricultural researchers has significantly increased in the EARS. During the 1970's, there were about 45 full-time equivalent researchers working in the system. By 1980 the number grew to 270. Although the initial number was very small, the annual growth rate of the agricultural researchers was about 10 percent. Great changes in the composition of the research workforce have also taken place. During the 1970's expatriates accounted for about 57.5% of the workforce in the EARS, while this proportion went down dramatically to 22.7% in 1980s and completely replaced by Ethiopian researchers during the 1990's (See Table 7.33 below for details).

Not only has the number of agricultural researchers increased dramatically but also their educational levels have improved as well. Although data on educational levels of researchers for the 1970s and the 1980s are not available to carry out comparisons, as it stands now nearly 56.4 percent of the research workforce in the EARS have postgraduate degrees. About 15 percent hold Ph.D., 42 percent hold M.Sc. and the balance hold B.Sc. degrees. (See Table 7.34 below.

Local Vs Expatriate Agricultural Research Staff

Table 7.33

Year	Local (%)	Expatriate (%)
1970	42.5	57.5
1975	54.2	45.8
1980	77.3	22.7
1985	99.5	0.5
1990	100	0

Source:- (1) Annual agricultural research plan documents-MEDaC,
(2) IAR-Working documents. See Table 37 below.

Research Staff By Qualification (1996)

Table 7.34

Qualification	Number	Percentage share
B.Sc.	177	43.5
M.Sc.	235	42.0
Ph.D.	65	14.5
Total	477	100.5

7.1.7 Developmental Expenditure in Agriculture

To support the developmental effort in the agriculture sector, the government of Ethiopia has been allotting capital budget every year. The share of public development expenditure in agriculture which stood at a little more than 25 percent by the end of the 1991/92 F Y has declined to around 6 per cent by the year 1996/97. The proportion of

developmental expenditure allotted to agriculture, has not been commensurate with its contribution to the overall economy. The crop subsector is estimated to have absorbed about 50 per cent of the developmental expenditure allocated to the agriculture sector.

The decline in the share of developmental expenditure in agriculture since the early 1990's has been to a greater extent attributed to the exclusion of state farms from the allocation of capital budget since the launching of the Economic Reform program (ERP) in October 1992.

For the period spanning the years 1993/94 to 1996/97 for which data on

developmental expenditure in agriculture via Federal Government and Regions have been made available, the share of development expenditure in agriculture by all regions in overall national developmental expenditure in agriculture has increased from around 33 per cent in 1993/94 to about 70 per cent in 1996/97, the residual being accounted for by the development expenditure by the federal government. This shows that the role of regional governments in developmental expenditure in agriculture has been expanding in recent years.

Overall developmental expenditure which stood at about 952 million Birr in 1991/92 has reached 5408 million by 1996/97 showing an average growth rate of about 42 per cent per annum. Developmental Expenditure in agriculture which stood at about 394 million Birr in 1991/92 has increased to about 844 million Birr exhibiting an average growth rate of around 16 per cent per annum over the period. Trends describing the developments in capital expenditure in agriculture for recent years is depicted in table 7.35 below.

Capital Expenditure in Agriculture

Table 7.35

(Million Birr)

Fiscal Years	Total Capital Exp.	Capital Exp. in Agriculture and Natural Resources	Capital Exp. in Agri. +NR as % of Total Capital Exp.	Region's share of capital Expenditure in Agriculture + Natural Resource
1991/92	951.8	394.2	41.4	NA
1992/93	1771.3	638.5	36.0	NA
1993/94	2694.4	721.1	26.8	33.2
1994/95	3156.5	756.8	26.9	46.3
1995/96	4293.5	1016.7	23.7	49.4
1996/97	5407.9	843.7	15.6	70.0
1997/98	4580.4	345.9	7.6	99.9
Average Annual Growth Rate (%)	41.5	16.4		

source: MOF Annual Budgetary Revenue and Expenditure Report

Hitherto available data confirm that the share of developmental expenditure on livestock and fishery as compared to that of the crop subsector has been very small. Of the cumulated developmental expenditure over the 12 years period spanning 1978/79-1989/90 which stood at 4979 million, only 16 per cent was accounted for by the livestock and fisheries subsector. This by itself shows that the livestock subsector had not been given due emphasis in the allocation of scarce developmental resources during the previous regime..

With regard to recent trends in developmental expenditure on livestock and fisheries subsector, there is a clear indication that both federal and regional governments have attached a

considerable emphasis on livestock and fisheries development. The budget allocated by regional governments has been increasing steadily since 1993/94 as shown in Table 7.36 below. Budget allocated on livestock and fisheries development by the regional governments has been increasing at 3.4 per cent per annum over the period 1993/94 to 1997/98 while that by the federal government has exhibited a marginal decline of 0.9 per cent per annum over the same period. Total development expenditure on livestock and fisheries both by federal and regional governments has exhibited an average growth rate of 2.5 per cent per annum as shown in Table 7.36 below.

Developmental Expenditure Allocated for Livestock and Fisheries Subsector
Table 7.36 (Million Birr)

	Fiscal Year	All Regions	Federal Gov't	Total	% share of Regions
1	1978/79-1989 (Average)	-	-	65.5	-
2	1993/94	80.3	22.0	102.3	78.5
3	1994/95	66.7	68.2	134.9	49.4
4	1995/96*	86.0	12.2	98.2	87.6
5	1996/97	74.0	21.8	95.2	77.2
6	1997/98	91.8	21.2	113.0	81.2
	Annual Average Growth Rate (%)	3.4	-0.9	2.5	

Source: Ministry of Finance Annual Budgetary and Expenditure Report. Does not include A.A. Administration Revenue

7.1.8 Agricultural Credit

Agricultural Credit is of paramount importance to alleviate the critical financial constraints that have been hampering farmers endeavor in the development of their agricultural activities. These constraints, among others, include lack of cash needed to undertake farm investments such as irrigation, drainage, purchase of hand pumps, tractors and construction of buildings and purchase of "modern" inputs (fertilizers, improved seeds, pesticides, animal feeds, etc.)

The sources of agricultural credit could be the formal and informal financial institutions. The formal institutions include banks and other creditors such as the now Micro Financing Institutions that are established legally to extend credit to farmers to enhance their capacity in obtaining farm inputs and undertake needed investments. The only financial institution engaged in the provision of credit to farmers prior to 1995 was the then Agricultural and Industrial Development Bank (AIDB) and the now Development Bank of Ethiopia (DBE).

The second and most important credit sources in rural areas are informal sources which could be categorized as commercial and non-commercial sources that generally include friends and relatives. Informal sources also include the mutual help associations such as "Idir" "Iqub", "Mahebers", etc. and modern cooperatives and NGOs. As the informal sources of credit are operating outside the handling system and control of the National Bank of Ethiopia (NBE), virtually no information have been made available to assess the magnitude and extent of credit mobilized from these sources. Overall, considering the size of the agricultural population in Ethiopia, the size of cultivated area, and the role of the sector in the economy, the volume of loan extended to the peasant sector is believed to have been very low up until 1993/94 when credit to state farms had been suspended.

Agricultural credit provided by the then Agricultural and Industrial Development Bank (AIDB) was biased towards the State Farms. As shown in Table 7.37 below, agricultural credit extended to state

farms by the then AIDB and the now DBE which stood at about 84 per cent of total credit in 1980/81 had reached its lowest level (22 per cent) in 1990/91 (on the eve of the fall of the Derg). The share of credit extended to state farms has been consistently declining at the rate of 12.3 per cent per annum over the period 1990/91 to 1993/94. In the year 1993/94 after which credit to state farms had been stopped, the share of state farms in credit intake reached about 43 per cent. The share of credit extended to private holders, cooperatives, and NGOs has been increasing since 1990/91 and the whole of credit has been provided to them since 1993/94.

Provision of input credit to peasant farmers by the CBE commenced in

1994/95. As depicted in Table 7.38 below, total credit extended to farmers by the CBE in 1994/95 stood at about 158 million Birr and has increased to about 242 million Birr in 1996/97 FY showing an average growth rate of about 24 per cent per annum over the period. With regard to the regional distribution of credit extended to farmers; Oromiya, SNNPR and Amhara in that order accounted for 70, 19 and 10 per cent of the total credit extended by the CBE when it commenced its credit operation with small holders in 1994/95. This share has further increased to 74% for Oromiya 3 per cent for Amhara regions and declined to 12 per cent of total credit extended for SNNPR in 1996/97 F.Y. Details are depicted in Table 7.38 below.

Loan Provisions By DBE By Producers.

Table 7.37

S.N	Fiscal years	Private Holders, Cooperatives, and others*	State Farms	Total	% share of state farms %
1	1980/81	50387	261478	311865	83.8
2	1981/82	52794	268841	216635	83.6
3	1982/83	51351	175759	227110	77.4
4	1983/84	54458	188744	243202	77.6
5	1984/85	37141	227548	264689	86.0
6	1985/86	66320	267191	333517	80.1
7	1986/87	38192	112723	150915	75.0
8	1987/88	128434	239311	367745	65.1
9	1988/89	88438	101558	189996	53.5
10	1990/91	83349	133882	217231	61.6
11	1991/92	49845	14199	64044	22.2
12	1992/93	39421	76370	115791	66.0
13	1993/94	70331	53876	124209	43.4
14	1994/95	32493	-	32493	0
15	1995/96	184	-	184	0
16	1996/97	29364	-	29364	0
17	1996/97	55495	-	55495	0
	Annual Average Growth (%)	5.6%	-12.3%	-10.2%	

Source: DBE others include coffee and Tea Authority Fertilizer Purchases

Credit Disbursed to Farmers by the Commercial Bank of Ethiopia(CBE) By Region
Table 7.38 ('000 Birr')

S.N	Region	Fiscal Years		
		1994/95	1995/96	1996/97
1	Tigray	450.6	2092.6	-
2	Amhara	15385.9	28559.9	30250.1
3	Oromiya	109985.2	150228.2	179052.7
4	SNNPR	29731	36869.9	29225.6
5	Addis Ababa	2734.6	3379.9	3867.9
	Total	158287.3	221129.6	242096.3

Source: Commercial Bank of Ethiopia

7.1.9 Private Sector Participation in Agriculture and Allied Activities

More than 95 per cent Ethiopian agriculture output is said to be generated by private peasant farmers. The subsistence nature of such farming and its fragmented small land holdings have been the major setbacks to undertaking significant investment and adoption of improved technologies in the Ethiopian agriculture. The development of modern commercial farms is thus deemed essential for rapid growth and transformation of agriculture while at the same time improving the traditional practices of peasant farming.

As already mentioned in the preceding sections, encouraging private sector initiatives were witnessed towards the development of modern commercial farms during the Imperial regime both on crop and livestock production. Once these private farms were nationalized at the advent of the Derg, modern farming by and large remained in the domain of the public sector in the form of state farms. Despite huge government investment to mechanize the state farms and significant stride toward the adoption of modern farming practices and inputs, the contribution to total agricultural output of the state farms never exceeded a 5 per cent limit and had been gradually declining towards the fall of Derg.

Management problems were the major culprit for such dismal performance of state farms which ended up with large sum of commercial debt which was ultimately assumed by government. Some of the state farms have already been liquidated after the launching of Economic Reform Program. Others had been dissolved and finally distributed to the surrounding farmers and the remaining are already earmarked for privatization.

The emerging private sector is therefore expected to assume the role of expanding modern commercial farms as long as restrictions on private investment activities are removed. Quite a significant number of agricultural projects have been awarded investment certificates in the past seven years by the Ethiopian Investment Authority and its regional counterparts.

During the period spanning 1992/93 to 1997/98, investment certificates had been given to 1157 agricultural projects with an estimated investment cost of Birr 5.95 billion. Fifty five of these projects are expansions while the rest are new ones. As licenses are only indicators of tendencies on private sector endeavors, it shows that licensed agricultural projects make-up for 26 per cent of the total number of (all sectors) licensed projects during the period under review. The

intended agricultural investment at about 16 per cent of the total (all sectors). Private investment initiatives in agriculture thus seem to be far behind that of manufacturing which accounts for 43 and 33 per cent of the total number of licensed private sector projects and their investment capital respectively during the post reform period ending in 1997/98.

As indicated in Table 7.39 below, about half (586) of the total number of licensed agricultural projects are in the crop sub-sector followed by livestock farms which account for another 27 per cent. The majority (about half) of the projects in the crop sub-sector are of a mixed food and cash crop production type while 37 per cent of them are expected to grow food crops alone. The balance is accounted for by cash crops. The emergence of projects for the delivery of agricultural services mainly in the form of agricultural machinery and equipment is an important aspect of private sector participation in agriculture. There are about 149 such projects licensed during the period under review with an estimated capital cost of Birr 472.2 million.

As shown in Table 7.39 above, in terms of intended investment capital, the crop sub-sector assumes a dominant role with a 78 per cent share. Investment capital earmarked for livestock development is but 7.4 per cent of the total investment on agriculture. Rather few projects and limited investment has been undertaken in the forestry and fishing sub-sectors.

The period 1992/93 to 1997/98 also witnessed the commencement of 511 agricultural projects worth some Birr 2.76 billion. This shows the realization of 44 per cent of the licensed projects and 46 per cent of the intended investment for the sector during the same period. Agriculture therefore demonstrates a relatively better implementation of licensed projects as compared to a 27 and 24 per cent in terms of implementation of projects and investment capital with respect to all private sector investment activities, respectively. 81 per cent of the already invested capital in agriculture belongs to the crop sub-sector of which 54 per cent is accounted for by food crops farming.

Number of Licensed Agricultural Projects and Estimated Investment Cost (1992/93 - 1997/98)

Table 7.39

	New		Expansion		Total	
	No. of Projects	Inv't Capita	No. of Projects	Inv't Capital	No. of Projects	Inv't Capital
AGRICULTURE	1102	5810.5	55	143.5	1157	5954.0
Food Crops	213	1738.5	7	6.9	217	1745.3
Cash Crops	70	936.7	2	7.8	67	944.5
Food & Cash Crops	291	1943.6	14	22.6	302	1966.2
Livestock	295	401.0	23	40.4	315	44.4
Crop & Livestock	77	357.5	2	2.2	76	359.7
Agri. Services	142	408.6	7	63.6	149	472.2
Forestry	8	14.7	-	-	8	14.7
Fishing	6	10.0	-	-	6	10.0
ALL SECTORS (Including Agriculture)	4000	32282.7	398	4292.7	4398	36575.4

Source: Ethiopian Investment Authority (EIA)

Number and Capital Cost of Agricultural Projects in the Operational and Implementation Phases (1992/93 - 1997/98)

Table 7.40

Million Birr

	Operational		Under Implementation	
	No. of Projects	Inv't Capital	No. of Projects	Inv't Capital
AGRICULTURE	511	2761.6	107	1044.8
Food Crops	122	1481.5	11	24.4
Cash Crops	14	297.5	6	32.1
Food & Cash Crops	201	479.1	15	837.7
Livestock	58	111.5	62	74.8
Crop & Livestock	31	113.1	7	67.2
Agricultural Services	71	268.5	4	5.1
Forestry	3	9.1	1	2.0
Fishing	1	1.3	1	1.5
ALL SECTORS (Including Agriculture)	1184	8731.5	706	6189.6

Source: EIA

As shown in Table 7.40 above as of June 30 1998, there were 107 agricultural projects reportedly under implementation which cost a total of Birr 1.0 billion. Some 838 Birr million of the investment goes to 15 projects engaged in a mixed food and cash crop farming.

Despite better rates of project implementation, the number of licensed and operational agricultural projects have been on the decline after reaching their peak in 1995/96. There were 374 licensed and 191 operational projects in this sector in 1995/96. The number of licensed projects declined to 177 and 130 in 1996/97 and 1997/98, respectively, while the number of operational projects decreased from 92 to 32 during the same period.

7.2 Food Security Issues In Ethiopia

The essential elements in this definition are availability of food and the ability to acquire it. The major shift in its definition

is that of focusing on access rather than food supply.

7.2.1 Conceptual Issues

Food security, as an organizing principle, focuses on eliminating long-term food deprivation and averting short term stresses in the capacity of commanding enough food. It was conceptualized as a problem of food supply against the level of consumption needs. This view, however, failed to be practical when there existed an increase in the size of famine, hunger and malnutrition irrespective of the increase in the volume of food supply. This has made a shift of thinking from a food availability consideration to a food entitlement approach.

Food security, as advanced by the World Bank, is defined as "access by all people to a healthy life".

Food insecurity can be of two types depending on its intensity: 'chronic' food insecurity and 'transitory' food insecurity. The former is a sign of poverty and often caused by a constant failure to acquire enough food. The other type, 'transitory food insecurity' is caused by a short term fluctuation in production or prices of food. The latter type in most cases takes a form of famine and requires an urgent and coordinated effort to withstand its shocks.

7.2.2 Food Security Situation

Food insecurity in Ethiopia currently covers a large area and a significant number of people. As evidenced from different sources, the size of the food insecure people has varied between 40% and 50% over the last decade.

In general the major cause for food insecurity in Ethiopia is highly correlated

with the decline in food production. Though an increase in food production is observed during most of the post-reform years, there is still an increasing gap in food deficit. The rate of change in per capita food production is very slow compared to the rate of growth in population.

The trend in per capita production and food production is depicted in Fig. 7d and 7E, respectively below. As Fig. 7e below indicates, the trend in per capital food production exhibits an average decline of around 2% per annum. The per capita production was 200 kg in 1979/80. It had dropped to 150 kg in the early and mid-1990s. A sharp decline had particularly been observed in the years 1984/85, 1992/93 and 1993/94.

Figure 7d

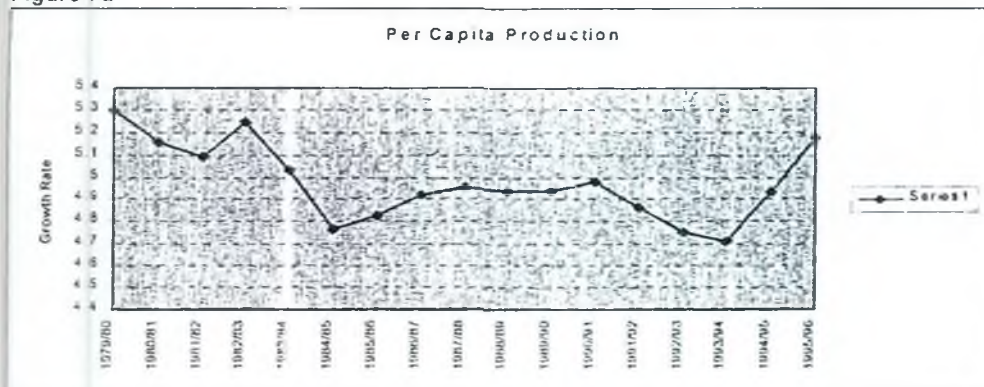
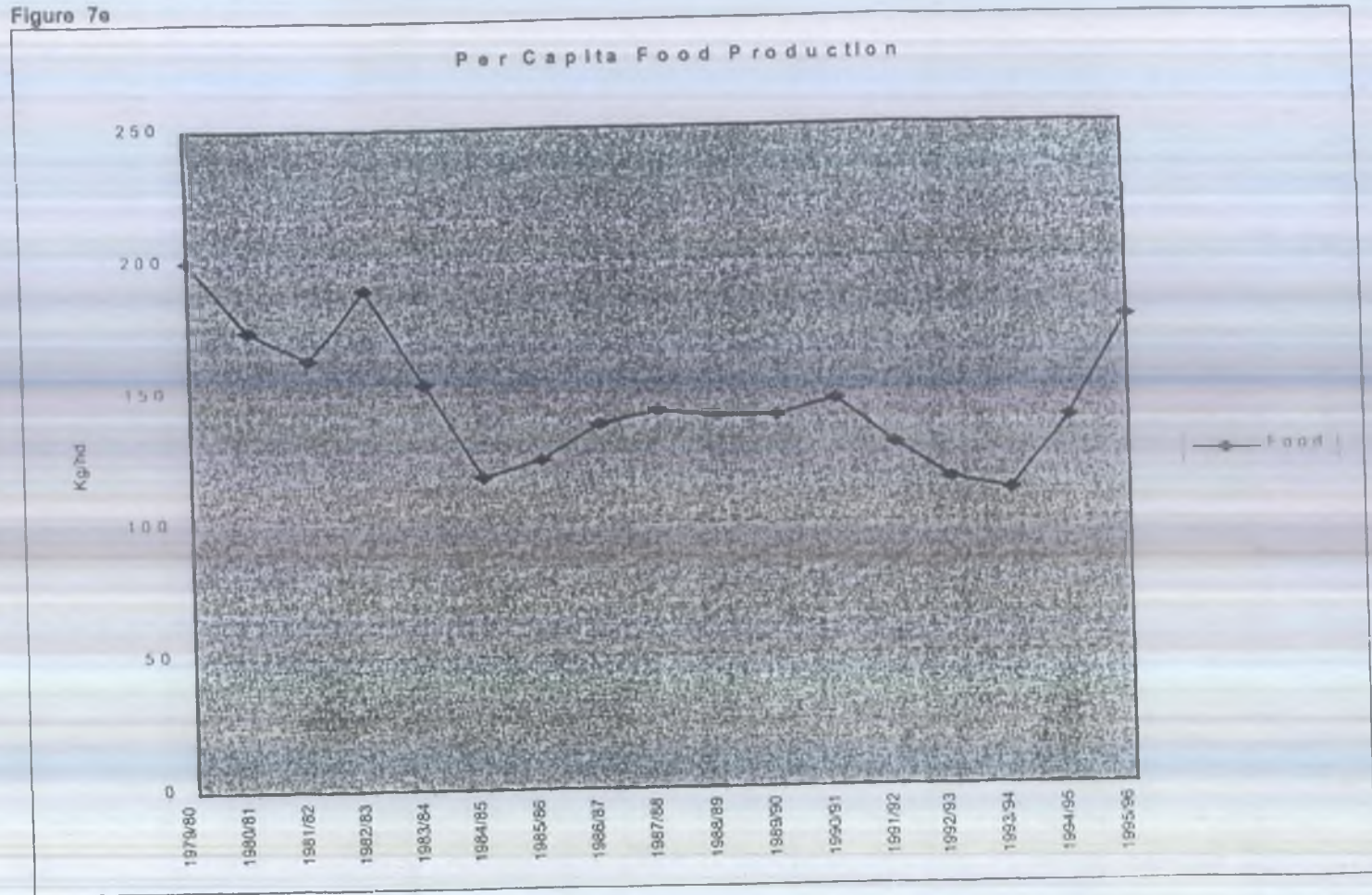


Figure 7a



7.2.3 Bird's Eye-view of The Ethiopian Food Security Strategy

The food insecurity challenge facing Ethiopia requires an all-round and systematic approach. It requires identifying the problems in the food system which involves production, distribution, marketing, and consumption.

The first document towards addressing this problem, i.e., the National Food & Nutrition Strategy (NFNS), addresses the problems of food and nutrition from a multi-sectoral point of view, has undergone a number of revisions. In the course of this review, it was recognized that many of the inter-sectoral aspects of the draft have already been addressed through other sectoral development policies such as health, education, population, natural resources as well as monetary and fiscal policies. Consequently, after a consensus was reached among concerned policy makers, the focus and scope of the NFNS were modified and a new draft Food Security Strategy was drawn up which currently got acceptance by the government and being transformed to an implementation stage.

The National Food Security Strategy, which is designed to coordinate and promote sectoral programs, focused on three aspects: increasing food and agricultural production; improving food entitlement and strengthening capacity to manage food crises. The food production component focuses on diffusion of improved technologies in areas where there is ample rainfall. Major emphasis will be on improving productivity in peasant agriculture. It supports small holders to secure sustainable food and agricultural production.

In the food entitlement strategy, the focus will be to reduce vulnerability in

drought prone areas. It attempts to ensure self-provisioning through directing poverty reducing endeavors. The strategy also focuses on strengthening emergency capabilities. It involves maintaining emergency food security reserves, developing an effective early warning system and holding strategic seed reserves.

7.2.4 Reflections on Disaster Prevention and Management

The challenge of any disaster (natural or otherwise) goes beyond relief assistance. There is the need for rehabilitating the affected area and enabling the community to get along with their normal livelihood activities. Therefore, the program of disaster prevention and management aims at integrating relief assistance, rehabilitation and further sustain economic growth so as to enable the population prevent any further forthcoming disaster with the ultimate objective of reconstructing, transforming and developing the community.

As such disaster prevention and management systems involve relief distribution with the community playing the central role in the planning, implementing and evaluation of the program, the rehabilitation and further development of the community are facilitated by the development of employment generation schemes in which grass root participation is a pre-requisite for the success of relief assistance in achieving its ultimate objective of eradicating poverty among rural peasants.

7.2.5 Reflection on Food Aid Management

For decades the gap created by domestic production shortfalls has been largely met through external food aid. The annual volume of cereal food aid has ranged from 2.3% to 26% of total domestic grain production over the period 1985 - 1996 (Table 7.41 below). In an average year, the volume of cereals food aid can account for up to 25% of marketed surplus.

An injection of cereal food aid of this magnitude would inevitably create a downward pressure on market prices thereby affecting farmers' income and hence the volume of domestic production. This calls for the distribution of food aid to reach the most needy, implying efficient targeting avoiding both inclusion and exclusion errors-in ways that do not adversely affect the efficient

functioning of cereal markets and long-term development objectives.

7.2.6 Reflections on Grain Price Stabilization

Very much in line with a market oriented economic management policy of the government, prices are largely decontrolled and commodity distributions are deregulated. Hence, the current pricing policy in general is to accelerate further price liberalization measures with a view to creating a free competitive market-based system.

Apart from the traditional stabilizing role for rural households and traders, EGTE has a role of stabilizing seasonal grain price fluctuation without violating the operation of a free market system. Moreover, the recently phased out EU local grain purchase program had given an additional leverage for stabilization.

Domestic Production and Food Aid

Table 7.41

Year	Food Aid (000 tons)	Food Grain Production (000, tons)	Food Aid Proportion to Prod. (%)
1985	1272	4855	26.2
1986	926	5404	17.1
1987	277	6684	4.1
1988	1096	6902	15.9
1989	461	6676	6.9
1990	657	6579	10.0
1991	925	7078	12.0
1992	840	7055	11.9
1993	519	7619	6.8
1994	980	6945	14.1
1995	683	7492	9.1
1996	334	10328	3.2
Total	8970	83617	10.7

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Chapter 8

Manufacturing

8.1 Background

It is widely recognized that successful development of the industrial sector plays a key role in the economic and social progress of a nation. The central role of industrial development lies not only on the provision of a wide range of goods needed for the well being of the society but also in building domestic capacity to expand and sustain production in the long run.

Although Ethiopia has had a long tradition in the development of handicrafts and cottage manufacturing industries, the introduction of modern manufacturing is only a 20th century phenomena. The emergence of a strong central government which resulted in political stability and the construction of the Ethio-Djibouti railway were notable early 20th century events which contributed to the introduction of modern manufacturing in Ethiopia. These circumstances gave way to the establishment and expansion of cities and the settlement of foreigners which in turn increased the demand for imported commodities and hence the basis for industrial development. The domestic production of manufactured goods was also necessitated by the increasing problem of transporting bulky imported commodities like wood, clay, etc.

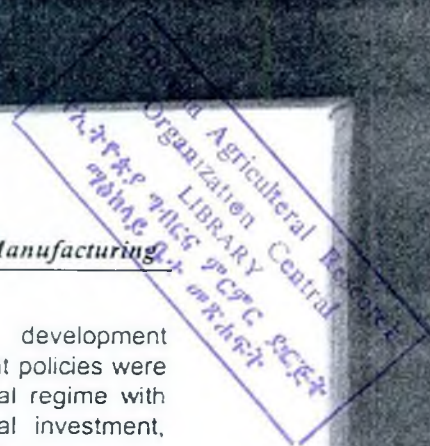
By 1925, there were 25 factories in the major urban centers of Addis Ababa, Dire Dawa, Asmara and Massawa of which 22 were established by private entrepreneurs. About 10 additional manufacturing industries were built during the period 1928 to 1941 of which two were (Artistic Printing Press and

Ambo Mineral Water) established before the Italian Occupation. While the Italians established the Dire Dawa Cement and Textile factories, the rest were set up by Armenians and Greek settlers.

A number of manufacturing industries also came into existence between 1941 and 1955 owing mainly to strong relations with the then governments of the United States of America and the United Kingdom. Nevertheless, industrial development gained strong momentum only after the second world war when government began to take conscious effort towards the development of the sector. Government put in place generous tax incentives and high level of tariff protection which together with easy access to domestic credit on favorable terms helped attract inflow of foreign capital to the manufacturing sector.

Import substituting manufacturing establishments largely owned by foreigners began to expand and there were 273 such enterprises prior to the 1974 revolution of which 101 (37 per cent) were fully owned by foreigners and another 42 where foreigners have more than 50 per cent share.

The role of government was relatively small with full ownership of only 13 manufacturing establishments, more than 50 per cent share in 5 and less than 50 per cent share in another 7 factories. This shows that the majority of manufacturing plants, especially the large scale establishments, were foreign owned and heavily protected from external competition. They were also



dependent on imported inputs (and hence foreign exchange) for full utilization of their installed capacity.

The military regime which came to power in 1974 nationalized all private large and medium scale manufacturing establishments be it owned by nationals or foreigners. With strong emphasis on medium and large scale manufacturing, the Derg period also saw the set up of a number of government owned manufacturing industries though the private sector initiative was severely curtailed.

The development strategies of the Derg brought about no significant change in the structure of the manufacturing sector which still is dominated by light and consumer goods producing industries which are concentrated in the major urban centers mainly Addis Ababa and the surrounding towns. The sector is highly capital intensive and dependent on imported input with poor linkage with the rest of the economy.

8.2 Review of the Manufacturing Sector Policies and Strategies

Pre-reform

The emergence and expansion of manufacturing enterprises in Ethiopia was based on meeting available demand for consumer goods and building/construction materials. It was only in the 1950s when development plans (three five year plans) began to be formulated that the development of the sector began to be shaped by policies and strategies pertinent to the sub-sector.

Clearly articulated development programs and government policies were issued during the Imperial regime with respect to foreign capital investment, agricultural and industrial expansion including the revision of the investment code which encouraged domestic and foreign private investment in the manufacturing sector. There were also tax incentives, provisions of credit on favorable terms and effective protection for domestic industries which contributed to the expansion of the manufacturing sector mainly under foreign ownership prior to the 1974 revolution.

Inward looking import-substitution strategy was thus pursued for industrial development during the Imperial regime wherein foreign and domestic investors could participate freely without restrictions. There was, however, an obvious neglect of the small scale industries during that period as the investment incentives benefited only the medium and large scale manufacturing establishments.

The manufacturing sector had undergone through a radical change in the structure of ownership and management after the nationalization move of the Derg in 1975. This action severely curtailed private initiative especially in large and medium scale manufacturing though there were no major deviations from the import substitution strategy of the Imperial Regime. Later on, the Ten-Year Perspective Plan (1984/85-1993/94) sought to promote the production of intermediate and capital goods, and the expansion of small scale (light) industries. The plan however, failed to materialize for various reasons and no significant improvement has been witnessed in the structure and level of development of the sub-sector.

The military government emphasized on the development of large and medium scale manufacturing through favoring government owned enterprises in the allocation of resources like foreign exchange, labour and credit. Public enterprises were also granted market monopoly for their output though they were operating under a highly centralized system of management (under the Ministry of Industry) where by the level, and quality of production and prices were determined through central planning. There had been unworthy detachment of the enterprises from the market and customers which killed the business incentive and mechanism to improve the mix and quality of production.

Government policies during the Derg strictly limited the ceiling on private sector investment capital upto Birr 500,000 and investors were not allowed to have license for more than one line of business. Such business had been allowed to be run only by an individual entrepreneur who did not have any other permanent job. The tax structure was also very harsh with the maximum rate on personal income going as high as 89 per cent. Interest rates were also higher for private borrowers relative to public enterprises and cooperatives. These policies severely hampered the potential for expansion of the manufacturing sector during the Derg by incapacitating private sector activity.

The Handicrafts and Small Scale Industries Development Agency (HASIDA) established in 1979 had a general intention to organize the small scale industries and handicrafts into producers' cooperatives and facilitate their access to less restrictive credit and raw materials, training, etc. The operations of the agency, however,

ended up with much more regulations and control of the small establishments which in some cases resulted in the suppression of their production activities.

Post - reform

Since the establishment of the Transitional Government of Ethiopia in 1991, government sought to rationalize its role in the economy while enhancing the active participation of the private sector. The Government has since then begun to take decisive reform measures of which the following have direct bearings on the manufacturing sector.

First and foremost, government under took a Public Enterprises Reform Program in August 1992 which aimed at enhancing efficiency, productivity and competitiveness in public enterprises (most of which are manufacturing) through the granting of managerial autonomy and responsibility. This was done by dismantling the sub-sectoral corporations under the Ministry of Industry which used to centrally manage these particular enterprises. The overall management of each manufacturing enterprise was thus put under its own board of directors and a general manager responsible for output, pricing and investment decisions as well as on appropriate market channels. Given this autonomy, enterprises were detached from government budget subsidy on the one hand, and denied of preferential access to credit, labour, foreign exchange and other services. The public enterprises reform is therefore believed to have a positive impact on resource allocation and utilization on one side and building a sustainable manufacturing base on the other.

Prices of goods and services were decontrolled and left to be determined

by the operations of liberalized markets for both inputs and outputs. This provided the basis for a free participation of the private sector in the economy at large and in the manufacturing sector in particular. Among the notable measures which are expected to promote private sector participation are:

- The lifting of the restrictions on private sector investment capital and number of business ventures;
- The easing of licensing requirements and regulations;
- The enactment of an investment code which upon successive revisions opened-up a wider range of economic activities both for domestic and foreign investors. The investment code is also accompanied by investment incentives in the form of tax holidays, duty free importation of investment goods and the like and had been designed to favor investment in selected sectors and regions;
- The downward revision of taxes and tariffs from an extremely high level before the reform period. The marginal tax rate on personal income was slashed from 89 per cent to 40 per cent, Business profit tax was slashed from 59 per cent to 35 per cent while the maximum tariff on import was reduced to 50 per cent down from 240 per cent.

Apart from this, the government has issued a new labour code which gave management autonomy and adequate flexibility to allocate labour resources on economic grounds while ensuring the legitimate rights of employees. The labour code also sought for industrial peace and coordination among employers and employees with minimum government intervention.

Exchange rate management was given due emphasis in the reform package as it affects all economic sectors and specially the manufacturing sector owing to its relatively higher import intensity. In this regard, the institution of an auction market for foreign exchange (following the devaluation in 1992) meant free access to official reserves both for private and public entities to meet their demand for import. The increased availability of foreign exchange has greatly improved the utilization of installed capacity in the manufacturing sector after the reform program.

Apart from the afore-mentioned policy measures which are believed to improve performance of the manufacturing sector, an elaborate industrial sector policy has not yet been developed. The only relevant policy statement in this regard is the "Agricultural Development Led Industrialization (ADLI)" long term development strategy which looks forward to a rural based, agriculture centered development as a spring board for industrial development. Agricultural production is expected to be expanded through the supply of productivity enhancing inputs and extension services which in turn provides market for industrial commodities via increased income of small holder farmers. This in turn helps improve the availability of foreign exchange and raw materials needed for the development of manufacturing. The intention is to establish a strong intersectoral linkages in the economy which has been a serious impairment for the development of the manufacturing sector in Ethiopia.

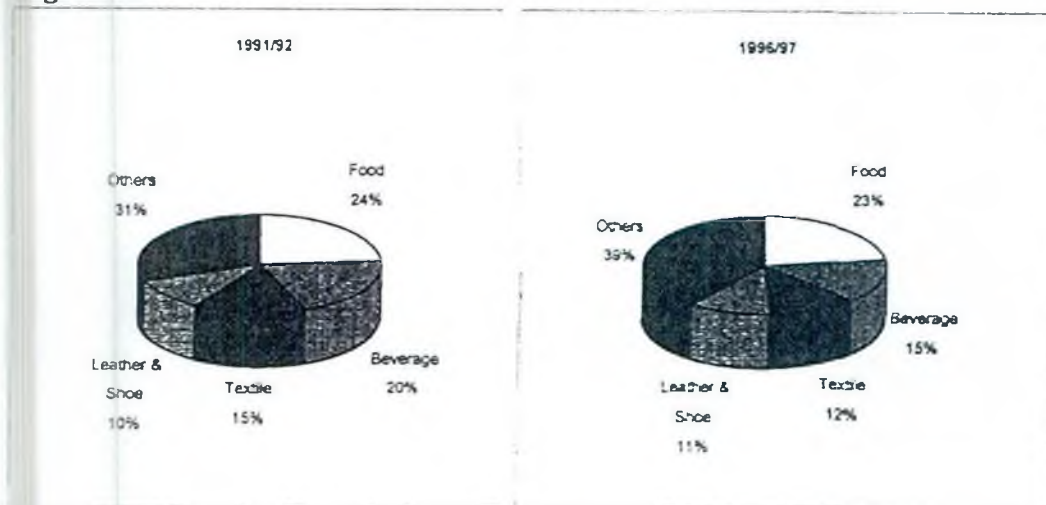
8.3 Performance of Large and Medium Scale Manufacturing

8.3.1 Gross value of output

The Large and Medium Scale Manufacturing sub-sector in Ethiopia is dominated by four consumer goods producing industrial groups, viz. Food, Beverage, Textile and Leather and shoe groups, which account for the bulk of the Gross Value of Output (GVO) and value added of the sub-sector. At the beginning of the 1980's, for instance, these four groups (chemical in place of Leather and Shoe) accounted for 78 per cent of GVO of the large and medium scale manufacturing sub-sector. Their contribution to GVO declined moderately during the 1980's and stood at 70 per cent in the years 1990/91 and 1991/92. Owing to the expansion of the manufacturing sector mainly through the increased participation of the private sector in a wide range of industrial activities, the share of the above mentioned four industrial groups kept on declining during the economic reform program and stood at about 60 per cent in 1995/96 and 1996/97. Food alone accounted for about 23 per cent of the manufacturing output during these years.

* Large and Medium Scale Manufacturing refers to those establishments using power driven machinery and employing 10 persons and over according to the CSA definition.

Composition of Manufacturing Gross Value of Output by Industrial Group
Figure 8a:



per cent in 1991/92. Private sector participation, however, seems to be

Apart from the deviation in manufacturing activities towards other industrial groups like metal, chemical and non-metal groups; the post-reform period was marked by a steady increase in the contribution of the private sector in the GVO of large and medium scale manufacturing. In 1991/92, the contribution to the GVO of private owned manufacturing establishments was only 5.6 per cent of the total which increased to 6 and 9 per cent of total GVO in the subsequent two years. In the 1994/95 and 1995/96 fiscal years, private manufacturing output was about 13 per cent in the total GVO of the sector which further increase to 21 per cent in 1996/97. The share of private sector output in the chemical and, leather and shoe subgroups increased from 5 and 8 per cent in 1991/92 to 28 and 30 per cent in 1996/97, respectively. Their share in the metal group has also been quite significant, i.e. 38 per cent in 1995/96 up from 35

marginal in food, textile and non-metal industrial groups including tobacco which is totally under government ownership.

Despite Government's effort to boost manufacturing output in the public sector by way of granting preferential access to factors of production and markets for public enterprises, gross value of production was by and large on the decline during the Derg regime. During the period 1980/81 to 1990/91, for instance, GVO of large and medium scale manufacturing declined by about 1.6 per cent per annum on average. This was attributed to a sharp decline in production performance of the chemical group by about 24 per cent per annum and an average of 1.3 per cent decline in the textile group. Average annual growth rate of gross value of output was less than 1 per cent in the food and metal groups and 2 to 4 per cent in

output was observed only in the leather and shoe group at about 8.8 per cent per annum.

The stagnation and decline in GVO of the manufacturing sector began to be reversed following the launching of the economic reform program in 1991/92. Almost all industrial groups enjoyed high annual growth rates of output with the sector's GVO increasing on average by 27.7 per cent per annum during the period 1991/92 to 1996/97. In absolute terms, production increased from Birr 1.76 billion to about Birr 6 billion during the same period. Production expanded dramatically in the chemical, metal and non-metal industrial groups which achieved average growth rates of 42, 45 and 51 percent per annum, respectively. Gross value of production also increased by about 30 per cent per annum in the leather and shoe, and wood and furniture groups while that of food, beverage, textile and printing and paper grew by 20 to 27 per cent per annum. The least annual growth in manufacturing output during the reform period was recorded in the tobacco group, i.e., about 10 per cent.

The interplay of at least four factors is believed to have resulted in such fast recovery and growth of manufacturing sector output during the post-reform period. First, the incentive for profit and the creation of a competitive environment induced by the granting of managerial autonomy to each public manufacturing enterprise together with financial responsibilities. Second, the entry of a growing number of private manufacturing establishments following the liberalization of the economy. Third, increased availability of foreign exchange (and credit) which facilitated growth in production of the private sector and enhanced capacity utilization through improved availability

of inputs and spare parts to the highly incapacitated public manufacturing sector. Fourth, the recovery in agricultural output which enhanced supply of raw materials to the manufacturing sector.

Though the private sector accounted for less than 25 per cent of GVO of manufacturing, it has achieved relatively faster growth than the public sector during the reform period. Annual growth rates of manufacturing GVO of the private sector averaged 66 per cent in nominal terms while that of public enterprises was 23.3 per cent per annum for the period 1991/92 to 1996/97. Details of the performance of gross value of output of large and medium scale manufacturing is depicted in Table 8.1 below.

Gross Value of Production of Large and Medium Scale Manufacturing Industries by Industrial Group (1991/92 - 1996/97)
(in '000 Birr)

Table 8.1:

No.	Industrial Group	Fiscal Years														
		1991/92			1992/93			1993/94			1994/95			1995/96		
		Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total
1	Food products	21726	3932113	414939	31151	490446	521597	59528	658392	717920	70140	877987	948127	135554	1181191	1316745
2	Beverage	5954	351171	357125	4896	47003	474909	541799	59674	601473	8344	784121	792465	8957	854988	863945
3	Tobacco	-	146335	146335	-	188537	188537	-	191227	191227	-	199936	199936	-	244188	244180
4	Textile	4485	263583	268068	5169	448926	454095	15510	706621	722131	27347	623834	651181	29222	741746	770968
5	Leather & Shoe	14160	167434	181594	19332	268700	288032	44840	332130	376970	84890	516469	601359	133192	501308	634500
6	Wood & Furniture	9265	29378	38643	10533	42468	53001	27751	76938	104689	27980	92048	120028	12515	120106	132621
7	Printing-paper	4422	86311	90733	8534	133301	141835	111305	197192	208497	17153	183654	200807	28909	262655	291564
8	Chemical	6121	105677	111798	15144	233411	248555	61449	361429	422878	99151	344482	443633	122689	381096	503785
9	Non-metal	1980	66454	68344	2012	125826	127838	12587	210831	223418	9401	327252	336653	35443	384230	419673
10	Metal	30529	54229	84758	78833	103936	175769	140322	301179	441501	335078	301223	636301	240623	380490	621113
	Total	98552	1663785	1762337	168604	2505564	2674168	378091	3631613	4010704	670484	4251006	4930490	747104	5051998	5799104

... cont. Table 8.1

No.	1996/97			Annual Average* Growth Rates (%)
	Private	Public	Total	
1.	277,925	1,073,299	1,351,224	26.6
2.	245,918	630,490	876,408	19.7
3.	-	240,371	240,371	10.4
4.	41,960	685,517	727,477	22.1
5.	196,224	452,133	648,357	29.0
6.	89,209	58,863	148,072	30.8
7.	58,236	205,184	263,419	23.7
8.	179,903	465,784	645,666	42.0
9.	100,142	444,066	544,208	51.4
10.	66,099	484,899	550,997	45.4
Total	1,255,614	4,740,586	5,996,199	27.7

Source: Report on Large and Medium Scale Manufacturing Industries Survey, CSA.
*N.B. Growth rates are computed using compounding method.

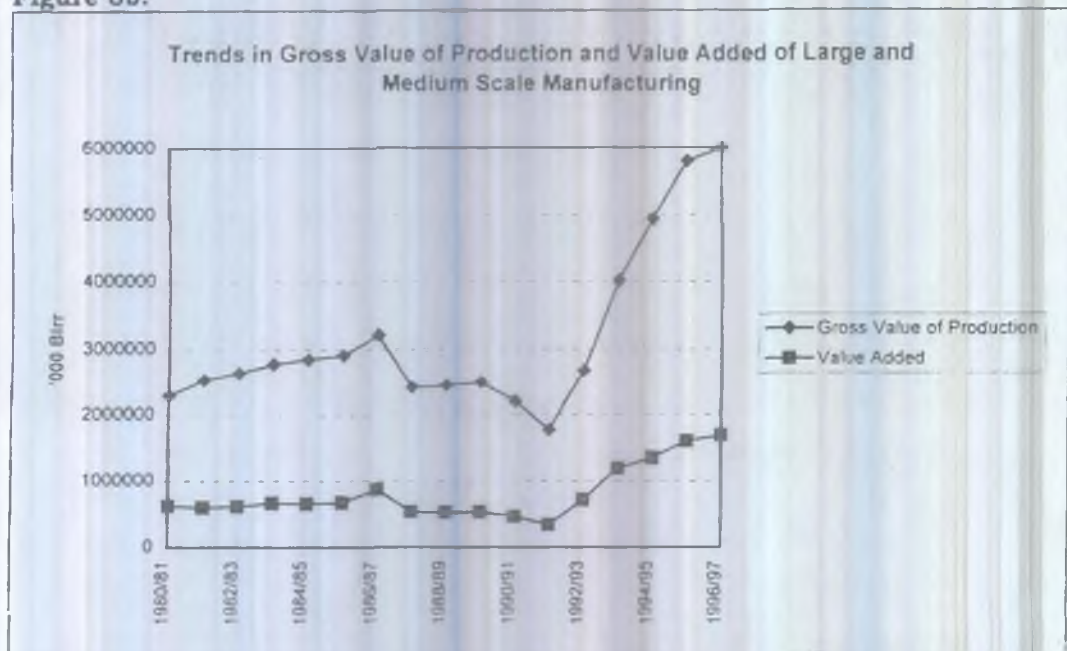
8.3.2 Value Added

Value added refers to the net contribution to the economy of a given economic activity expressed in terms of the difference between gross value of production and cost of intermediate inputs consumption. Value added in the large and medium scale manufacturing had been on the decline during the 1980's at an average rate of 2.4 per cent per annum. The fact that gross value of output of this sector had been also declining by 1.6 per cent per annum and its continued dependence on imported inputs explained much of the relatively steady decline in value added during the period 1980/81 to 1990/91. The inefficiency of resource utilization in the dominant public owned manufacturing enterprises is an important factor behind

falling net contribution to the economy of large and medium scale manufacturing.

Since 1991/92, value added at current factor cost showed a remarkable growth averaging at 38 per cent per annum up until 1996/97. The performance was impressive in the face of the devaluation of the Birr and subsequent depreciation of the exchange rate which actually increased the domestic cost of intermediate inputs. Among the industrial groups that attained high annual growth rates of value added include metal, non-metal, and leather and shoe, with annual average growth rates of 67, 62 and 54 per cent, respectively. Value added in the food, wood and furniture, and chemical groups also increased by 47, 34 and 40 per cent per annum respectively while that of textile and tobacco grew by 22 and 11 per cent per annum, respectively.

Figure 8b:



However, the rate of growth in value added tended to slow down in some of the industrial groups especially since 1994/95. Value added in the leather and shoe group increased by 15 per cent since 1994/95 while growth in the metal group was less than 2 per cent per annum during the same period. The textile group even showed about 7 per cent annual decline in value added during the same period. As a result of such developments, total manufacturing sector value added grew at about 12 per cent per annum between 1994/95 and 1996/97 in contrast to 38 per cent for the period 1991/92 to 1996/97.

As was the case in gross value of output, annual increase in value added was higher in the private than the public sector manufacturing enterprises since 1991/92. Growth in the former averaged 74 per cent

per annum while that of the latter achieved only half this rate. The share of the private sector in the value added of the manufacturing sector increased accordingly from 6 per cent in 1991/92 to about 19 per cent in 1996/97.

About 60 per cent of the value added of the sector in 1996/97 was generated by four industrial groups: food, beverage, leather and shoe, and textile. Nearly half of this group's value added was accounted for by the food sub sector in 1996/97. These four industrial groups used to provide more than three - fourth of the manufacturing value added at the turn of the 1980's which then declined to two - third by the end of the 1980's. The contribution of non-metal and chemical groups is increasing in recent years and accounted for 11 and 9 per cent of the sector's value added in 1996/97, respectively.

Figure 8c:

Manufacturing Value Added by Industrial Group



Value added per person is another important measure of the performance (productivity) of the manufacturing sector as it is directly derived from the number of persons engaged and value added generated. Value added per person employed had been declining at an annual rate of 3.4 per cent per annum for the period 1980/81 to 1990/91. Redundancy of labour in the sector emanating from a one directional view of ensuring job security had resulted in such a poor performance during the military regime.

Labour productivity as measured by value added per person grew at an average rate of 35 per cent per annum during the period 1991/92 to 1996/97 and it appeared that productivity grew faster in the public than private manufacturing establishments. The former witnessed an average annual rise in productivity of about 36 per cent while the latter achieved a 25 per cent average annual growth for the post reform period. The granting of managerial autonomy to public enterprises and their responsibility for their financial well being is the major drive behind the improved productivity of labour since the public sector already has a strong capital base and underutilized capacity relative to private manufacturing enterprises

In absolute terms, value added per person engaged increased from Birr 4 thousand in 1991/92 to about Birr 19 thousand in 1996/97 in the public sector while that of the private sector increased from Birr 5 thousand to Birr 15.7 thousand per person during the same period. Value added per person seems to be high in the tobacco group at Birr 68.2 thousand in 1996/97 followed by food, non-metal and metal groups each with Birr 28 to 29 thousand per worker. The textile industry, as the leading employer however, exhibited the least productivity at about Birr 5 thousand per worker in 1996/97.

Labour productivity improved faster in the metal group at 58 per cent per annum between 1991/92 and 1996/97. Leather and shoe, where the private sector is increasing its share, also achieved a 46 per cent annual average growth in productivity followed by the food group by 44 per cent. Details of the developments in the performance of manufacturing Value Added is depicted in Table 8.2 and 8.3 below.

Table 8.2: Value Added in the National Accounts Concept (at Factor Cost) by Industrial Group (1991/92 - 1996/97)

No.	Industrial Group	Fiscal Year														
		1991/92			1992/93			1993/94			1994/95			1995/96		
		Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total
1	Food	2243	67844	70083	(4619)	124463	119843	14034	174431	188466	11555	275247	286801	29132	433085	462215
2	Beverage	578	43402	43981	(1246)	73432	72186	471	175393	175865	223	216207	216430	1407	192306	193715
3	Tobacco	-	39426	39426	-	48176	48176	-	57445	57445	-	57092	57092	-	77008	77008
4	Textile	652	56725	57378	785	149404	150190	3128	216095	219224	5146	174945	180092	10613	161192	171806
5	Leather & Shoe	1945	18542	20486	2350	77150	79499	8317	118076	126395	17662	116813	134475	29815	115967	145782
6	Wood & Furniture	3516	10294	13809	3673	17657	21330	11803	34958	46761	10940	42397	53337	22697	34114	56811
7	Paper-printing	1628	34071	35698	2965	55906	58873	5267	85216	90483	5404	69925	75328	10554	95408	105962
8	Chemical	1551	28115	29665	2546	73873	76415	7497	110489	117982	15178	93932	109109	32126	71520	103646
9	Non-metal	766	16117	16883	936	36200	37135	7193	66947	74139	3759	107568	111326	14666	136649	151315
10	Metal	7538	1870	9406	21322	27871	49194	23808	66693	90506	35223	83641	120017	42242	83336	125578
	Total	20415	316406	336815	28712	684132	712841	81518	1105749	1187266	105090	12337767	1344007	103252	1400585	1593838

... cont. Table 8.2

No.	Industrial Group	1996/97			Annual Average* Growth Rates
		Private	Public	Total	
1.	Food	51559	431047	482606	47.1
2.	Beverage	22198	157925	180123	32.6
3.	Tobacco	-	64950	64950	10.5
4.	Textile	10306	144946	155252	22.0
5.	Leather & Shoe	64662	113142	177804	54.0
6.	Wood & Furniture	34336	25225	59561	33.9
7.	Paper-printing	15225	78880	94105	21.4
8.	Chemical	49764	108075	157840	39.7
9.	Non-metal	50261	136687	186948	61.7
10.	Metal	26016	96667	122680	67.1
	Total	324326	1357545	1681871	37.9

Source: Report on Large and Medium Scale Manufacturing Industries Survey, CSA.
*N.B. Growth rates are computed using compounding method.

Table 8.3: Value Added Per-Person Employed by Industrial Group (1991/92 - 1996/97)

'000 Birr

Industrial Group	1991/92			1992/93			1993/94			1994/95			1995/96		
	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total
Food	1.99	5.01	4.77	4.18	8.94	7.97	8.02	11.81	11.41	6.44	20.08	18.50	11.89	32.57	29.35
Beverage	4.13	5.72	5.69	8.09	10.11	9.74	3.89	24.16	23.83	1.64	27.32	26.88	7.69	26.46	26.00
Tobacco	-	42.48	42.48	-	48.96	48.96	-	57.85	57.85	-	57.84	57.84	-	78.41	78.41
Textile	1.92	1.68	1.69	2.24	4.51	4.48	3.89	6.42	6.36	5.03	5.16	5.16	10.64	5.13	5.30
Leather & Shoe	3.67	3.23	3.26	4.76	13.36	12.89	6.22	20.17	17.58	16.19	19.65	19.12	16.35	19.58	18.82
Wood & Furniture	6.61	2.51	2.98	6.57	4.76	4.89	8.78	10.05	9.70	7.62	12.62	11.12	11.42	12.20	11.91
Paper & Printing	4.36	8.46	8.12	8.08	13.76	13.29	12.05	20.47	19.67	6.86	16.61	15.07	10.31	21.08	19.09
Chemical	8.34	8.45	8.44	13.4	21.68	21.24	10.51	32.69	28.82	14.94	25.60	23.29	27.81	18.39	20.55
Non-metal	3.70	5.53	5.41	4.37	11.98	11.48	13.39	16.45	16.10	5.86	22.93	20.88	11.65	28.59	25.06
Metal	13.46	0.68	2.84	38.21	9.87	14.67	27.85	24.38	25.20	34.94	28.67	30.58	28.35	30.00	29.42
Total	5.11	4.02	4.08	7.18	8.76	8.68	10.32	13.76	13.45	11.77	15.23	14.90	15.62	18.03	17.70

...cont. Table 8.3

'000 Birr

No.	Industrial Group	1996/97			*Growth Rates
		Private	Public	Total	
1	Food	14.69	33.87	20.73	44.2
2	Beverage	8.70	31.32	23.72	33.0
3	Tobacco	-	68.15	68.15	10.0
4	Textile	5.5	4.84	4.88	23.6
5	Leather & Shoe	30.39	18.81	21.83	46.2
6	Wood & Furniture	9.77	12.97	10.91	29.6
7	Paper-printing	114.2	20.76	18.44	17.8
8	Chemical	22.03	28.14	25.88	25.1
9	Non-metal	25.02	28.43	28.10	39.9
10	Metal	30.32	35.14	28.35	58.4
	Total	15.68	18.95	18.21	34.9

Source: Computed Based on data in table 3.1.5

* Growth Rates Computed using the compounding method

8.3.3 Gross Operating Surplus

Operating surplus includes business profits, capital charges and interest payments and is being derived by deducting employee compensation (wages, salaries and employee benefits) from value added at factor cost. In other words, operating surplus of large & medium scale manufacturing as reported by the CSA is gross, i.e. inclusive of depreciation expense because of the difficulties encountered in computing depreciation.

The survey reports of the CSA revealed a 33.5 per cent annual growth in gross operating surplus for the period 1992/93 to 1996/97 in sharp contrast to an about 7 per cent average annual decline during the 1980's. Operating surplus in the private sector has achieved a strong momentum during the reform program, more than doubling its size each year as per the CSA report. The public sector large and medium scale manufacturing has also revealed an average growth rate of 27 per cent per annum in the level of its gross operating surplus.

With respect to sectoral composition, operating surpluses of enterprises in the food group accounted for 32 per cent of the sector's total while the non-metal group follows with about 13 per cent share in 1996/97. Leather and shoe, beverage and chemical groups each generated about 10 to 11 per cent of the total, i.e., nearly equal to the contribution of the food group during 1996/97. The textile group however, accounted for less than 3 per cent of the sector's operating surplus during the same period despite its dominance in gross value of output, employment etc., indicating the prevalence of serious operational problems in this industry. It was also the only industrial group with a declining size of operating surplus during the course of

the reform program. (See Table 8.4 below for details).

Table 8.4: Operating Surplus of Large and Medium Scale Manufacturing Industries by Industrial Group (1991/92 - 1996/97)
(In '000 Blrr)

No.	Industrial Group	Year														
		1991/92			1992/93			1993/94			1994/95			1995/96		
		Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total
1	Food			18733			57877			114809			210331			375000
2	Beverage			11858			38248			136079			170860			145262
3	Tobacco			35736			43538			51105			48501			88094
4	Textile			(33089)			37922			90361			53480			54537
5	Leather & Shoe			(5687)			48363			80415			92778			96607
6	Wood & Furniture			1852			7153			20828			32310			35153
7	Paper-printing			15931			35056			64090			44304			70503
8	Chemical			13825			50897			94003			82083			74587
9	Non-metal			6928			24824			55391			88713			110784
10	Metal			(8169)			27987			87471			94539			97326
	Total	4341	53204	57538	12390	382055	375245	52908	735845	788752	74148	843534	917679	148405	988427	1138833

.....cont. Table 8.4

(in '000 Blrr)

No.	Industrial Group	1996/97			Annual Average Growth rates*(%)
		Private	Public	Total	
1.	Food			388638	81.1
2.	Beverage			126559	36.7
3.	Tobacco			52794	4.9
4.	Textile			37883	0.04
5.	Leather & Shoe			129905	28.0
6.	Wood & Furniture			35814	49.8
7.	Paper-printing			59037	14.0
8.	Chemical			118870	20.3
9.	Non-metal			150004	57.1
10.	Metal			92760	34.9
	Total	239367	952873	1192242	33.5

Source: Report on Large and Medium Scale Manufacturing, CSA.

* Growth rates are computed using compounding method against 1992/93

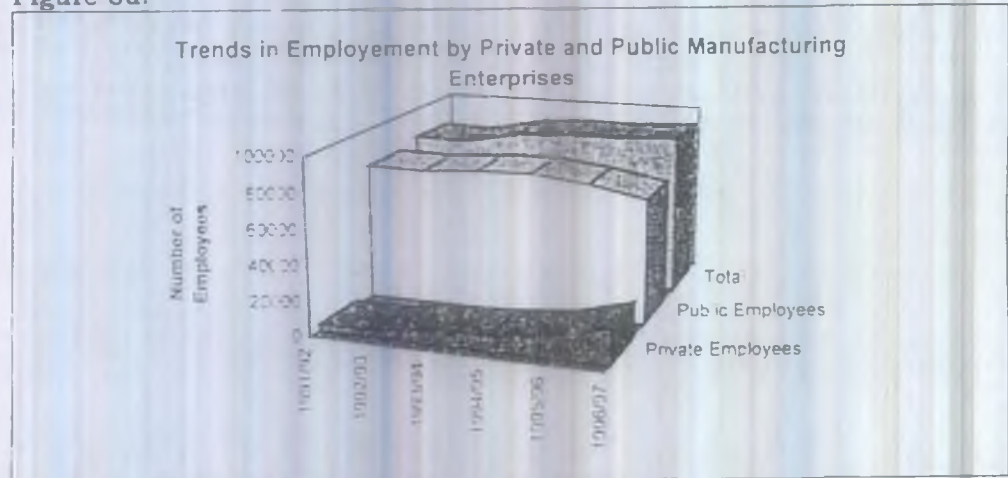
8.3.4 Employment in Manufacturing

It is well known that agriculture is the leading sector in Ethiopia providing employment for an estimated 85 per cent of the total population. The role of manufacturing in urban employment, on the other hand, is very much limited owing to the level of development of the sector and its relatively high capital intensity. During the period 1980/81 to 1990/91, employment in large and medium scale manufacturing grew only by 1.1 per cent per annum in the face of an about 5 per cent growth in urban population. Despite the employment policy during the Derg which advocated of guaranteed employment of university graduates and no down-ward adjustment of labour input with decline in output, manufacturing employment nearly stagnated which goes parallel with the deterioration of growth in manufacturing output in the public sector and deliberate restriction of private initiatives.

The situation does not seem to have improved significantly even after the reform program although annual growth rates of manufacturing employment averaged 2.2 per cent for the period 1991/92 to 1996/97. As employment in public manufacturing enterprises kept on declining at a rate of 1.8 per cent per annum (owing to retrenchment measures and privatization), the 2 per cent growth in employment is attributable to the emergence of private manufacturing establishments. In private manufacturing, employment has been growing by about 39 per cent per annum for the period 1991/92 to 1996/97. The impact on overall manufacturing sector employment situation of such fast growth in the private sector however was not significant as it accounted for only 22 per cent of employment in the sector in 1996/97. The

development is nonetheless so significant and encouraging as the share of private sector in manufacturing employment had been less than 5 per cent before the reform program.

Figure 8d:



Within large and medium scale manufacturing employment was concentrated in four industrial groups, i.e. textile, food beverage and chemical, which accounted for 78 per cent of the sector's employment in 1980/81. Their share has declined to about 70 per cent in 1995/96 and 1996/97. Textile is the leading industrial group employing about 35 per cent of the industrial workers in 1995/96 and 1996/97 while the food group accounted for about half the share of textile. Employment however tended to decline (albeit marginally) in the textile and beverage groups by 1.4 and 0.4 per cent respectively during the post-reform period while it expanded by 16 and 11.6 per cent, per annum on average in the non-metal and chemical groups respectively.

The private sector seems to have significant role in the wood and furniture industrial group employing about 64 per cent of those engaged in this group in 1996/97. Employment in wood and furniture was but 6 per cent of total employment in LMS manufacturing during the same year. About 37 per cent of the employees in the chemical and metal groups were also working in private

establishments in 1996/97. Details of trends in the development of employment in large and medium scale manufacturing are depicted in Table 8.5 below.

Table 8.5 Number of Employees in the Large and Medium Scale Manufacturing Industries by Industrial Group 1991/92 - 1996/97 (1984 - 1989 EFY)

No.	Industrial Group	Fiscal Years														
		1991/92			1992/93			1993/94			1994/95			1995/96		
		Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total
1	Food	1126	13552	14678	1106	13929	15035	1749	14768	16517	1793	13709	15502	2451	13297	15748
2	Beverage	140	7593	7733	154	7259	7413	121	7260	7381	136	7915	8051	183	7267	7450
3	Tobacco	-	938	938	-	984	984	-	993	993	-	987	987	-	982	982
4	Textile	340	33707	34047	350	33147	33494	805	33644	34449	1023	33880	34903	997	31444	32441
5	Leather & Shoe	530	5748	6278	494	5773	6267	1336	5853	7189	1091	5944	7035	1824	5924	7748
6	Wood & Furniture	532	4106	4638	559	3712	4271	1345	3478	4823	1436	3359	4795	1987	2783	4770
7	Paper-printing	373	4026	4399	367	4062	4429	437	4163	4600	788	4210	4998	1024	4526	5550
8	Chemical	186	3328	3514	190	3407	3597	713	3380	4093	1016	3669	4685	1155	3889	5044
9	Non-metal	207	2914	3121	214	3033	3236	537	4069	4606	641	4691	5332	1259	4779	6038
10	Metal	560	2748	3308	558	2795	3353	855	2736	3591	1008	2917	3925	1490	27776	4268
	Total	3994	78650	82644	3992	78090	82082	7898	80344	86242	8932	81281	90213	12370	77669	90039

... cont. Table 8.5

No.	1996/97			Annual Average* *Growth Rates (%)
	Private	Public	Total	
1	3510	12725	16235	2.0
2	2552	5043	7595	-0.4
3	-	953	953	0.3
4	1858	29939	31797	-1.4
5	2128	6016	8144	5.3
6	3513	1945	5458	3.3
7	1303	3800	5103	3.0
8	2259	3840	6099	11.6
9	2009	4645	6654	16.3
10	858	2751	4327	5.5
Total	20708	71657	92365	2.2

Source: Report on Large and Medium Scale Manufacturing Industries Survey, CSA.
*N.B. Growth rates are computed using compounding method.

8.3.5 Manufacturing Sales and Export

The market for manufactured output is dominated by food, beverage, textile and leather and shoe products reflecting the light consumer goods production orientation of the manufacturing sector. Sales performance by the above mentioned four industrial groups accounted for more than three - fourth of total annual sales revenue of the manufacturing sector in the early 1980s and it has only declined to about two - third in the post reform period ending in 1996/97. Sales of food products alone accounted for a quarter of the annual sales revenue in the 1990s except for the drought year of 1993/94 and the ensuing year where its share shrank to less than 20 per cent.

The last decade of the Derg regime witnessed a 1.5 per cent annual average increase in sales value of the manufacturing sector despite the market monopoly granted for public enterprises that used to produce the bulk of manufactured output. Alike other

performance indicators, sales revenue also grew at a faster pace since 1991/92 averaging about 28 per cent per annum up until 1996/97. This was made possible by the surge in manufacturing output and the liberalization of domestic and external trade sectors since the reform program.

Apart from the generally favorable environment for better sales performance, some industrial groups have however been faced with stiff competition from low priced and in most cases high quality imported goods. Domestic enterprises in the plastic and, textile and garments groups, for instance, have faced fierce competition for market.

The chemical, non-metal and metal industrial groups on the other hand, enjoyed increased sales revenue during the post reform period with growths averaging over 40 per cent per annum. The consumer goods producing sectors which dominate the market for manufactured goods also achieved a 20 to 30 per cent growth in their sales revenue during the same period.

Figure 8e:

Manufacturing Sales by Industrial Group



The contribution to foreign exchange earnings of manufactured export has been limited in Ethiopia to not more than 15 per cent so far. Manufactured exports concentrated on few consumer goods i.e., food and leather and shoe products which accounted for more than 90 per cent of manufacturing export between 1991/92 and 1996/97. Leather and shoe is the single most import industrial group accounting for the lion's share of Ethiopia's manufactured export. Its share in total manufactured exports increased from about 69 per cent in 1991/92 to 87 per cent in 1996/97.

Despite its marginal and declining percentage contribution to total export earning, manufacturing export has been expanding at an average rate of 37 per cent per annum in absolute during the period 1991/92 to 1996/97. This is a signal for the possibility of further expansion of such exports as compared to a 2 per cent annual decline in the 1980s. The decline in the share of manufactured export during the pre-reform period has been due to the unfavorable policy environment for exports that prevailed during the military regime apart from the inherent weaknesses of the manufacturing sector itself.

Though there exists a better macroeconomic and sectoral policy environment since the reform program, the road to increased and competitive manufacturing export in Ethiopia is believed to be long and fraught with tough competition in the global market. The fact that the chemical group has come out of manufacturing export since the reform program while the contribution of food, beverage and textile groups declined in recent years reminds us that the challenges of expanding the manufacturing sector in general and its exports in particular are formidable and

need special attention. (See Table 8.6 and 8.7 below for details)

Table 8.6: Revenue from Sales by Industrial Group (1991/92 - 1996/97)

(in '000 Birr)

No.	Industrial Group	Fiscal Year														
		1991/92			1992/93			1993/94			1994/95			1995/96		
		Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total
1	Food	21394	372032	393426	30467	451823	482290	56257	665408	721665	60593	810906	880499	129227	1102674	1321901
2	Beverage	6011	341112	347123	4680	446096	450776	5187	571230	576417	8734	778372	787106	8849	831884	840733
3	Tobacco	-	142431	142431	-	178875	178875	-	180007	180007	-	218515	218515	-	243486	243486
4	Textile	3415	245588	249003	4036	374253	378289	13231	555149	568380	19147	597458	616605	27350	671134	698484
5	Leather & Shoe	9802	147278	157080	21125	260271	281396	44387	334211	378578	80215	459184	539399	117070	474603	591673
6	Wood & Furniture	7733	28205	35938	9422	38934	48356	26485	72146	98631	26020	89904	115924	50308	75628	125936
7	Paper-printing	4324	88481	92805	8110	126333	134449	11039	183412	194451	16257	179058	195313	271160	210117	246286
8	Chemical	5780	100890	106670	5641	221898	231439	27770	340531	368310	48170	341242	389712	104013	369049	473062
9	Non-metal	1891	64546	66437	1903	317762	319745	11196	193173	204399	1470	275545	285015	26830	341450	367280
10	Metal	10590	52452	63042	47058	68024	117082	145209	263592	408891	315738	342338	620068	198285	354147	562432
	Total	79949	1582983	1662934	139228	2284069	1941007	341010	3358859	3699869	593644	4082512	4850158	688101	4773472	5461573

...continue Table 8.6

'000 Birr

No.	Industrial Group	1996/97			Annual Average *Growth Rates(%)
		Private	Public	Total	
1.	Food	272495	1022423	1294917	26.9
2	Beverage	240096	623289	863386	20.0
3.	Tobacco	-	241997	241997	11.2
4	Textile	30712	627693	658405	21.5
5.	Leather & Shoe	182627	446017	628644	32.0
6.	Wood & Furniture	77241	55427	132668	29.8
7.	Paper-printing	54335	210051	264386	23.3
8.	Chemical	162700	430253	592954	40.9
9.	Non-metal	107054	442531	549585	52.6
10.	Metal	51329	442099	493428	46.9
	Total	1178588	4541783	5720371	28.0

Source

Report on Large and Medium Scale Manufacturing Industries Survey, CSA.

*N.B. Growth rates are computed using compounding method.

Table 8.7:
Value of Manufacturing Export by Industrial Group (1991/92 - 1996/97)

(in '000 Birr)

	Group	Fiscal Year						Annual Average *Growth rates(%)
		1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	
1	Food	21874	36077	39623	19215	11715	31206	7.3
2	Beverage	257	240	79	93	199	67	-23.6
3	Tobacco	-	-	-	-	-	1075	-
4	Textile	6752	4762	4142	7000	20662	27062	32.0
5	Leather & Shoe	63989	162463	239402	367472	366666	387492	43.3
6	Wood &	49	49	-	-	1456	341	-
7	Furniture	-	-	-	-	-	-	-
8	Paper-printing	-	-	-	-	-	-	-
9	Chemical	-	-	-	-	370	44	-
10	Non-metal Metal	-	-	-	-	7	-	-
	Total	92921	203591	283246	393780	401115	447287	36.9

Source: Report on Large and Medium Scale Manufacturing Industries Survey, CSA.

* Growth rates are computed using compounding method.

8.3.6 Energy Consumption

Cost of energy consumption for large and medium scale manufacturing stood at 6 to 10 per cent of the total industrial cost¹ of the sector during the period 1991/92 to 1996/97. Major sources of energy that meet the power demand of the sector are electricity and 'other fuels' though there are few enterprises which use wood and charcoal at least for some aspect of their manufacturing process. Despite the fact that the majority of large and medium scale manufacturing establishments use electricity as their source of energy, the cost of energy for 'other fuels' has long been higher than the total cost on electricity consumption. In 1980/81, for instance, 40 per cent of the cost of energy consumption was accounted for by electricity while 'other fuels' (including a

very small amount of wood and charcoal) accounted for the remaining 60 per cent. The gap widened to 37 and 63 per cent in the mid 1980's. Towards the end of the 1980's, the consumption of "other fuels" was on a sharp decline while that of electricity increased which led to the reduction of the cost of 'other fuels' to 43 per cent of the total energy cost. However, the post-reform period witnessed a much faster expansion of the use of "other fuels" than electricity which itself was also growing. As a result of this, the cost of "other fuels" as a share of total cost of energy consumption increased from about 51 per cent in 1991/92 to 64 per cent in 1996/97.

Consumption of electricity and hence its cost was growing at about 17.8 per cent per annum during the period 1991/92 to 1996/97 while cost of other fuels (including wood and charcoal) increased by 31.8 per cent during the same period. Total cost of energy for large and medium scale manufacturing thus grew by 25.7 per cent per annum on average during the post-reform period. Growth in the total cost of

¹ Industrial cost according to the CSA refers to factories' outlays on raw materials, energy consumption and industrial services like repair, maintenance, water, contract work done by other etc. It excludes cost of advertising, transport, rent, insurance, license fee, telephone, etc.

energy consumption was only about 6 per cent per annum during the period 1980/81 to 1990/91. The quadrupling of the growth rate of outlays on energy indicates the expansion of the manufacturing sector on the one hand and the increase in prices of energy inputs due to devaluation and the deregulation of price control on the other.

The amount of energy consumption appears to be skewed towards four industrial groups, viz., textile, food, non-metal and chemical, which accounted for around 80 per cent of the total cost of energy consumption of large and medium scale manufacturing during the 1980's. Energy consumption has been however declining in the chemical group and steadily increasing in that of the beverage group since the end of the 1980's. Therefore, 80 per cent of the total cost of energy consumption during the period 1991/92 to 1996/97 was accounted for by the same four industrial groups except beverage that took the place of the chemical group. These groups expanded their share in energy consumption to about 85 per cent until 1994/95 which slightly declined to 82 per cent until 1996/97. It is also important to note that the non-metal group (especially those in the manufacture of cement, lime and plaster) has increasingly become the dominant energy users with their share in total cost of energy consumption increasing from 21 per cent in 1991/92 to 46 per cent in 1996/97. Thus, it has become the leading energy user replacing the historically dominant textile group in energy consumption.

Manufacturing establishments producing cement, lime and plaster account for 56 and 52 per cent of the cost of energy on 'other fuels' in 1995/96 and 1996/97, respectively. Outlays on 'other fuels' accounted for 76 and 55 per cent of the total energy expense of these

establishments in 1995/96 and 1996/97 respectively, showing the less dominant use of electricity in these enterprises. The food group also makes significant use of other fuels accounting for 18 and 15 per cent of total cost of energy on such fuels. Expenditure on other fuels was 53 and 69 per cent of the food group's total energy consumption cost in 1995/96 and 1996/97 respectively. Sugar, malt and liquor factories are the major food sector establishments making use of a large proportions of 'other fuels' relative to electricity.

The non-metal, textile and food groups are, on the other hand, the major users of electric power for their manufacturing activities. They accounted for about 65 per cent of total outlay on electricity in 1995/96 and 1996/97. Within the food group, leading users of electricity are grain mills and bakeries while spinning, weaving and finishing of textile, and cement, lime and plaster factories are the major manufacturing enterprises with a lion's share of electricity consumption in their respective industrial groups. (See Table 8.8 below for details.)

Table 8.8: Cost of Energy Consumed by Industrial Group (1991/92 - 1996/97)

(in '000 Birr)

No	Industrial Group	Fiscal Years														
		1991/92			1992/93			1993/94			1994/95			1995/96		
		Electric	Other	Total	Electric	Other	Total	Electric	Other	Total	Electric	Other	Total	Electric	Other	Total
1	Food	7491	9416	16907	5635	8240	13875	8564	14344	22908	9804	11463	21267	10957	10317	21274
2	Beverage	2635	5185	7820	3166	8707	11873	3886	9090	12976	6121	9370	15491	6430	11227	17657
3	Tobacco	187	742	929	190	492	682	209	157	366	161	216	377	2759	1104	3863
4	Textile	15828	5775	21603	16148	11767	27915	21576	15058	36634	21060	15399	36459	22420	15101	37521
5	Leather & Shoe	1462	1765	3227	1595	2141	3736	1645	2479	4124	2611	3101	5712	3213	2273	5486
6	Wood & Furniture	566	1548	2114	558	1943	2501	946	2925	3871	1012	2644	3656	1741	1877	3618
7	Paper-printing	1785	171	1956	3185	256	3441	3464	223	3687	4722	565	5287	5248	334	5582
8	Chemical	2532	1633	4165	4323	3264	7587	2772	5044	7816	3240	3925	7165	7132	3493	10625
9	Non-metal	3578	12631	16209	13678	31494	45172	13299	45357	58656	20317	62289	82606	23494	68100	91594
10	Metal	2029	713	2742	1959	1538	3497	2708	2864	5572	3107	2707	5814	4526	1711	6237
	Total	38093	39579	77672	50437	69842	120279	59069	97541	156610	72155	111679	183834	87919	115537	203457

.....cont. Table 8.8

(in '000 Birr)

No.	Industrial Group	1996/97			Annual Average* Growth rates*(%)
		Electric	Other	Total	
1	Food	11570	11051	22620	6.1
2	Beverage	7134	13421	20556	21.3
3	Tobacco	191	332	522	10.9
4	Textile	24536	18331	42868	14.7
5	Leather & Shoe	3443	3901	7344	17.9
6	Wood & Furniture	1338	3192	4531	16.5
7	Paper-printing	6505	569	7074	29.3
8	Chemical	6716	12804	19520	36.2
9	Non-metal	19941	92453	112394	47.3
10	Metal	5248	1603	6850	20.1
	Total	86622	157657	244279	25.7

Source: Report on Large and Medium Scale Manufacturing Industries Survey, CSA
 * Growth rates computed using compounding method

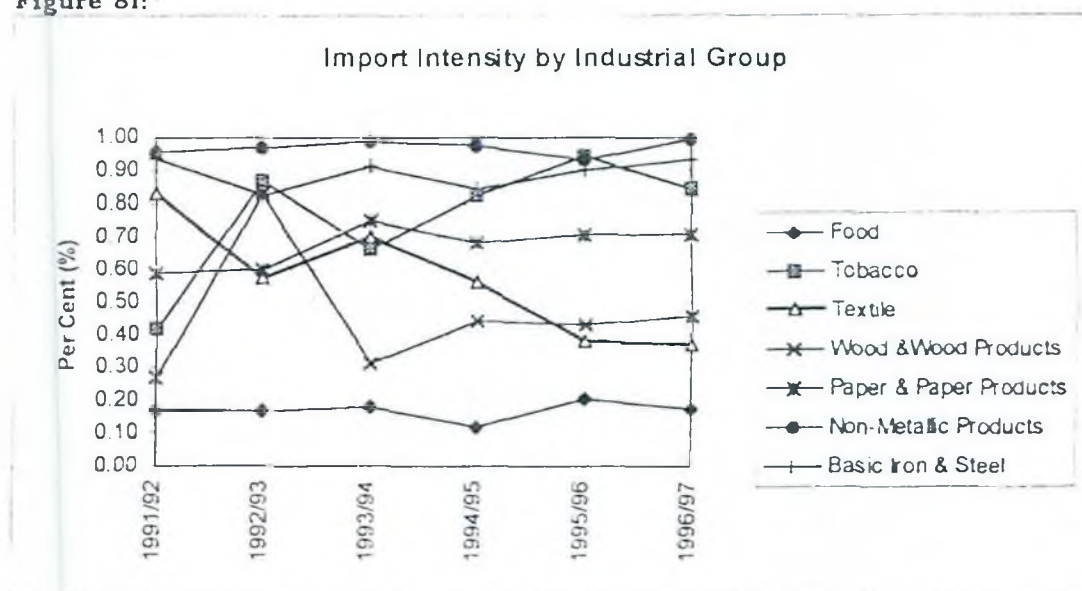
8.3.7 Import Intensity

The Ethiopian large and medium scale manufacturing sector is known for its high dependence on imported raw materials. Import intensity defined here as the ratio of the value of imported raw materials to the total cost of raw materials required for manufacturing has been increasing for most part of the reform period except a modest decline in 1994/95 and 1996/97. During the first half of the 1980's the manufacturing sector exhibited close to 60 per cent import intensity which dropped to about 40 per cent in the second half.¹ This is a solid reflection of the inherent weakness of the manufacturing sector where there is poor linkage with other sectors and within the manufacturing sector itself for the supply of inputs. Thus the sector is unduly vulnerable to foreign exchange shortfalls for the procurement of raw materials and creates an additional stress on the development of the sector.

Import intensity during the reform period increased from 0.33 in 1991/92 to 0.44 in 1996/97 showing an annual average growth rate of about 6 per cent. The ratio reached its peak in 1994/95 when about 55 per cent of the raw material was imported. Import intensity is particularly high in the basic iron and steel, rubber and plastic, and machinery and equipment producing establishments where it ranges from 90 to 99 per cent during the period under review. These are thus, the most import dependent segments of the Ethiopian manufacturing sector.

¹ The reduction in import intensity in the second half of the 1980's could largely be attributed to the decline in imports of raw materials due to foreign exchange scarcity, and does not reflect any change in the structure of input consumption.

Figure 8f:



Nevertheless, the industrial groups which account for the lion's share of the manufacturing sector value added like food, beverage, leather and shoe show relatively less dependence on imported inputs. The food and beverage group, for instance, meets less than 20 per cent of its need for raw materials from import. About 20 to 25 per cent of the raw materials for the leather group is also being imported. Among the large industrial groups, the textile industry shows relatively higher dependence on imported inputs whose share in some years reached up to 70 per cent of its total raw material costs. In recent years,

however, it has been below 40 per cent. The fast growing non-metallic mineral manufacturing group also exhibited about 50 per cent import intensity on average during the reform period (Details are depicted in Table 8.9 below.)

The effort to reduce import dependence of the manufacturing sector in general requires not only expanding manufacturing enterprises which utilize domestic raw materials from other sectors but also establishing those that could produce inputs for the manufacturing sector itself.

Table 8.9: Import Intensity by Industrial Group (1991/92 - 1995/96)

	Group	Fiscal Years					
		1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1	Food & Beverage	0.20	0.17	0.18	0.12	0.21	0.17
2	Tobacco	0.42	0.87	0.66	0.82	0.94	0.84
3	Textile	0.80	0.57	0.70	0.56	0.38	0.37
4	Wearing apparel	0.10	0.16	0.33	0.39	0.40	0.31
5	Tanning & dressing	0.27	0.29	0.25	0.15	0.20	0.25
6	Woods & wood product	0.27	0.83	0.31	0.44	0.43	0.45
7	Paper & paper product	0.59	0.60	0.75	0.68	0.71	0.70
8	Chemical & Chemical Products	0.81	0.77	0.78	0.75	0.77	0.75
9	Rubber & plastic products	0.92	0.91	0.94	0.94	0.95	0.95
10	Non-metallic products	0.55	0.56	0.58	0.54	0.42	0.31
11	Basic iron & steel	0.95	0.97	0.99	0.98	0.93	0.99
12	Fabricated metal products	0.93	0.82	0.91	0.85	0.90	0.93
13	Machinery & equipment	0.87	0.89	0.98	0.90	0.68	0.900
14	Motor vehicles	0.77	0.69	0.96	0.91	0.91	0.85
15	Furniture	0.30	0.22	0.31	0.30	0.21	0.22
	Total	0.33	0.44	0.55	0.46	0.48	0.44

Source: Reports on the Large and Medium Scale Manufacturing Survey, CSA.

8.3.8 Capacity Utilization

An attempt to measure capacity utilization in a comprehensive manner was made only in the 1995/96 and 1996/97 survey of large and medium scale manufacturing by the CSA. Capacity utilization is taken here as the ratio of actual value of production at current market prices to the value of production at full capacity of the establishments. In this regard the 1995/96 measure of capacity utilization could not be utilized since it was based on actual and potential sales revenue rather than value of production.

In 1996/97, the large and medium scale manufacturing sector was operating at a bit less than half (48.6 per cent) of its existing capacity in terms of value of production. The public sector demonstrated a 49.5 per cent capacity utilization while the private sector utilized some 45.5 per cent of its existing production capacity.

Capacity utilization happened to be better in the leather and shoe, paper and printing, and beverage industrial groups which operated at 66.8, 62.6 and 59.2 per cent of their installed capacity in 1996/97. The food, non-metal, and wood and

furniture groups run at about half their capacity, i.e. 53 per cent. Less than half of the production capacity (about 40 to 48 per cent) was utilized in the textile, metal and chemical groups in 1996/97, respectively. The public owned tobacco production company however showed exceptionally low capacity utilization at 16.4 per cent.

Given the fact that large and medium scale manufacturing industries in the dominant public sector were reported to have been operating at less than 30 per cent of their capacity in the last three or four years of the Derg (mainly because of stringent foreign exchange availability), the post-reform period has demonstrated an improvement in capacity utilization to at least half the existing capacity in 1996/97. Despite the absence of comprehensive survey at the time, however, capacity utilization at least in the dominant public manufacturing sector was reported to have reached about 70 per cent immediately after the reform program, i.e. in 1992/93 and 1993/94. This indicated to a reduction in capacity utilization since 1994/95 which stood at 50 per cent in 1996/97. Details on capacity utilization are depicted in Table 8.10 below.

Capacity Utilization(Public versus Private) By Industrial Group

Table 8.10

In per cent

No.	Industrial groups	Fiscal Years					
		1995/96			1996/97		
		private	public	Total	private	public	total
1	Food	41.89	58.82	56.59	48.2	51.77	52.31
2	Beverage	49.78	85.91	85.26	-	74.20	59.21
3	Tobacco	-	34.67	34.67	-	16.52	16.39
4	Textile	52.41	49.72	50.92	77.88	46.32	48.35
5	Leather & Shoe	37.55	96.01	73.41	48.57	79.07	66.85
6	Wood & Furniture	55.82	78.50	67.54	46.38	65.94	52.96
7	Paper & printing	20.05	100.36	69.60	54.04	64.90	62.57
8	Chemical	37.04	33.40	51.14	34.44	41.49	39.06
9	Non-Metal	31.03	79.59	71.69	49.78	83.26	53.11
10	Metal	23.64	55.72	37.46	42.20	44.62	44.34
	Total	32.48	59.47	53.83	45.51	49.50	48.57

Source: Report on large and medium scale manufacturing Industries Survey, CSA

N.B. For 1995/96, capacity utilization was measured as the ratio of actual sales revenue to yearly capacity while for 1996/97 it was expressed as actual value of production as per cent of yearly capacity

The existence of a favorable market for foreign exchange might preclude the shortage of foreign exchange and hence shortage of desired imports of inputs and spare parts as a factor for the decline or lack of progress in capacity utilization in the manufacturing sector in recent years. As the surveys by the CSA also confirmed, the major and most likely reason for under utilization of capacity in the majority of the establishments during the post-reform period was lack of adequate market demand for their products. Shortage of raw materials was also an important problem especially for those establishments (like food and leather and shoe) that depend largely on domestic raw materials supply.

Except for paper and printing, and textile groups, private manufacturing establishments have been performing below half of their existing capacity. The public sector, on the other hand, makes better use of capacity in the non-metal

leather and shoe groups which stood at more than 80 per cent over the period under review.

8.3.9 Capital Intensity

Apart from import intensity which constrained growth in manufacturing during times of foreign exchange shortfalls, the Ethiopian manufacturing sector has also been blamed for being capital intensive (or labour saving). This feature is not consistent with increasing labour force and unemployment during the late 1980's and 1990s. The fact that the manufacturing sector absorbs a large proportion of new investment while it created job opportunities for a small segment of the labour force puts the growth and sustainability of the sector at stake owing to lagging demand for manufactured goods which could only expand as per capita income of the population improves.

Capital Intensity of Public Manufacturing Establishments

Table 8.11:

('000 birr/person)

No.	Industrial Group	Fiscal Years					
		1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1	Food	9.63	10.35	12.17	11.46	20.61	14.74
2	Beverage	10.76	14.16	30.01	23.71	32.99	35.04
3	Tobacco	3.41	4.16	4.64	4.01	23.85	5.13
4	Textile	11.55	12.34	16.98	16.42	15.59	15.94
5	Leather & Shoe	5.27	5.07	5.71	6.71	7.06	6.15
6	Wood & Furniture	1.35	1.17	2.25	1.32	4.30	3.31
7	Paper & Printing	5.08	4.46	6.75	8.43	11.22	11.22
8	Chemical	27.52	52.31	63.67	64.43	94.55	113.94
9	Non-metal	37.89	89.23	68.55	53.77	51.09	88.23
10	Metal	51.72	50.31	51.43	42.96	47.51	48.75
	Total	12.34	16.65	20.88	19.67	24.18	26.71

Source Computed

During the post reform period capital per person engaged used as a measure of capital intensity has been growing steadily both in the public and private manufacturing sectors. The public sector showed relatively high capital intensity which increased from Birr 12.3 thousand per person in 1991/92 to Birr 26.71 thousand per person in 1996/97. This represents an annual average growth rate of 16.7 per cent. The steady increase in capital per worker shows that investment on capital goods has been increasing at a faster pace than the number of persons engaged in the public manufacturing sector during the same period. (See Table 8.11 for the details).

The chemical and non-metal industrial groups showed exceptionally high and growing capital intensity which stood at Birr 113.9 and 88.2 thousand per worker, respectively, in 1996/97. Beverage and metal groups also have had high capital intensity with Birr 35 and 48 thousand per

worker, respectively. Capital per worker in the dominant food and textile groups stood at about Birr 15 to 16 thousand in 1996/97 while it was less than Birr 10 thousand per worker for the rest of the industrial groups in the public manufacturing sub-sector.

Owing to a limited number in large and medium scale manufacturing industries under private ownership during the Derg, its capital intensity was very low (about Birr 6 thousand per person engaged) in the first two years of the Reform Program. As private investment on large and medium scale manufacturing began to expand, capital intensity grew dramatically to Birr 15 and 18.4 thousand per person engaged in 1993/94 and 1994/95, respectively, and exceeded the rate of capital intensity in the public manufacturing sector in 1995/96 and 1996/97. (Details are depicted in Table 8.12 below).

Capital Intensity of Private Manufacturing Industries

Table 8.12 ('000 Birr/person)

No.	Industrial Group	Year					
		1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1	Food and Beverage	1.91	1.84	27.88	10.52	21.2	38.51
2	Tobacco	-	-	-	-	-	-
3	Textile	0.97	7.48	9.93	14.07	27.4	29.63
4	Leather & Shoe	9.88	11.66	20.75	32.80	44.9	46.88
5	Wood & Furniture	3.82	7.25	10.80	16.52	20.2	34.75
6	Paper & Printing	2.40	5.22	11.37	24.62	36.8	32.23
7	Chemical	6.80	6.86	30.61	22.81	23.2	63.68
8	Non-metal	1.17	0.98	9.07	7.38	33.2	32.35
9	Metal	14.72	12.60	15.98	24.12	27.7	36.70
	Total	5.89	6.27	15.00	18.43	27.9	37.87

Source: Computed.

Chemical and, leather and shoe industrial groups are relatively capital intensive private manufacturing activities followed by food, metal, non-metal and, paper and printing groups as shown in Table 8.12 above. It is important to note that leather and shoe, wood and furniture and even the food groups which have registered low level of fixed asset per worker in the public manufacturing sector have had high capital intensity in the private sector in the years 1995/96 and 1996/97.

Though it might be argued that more capital per worker leads to economic growth by enhancing output per worker (labour productivity), there is a cause for concern in this regard as high capital intensity in some industrial groups might do away with the equally important objective of creating more jobs for the growing labour force.

8.4. New Capital Expenditure in Large and Medium Scale Manufacturing

Investment has an important place in the development process of the manufacturing sector by boosting the production capacity and the level of labour productivity. As per the Annual Survey of

Manufacturing Industries of the CSA, annual investment or new capital expenditure in the sub-sector refers to the acquisition of new or used capital equipment and buildings during the reference year.

The investment activity of large and medium scale manufacturing has not exhibited a smooth trend during the post-reform period ending in 1996/97. Expenditure on the acquisition of capital equipment in 1992/93 stood, for instance, at Birr 435.1 million which was over six times the preceding fiscal year's level. Much of the increase was accounted for by the public manufacturing sector which accounted for 99 per cent of the new investment in the same year. In the subsequent two years, i.e., 1993/94 and 1994/95, new capital expenditure in large and medium scale manufacturing declined by 53 and 5 per cent, respectively. In both years, public sector investment shrank by 59.7 and 11.3 per cent respectively while that of the private sector expanded by more than seven folds in 1993/94 and by 29 per cent in 1994/95.

Though total investment began to recover in 1995/96 and 1996/97 at the rates of 17 and 33.6 per cent, respectively; it has

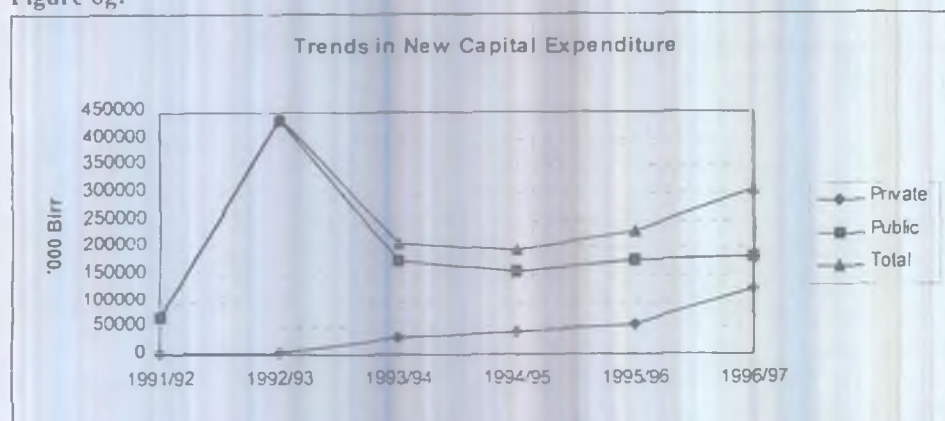
never attained the 1992/93 level in absolute terms. The private sector was the driving force for the observed increase in investment during these years where its capital spending grew by 33.4 and 133.3 per cent, respectively. Modest increases at 12.7 and 3 per cent were also achieved in the public manufacturing sector in 1995/96 and 1996/97, respectively. In both years, however, the public sector accounted for the lion's share of the new investment at 76 and 59 per cent, respectively. This shows that the large and medium scale manufacturing sector would remain dominated by the public sector at least in the near future unless the process of privatization brings about significant deviation from the status quo.

The pattern of new investment has not shown significant deviation from the traditional light consumer goods manufacturing industries. In 1991/92, investment on food and textile accounted for 71 per cent of total capital expenditure with a shares of 33.6 and 37.4 per cent

respectively. The food group kept on attracting even more investment in 1995/96 and 1996/97 (41 and 31 per cent of total, respectively) after a modest decline in its share to 20 to 25 per cent in the interim years. The chemical group was the second important focus of new capital expenditure in manufacturing since 1992/93 with a share of 20 to 23 per cent in most of the years. The non-metal group has also become important since 1994/95 absorbing about 12 to 15 per cent of new capital expenditure.

The share of investment in leather and shoe, after increasing to 12 per cent of total manufacturing investment in 1993/94 and 1994/95 declined to 10 and 7 per cent in the subsequent two years. Investment in the textile sector showed however a drastic decline especially since 1994/95 claiming less than 10 per cent of new capital spending. Details pertaining to the performance of investment in recent years is depicted in Table 8.13 below.

Figure 8g:



New Capital Expenditure (Private And Public)
(In 1000 Birr)

Table 8.13

No.	Industrial groups	Fiscal Years								
		1991/92			1992/93			1993/94		
		private	public	Total	private	public	Total	private	public	Total
1	Food & Beverage	115	24014	24129	472	72053	72525	4130	52348	56478
2	Tobacco	-	39	39	-	2496	2496	-	1479	1479
3	Textile	-	26864	26864	-	99263	99263	1928	39279	41207
4	Leather & Shoe	1070	2849	3919	2078	4561	6639	12829	13300	26129
5	Wood & Furniture	126	697	823	344	158	502	2564	385	2949
6	Paper & printing	78	1763	1841	675	1024	1699	681	8122	8803
7	Chemical	33	5848	5881	9	90533	90542	6248	40799	47047
8	Non-Metal	25	4439	4464	6	155044	155050	276	15639	15915
9	Metal	761	3132	3893	627	10012	10639	2670	3919	6589
	Total	2208	69645	71853	4211	435144	439355	31326	175270	206596

No.	Industrial groups	Years								
		1994/95			1995/96			1996/97		
		private	public	total	private	public	Total	private	public	Total
1	Food & Beverage	3202	40569	43771	7074	87613	94687	21368	74198	95566
2	Tobacco	-	409	409	-	1414	1414	-	667	667
3	Textile	2943	4619	7562	4509	9571	14080	9102	15962	25064
4	Leather & Shoe	7846	14832	22678	15061	7114	22175	16242	4738	20980
5	Wood & Furniture	5128	1109	6237	9824	1261	11085	8223	966	9189
6	Paper & printing	1778	15487	17265	3447	7123	8570	7123	15879	23002
7	Chemical	10469	47690	58159	814	36629	37443	48423	14867	63290
8	Non-Metal	465	24619	25084	5616	21923	27539	9130	38193	47323
9	Metal	8655	6219	14874	7661	4612	12273	6364	15130	21494
	Total	40486	155553	196039	54007	175260	229267	125975	180600	306575

8.5 Small Scale and Cottage/Handicrafts Manufacturing

Small scale manufacturing industries are defined here as those establishments that engaged less than 10 persons but use power-driven machinery, while Cottage/Handicrafts are those establishments producing goods primarily for sale but do not make predominant use of power driven machinery in performing their main manufacturing activities irrespective of the number of persons engaged in those establishments

Owing to the unavailability of reliable and consistent time series data on small scale manufacturing and Handicrafts/Cottage Manufacturing industries, trend analysis of the various economic indicators of the sub-sector has been found difficult. Although surveys on some aspects of the sub-sector at different times by different organizations were conducted in the past, the results of such surveys were not comparable owing to the definitions adopted and the scope and purpose of the surveys conducted.

It was only in 1995/96 that the CSA undertook a comprehensive survey on small scale and cottage/handicrafts industries. Because the definitions adopted by CSA and HASIDA (Handicrafts and Small Industry Development Agency) presently reorganized and renamed as DAHSI (Development Agency for Handicrafts and Small Scale Industries) were quite different, trend analysis on the basis of these results is hardly possible. Moreover, as the CSA survey report of 1995/96 is a one time snapshot for both small scale and cottage/handicrafts industries, it does not lend itself for trend analysis on the performances of the sub-sector over time.

Trend analysis is possible regarding the value added of the sub sector in real terms for which there is data from 1980/81 to 1997/98 from the national accounts series.

Value Added of the Manufacturing sector which consists of value added of both the Large and Medium Scale and Small Scale and Cottage/handicrafts in real terms has increased from its 1980/81 level of Birr 602.9 million to Birr 1,802.6 million in 1997/98 exhibiting an average annual growth rate of about 4.9 per cent during the period. The performance of the small scale and cottage/handicrafts manufacturing in the period 1980/81 - 1997/98 is relatively less satisfactory than the achievement in the Large and Medium Scale Industry showing an annual average growth rates of 2.4 per cent, and 5.8 per cent, respectively.

During the period of the Derg (1980/81 - 1990/91) value added of the manufacturing sector has been increasing by a little more than 1 per cent while the small scale and cottage/handicrafts sub-sector value added has been increasing by about 0.6 per cent per annum. In the post reform period of 1991/92 - 1997/98 however, value added of the small scale and cottage/handicrafts has been increasing at 9.7 per cent per annum while value added of the sector as a whole has been increasing at more than two fold of the growth in the small scale and cottage/handicrafts industries, i.e. at about 22.4 per cent per annum.

The share of small scale and cottage/handicrafts industries in the value added of overall manufacturing sector in the period 1980/81 - 1990/91 ranged from 30-37 per cent while in the post reform period it has sharply declined from its 1991/92 level of about 39 per cent to about 20 per cent in 1997/98. (See Table 8.14 below)

Number of Persons Engaged & Number of Employees
in Small Scale Manufacturing Industries (1995/96)

Table 8.14

No.	Industrial Group	Number of Persons Engaged	Number of Employees	Employees as % of Engaged)
1.	Food products	3313	1835	55.4
2.	Textile	817	343	42
3.	Leather & Footwear	274	150	54.7
4.	Wood & Furniture	1804	918	50.9
5.	Paper & Printing	191	71	37.2
6.	Chemical	49	33	67.4
7.	Non-Metal	454	353	77.8
8.	Metal	2027	943	46.5
	Total	8929	4646	52.0

Source: Report on small scale manufacturing industries survey, CSA, 1997

As per the 1995/96 survey of cottage/handicrafts and small scale manufacturing, about 2731 small scale manufacturing and 892,719 cottage/handicrafts industries were registered in the country.

The level of employment in small scale and cottage/handicrafts industries stood at 4,646 and 50,947 respectively. The number of persons engaged was 8,929 and 1,311,745, respectively. The number of persons engaged in small scale industries is twice as much as the number of employees, while employees in

handicrafts/cottage make up less than 4 per cent of the number of persons engaged. This shows that almost 50 per cent of employees in small scale represent unpaid family labour whereas 96 per cent of employment in cottage/handicrafts industry was accounted for by family workers. Almost 93 per cent of the total employment in the cottage/handicrafts industry was in the Food and Beverage, and Textile groups where as about 80 per cent of small scale was employed under Food, Wood and furniture and Metal groups. (See Table 8.15 below).

Number of Persons Engaged and Number of Employees in Cottage/Handicraft Manufacturing Industries (1996)

Table 8.15

NO.	Industrial Group	Number of Persons Engaged	Number of Employees	Employees as % of Persons Engaged
1	Food & Beverages	495831	25,207	5.08
2	Tobacco	59	-	-
3	Textile	483901	14,285	3.0
4	Leather & Footwear	21977	1,221	5.6
5	Wood & Furniture	56987	2,642	4.6
6	Chemical	130	-	-
7	Non-Metal	198254	1,281	0.65
8	Metal	54606	6311	11.6
	Total	1311745	50947	35.6

Source: Report on Cottage/Handicraft Manufacturing Industries Survey, CSA

Output measured by gross value of production for small scale and cottage/handicrafts industries were Birr 188 and 2043 million respectively during the period of the survey (1995/96) About 60 per cent of the gross value of product in the small scale manufacturing was accounted for by the Food group while

Wood and furniture groups accounted for about 12 per cent. Gross value of production in the cottage/handicrafts was dominated by Food and Beverage, and Textile Industrial groups with respective shares of 36.5 and 46.6 per cent in 1995/96. (See Table 8.16 and 8.17 below).

Gross value of Production and Value Added of Small Scale Manufacturing
(1995/96)

Table 8.16

('000 Birr)

No.	Industrial Group	Gross Value of production	Value of added (at factor cost)	Value added (at Market Price)
1.	Food products	113,888.13	32,144.99	32,603.47
2.	Textile	9,867.54	4,779.14	4,852.56
3.	Leather & Footwear	5,060.77	2,725.33	2,798.98
4.	Wood & Furniture	22,304.17	7,019.1	7,328.18
5.	Paper & Printing	3,453.49	1,409.74	1,485.00
6.	Chemical	1,507.84	399.33	408.59
7.	Non-Metal	6,827.89	2,274.29	2,322.43
8.	Metal	24,972.10	9,853.85	10,106.19
	Total	187,881.93	60,605.1	61,905.40

Source: Report on small scale manufacturing Industries survey, CSA.

Gross Value of Production and Value Added of Cottage and Handicrafts Manufacturing
(1995/96)

Table 8.17

'000 Birr

No.	Industrial Group	Gross Value of production	Value Added (at factor cost)	Value Added (at Market Price)
1.	Food & Beverages	744,881	173,970	174,540
2.	Tobacco	20	6	6
3.	Textile	952,494	287,951	287,969
4.	Leather & Footwear	70,177	23,317	23,333
5.	Wood & Furniture	91,153	37,919	37,929
6.	Chemical	152	74	74
7.	Non-Metal	95,818	96,216	69,328
8.	Metal	88,235	46,386	46,408
	Total	2,042,931	638,838	639,587

Source: Report on Cottage/Handicrafts Manufacturing Industries survey, CSA.

The total value added for small scale and cottage/handicrafts manufacturing industries stood at Birr 60.6 and 638.8 million respectively for the year 1995/96. The largest share of value added was observed in the Food groups of small scale and Textile group of cottage each stood at 53.0 and 45.1 per cent, respectively.

As the number of employees is quite small relative to the number of persons engaged in both sub-sectors, the approach to estimate labour productivity as used in the case of large and medium scale manufacturing (i.e. value added per

person employed) would highly overestimate the productivity in the small scale and handicraft/cottage sub-sectors. Therefore, it is preferable to use value added per persons engaged for those two sub-sectors. Hence, average value added per person engaged in the small scale and handicrafts/cottage industries was Birr 6787.41 and Birr 2388.6 respectively in the year 1995/96. Value added per person engaged in small scale and handicraft/cottage industries was 62 and 86 per cent below the value added per person in the large and medium scale manufacturing 1995/96, respectively. (See Table 8.18 and 8.19 below for details).

Table 8.18 Value Added Per Person Engaged in Small Scale Manufacturing Industries (1995/96) (Birr/Person)

No.	Industrial Group	Value added per persons engaged
1.	Food products	2702.7
2.	Textile	5849.6
3.	Leather & shoe	9946.40
4.	Wood & Furniture	3890.9
5.	Paper & Printing	7380.8
6.	Chemical	8149.7
7.	Non-Metal	5009.5
8.	Metal	4860.1
	Total	6787.4

Source: Computed based on Table 8.14 and 8.16

Table 8.19 Value Added per person Engaged in Cottage/ Handicrafts Manufacturing Industries (1995/96) (Birr/Person)

NO.	Industrial Group	Value Added Per Person Engaged
1	Food products	350.9
2	Textile	101.7
3	Leather & Footwear	595.1
4	Wood & Furniture	106.1
5	Chemical	665.4
6	Non-Metal	569.2
7	Metal	
	Total	2388.6

Source: Computed based on tables 8.15 through 8.17

Table 8.20 Actual Sales Revenue & Export of Small Scale Industries (1995/96)
(Value in Birr)

No.	Industrial Group	Actual Sales Revenue	Export	Export as % of Total Sales
1.	Food	111,104,733	671,495	0.60
2.	Textile	7,255,634	-	0.00
3.	Leather & Footwear	4,763,814	4,800	0.10
4.	Wood & Furniture	20,515,017	*6,780	0.03
5.	Paper & Printing	3,372,507	4,500	0.13
6.	Chemical	1,477,849	-	0.00
7.	Non-Metal	6,741,211	-	0.00
8.	Metal	22633958	-	0.00
	Total	177955495	687,575	0.39

* Only furniture.

Source: Report on small scale manufacturing industries. CSA

The total revenue from sales of small scale manufactured outputs for the year 1995/96 was reported to be Birr 178 0 million out of which the Food group alone account for about 62 per cent followed by the Wood and Furniture group with 11 5 per cent share. Data is not available, however, on sales performance of cottage/handicrafts industry groups.

The total value of manufactured export of small scale industries stood at Birr 687,575 in which the food industrial group accounted for about 98 per cent of the total value of export of the small scale industries. Small scale manufacturing export as percentage of the total sales revenue of the sub-sector was, however,

less than 1 per cent i.e. 0.44 per cent in 1995/96. This shows that almost all of the sub-sector's output is destined for the domestic market. One can also expect a similar situation in the Handicraft/cottage manufacturing industries although data is not readily available on this item. The total operating surplus of small scale and cottage/handicrafts industries for the year 1995/96 stood at Birr 51.7 and 596.3 million, respectively. The highest operating surplus was derived from the Food group in small scale and Food and, Leather and Foot wear in the cottage industry with the respective shares of 56.7 and 72.6 per cent (see Table 8.21 and 22 below).

Table 8.21 Value of Export of Small Scale Manufacturing Industries
By Industrial Group (1995/96)

No.	Industrial Group	Value of Export
1.	Food	671,495
2.	Textile	
3.	Leather & Footwear	4,800
4.	Wood & Furniture*	6,780*
5.	Paper & Printing	4,500
6.	Chemical	-
7.	Non-Metal	-
8.	Metal	-
	Total	687,575

*It refers only to furniture.

Source: Report on Small scale Manufacturing Industries, CSA

Table 8.22 Operating Surplus of Small Scale Manufacturing Industries (1995/96)
(Value in Birr)

No.	Industrial Group	Operating surplus
1.	Food	29,306,699
2.	Textile	4,077,853
3.	Leather & Footwear	2,398,668
4.	Wood & Furniture	4,824,037
5.	Paper & Printing	1,242,494
6.	Chemical	359,773
7.	Non-Metal	1,823,396
8.	Metal	767,742
	Total	51,710,346

Source: Report on Small Scale Manufacturing Industries, CSA

Table 8.23 Operating Surplus of Cottage/Handicrafts
Manufacturing Industries (1995/96)
(Value in '000 Birr)

No.	Industrial Group	Operating Surplus
1	Food & Beverages	160864
2	Tobacco	6
3	Textile	271908
4	Leather & Footwear	21223
5	Wood & Furniture	33529
6	Chemical	74
7	Non-Metal	68575
8	Metal	40135
	Total	596314

Source: Report on cottage/Handicraft Manufacturing Survey, CSA

The total Cost of energy utilization in the small scale manufacturing industry stood at 3.4 million Birr out of which electric, wood and charcoal, and other fuels accounted for 85%, 5.1% and 10%, respectively. The Food group alone utilize about 79 per cent of the total energy in the small scale industry followed by the wood and furniture group with a share of 12 per cent.

Although no information has been made available on the consumption of energy by cottage/handicrafts industry, it is expected that the use of non-electric sources of energy is the dominant type since the use of electric power - driven machinery is largely confined to large and medium scale manufacturing that are located in urban centers. (See Table 8.24 below for details).

Table 8.24 Cost of Energy consumed by Small Scale manufacturing Industries
(1995/96)

No.	Industrial Group	Electricity	Wood & Charcoal	Other fuels	Total	Cost of Energy Consumed (%)		
						Electricity as % of Total	Wood + Charcoal	Other Fuels
1.	Food	2,310,506	166,192	225,812	2,702,510	85.50	6.15	8.35
2.	Textile	73,425	268	16,600	90,293	81.32	0.30	18.38
3.	Leather & Footwear	22,669	880	4,244	27,823	81.47	3.16	15.25
4.	Wood & Furniture	353,558	130	57,927	411,615	85.90	0.03	14.07
5.	Paper & Printing	37,915	50	4,534	42,499	89.21	0.12	10.67
6.	Chemical	28,291	920	3,610	32,821	86.20	2.80	11.00
7.	Non-Metal	71,671	4,160	29,340	105,171	68.15	3.95	27.90
8.	Metal	433290	3058	61700	498048	87.0	0.6	12.4
	Total	3331325	175658	403767	3910750	84.93	5.05	10.02

Source: Report on Small Scale manufacturing Industries, CSA

Data are also not available on imported raw material consumption of cottage/handicrafts industries. For small scale industry, however, the data on imported raw materials is made available in quantitative terms and are not available in terms of value. Using this quantitative data, import intensity of the sub-sector was calculated for specific

commodities. For example, The raw material for glass, synthetic rubber, and chemicals, and paper and printing groups were completely imported, i.e., their import intensity was 1.0 for the year under review. Utilization of imported raw materials was the least for plastic sole and leather upper products in the leather and footwear industrial group. (See Table 8.25 below for details)

Table 8.25 Import Intensity of Small scale manufacturing Industries

No.	Industrial group	Description of raw materials	Unit	Quantity of major raw materials		Import Intensity
				Imported	Total	
1	Food	Flour	Tons	177	6303	0.028
2	Textile	Fabrics	Meter	69019	6303	0.028
		Thread (For Stitching) (For knitting)	Dozen	3924	123438	0.559
3	Leather & Footwear	Leather Sole	Tons	3	5	0.6
		Leather Lining	Sq Feet	2834	49377	0.057
		Plastic Sole	Dozen	9192	432829	0.021
		Leather upper	Sq Feet	2017	101123	0.019
4	Wood Product	Plywood	PCs	7291	24439	0.298
		Hardboard	PCs	15	2032	0.007
		Plunk	Cubic M.	170	29223	0.006
		Foronka	PCs	27883	34004	0.820
		Log	Cubic M.	6	44722	0.0001
5	Paper & Printing	Paper	Pack	14582	23530	0.620
		Chemical	Kg	2741	2741	1.000
6	Chemical	Caustic Soda	Tons	16	18	0.889
		Glass	PCs	499	499	1.000
7	Non-metal	Glue	Tons	5	15	0.333
		Synthetic Rubber	Meter	130	130	1.000
		Flat Iron Sheet	Ton	397	792	0.501
8	Metal	Iron Bars	Ton	217	301	0.721
		Water Pipe	Meter	317	4176	0.076
		Bed Spring	Meter	268	3405	0.079
		Aluminium	Kg	12948	16365	0.791
		Nail	Tons	-	42	-
		Electric wire	Meter	985	9595	-0.097

Source: Computed by dividing the quantity of imported input to total raw material requirement for that specific output for each industrial group.

8.6 Privatization of Public Owned Manufacturing Industries

Privatization is one of the components of structural adjustment programs carried along side other measures of public enterprises reform. Privatization of public owned enterprises is being traditionally understood as the transfer of ownership to private parties through divestiture. It also includes management contract, leases, contracting-out, etc. (Elliot Berg, 1994).

Though governments have had a host of objectives or priorities in adopting privatization, the over-riding objective in many cases is attaining efficiency in resource use. Part of the solution to this problem is expected to come from improving the operations of enterprises under public ownership through granting managerial autonomy, managerial accountability, etc. However, the practical problems in achieving managerial efficiency and the objective of increasing the role of the private sector in the economy while rationalizing (reducing) the role of the state specially in productive areas of the economy necessitate the processes of privatizing public owned enterprises. Accordingly, the objective of privatization and its rationale in Ethiopia has been enhancing economic efficiency parallel with expanding the role of the private sector which is supposed to run more efficiently. The fiscal relief to government through the removal of subsidies and the increased revenue from sales of public entities is also seen as a positive outcome of privatization in Ethiopia though not an overriding objective.

The Ethiopian Privatization Agency (EPA) mandated to undertake the

process of privatizing public enterprises in an orderly and efficient manner was established in February 1994 by proclamation No. 87/1994. The focus of this section is, however, on the privatization of public manufacturing enterprises which are dominant both in number and capital than public enterprises in any other sector of the economy.

The EPA adopted, at least at the start of its privatization endeavor, three modalities: direct sales to private agents by auctioning; sales of enterprises to the management and employees of the enterprise; expansion of the existing enterprise on joint venture with private investors.

Available data indicate that auction sales were adopted for the already privatized manufacturing entities with no evidence of sales to employees or expansion on joint venture basis.

The extent of privatization of public manufacturing enterprises is very limited, i.e., the number of privatized public enterprises stood at only 32 between March 1995 to June 1998. This is no more than 20 per cent of the existing manufacturing enterprises under public ownership. Some 13 enterprise from the food group have been sold directly during the reference period, making it the leading privatized sector among other industrial groups. No textile factories have been privatized yet.

Table 8.26 Number of Privatized Public Factories
As of July 7, 1998

No	Industrial Group	No. of privatized Factories Upto July 7, 1998
1	Food	13
2	Beverage	5
3	Tobacco	-
4	Textile	-
5	Leather & Shoe	3
6	Wood & Furniture	4
7	Paper-printing	1
8	Chemical	3
9	Non-metal	1
10	Metal	2
	Total	32

Source: EPA.

Some of the reasons for the slow pace of privatization, particularly so in the manufacturing sector, include the evident lack of experience and skill (in the Privatization Agency) in the modalities of privatization, the absence of stock exchange markets and weakness of the financial sector, and the well recognized problem of small and weak private sector to absorb the would be privatized enterprises. The agency would thus need to investigate and implement other modalities of privatization which could fit into the existing situation and give way to speedy and efficient privatization of the remaining enterprises.

8.7 Outstanding Issues and Problems

The formulation and enactment of an explicit industrial sector policy is a primary task to be undertaken for a consistent and sustainable development of the manufacturing sector.

Given the significant import and capital intensity of Ethiopia's manufacturing, the development of a manufacturing sector with strong forward and backward sectoral linkages that adopt more labour intensive technology is very crucial to

overcome the problems of foreign exchange scarcity and narrow domestic market for industrial goods.

The need for a self sustaining industrial development entails the progress of the basic metal and engineering industries which are at their infancy currently.

The inadequacy of infrastructure services like roads, telecommunication, energy and water has seriously limited the development of the manufacturing sector. The expansion of these facilities not only improves industrial growth but also help attain balanced regional development.

The need for strong local research and development centers, and information and training facilities is one of the critical issues for industrial development in general and for the expansion of manufacturing export in particular.

Though the private sector has already become a partner in the development endeavor of the industrial sector, there remains a need for further improvement of the legal and regulatory framework, the market for factors of production, and the tax and incentive systems in order to enhance its full scale participation.

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Chapter 9 Mining

9.1 Background

Attempts to develop the mining industry in the country dates back to the early days of the twentieth century. However, progress has been erratic and limited as a result of the underdeveloped state of the economy.

Besides non-metallic minerals and works whose productions and use date back to prehistoric times, Ethiopia has long been renowned for its production of gold. A systematic exploration and exploitation of mineral resources didn't commence until the late 19th and early 20th centuries, when European interests (represented by Italian, French and Russian companies) were granted prospecting rights and concessions.

The most important mining activities that took place before the Italian invasion of 1935 were prospecting for and production of platinum and gold in western and southern Ethiopia, respectively. The Italian invasion accelerated mineral exploration efforts, resulting in a re-examination of already known mineral deposits and the discovery of a few others, the most remarkable among these being the Adola gold-fields.

Some aspects of the situation started to change during the period 1968 to 1972 when government technical institutions for exploration and mineral development regulations instituted. In general progress during the past twenty five years have remained limited. The main constraints have been the low-level of indigenous utilization of minerals, restricted participation of private sector, and insufficiency of the country's trained

personnel and technical material resources.

The Ministry of Mines, as it reads here, was established in 1966 by Proclamation No. 46/ 1966 by the Imperial Government of Ethiopia. (IGE, 1966). Later on in 1977, the mining, energy and water resources sectors were merged by the Provisional Military Administrative Council, Proclamation No. 127 (PMAC, 1977) and a new Ministry of Mines, Energy and Water Resources was established. When in 1981, by proclamation No 216 (PMAC, 1981) the National Water Resources Commission was established as an independent government Institution for the water sector, the ministry became the Ministry of Mines and Energy and since then it has held the same name. Subsequently, two autonomous institutions, namely, the Ethiopian Mineral Resources Development Corporation (EMRDC) and the Ethiopian Institute of Geological surveys (EIGS) were established in 1982 by proclamations No. 229 and 230 of 1982, respectively. These measures facilitated the generation of progressively more reliable geological and mineral resources information, the development of an indigenous technical capability and increased awareness of the mineral endowment of the country.

Though the government had undertaken limited exploration and exploitation of placer gold, industrial and construction materials on a small-scale, production of primary gold started only in 1991 with the commissioning of the Lega-Dembi gold mine in Adola area with annual production capacity of 3 tons. However, this capacity level has not been met other than the first year of its commissioning. Other important mineral developments include the Abijata Soda Ash pilot plant, the Kenticha Tantalum pilot plant, the Bombawoha ceramics plant, and the Calub gas development.

In spite of the vast mineral potential of the country, the sector still remains undeveloped by world standards, contributing less than 1% to the total GDP of the country. This is ascribed to the absence of competitive and transparent mining laws and regulations apart from the aforementioned problems.

The issuance in 1993 of the Mining Proclamation No. 52/1993 (TGE, 1993a) and Mining Tax Proclamation No. 53/1993 (TGE, 1993b) has changed the prospect of the country's mining industry for the better. This can be observed from the increasing number of local and foreign mining companies who have either started work or are showing a strong interest to participate in the development of the country's mineral resources. The recent move on the side of the government to privatize the only primary gold mine (Lega-Dembi) of the country marks the end of monopoly of the mineral industry by the government and the opening up of the mining sector to private investment.

9.2 Review of the Mineral Sector Policy and Strategy

Policy

It should be noted from the outset that the policy and strategies of the mineral sector enumerated below are not taken from an officially drafted and endorsed document. They are rather drawn from the new economic policy, the Mining proclamation No. 52/1993, the Council of Ministers Regulations No 182/1994, (TGE, 1994) and also translations from an unofficial document entitled 'Mineral Policy' prepared in Amharic by the Ministry of Mines and Energy. The policy objectives emphasized by the above mentioned documents include:

- To make the utmost use of the non-renewable mineral resources that the country is endowed with and

increase the sector's contribution to the economic development of the country and use for the benefit of the people.

- To give attention to the exploration and development of minerals that can play a key role as inputs for the agricultural, industrial, and other sectors of the economy and thereby strengthen the inter-Sectoral linkage.
- To streamline the illegal and wasteful artisan mining practices and bring about law and order, safety as well as curb environmental degradation and provide the government with its due revenue.
- To involve and encourage women to participate in the mining industry's activities.
- To create mining -related jobs and curtail the flow of people from rural to urban areas.
- To establish a central data bank for keeping orderly exploration results and provide easy access for interested participants.

Strategy

For a poor country like Ethiopia, the possibility of developing the mineral industry, which is capital and technology - intensive and risky through domestic funding alone is very much limited. As the experience of countries with developed and thriving mining industry shows, the only realistic option open to overcome this financial problem is to be able to attract foreign private mining companies who have the necessary motivation, experience, knowledge and access to substantial capital resources.

Having been aware of this reality, the government of Ethiopia, among other provisions, has made its foremost strategy to revise the previous mining policy. To invigorate the mineral sector the

strategies followed as derived from the Government's subsequent commitment and resolve could be indicated through its:

- promulgation of a new mining law
- Making institutional reforms and
- taking some other relevant strategic measures.

9.2.1 The Mining Law

Prior to 1991, the right to prospecting, development and exploitation of minerals was exclusively reserved to the state. In the period 1991 to 1993, the provisions for private investment in the mines sector remained unclear. "Strategic" Minerals development remained in the state domain according to the economic policy of the transitional period (TGE, 1991). "Large Scale" mining was reserved for investment by the Government or in partnership with private investors, according to the Investment Proclamation No. 15/1992 (TGE, 1992). Nevertheless, foreign investors were allowed only to participate in joint ventures with the Government on petroleum, base metals, major industrial and construction materials on condition that the Government's share was at least 51%. The indigenous private sector was allowed to invest in quarried stones and other small-scale mining operations. Because of the restrictive nature of the previous policies, the resultant investment on mining development activities by the private sector had remained insignificant.

However, with the proclamation and enactment of the new mining Proclamation No. 52/1993 (TGE, 1993), things have changed, among which the most notable ones are the encouragement of the private investors to participate in the prospecting, development and exploitation of gold and other precious minerals. Moreover,

clarity with respect to the rights and obligations of the investors as well as that of the Government was introduced.

9.2.1.1 Provisions of the Mining Law

Rights and Licenses

The licensing system explicitly takes into account the various stages of the mining cycle; namely, prospecting, exploration and development (mining) licenses.

Prospecting License

This involves the right to search for anomalous mineral occurrence. The license is valid for a period of one year and may not be renewed.

Exploration License

This involves the geological definition and economic assessment of the mineral deposit within the area specified in the license. This license is valid for an initial period of 3 years and may be renewed twice or further for additional terms of one year each.

Development Rights

This right represents the development and extraction of the deposit. The licensee for exploration rights shall have the right to be granted a small-scale or large-scale development (mining) license in the event that he determines a deposit of minerals specified in the license area which may be mined on an economically viable basis. Depending on the scale of the mining operation, under the development rights include artisan mining, small-scale mining and large-scale mining licenses.

Artisan Mining License

This license grants an exclusive right to explore and mine for the minerals within the license area. The operations under this license shall exclude all tunneling and other underground work except vertical excavations of less than 15 meters in

depth. An artisan mining license shall be valid for one year and may be renewed indefinitely as need be.

Small - Scale Mining License

This license grants an exclusive right to mine for the minerals within the area specified in the license. The license shall cover the area necessary to carry out mining operations. The validity of the license shall be for a maximum period of ten years or the life of the deposit, whichever is shorter, and may be renewed for a maximum period of 5 years.

Large - Scale Mining License

This license grants an exclusive right to mine for the minerals within the area specified in the license. The license shall cover the area reasonably necessary to carry out mining operations.

9.2.1.2 Financial Regime

Income Tax

Under proclamation No. 53/ 1993, the income tax rate for large-scale mining operations was stated to be 45%. However, after having taken account of the prevailing tax rate on income from mining operations world-wide, it has been brought down to a competitive level. At present, a holder of large-scale or small-scale Mining Licensee shall pay 35% income tax on the taxable income. It is also provided that income tax shall not apply to artisan mining operations.

Free- Equity Participation

In a mining operations, the government of Ethiopia shall acquire without cost a participation interest of 2%.

Tax on Dividend

The mining proclamation requires that tax is payable on dividends declared and distributed from taxable income after deduction of income tax. The rate of tax on dividends shall be 10%.

Royalties

The licensee shall pay royalty for all minerals produced. The condition under which the rate and manner of royalty payment shall be determined by agreement. If it is deemed appropriate by the Licensing Authority, suspension of the imposition of royalty may be possible after consultation with the appropriate Government body.

Incentives

Mining operations are expected to have a high discount rate for cash flows and a short pay-back period. To conform with this creed, the Government has provided incentives, such as, a depreciation scheme known as straight line method. By using this method, all capital expenditure and pre-production costs may be depreciated from any accounting year on a straight line basis over a useful life of four consecutive years. Moreover, any financial loss, resulting from mining operations of a licensee in an accounting year may be carried forward and deducted from gross income in the ten accounting years which follow the year in which the loss is incurred.

Furthermore, the Mining Regulation No. 182/1994 deals with the procedure of application, issuance, transfer and revocation of licenses.

9.2.2 Institutional Set-up

The other strategy followed to bring about the desired level of development in the mining sector is the restructuring of the institutional set-up. The previous administrative structure reflected the

dominant role of the Government in mineral related activities. Almost all mineral prospecting, exploration and development of mineral resources were carried out by the government agencies. However, following the declaration of the new economic policy, the emphasis has been on decentralization of mineral exploration and development activities and the facilitating of the participation of the private sector in the mining industry. The objectives of decentralization are to introduce accountability, attain cost-effectiveness and a high rate of coverage of mineral development activities as well as to simplify the management of exploration and development of mineral resources and existing mining operations.

The institutional framework has the following major components: The Ministry of Mines and Energy and the Regional Bureaus of Mines and Energy.

The Ministry of Mines and Energy (MME)

This Ministry, as the representative of the Federal Government, has the following tasks and duties regarding the mineral sector.

- Formulating mineral development policy, devising strategy and provide legislation.
- Issuing directives for regulating the industry.
- Negotiate agreements, issue licenses to exploration and development of large and small-scale mining operations.

The MME has had three Government agencies to fulfill the above responsibilities. The first one is the Mineral Operations Department, which is responsible for licensing, regulating and promoting of mineral exploration and development activities. The second one is the Petroleum

Administration Department, which besides gathering geological information on the sedimentary basins of the country, deals with licensing, regulating and promoting of petroleum exploration and development works. The third agency of the MME is the Ethiopian Institute of Geological Surveys (EIGS) with the responsibility of mineral reconnaissance, mapping, publication and dissemination of maps for the public and private sector use.

Other important measure taken following the Public Enterprise Proclamation No. 25/1992 involves the Ethiopian Mineral Resources Development Corporation which was broken up into four autonomous enterprises. This is done to bring about efficiency, profitability and increase in productivity by competing with the private sector. These public enterprises are:

- Adola Gold Development Enterprise
- Abijata Soda Ash Plant
- Bole- Bulbula Crushed Stone Enterprise
- Ethiopian Mineral Development Enterprise

Regional Bureaus of Mines and Energy.

The other strategic measure taken to effect the development of the mining sector has been the establishment of the Regional Bureaus of Mines and Energy with the powers and duties to:

- co-operate with the Ministry of Mines and Energy concerning the protection of mineral resources, and give the necessary support to mining and development works carried out within the region;
- encourage traditional mineral exploration, register mining co-operatives, give license to artisan mining and construction materials exploitation and supervise them. This has been revised later on to include all mining activities carried out by local investors.

9.2.3 Other Strategic Measures

Since government's decision to withdraw from exploration and development of strategic minerals in 1994, and the decision to privatize public enterprises in the sector; government has laid down a strategy to provide geological maps for the entire country (without entering into costly and detailed exploration) by the Institute of Geological survey and petroleum works Department. This would help acquire a better knowledge of the geological history of the country and identify areas with promising mineral and petroleum occurrences.

Moreover, to facilitate the smooth operation of the mineral sector in general and save foreign currency expenditures on mineral samples analyses that are carried out abroad, a strategy has been laid down to strengthen and raise the standard of the Central Geological Laboratory of the Institute. Since 1997, purchases of machinery, equipment and training of chemists have been underway. The project is scheduled to be completed in two years time.

9.3 Mineral Exploration Potential

Regional Geological Mapping

Since its first establishment in 1968, the Geological survey of Ethiopia (later renamed the Ethiopian Institute of Geological Surveys - EIGS) has mapped an area of about 245,000 km² (22%) at a scale of 1:250,000. To this can be added the map provided by the Ethio-Canadian Omo River Project that covers an area of 83,000 km², and the Ethio- Soviet Adola Gold Exploration Project that has mapped 7,200 km² with similar scale. Different types of geological maps at different scales also exist.

Mineral Exploration

Ever since the introduction of modern mining into the country, various systematic and integrated metallic, non-metallic and energy minerals exploration activities have been carried out in different parts of the country by government and private companies. As a result, a number of known occurrences and deposits have been identified. The most important discoveries (although not all of them are necessarily economical or mineable) made so far include: primary & placer gold deposits in southern, western and northern parts of the country, platinum deposits of Yubdo in western Ethiopia, the Dallol potash deposits in Danakil area, the condensate and natural gas deposits in Ogaden (Calub), the columbo-tantalite deposits in Adola (Kenticha), the Bikilal iron ore and phosphate deposits.

Of the gold mining areas where preliminary work has been carried out, the most favorable ones selected for intensive exploration and development works in the immediate future are: Moyale (south Ethiopia), Dull (west Ethiopia), Dawa-Digati and Magado-serdo. The later two are located in the Adola gold fields of southern Ethiopia. These particulars are being explored by private companies.

The known mineral resources and occurrences of Ethiopia can be summarized as follows:

Location	Estimated Potential and Status
• Southern Ethiopia	
Adola (Lega-Dembi) placer gold	3.8 tons proven; exploration on-going
Lega-Dembi primary gold	200 tons
Kenticha tantalite	25,000 tons
Adola nickel	17,000,000 tons
Moyale primary gold	under exploration
Bwambwawiha kaolin	500,000 tons
Kenticha feldspar	300,000 tons
Kenticha quartz	300,000 tons
Chembi kyanite	3,440,000 tons
Chembi talc	100,000 tons
Dawa - Digati primary gold	Under exploration
Megado - Serdo primary gold	" "
Sakaro primary gold	" "
Delbi-Moye coal	20 million tons
Delbi-Moye oil shale	112 million tons
• Western Ethiopia	
Yubdo platinum	12.5 tons
Serkole placer gold	700 kg
Degero placer gold	70 kg
Dull (kurmuk) gold and base metals	Under exploration
Oda - Godere gold and base metals	Under exploration
Bikilal iron	57,000,000 tons
Bikilal phosphate	100,000,000 tons at 4% P ₂ O ₅
Central Wollega gold and base	Under exploration
• Northern Ethiopia	
Western Tigray gold and base metals	Under exploration
Mosobo Mai Kental marble	Several million tons
Mekele cement raw materials	" "
Dalloi potash	160,000,000 tons
Danakil salt	Several million tons
Gewane Mille bentonite	70,000,000 tons
• Eastern Ethiopia	
Galleti Ramis base metals	To be explored
Asbe Teferi-Hakim Gara-Isha Marble	Several million tons
Amaressa granite	" "
Dire Dawa cement raw materials	46,000,000 tons
Kombolcha kaolin	300,000 tons
Hula-Kuni Galleti dolomite	2,000,000 tons
Babile-Bombas feldspar	150,000 tons
Elkere salt	Several thousand tons
Ogaden limestone and gypsum	Several million tons
Calub natural gas	2.7 trillion cubic feet
Central Ethiopia	
Jema-Mugher silica sand	5,000,000 tons
Mugher limestone	50,000,000 tons
Lakes region soda-ash	40,000,000 tons
Around Addis Ababa Construction raw materials	Several million tons
Blue Nile Basin gypsum	" "

9.4 Performance of Mineral Production

Data on the quantity and value of mineral productions from all the responsible public and private enterprises have proved to be difficult to obtain. This could be attributed to the lack of reporting systems between MEDaC, the Minerals Operations Department, the Ethiopian Mineral Development Enterprise as well as the Regional Bureaux of Mines. Especially data on quarry products could not be made available for this due to the vast and fragmented nature of the activity. However, it was possible to obtain the following data on major minerals' productions i.e., those of gold, tantalum and kaolin from the Ethiopian Minerals Development Enterprise while that of marble was obtained through the Mineral Operations Department.

Regarding the trend of quantity of production of Tantalum and Kaolin, they have been on the increase (as can be seen from the above Table) following the years of their operations. However, the quantity of gold produced, i.e., from Lega Dembi and the placer deposits in

Adola, the reported quantity has been going down. The Lega Dembi plant, designed to produce 3 tons of gold per year has not attained its target except for the year it was commissioned and in 1992/93.

The failure to produce gold according to existing capacity had been ascribed, among other factors, to the shortage of consumable items: chemicals, spare parts, drill consumable and accessories arising from inefficient and long procurement procedure.

9.5 Government Investment on Exploration and Development of Minerals

Until fiscal year 1993/94, the overall public investment plan and actual implementation of the mining sector was on the rise. However, with the coming into effect of the new economic policy which encouraged the full participation of private investors in the sector, public investment in this sector was limited to only collecting basic geological data and mapping. As the result, annual public investment has been declining since 1994/95 as can be seen from the Table 9.2 below.

Annual Production and Value of Major Minerals

Table 9.1 (In million Birr)

Type of Mineral Produced	Units	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
		Gold**	Kg.	2653.0	3399.6	2450.1	1182.8	1999
	Birr	47.66	139.0	123.1	85.9	70.2	51.2	N.A.
Tantalum	Ton	16.7	17.2	26.3	35.1	53.6	60.5	52
	Birr	2.8	2.7	4.6	6.0	17.0	22.3	18.4
Kaolin	Ton	-	-	185	701	1438	3512	2000
	Birr	-	-	0.278	1.05	2.2	5.3	3.0
Marble	M ³	-	-	-	-	-	453	N.A.

Source : Ethiopian Mineral Development Enterprise.

** Annual average gold price is taken

N.A. = Data not Available

Mineral Sector Public Investment By Sub-Sector, 1991/92-1997/98
 Table 9.2 In Million Birr

Year	EIGS		OIL & GAS		EMRDC		TOTAL	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
1991/92	30.2	10.6	46.5	40.6	48.3	4.5	125	55.7
1992/93	39.2	13.7	86.4	33	73.8	27.2	199.4	73.9
1993/94	79.5	43.4	45.7	7.0	115.7	43.5	240.9	93.9
1994/95	43.7	32.7	5.9	6.2	41.9	14.6	91.5	53.5
1995/96	6.3	4.1	0.2	0.1	0.4	0.3	6.9	4.5
1996/97	13.6	8.6	0.19	0.19	-	-	13.8	8.8
1997/98	16.6	16.6	0.17	0.17	-	-	16.77	16.77

Source: Mines Sector Projects' Annual Implementation Documents.

9.6 Private Sector Participation

Allowing the full participation of the private sector has been one aspect of the mineral sector strategy. Privatization of the Sector has aimed at reducing the role of government in mineral resources development activities and thereby allow for a wider participation of the private sector. As a market driven industry, the conducive environment gives a possible range of investment option available, and these are:-

- local private investment in large and small scale mining
- foreign private investment in large and small scale mining
- joint ventures in large scale mining

Since the coming into effect of the mining proclamation, along with the new mining income tax rate and the favorable regulatory provisions, the sector has become a potential investment target. About 21 companies have responded to the new mineral investment environment and obtained licenses for prospecting, exploration and mining and have already started work within their license area. Out of the licensed companies, 52% are engaged in Gold and base metals, 17% in mineral water, 13% in industrial minerals, 9% in gemstones and 9% in construction materials.

Recently, the Ministry of Mines and Energy has invited several Mining Companies to participate in a bid to privatize the Lega-Dembi gold mine & Tantalum deposit. Following this, several (about ten) mining companies submitted the terms of their bids to the authorized government body for evaluation. National Mining Corporation (NMC), which won the bid for 172 million US dollars, had concluded the transfer of ownership right of the property. Prior to this, in 1993, the Ethio-Libyan Joint Mining Company, which was engaged in the marble and granite business was sold to NMC. Other mining enterprises are believed to be privatized in the near future. At the same time, the MME has decided to float most of its Calub's share to the private sector for the construction of Calub gas development complex that is being developed with the assistance of IDA.

9.7 Outstanding Issues and Problems

The Mining Proclamation with the accompanying financial regime and incentives should not be taken as an end in itself, but be open to reconsideration and responsive to the changes in the investment climate of the mineral industry world-wide.

Some constraints on the development of the mineral sector that need to be given proper attention include :

Strengthening of the Mineral Operations Department

It is true that since the proclamation and enactment of the new Mining Law and Regulation, positive responses have been shown by a number of local and foreign investors. The Mineral Operations Department which is responsible for promoting the mineral industry, licensing, regulating and monitoring mineral prospecting, exploration and mining operations, ensuring the use of appropriate technology, collecting and/ or ensuring the collection of Government income from mineral operations is apparently over-stretched and the staff underskilled. Therefore, it is vital that the Mineral Operations Department be provided with the necessary resources including skilled manpower, facilities, vehicles and efficient operational procedures.

Providing Assistance to Small- Scale and Artisan Miners

The widely used means of production especially for gold and gemstones are so backward in that a good deal of the mineral is lost along with the waste material. In order to tackle this problem, there is a need for training facilities, and technical assistance.

Financial assistance could also be provided to small miners in the form of special development aid programme by setting- up a 'mining window' in the existing bank system.

Encouraging machinery and equipment leasing enterprises may also be an important arrangement worth considering. It will be important in enabling small miners to consistently use newer equipment, get maintenance and replacement facilities.

Infrastructure

The development of infrastructure is an essential prerequisite for exploitation of

mineral reserves and the effective development of mining projects. Infrastructure, in its dual function of making exploitation feasible and integrating it into the overall economy, plays a central role in mining than in other industries. In other words, mineral resources should be assessed from the point of view of their catalytic effects in the regional development. Therefore, mineral policy should provide guidelines for determining whether responsibility for infrastructure lies with the government, the private sector or both.

Establishing Geo- Scientific Data Bank

In order to avoid duplication of exploration activities and get easy access to geological information collected from the field and laboratory analyses, a systematic data storing bank should be established.

On Environment, Health and Safety

The mining industry has long been considered one of the most hazardous industries where in addition to accidents mine workers may suffer occupational diseases. It is also known to have been causing damage to the environment. It is, therefore, necessary to establish standard environmental, health and safety regulations and lay down obligations for reclamation of mines and their environs at the end of their lives.

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Chapter 10

Energy

10.1 Background

The Ethiopian Energy Sector is sharply split into the traditional and modern. For the great majority of the population, traditional fuels are the sole sources of energy. The traditional energy sub-sector is not under the complete mandate of the energy sector as per the prevailing institutional arrangement.

With regard to the modern energy sector, it is made up of three sub-sectors; i.e., Power, petroleum and (research on) alternative sources of energy, of which the power sub-sector is the most dominant. Accordingly, the structure of this review follows the current setup of the energy sector and is presented in three parts.

10.2 The Power Sub-Sector

10.2.1 Institutional Set-up

The Ethiopian Electric light and power Authority (EELPA) is the sole Government agency responsible for generating, transmitting and selling of electricity nationwide since its establishment in 1956. Until 1996, it was a parastatal autonomous body supervised by the Ministry of Mines and Energy and its operations have been highly centralized.

In June 1997, the power Authority was given a status of public corporation to be managed and supervised by a Board of Management and has been re-named as the Ethiopian Electric Power Corporation by Council of Ministers Regulation No.13/1997. As far as the structure of the newly re-organized corporation is concerned, the operational aspect of its

overall activity has been decentralized along the lines of the decentralized government structure. Under this restructuring major responsibilities such as transmission and substation operation and maintenance, distribution, transformer erection, and maintenance, as well as handling of administrative and customer affairs have now been delegated to all Regions of the corporation. The implementation of this re-organization is underway and the lead time required for full implementation is believed to be long.

The other institutional reform implemented in 1997 was the establishment of a centralized Electricity Agency. According to proclamation No. 86/1997, the objective of the Agency is to promote the development of efficient, reliable high quality and economical electricity services. Moreover, it will supervise and ensure that the generation, transmission, distribution and sale of electricity are carried out in accordance with the stated proclamation. It is this Agency that licenses all public and private operators in the power sub-sector and is accountable to the Ministry of Mines and Energy.

10.2.2 Energy Sector Policy and Strategy

The new energy policy issued in May 1994 outlines the need to rely mainly on hydropower to increase the electricity supply but to take advantage of geothermal, solar, wind and other renewable energy resources wherever appropriate. It also calls for the need to encourage energy conservation in industry, transport and other energy using sectors to ensure that energy

development is environmentally sustainable; and to provide appropriate incentives to the private sector.

Strategies to implement the tasks of the policy have not yet been officially endorsed by the Ethiopian government, although a draft strategy document has been prepared by the Energy Works Department of the Ministry of Mines and Energy in October 1995. According to this draft document, strategies on energy resource development, supply management, promotion of energy efficiency and improvement of institutional structure have been designed towards the achievement of the stated objectives of the policy.

10.2.3 Hydro-Electric Power Potential

Ethiopia's hydropower development potential is in the range of 15,000 to 30,000 MW. This enormous potential classifies Ethiopia as one of the world's leading countries in hydro potential. Ethiopia is also fortunate in having a combination of basic features that permit much of this potential to be developed at remarkably low-cost, especially in the Blue Nile and Omo basins.

A significant concern with hydroelectric developments in Ethiopia is the erosion situation problem. After leaving the high plateau, river erosion increases rapidly. Enormous quantities of silt are transported downstream, especially during the rainy season reducing the holding capacity of the dams.

The most promising development potential is in the Blue Nile and Omo watersheds. In the Blue Nile Basin alone, 17 hydropower sites having a total generating capacity of 6,920 MW have been identified. The Omo Basin, too, has promising hydro development potential.

The ultimate economic development potential of the Omo Basin is considered

to be in the order of 4,000 to 6,000 MW. A part from the Blue Nile and Omo Basins, the Wabi Shebelle Basin has also a promising hydro electric power development potential in Ethiopia. However, only less than 1% of the total potential is known to have been utilized so far.

10.2.4 Capacity of the Power System

The Ethiopian Electric Power Corporation presently maintains two different supply systems; namely, the interconnected system (ICS), which is mainly supplied from hydropower plants, and the self contained system (SCS), which consists of mini-hydropower plants and a number of isolated diesel generating units that are widely spread over the country.

The ICS consists of six hydro and three diesel powered plants with total installed capacity of 371.6 MW and 9.0 MW, respectively. The SCS consists of three small hydro and several diesel power plants with an aggregate capacity of 38.2 MW.

The total installed capacity of the power system (ICS+ SCS) is 418.8 MW; nevertheless a significant part of this total capacity is not available owing to the need for rehabilitation of some of the plants, which have been commissioned between 23 and 30 years ago. The total dependable capacity of existing plants in the water based ICS is about 335 MW. Even with rehabilitation of the existing plants for full scale use of the installed capacity, the prevailing capacity is expected to be exhausted around the year 2000 given the speedy increase in energy demand.

In any case this shows that there is an urgent need for an increase in power and energy generation capability of the system, still amplified

Installed Capacity of the Power System
Table 10.1

Period	Installed Capacity		
	ICS	SCS	TOTAL
1991/92	367.0	51.8	418.8
1992/93	367.0	51.8	418.8
1993/94	367.0	51.8	418.8
1994/95	367.0	51.8	418.8
1995/96	380.0	38.2	418.8
1996/97	380.0	38.2	418.8

Source:- EELPA, June 1996

by the fact that demand is expected to increase by more than 10% per year in the coming years. The load forecast, for 1997-2016, shows a peak demand approaching 300 MW for 1997/1998 (EELPA, June 1996).

As can be seen from Table 10.1 above, the installed capacity of the system has remained constant since 1991/92. In fact, this has been the case since 1988.

As it stands now, 95% of the installed capacity is accounted for by the ICS and the SCS accounts for the balance. With further interconnections, the share of the SCS is expected to diminish both in terms of capacity and energy production.

The interconnection of the Tis-Abay hydro power plant in 1994-95 resulted in an increment of 13.6 MW to the ICS and this is matched by the decrease in the capacity of the SCS by the same magnitude.

With regard to the performance of individual power plants under the ICS, Table 10.2 below depicts installed capacities with dependable capacities and the derived energy production as at 1996. The treatment is confined to the six hydro power plants which contribute 371.6 MW to the system.

Although Melka Wakena hydro electric power plant has the highest installed capacity, Finchaa is the best performer in terms of energy production. This is so because of the greater availability of water at Finchaa, as well as the greater reliability of the Finchaa power plant.

Awash III is in good condition and for this reason installed capacity is equal to dependable capacity. On the other hand, full rehabilitation of Awash II can result in a 6 MW increment in generation capacity to the power plant.

ICS Generation Capacity (MW), 1996

Table 10.2

Plant	Installed MW	Dependable MW	Energy production MWh	Commissioned /Year/
Koka	43.2	25	84,787	1960
Awash II	32.0	26	106,575	1966
Awash III	32	32	116,781	1971
Finchaa	100	100	777,037	1973
Melka Wakena	153	148	381,586	1988
Tis Abay	11.4	3.8	28,329	1964
Total	371.6	334.8	1,495,095	

Source : EEPKO, 1997

10.2.5 Electricity Generation

Electric energy generation is energy production or energy output in a given period of time. An increase or decrease in energy output has no relationship with current investment. This is because

energy production is a function of current consumption, but not a function of current investment.

As can be derived from Table 10.3 below, over 95% of the total generation in the country emanates from the ICS or the hydro based system.

Electricity Generation / Million KWh /
Table 10.3

Period	GENERATION		TOTAL
	ICS	SCS	
1984/85	736	189	925
1985/86	828	175	1003
1986/87	892	181	1073
1987/88	968	184	1152
1988/89	1004	190	1194
1989/90	1087	152	1239
1990/91	1071	55	1126
1991/92	1092.5	54	1146.5
1992/93	1208.0	70	1278.0
1993/94	1319.0	76	1398.0
1994/95	1402.0	50	1452.0
1995/96	1495.5	54	1549.5
1996/97	1557.0	47	1614.3
1997/98	1645.0	47	1692.0*

* estimate

Source:- EELPA, compiled from annual reports

In terms of the absolute physical energy output, a 6.7 per cent annual average increase was registered between the years 1991 and 1997. This increase in energy output is met by an increase in capacity utilization, and not by addition of power generating facilities.

Prior to 1990/91, production grew by some 3% per annum during the second half of the 1980s. In 1992/93 it started to revive presumably owing to economic recovery achieved during the period. The period since 1994 is characterized by a continuous decline in the rate of growth of energy generation. Constrained capacity coupled with erratic weather condition explains the stagnation of growth in electricity generation.

During the period 1991/92 and the preceding years, electricity generation via the SCS was relatively lower due to the escalation of generation costs exhibited by diesel power plants. In the year 1992/93 and the year that follows, an ERRP package resulted in the installment of new and rehabilitation of old diesel powered plants which resulted in the revival of energy production thereafter.

The recent years depicted in Table 10.3 above again exhibited an absolute decline in energy production of the SCS. This is due to the interconnection of the Bahirdar area with the ICS.

The share of ICS hydro power plants in energy production is depicted as follows:

Power Source	Percentage Share
Finchaa	51%
Melka Wakena	26%
Awash III	8%
Awash II	7%
Koka	6%
Tis Abay	2%

10.2.6 Electricity Consumption BY Consumer Category

Consistent with the structural weaknesses of the industrial Sector, consumption of electricity is concentrated in and around major towns in the country. The industrial sector on average accounts for 44% of total electricity consumption in the country. Although this may indicate that electricity is used for production of goods and services or productive end uses, consumption of the household sector is the fastest growing category at this point in time.

The rate of electricity consumption of the domestic sector used to revolve around a historic 30%. In 1993/94 however, it tended to reach 40%. This implies that a problem of diverting to domestic consumption away from productive uses is becoming imminent, especially in the face of the constrained capacity of the power sub-sector. Consumption of electricity by type of users for the years 1991-92 to 1996-97 has been depicted in Table 10.4 below both for ICS and SCS.

Electricity Consumption By Consumer Category (pre-reform), Million Kwh
Table 10.4

Period	Domestic	Commercial	St. light	Industry	Others	Total
1981/82	198	64	11	383	2	658
1982/83	177	66	9	440	2	694
1983/84	198	74	11	404	2	689
1984/85	222	77	10	457	2	768
1985/86	250	86	11	500	-	847
1986/87	242	118	10	548	-	918
1987/88	256	124	11	570	-	961
1988/89	285	136	12	568	-	1001
1989/90	293	104	8	511	-	916
1990/91	347	112	8	479	-	946

* The data in the Pre-1991 period is not available in disaggregated form regarding industrial consumption.

Electric Energy Consumption By Consumer Category (million KWh)

Table 10.5

Consumer category	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Domestic	405	419	458	511	550	568
Commercial	129	121	137	142	155	186
Industry	401	443	489	475	537	558
Street light	20	13	7	8	7.7	8
small industry	120	124	132.5	35	35	38
Lv large industry	106	99	111	238.5	291	300
HV large industry	175	220	246	202	211	220
Boiler	34	36	41.3	43	52	50
Own Consumption	3.1	1.6	1.1	1.1	1.1	1
Total	992.1	1033.6	1133.9	1180.6	1302.8	1371

Source : EEPSCO, 1997

NB: LV: Low Volt, HV High volt

The overall consumption presented in Table 10.4 and 10.5 above is shared between the ICS and SCS. 97% of consumption is within the ICS, and the remaining 3% is being consumed within the SCS.

As per the data for the very recent years, the share of sectoral consumption of electricity looks like the following:

Industry	44%
Domestic	43%
Commercial	12%
Others	1%

The number of electricity customers in both systems can also be presented as follows.

Fiscal Years	Number of Customers
1985/86	299511
1986/87	314359
1987/88	339854
1988/89	364014
1989/90	379438
1990/91	400785
1991/92	428800
1992/93	450600
1993/94	473000
1994/95	499600
1995/96	519100
1996/97	540000

Of the total number of customers 92% are within the ICS and 8% within the SCS on average. The composition of customers by user category for recent years is depicted below:

Domestic	85%
Commercial	13%
Industrial	2%

In recent years, difficulties have been experienced in keeping up with demand for new connections. Over and above, the already connected customers, the backlog of applications for connections has reached over 100,000 in 1995/96. If capacity constraint ceases to be a problem, annual plan implementation reports indicate that EEPSCO's connection capacity would not exceed 20,000 customers per year.

10.2.7 Power Plants Under Construction

The review of power plants currently under construction relates to Gilgel Gibe, Tis Abay II, Finchaa fourth unit and the Aluto Langano Geothermal plant.

The Gilgel Gibe Project

Preparatory works on this project commenced in 1983. Since then, all the preparatory and pre-implementation phases of the project have been under taken. The generation capacity and the engineering design of the project underwent various modifications. The design of this project is now about to be finalized. To date, 400 million Birr is known to have been expended. The latest technical recommendation suggests that the project will have a total capacity of 194 MW with an estimated cost of 1345 million Birr. The completion date is scheduled for 2002.

Tis Abay II

More recently special efforts have been devoted to the study of medium scale hydro power projects with the objective of rapid implementation possibilities to meet the increasing power and energy demand. Among the projects identified, Tis Abay II could be commissioned earliest, since it does not require the construction of any major dam and requires a short transmission line. The total installed capacity of this power plant is envisaged to be 73 MW. The total investment cost has been estimated to reach 500 million Birr. Construction of this power plant commenced in September 1997 and is expected to be completed in 1999.

Finchaa Fourth Unit

The existing Finchaa power house has 100 MW generation capacity. In the early planning of the Finchaa project, allowances were made for potential project extension. Installation of an additional 33.3 MW capacity is now in the Tender stage. This project is expected to be commissioned within two years.

Aluto-Langano geothermal Project

The objective behind the construction of this project is to harness geothermal energy for power production. (The location of the project is within the rift valley lakes district. The construction of the project commenced in mid-1996 and is expected to be fully completed before June 1998). The installed capacity of this power plant is 7.3 MW and the total project cost is about 122 million Birr.

Demand and Supply of Electric Power

As has been indicated above, the total installed capacity of the power system is 418.8 MW with a dependable capacity of 334.8 MW.

Power plants currently under construction that are expected to augment the current level of electric power supply along with their presumed date of commissioning are described in Table 10.6 below.

Power Plants under Construction and their Expected Generation Capacity.

Table 10.6

Plant	Energy/ GWH/yr	Year
Aluto Langano	15.7	1998
Finchaa fourth unit	137.0	1999
Tis Abay II	331.0	2000
G. Igel Gibe	642.0	2002

The ICS accounts for over 95% of all electricity generated in Ethiopia and supplies the main demand centers of Addis Ababa, Dire Dawa, Harar, Kombolcha, Dessie, Shashamene, Jima, Agaro, Bedele, Deber Markos and the Bahirdar area. Works on the Northern transmission line will also connect Alamata, Mekele, Axum, Adigrat and Indasellassie. The SCS is supplied from small diesels an overall capacity of 32 MW (dependable capacity not applicable). Whenever SCS is connected to the ICS, the existing

diesels will be dismantled and moved to other demand centers.

As shown in Table 10.7 below, demand on the ICS system in 1997 is 1581 GWh and the supply capability is 1641 GWh, with the residential and industrial categories accounting for 43% and 44%, respectively. The commercial sector accounts for 12%.

In 1986 the residential (domestic) sector accounted for 26% and industry for 62% of total consumption. This indicates that over the last 10 years, residential share of electric energy consumption has been rising at the expense of industrial consumption.

The pattern of demand within the SCS has fluctuated widely over the last 10 years, demand in 1995 being only 50% of that of 1986. The main reason for the large drop is the connection of the Bahar Dar SCS region to the ICS. Sales in 1995 amounted to 35 MW; the largest proportion of this went to domestic category, accounting for nearly 50%, while the industrial and commercial categories have shares of 24 and 25% respectively.

There has been an extensive work by EEPSCO to produce load forecast to determine generation requirements within the ICS system. In the short term, demand is forecast to grow at 11.6% per annum. The rate of growth in the long run is expected to settle at around 8.7 percent. According to the footnotes of this forecast, growth will be driven mainly by a steady growth in residential consumers and high growth in industry. Based on current expansion plan, generation is expected to grow at 10.3% per annum in the short term and at 8.5% per annum in the long term.

Table 10.7 below, shows generation requirement on the demand side with firm capability on the supply side. Generation requirement is forecast

based on historical sales and firm capability based on current expansion plan.

Current Expansion Plan (Energy-GWh)

Table 10.7

Year	Firm Capacity	Required Generation with Reserve	Surplus
1997	1641	1581	60
1998	1501	1810	-209
1999	2037	2035	2
2000	2379	2341	38
2001	2379	2564	-185
2002	3021	2937	84
2003	4021	3206	796
2004	4366	3458	908
2005	4366	3699	667
2006	4366	3953	413
2007	4366	4220	146
2008	5146	4461	685
2009	5146	4716	430
2010	5403	4985	418

Source:- EEPKO, 1997

Trends in Electricity Tariff

As electricity pricing has always been institutionalized, marginal cost pricing has never been practiced.

Prior to the reform program, it was in 1986 that a change in tariff was effected. Under this tariff structure there used to be a discrimination between consumers in the water based system and those in the diesel powered system. The latter were made to pay higher. Under the tariff structure implemented in 1994 no discrimination existed between consumers of the two systems.

The 1986 tariff structure had been based on a declining block structure while the 1994 tariff was built on an ascending block structure. The former assumed excess capacity and encouraged consumption and the latter responds to conditions of constrained capacity and hence discouraged consumption.

In an exercise to restore a reasonable relationship between the price of electricity and the economic cost of supply, the government decided on a

60% average tariff increase to be implemented in phases over a 5 year period. The first phase, equivalent to 20% of the proposed increase, or a 12% increase in the average tariff and the second phase of 35% have already been implemented. (see Table 10.8 below)

Under both phases implemented so far, the tariff has been built on an ascending block structure. Under both structures domestic consumers are heavily subsidized although a higher consumption bracket is bound to pay higher.

The long run supply cost (LRMC) of electricity has been estimated at around Birr 0.46/ KWh. The average first phase tariff of Birr 0.23/KWh is only 50% of LRMC while even at the end of the scheduled five year implementation period, the average tariff of Birr 0.33/KWh would be no more than 72% of LRMC. Under the full five year increase domestic consumers would be paying only about 55% of LRMC while the tariffs for other categories of consumers would pay 80-90% of only the long run marginal cost (LRMC).

Classification of consumers by tariff category does not necessarily reveal consumption by economic sectors. This categorization conceals consumption of some sectors and fails to differentiate between distinct sectors and this poses a problem of targeting the right consumers in a certain category.

10.3 The Petroleum Sub Sector

10.3.1 Institutional Set-up

Import and processing of crude oil and the task of wholesale distribution was the responsibility of the Ethiopian petroleum corporation (EPC) during the pre-reform period. Its operations were under the supervision of the Ministry of Mines and Energy. In the Post-reform period, it was given a status of public enterprise to

be managed and supervised by a Board of Management and EPC has been renamed as the Ethiopian petroleum Enterprise (EPE).

Until the end of the 1996/97 fiscal year, the construction of National Oil Depots was delegated to EPE by the Ethiopian Government. This mode of amalgamating business with capacity building infrastructure posed numerous problems on the day to day operations of EPE and therefore the need for a new agency that exclusively deals with construction of oil depots became imperative. Since July 1997 a new agency, the National Petroleum Reserve Depots Administration, has officially been established by proclamation No. 82/1997. The main objective of the Administration shall be to store and administer National Petroleum Reserve.

Since July 1997 import of crude oil and its processing at Assab has been suspended and EPE imports refined petroleum products and for whole sale distribution to Oil Companies. The suspension of petroleum refining at Assab is exclusively made for economic

reasons and it benefited both Ethiopia and Eritrea.

10.3.2 Domestic Production (Refining) and Import of Refined Products

All petroleum was imported either as crude or in the form of refined products. The crude that used to be processed at Assab met less than 30% of Ethiopia's needs. The balance being imported as refined. This has been true of the case of the pre-July 1997 period.

Table 10.9 below displays domestic processing and refined import mix of petroleum and its derivatives in the post 1991/92 period.

Import of crude petroleum to be processed at Assab increased by 82% in 1996/97 (1989) compared with 1991/92 whereas imports of refined products registered an increase of 86% for the same years under reference. In terms of value of imported petroleum, an increase of 565% has been recorded in 1996/97 as compared to what it used to be in 1991/92.

Average Tariff of Electricity (Birr /kWh)

Table 10.8

Consumer category	1986	1994 First Phase	1997 Second Phase	1998 Third Phase
Domestic	0.15	0.18	0.28	0.29
General	0.34	0.37	0.43	0.45
Industrial LV	0.22	0.26	0.37	0.39
Industrial Hv	0.20	0.22	0.26	0.28
Street light	0.33	0.33	0.31	0.34

Source: EEPCO, Tariff Increase notes during the years cited in the table

Crude, Processed, and Refined Imports
Table 10.9

Period	Crude '000 MT	Refined '000 MT	Value '000 Birr
1984/85	561	234	506182
1985/86	555	296	495765
1986/87	762	290	544738
1987/88	657	356	491676
1988/89	768	319	521057
1989/90	725	312	496327
1990/91	378	293	397457
1991/92	375	368	263573
1992/93	572	391	779380
1993/94	751	373	767687
1994/95	557	492	1053792
1995/96	536	593	1338095
1996/97	685	685	1755000

Source:- EPE, Annual Operation Plan Implementation Reports

The rate of growth of import of refined products is higher than the rate of growth of crude import across the years and this demonstrates the constrained capacity of the refinery and the need to meet increasing domestic demand by direct import of refined products

As is evident from Table 10.9 the volume of petroleum that the country imported (crude and refined) has not increased to such a significant extent. In fact, the average volume of petroleum imported in the post-reform years exceeds that of the pre-reform years by less than 50% while the corresponding value of import shows a more than 200% increase. The 565% increase in the value of imported crude and refined products has not been due to price hike in the world oil market. Domestic exchange rate policies and institutional problems can also be cited as explanatory factors for such a huge increase in the import cost.

Since July 1997 Ethiopia's petroleum imports have been solely confined to imports of refined petroleum products and crude import and processing has become a thing of the past. According to one opportunity cost calculation, the net saving by direct import of refined

products is in the neighborhood of 10 million USD. (W.Bank: 179/96).

10.3.3 Domestic Consumption (Sales by EPE)

Although Ethiopia's petroleum consumption is among the lowest in Africa, the proportion of export earnings that our import of petroleum claims has reached 27% in 1995/96 and hence an exertion of a strong pressure on the balance of payments.

Petroleum consumption of individual sectors facilitates the evaluation of energy intensity of sectoral output, policy intervention to encourage or discourage consumption and targeting sectors for purposes of price discrimination and the like. Unfortunately, there is no working mechanism to record sectoral consumption and therefore precise details are difficult to establish. Unlike electricity consumer categorization is impossible in this sub sector.

Different practitioners involved or interested in the area made a number of attempts to estimate sectoral consumption and ended up with varying estimates. However, they all

agree that the transport sector is the largest consumer of petroleum, road transport accounting for the bulk of sectoral consumption. The industrial sector ranks second followed by electricity production.

Sales at whole sale prices of Petroleum Products by EPE

Table 10.10

Period	Sales '000 MT	Value '000 Birr
1984/85	916	570939
1985/86	922	554508
1986/87	1013	551332
1987/88	1013	585294
1988/89	1084	591087
1990/91	800	517000
1991/92	615	397229
1991/92	566	379,620
1992/93	821	712,634
1993/94	866	858,972
1994/95	1124	1,209,283
1995/96	1044	1,246,560
1996/97	1273	1,750,863

Source: EPE, Annual Operation Plan Implementation Reports

Comparison of the years 1991/92 and 1996/97 shows a more than twofold increase in the consumption of petroleum. The value of consumption for the same years has increased three fold. This increase has been in the main attributed to the growth of consumption.

The growth rate of consumption during the period 1991 to 1993 had been 45%, whereas that from 1995 to 1997 is 21%. The movement from 1991-93 is characterized by economic reconstruction and liberalization of economic activity and hence a higher growth rate in consumption is likely to occur. The growth rate between 1995-

With regard to the overall consumption of petroleum the sales records of EPE represented consumption for the years 1991/92 to 1996/97. Trends in the consumption of petroleum is presented in Table 10.10 below.

97 can be associated with saturation of demand and the peak level of the reconstruction drive.

For the year 1996-97, the share of kerosene in the overall consumption scene has approached 20%. In 1991-92 its share was just 7%.

During all those years, diesel oil has been the dominant fuel demanded accounting for 45-50% of total consumption. The share of LPG has been almost constant due to supply constraints.

10.3.4 Price Trends of Petroleum Products

Before 1991 supply of petroleum products was characterized by severe shortfalls and the rationing system introduced to manage the supply shortfalls created black markets where products fetched several times their official prices. Institutionally determined prices meant under pricing & cross-subsidies. In fact the main objective of the pricing system was to keep prices stable. Once product prices were set, they were not adjusted in response to changes in procurement and distribution costs.

The prices fixed in 1981 were adjusted in 1992. The price structure in 1992 was effected following the devaluation of the Birr. The October 1992 price

Petroleum Retail Price Structure (Birr /Liter)

Table 10.11

Product Type	October 1992	May 1994	October 1996	March 1997	November 1997
Gasoline	1.50	2.00	2.33	2.64	2.51
Gasoil	0.78	1.50	2.73	1.95	1.76
Kerosene	0.65	1.00	1.25	1.40	1.40
Fuel Oil	0.60	1.00	1.37	1.57	1.49
LPG/Kg	1.20	2.50	3.34	3.69	3.69

Source: EPE, 1997

revision enabled product prices reflect actual costs for the first time. Prices were made to reflect economic values of the respective products.

Product prices were again revised in May 1994. This time prices had been allowed to reflect economic costs of supply with the exception of LPG and Kerosene. The retail price structure of petroleum products is shown in Table 10.11 above

The May 1994 price revision remained in effect up to October 1996. The main objective of the pricing system during this period has been to set prices so that it reflect economic values of the respective products and facilitate the supply and distribution of petroleum products.

The main objective of the pricing system during March and November 1997 is to adjust prices to changes in international prices and procurement costs.

Since the October 1992 price revision, the supply and distribution system has been working well. Petroleum products are in adequate supply at prices that reflected economic costs. To facilitate the availability of products in rural areas and to effectively meet the rapidly growing needs of both urban and rural areas the 1997 pricing system has been also working smoothly on the basis of bi-annual revision

10.4 Scope and Status of Alternative Sources of Energy

Development in alternative energy technologies have significantly increased the options available for improving rural energy supplies. The main technologies suited to rural areas are micro- hydro, biogas, wind generators, wind pumps, solar heaters and sustainable ways to provide wood supplies. A more recent development has been the use of photovoltaic systems to provide electricity supplies for small scale applications in rural areas. Apart from their environmental appeal, alternative energy technologies have attracted interest all over the rural areas of developing countries.

In the Ethiopian context, although the scope for development of alternative sources of energy is wider, the role of these sources in the overall energy scene has remained insignificant. The effort made so far revolved around biogas, solar technology demonstration, promotion of cooking efficiency and the like. But the impact of this effort on the rural energy problems is nothing more than the expression of the problems of rural areas. The problem is one of institutional viability and design of appropriate programs. There is a renewed desire to disseminate alternative energy technologies for the rural economy and this has necessitated a re-design of appropriate programs, institutional re-arrangement and re-assessment of existing organizational

capability. Currently, effort is under way towards the fulfillment of these ends.

10.5 Investment in The Energy Sector

- Investment in the energy sector is characterized by a lag in commitment since the commissioning of the Melka Wakana hydroelectric power plant in 1988/89. The absence of construction of large scale generation facility has contributed to declining sectoral investment.
- Devaluation of the Ethiopian Birr has inflated costs of imported materials for transmission and distribution. This finds its explanation in the fact that the foreign exchange component of energy sector investment runs from 60-75% of total cost. From here it follows that promotion of investment within the sector has been weakened despite nominal budgetary increases.
- Investment implementation rates in the two periods must be interpreted with respect to the volume of physical work involved. In the pre-reform years implementation rates were higher since the volume of physical work those investment values could command was much higher. Although implementation rates appear to be nominally high in the post-reform period, the associated volume of physical work has been lower as a unit of investible Birr is bound to command a lesser volume of physical work as compared to the situation in the pre-reform years. This directly implies that energy sector investment needs to be increased substantially if the long term energy requirement of the country is to be achieved in a sustainable manner.
- The trend in energy sector investment as displayed in Table

10.12 below shows the share of government finance in actual capital expenditure (implemented investment). The share of external finance in energy sector investment was much higher in the pre-reform period than in the post-reform period. It appears that government financing has started to assume an increasing role in the development of the sector. But it must be noted that the capability of the energy sector to conceive development projects and mobilize external resources for project financing equally appears to be decreasing fast in the post-reform period. This is believed to be an institutional problem.

- The pre and post-reform period investment values have no relationship with energy output; and the impact of the reform program must be viewed in terms of fixed capital formation and not in terms of energy output. This is because increment or decrement in electric energy production is not a function of current investment but a function of current consumption.

Energy Sector Investment
Table 10.12 '000'Birr

Period	Planned	Imple-mented	gov't share
1984/85	259200	163640	47
1985/86	322930	231070	43
1986/87	298920	269350	13
1987/88	386320	259146	15
1988/89	350746	192030	17
1989/90	353051	213376	26
199/91	208250	109947	25
1991/92	191034	77474	23
1992/93	263973	105938	29
1993/94	294100	119612	64
1994/95	282217	256537	48
1995/96	249433	178000	60
1996/97	772752	762043	90
1997/98	679394	510000*	80

* Estimate

Source: Plan Implementation Records; MEDaC.

10.6 Outstanding Issues and Problems of the Sector

- The overall situation that the Ethiopian Energy Sector is in is not encouraging and leaves much to be desired. The potential demand for rural electrification will continue to pose a real challenge to the economy in the subsequent years.
- Despite the real challenge that the economy has faced, effort made in committing resources for generation, transmission and distribution of electric energy has not been significant. This effort finds its explanation from the fact that energy is vital and a prime mover of overall development endeavor. The fact that energy is the most expensive resource to utilize also needs to be duly appreciated.

The drive for private sector participation may entail explosive demand for energy. Failure to respond to the demands of those who need energy most may imply opportunity costs to the economy. It is therefore high time to revisit the capacity of the economy to implement generation projects and rehabilitate the prevailing ones.

The structure of electric energy consumption in Ethiopia is such that the household sector has increasingly assumed a dominant share and this points to the need to draw a distinction between energy consumption for development and energy consumption for daily use. A strategy of encouraging/discouraging energy use must at least be thought of. The same argument is equally applicable to petroleum fuels. The future points to the need to avail increased volumes of petroleum in the light of the financial and economic cost of financing imports,

while at the same time putting in place appropriate conservation mechanisms. All this points to a need for a sound demand management scheme in the energy sector.

- The problem of institutionalization of traditional sources of energy remains unresolved to date. Inter-institutional linkages are characterized by overlaps and redundancies. For this reason rural energy problems continued to perpetuate.
- Dissemination of alternative energy technologies in the overall energy scene remains insignificant. Addressing rural energy problems dictates, among others, utilization of alternatives and this again requires desired objectives with a viable institution.

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Chapter 11

Water

11.1 Domestic Water Supply

11.1.1 Background

Water supply is one of the most essential economic infrastructures which usually fall under the management of the public sector. As a reflection of the overall poor level of infrastructural developments, coverage of water supply in Ethiopia is still very low. Existing data indicate that national coverage of potable water supply stood at 26 per cent by 1992 while coverage of sanitation services is only 7 per cent. Coverage of water supply shows wide disparity among rural and urban areas i.e., 18.8 and 76 per cent, respectively.

Except for some involvement of Non-Governmental Organizations (NGOs) in rural water supply and external loan for that of big urban centers, development and operation of water supply systems have by and large been undertaken by government absorbing a significant sum of capital and recurrent expenditure. Water tariffs have also been determined centrally and were not revised periodically taking into account changes in the cost of providing water supply. This has rendered most water supply systems incapable of recovering their operation costs (let alone their investment cost) which ultimately hindered timely maintenance and replacement of worn out equipment. The increasing dependence on government subsidies of water supply systems had thus prevented fast development of the sector as evidenced by the low level of coverage.

The Water Supply and Sewerage Authority (WSSA) with a number of sub-regional offices was the central

government organ for the development and management of water supply and sewerage systems during the Derg regime. The Water Resources Commission under which WSSA used to operate is now replaced by the Federal Ministry of Water Resources entrusted with the power and mandate of developments in the water sector at large. Regional governments have their own offices for water resources development which include management of water supply systems. A water sector policy has recently been drafted which among others has focused on the partial and gradually full cost recovery of water supply systems for a sustainable development of the sector. Some of the regional states have begun implementing this as the budget implications of subsidies to water systems has become a serious problem.

Another aspect of the strategy for the development of the sector is the enhancement of community participation, especially for rural water supply where tariffs can not be raised adequately. Parallel with this, the government widely facilitates and supports the involvement of domestic and foreign NGOs in the establishment, maintenance, and rehabilitation of water supply systems in the country.

11.1.2. Policies and Strategies

The need to develop water resources on a sustainable basis emanates from a number of reasons including rapid growth of population, the demand for irrigated agriculture to back and boost rainfed agriculture, and expansion of industrial and other business activities which demand more and reliable water supply. Despite such significant role of the water sector in socio-economic

development, there has been no clearly set sectoral policies and strategies.

As a result of this, there have been duplication of efforts and wasting of resources, lack of attaining sufficient community participation which forfeited the success and sustainability of some costly schemes. The lack of sectoral policies also led to urban bias water supply and sewerage systems at the neglect of rural areas and poor financial system (including pricing) which stifled maintenance and expansion of water supply systems.

The Letter of Sector Policy (LSP) which is being prepared by the Ministry of Water Resources against the above sectoral constraints is an outline (draft) of the water sector policies that the country envisages to implement. In this regard the LSP has identified selected areas of intervention by the government to achieve overall development of the sector.

These include:-

- establishment of the regulatory framework for the sector;
- formulation of integrated water supply and sanitation programs;
- ensuring sustainability and efficiency through rehabilitation and improvement of the water supply and sanitation infrastructure and operation;
- Construction of new water supply and sanitation in both urban and rural areas giving due consideration to least cost options;
- Capacity building, including institutional infrastructure and manpower development of regions and water supply institutions and community participation particularly of women;

11.1.3. Coverage Of Urban Water Supply

Full (100 per cent) urban water supply coverage would mean round the clock availability of safe drinking water at any place to the user. This is inconceivable to achieve in the foreseeable future in a developing country like Ethiopia. Due to the lack of the availability of low cost water supply technology and community awareness to use potable water, water supply coverage has not been adequate in urban areas and worse in rural areas.

According to a report by the former WSSA, about 15 per cent of the urban population (excluding Addis Ababa) had access to adequate water supply by 1992: by adequate it means getting 35-45 liters/capita/day as per the standards of WHO. Another 50.4 per cent of the urban population has also access to water supply but has been served below the standard level. Total coverage excluding Addis Ababa was therefore 65.4 per cent. Including Addis Ababa, total coverage for urban centers is 76.6 per cent while those getting adequate water supply, stood at 42.7 per cent (WSSA, 1992).

The 1994 population and Housing census on the other hand revealed that excluding the Somali Regional State, 1169.7 thousand residential units get water from piped systems, protected wells or springs implying a water supply coverage of 83.6 per cent. Though this figure shows a 7 percentage points increase over the estimates of WSSA, it does not still tell about the adequacy of the water supply.

Per capita water demand of domestic users varies from town to town based on the type of connections and the capacity of water supply systems. Users of private connections (where the tap is connected to the private resident) have higher daily demands than users of yard connections (where the tap is connected to the yard/compound) which in turn use more water than public tap users. In the towns of Agaro, Debre Berhan, Awash

and Asebe Tafferi, for instance, daily per-capita water demand was 70 liters for house connections, 20-30 liters for yard connections and 12-20 liters for public tap users. Non domestic users (institutions, enterprises, etc.) consume some 20 to 55 per cent of the total water supply in these towns. (Sir Alexander Gibb and partners, 1995).

Another study for water supply and sewerage project of 11 towns also indicated that average per capita demand in these towns was 46,33 and 23 liters per day for house, yard and public tap users; respectively while per capita consumption stood at 43,20 and 4 liters, respectively. Compared with the minimum standard set by the Ministry of Water Resources at 60,35 and 15 liters per capita daily water consumption, most of the towns have only below standard levels of service.

11.1.4. Water Tariff

Tariff rates for water supply differs based on the type of connections and from region to region as per the policies of the respective municipalities. However, there is a general tendency for water tariffs getting cheaper in big towns which have relatively better and efficient water supply systems than small towns with unreliable and inefficient services. This has emanated mainly from the urban bias in government budget allocation for the construction and operation of water supply systems.

The absence of systematically compiled data on water tariffs makes it difficult to observe trends in water tariffs during the Derg period and after the reform program. However, a report by consultants (Ernest & Young) engaged by the Ministry of Water Resources provides a relatively systematic and upto date data for a small sample of settlements selected from all regions.

The Report (by Ernest and Young) indicated that the average price for private connections was Birr 1.57 per meter cube for a sample of 279 urban centers. Only 8 per cent of the sample had average water tariffs below Birr 0.5/m³ while 53 per cent of the sample settlements have rates above 1 Birr.* The report also revealed that tariff rates of more than Birr 1/m³ predominated urban settlements with population size below 10,000. For big towns with population size of 50,000 and over, the mean private tap tariff was found to be Birr 0.5/m³. This shows that urban water supply for large towns is highly subsidized as compared to that of small towns. The Report also revealed extreme variations in private water tariffs among regions ranging from Birr 0.5/m³ for Harrari to Birr 4.59/ m³ for Somali regions.

Users of public fountains on the other hand, usually pay higher prices than user of private connections. Public taps are also predominantly used in small towns where the people can not afford for private or yard connections. The study by Ernest & young also revealed that 70 per cent of the sample urban settlements selected for the review of public tap tariffs (318 towns) were urban centers with population size below 10,000. According to this report, 39 per cent of the sampled pay less than 1 Birr/m³ while the remaining 61 per cent pay more than 1 Birr/M³ for public fountains. Of the 61 per cent, some 26 per cent pay more than 2 Birr/M³. The later rates predominates in samples selected from Benshangul/Gumuz, Gambela, and Tigray regions. The average public tap tariff for the whole sample towns was Birr 1.59/m³, which is close to the average private tap tariff.

In areas where the community cannot afford to have private or yard

* The remaining 39 per cent of the sample towns have tariffs between Birr 0.5 to Birr 1.0 per meter cube.

connections and/or does not have easy access to public fountains, people are forced to purchase water from private vendors at high prices. The study by Ernest & young took 295 urban centers to review vendor prices and found out that 50 per cent of the sample pay more than 10 Birr/M³ with the remaining paying less than 10 Birr per M³. The average vendor price was Birr 10.4/m³ which is about six times the average private tap tariff rate.

11.1.5 Revision of Water Tariffs

At present, water tariffs do not cover operation and maintenance costs of the existing systems, let alone financing investment for the expansion and improvement of the systems. Water supply is therefore budget subsidized which does not seem to be equitable as those who benefit more from the subsidy are major urban centers and people with private connections who can afford to play higher prices. Lower private tariffs for private connections have also encouraged excess consumption of water as compared to users of public fountains.

Since water supply has a significant import component both for equipment and water treatment, an upward revision of tariff rates is inevitable to accommodate for the rising cost of service delivery. To this effect the Government has established basic principles and guidelines for pricing and cost recovery of urban water supply and

sanitation systems (Basic principles and Guidelines for urban Water Tariff, April 1995). According to this document, tariff adjustment shall be implemented on the basis of cost pricing taking into account economic, social and financial objectives of water utilities. Its implementation will, however, take place phase by phase and full cost recovery (urban) may be reached over a long period of time depending on the objective condition of each region

There were only few instance of tariff revisions attempts during the Derg regime and until the recently launched reform program of the TGE. Tariff revisions usually take place when new systems or expansions are implemented and the revisions are below that recommended by project studies. In 1987/88, 11 towns (Awassa, Yirgalem, Ghion, Mettu, Hagere Hiwot, Debre Zeit, Mojo, Debre Makros, Kombolcha, Goba and Arbaminch) had implemented tariff revisions. Since then, Assela, Shashemene and Addis Ababa have joined the ranks. Recently, a number of towns in some regions (e.g. Oromiya) are awaiting upward tariff adjustments approvals while other regions are undertaking studies to do the same.

In Assela and Shashemene, the water tariffs have increased from Birr 0.5/m³ to Birr 1/m³, and from Birr 1/m³ to Birr 1.5/m³, respectively. The new water tariff for Addis Ababa (as per regulation No 5/1995) is also presented in Table 11.1 below.

Table 11.1 Tariff Blocks of the Addis Ababa Water Supply and Sewerage Authority

Block	Water supply (volume) Charges/m ³	Sewerage services charges/ m ³
0-15 m ³ bimonthly	Birr 0.50	-
16-40 m ³ bimonthly	Birr 0.75	Birr 0.08
Above 40 m ³	Birr 1.50	Birr 0.17
Public Fountain Operators	Birr 0.50	

The new tariff for Addis Ababa is a progressive one designed to take

advantage of the economic costs of water consumption especially by the large consumers.

With regard to tariffs for rural water supply, there has not been any clear policy. Users are charged in some areas while it is free of charge in others. In the latter case, however, the community actively participates in construction, maintenance and operation of schemes. Supplying water free of charge has, however, resulted in the unsustainability of rural water schemes necessitating the introduction of fair tariff rates. A National Rural Water Supply Tariff Study was thus planned to be launched (under the UNDP 5th Cycle Country Program) and provide tariff structure that would allow cover operation and maintenance costs of rural water schemes. The current status of the report is, however, not known.

11.1.6 Government Capital Expenditure on Water Supply

It has been indicated previously that coverage of water supply and the adequacy of service in the existing systems is at a very low level at national level and even worse in rural areas. The relatively small and urban biased allocation of investment capital on the sector is one of the reasons behind the dismal performance of this sector during the Derg and even after the launching of the economic reform program.

During the period 1980/81 to 1990/91, government capital expenditure on water supply (urban & rural) claimed only 1.7 per cent of total capital expenditure on average. In the first half of the 1980s, annual investment on the sector averaged only Birr 50 million which improved to about Birr 100.0 million per annum in the second half of the decade. Though capital expenditure on this sector grew on average by 17 per cent per annum, its share in total capital expenditure increased only to 2.2 per cent in 1990/91. (See Table 11.2 below).

Table 11.2 Government Capital Expenditure on Water supply

Fiscal Year				%age Share		%age share in Total Capital expenditure
	Urban	Rural	Total	Urban	Rural	
1980/81	7755.9	8782.8	16538.7	46.9	53.1	0.72
1981/82	11908.0	16681.7	28589.7	41.7	58.3	1.08
1982/83	6879.6	20057.7	26937.3	25.5	74.5	0.71
1983/84	45150.5	24877.5	70028.1	64.5	35.5	2.19
1984/85	35883.4	34484.8	70368.2	51.0	49.0	1.79
1985/86	71802.5	13868.1	85670.6	83.8	16.2	2.07
1986/87	77873.4	8935.8	86809.2	89.7	10.3	2.10
1987/88	77677.3	24069.3	101746.6	76.3	23.7	2.01
1988/89	94288.9	27110.9	121399.8	77.7	22.3	2.05
1989/90	60185.6	25608.3	85793.8	70.2	29.8	1.60
1990/91	79176.9	29134.8	108311.6	73.1	26.9	2.20
1991/92	21223.1	13870.4	35063.5	60.5	39.5	0.8
1992/93	52856.4	6816.0	59672.4	88.6	11.4	1.13
1993/94	43946.3	29794	73740.4	59.6	40.4	1.02
1994/95	170908.7	55304.9	226213.6	75.6	24.4	2.55
1995/96	139506.8	80996.6	220503.4	63.3	36.7	2.33

Source: Ministry of Finance Revenue and Expenditure Accounts

Public investment on water supply declined sharply in the first two years of the Transitional Government of Ethiopia, and achieved a strong recovery since 1993/94. Most of the expenditure especially during 1994/95 and 1995/96 was on the rehabilitation and reconstruction of existing water supply systems damaged during the war or have long been not serviced/maintained. The Government spent about Birr 226.2 and 220.5 million on water supply projects during 1994/95 and 1995/96, respectively. Though allocation of capital expenditure in these years was nearly twice the amount during the second half of the 1980s, its share from total capital expenditure has still been low at about 2.4 per cent in 1994/95 and 1995/96.

Except for the first half of the 1980s during which capital expenditure on rural water supply accounted for about half of the sector's capital expenditure, the second half of the 1980s and the period 1991/92 onwards, witnessed to a disproportionately low allocation of capital expenditure to rural water supply. On the other hand, about 76 per cent of government investment on water supply during 1985/86 to 1990/91 went to urban areas and this figure was nearly 70 per cent for the period 1991/92 to 1995/96.

Since the beginning of capital budget implementation by the Regional States in 1993/94, they have been allocating a sizable share of their expenditure for water supply to rural areas. In 1993/94 and 1995/96, for instance, 53 and 73 per cent of the regional capital expenditure (excluding Addis Ababa Administration) in the sector was for rural water supply. In 1994/95 the share of rural water supply was only 38 per cent. The allocation to rural water supply at the national level seems to be relatively small partly because of the inclusion of Federal Government's expenditure (for

urban water supply study & design projects) and that of Addis Ababa administration both with large investment outlays in which their emphasis is on Urban Water Supply systems. (See Table 11.3 below).

Table 11.3 Regional and Federal Capital Expenditure on Water Supply

'000 Birr

	1993/94			1994/95			1995/96		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Tigray	1024.6	901.1	1925.7	17666.9	199.2	17866.1	68.1	505.6	573.7
Afar	1567.9	4798.3	6366.2	925.6	9227.1	10152.7	1281.4	403.9	1685.3
Amhara	3367.4	5534	8901.4	246.9	2479.6	2726.5	4616.6	6816.6	11433.2
Oromiya	11818.7	11132.1	22950.8	58291.4	21254.7	79546.1	14496	41793.3	56289.3
Somali	135	2024.4	2159.4	2315.4	3852.8	6168.2	2467.6	5593	8060.6
SNNPR	6683.9	3817.6	10501.5	6263.3	16389.9	22653.2	3440.7	22786.8	26227.5
Benshagul/ Gumuz	762	1467.3	2229.3	136.8	1222.3	1359.1	352.2	593.1	945.3
Gambela	662.7	119.2	781.9	170.2	201.4	371.6	1688.2	1772.5	3460.7
Harari	-	-	0	5505.9	-	5505.9	2405.2	182.8	2589
Addis Ababa	10485	-	10485	33307.4	-	33307.4	84426.6	-	84426.6
Dire Dawa	-	29794.0	0	-	477.9	477.9	-	548	548
Region's Total	36507.2	-	66301.3	124829.8	55304.9	180134.7	115242.6	8099.6	196239.2
Federal gov't	7439.1	-	7439.1	46078.9	-	46078.9	-	-	24264.2
Sector Total	43946.3	29794	73740.4	170908.7	55304.9	226213.6	139506.8	80996.6	220503.4

Source: MoF, Annual Budget Report.

11.2 Irrigation

11.2.1 Background

Ethiopia's Agriculture is predominantly rainfed and it needs to be augmented by irrigation to improve food production. In Ethiopia, three levels of irrigation schemes are practiced which are determined by their command area.

These are:-

- Small scale irrigation with a command area upto 200 hectares.
- Medium scale irrigation with a command area between 200 hectares 3000 hectares.
- Large scale irrigation with a command area greater than 3000 hectares.

Traditional small scale irrigation practice began years back probably during the reign of Menelik II (Gezemu Eshete, 1990). Large scale irrigation is, however, a recent phenomenon and is mainly concentrated in the Awash valley. Since the 1984 drought, irrigation development

has been given a strong emphasis resulting in the implementation of several irrigation projects involving pre-feasibility & feasibility studies, design and constructions.

Small scale irrigation schemes are managed by farmers themselves and cereal crops are produced to augment crop production under rainfed conditions. These schemes are largely distributed across the country. Medium scale irrigation schemes where both cereal and cash crops are grown require a bit higher level of management. Large scale irrigation was managed by the then State Farm enterprises and mainly cash crops are produced.

According to available information, about 160,000 hectares of land is under irrigation while the potential ranges from 2-3 million hectares. (Gezemu Eshate, 1990). The following Table shows the potential and existing irrigation development in the various river basins.

Table 11.4 Estimated Irrigation Potential and Irrigated land

(In '000 Hectares)

No.	Name of Basin	irrigation potential	gross irrigable area	Large scale irrigation potential	Irrigated land	
		(A)	(B)	(C)	(D)	(E)
1	Blue Nile River Basin	978.00	760.00	760.00	20.54	21.01
2	Tekeze River Basin*	313.00	-	-	1.88	-
3	Baro Akobo River Basin	600.00	600.00	600.00	-	0.5
4	Genale Dawa River Basin	435.00	300.00	300.00	-	0.8
5	Wabi Shebele River Basin	204.00	355.00	355.00	20.20	20.30
6	Omo Ghibe River Basin	450.00	248.00	248.00	27.45	27.30
7	Awash River Basin	204.00	203.00	184.00	69.77	61.7
8	Mereb River Basin	38.00	-	-	8.10	-
9	Rift valley Lakes' Basin	122.00	47.60	48.00	12.20	12.31
10	Afar /Dankil Basin	3.00	-	-	-	-
11	Ogaden Basin	-	-	-	-	-
	Total	3347.00	2513.60	2495.00	160.14	141.2

Note: *About 91% of the area of the basin is in Ethiopia

Sources -

1. For A and D, BCEOM, Abbay River Basin Integrated Development Master Plan Data collection, Site Investigation Survey and Analysis main Report, Aug 1997
2. For B and E, Sir William Halcro and Partners, Master Plan for the Development of Surface Water Resources in the Awash Basin, Draft Final Report volume II, May 1989
3. For C, ONCCP National Irrigation Policy and strategy Discussion paper, March 1990

These estimates are crude and require further scrutiny.

As clearly shown in Table 11.5, above, the Blue Nile, Baro-Akobo and Omo-Ghibe Rivers Basins account for about 60% of the entire irrigation potential. However, irrigation development in these basins is very minimal. On the other hand the Awash River Basin having less irrigation potential is highly developed (34.0% of the potential). Among other factors, availability of water determines the size of land that can be irrigated. The relatively higher magnitude of potential irrigable land in Blue Nile, Baro-Akobo and Omo-Ghibe Rivers Basins could be attributed to their higher level of water resources potential exhibited by their volume of mean annual run-off. Across all basins, various studies were conducted for specific irrigation sites and in some cases basin wide irrigation potential estimates are given. The studies resulted in the identification of a total of 2.75 million hectares irrigation potential in

various regions (see Annex V). Despite the country's huge amount of irrigation potential only 5% of the potential is estimated to have been utilized so far.

There are a multitude of factors that impede irrigation development. The problems are economic, social, institutional and environmental. One of the major economic problems is the difficulty of financing irrigation projects. For example, at the 1991 price the cost of small scale irrigation is estimated to be a little less than Birr 9000/hectare (Omo Ghibe Master plan Document, 1996). The current cost may be much higher and one can imagine how large the cost may be for medium and large scale irrigation development.

The projects usually encounter shortage of construction materials, lack of skilled manpower, insufficient construction equipment and machinery, lack of maintenance and the like which not only lead to increased capital costs but also retard the completion of irrigation projects

within the scheduled time frame. This was the case for Alwero and is still for Gode Irrigation project. In addition to this, as is well known, irrigation projects pass through the phases of identification, reconnaissance, pre-feasibility study, feasibility study, design and construction. The longer time lag between consecutive stages entails additional costs in revising or reworking past studies.

The other aspect is related to institution. The responsibility for handling water resource development has changed hands several times which might have brought discontinuity, poor follow up and weak accountability. Prior to the TGE, large scale irrigation farms were managed by the then Ministry of State Farms which was inefficient to properly monitor and manage the farms. The difficulty lies in immediately handing over completed irrigation projects to developers or leaving completed irrigation projects undeveloped for some years is associated with institutional problems and have strong financial and social implications. The Amibara Drainage 1 project which enables redevelop 4000 hectares (the then abandoned land) though partially handed over to Middle Awash Agricultural Development Enterprise and the Alwero irrigation dam which was completed two years ago which remains unutilized are good examples of this situation.

Among the environmental problems evolving from poor management of irrigation, health impacts are worth mentioning. When irrigation water is released, it is taken up by crops, evaporated and there may exist surplus water. The surplus water may percolate or lay on the land which will eventually lead to rising of ground water table and occurrence of water logging. These in turn bring about salinity, leaching of nutrients which affect the productivity of land. The irrigated land may also be

totally abandoned and requires large amount of money for rehabilitation. The already completed Amibara Drainage 1 can be cited as an example in this case. Accumulated water on farm is conducive for breeding of mosquitoes and snails. This and the possible water pollution resulting from using fertilizers, pesticides and insecticides put human & animal health in danger. To alleviate such problems, it is essential to regulate and monitor irrigation water consumption, construct proper drainage and irrigation infrastructures and protect irrigation sites from any kinds of wastes.

The other problem is associated with the right of irrigation water utilization. The age-old thinking of water as a free commodity is no more acceptable. Hence water for irrigation water should be priced. Water fee is indispensable to rationally utilize irrigation water and inculcate a sense of responsibility in users. It is also a means of cost recovery. The absence of irrigation water charges is therefore a problem leading to water mismanagement. In addition to the above mentioned problems, the impact of irrigation development on down stream settlers should be discussed.

When a river is diverted upstream for irrigation, the flow downstream may decrease which brings water shortage to the down stream settlers. Further more Irrigation development by its very nature, requires resettlement of people who reside on the land to be developed. Resettled people are forced to adopt new environment and are often compensated. These have been challenging problems, in many areas where irrigation development occurs and they need to be properly addressed. To visualize and seek for Mitigating measures to combat environmental problem & damages

resulting from irrigation projects, it is essential to carry out Environmental Impact Assessment (EIA) before implementing irrigation projects. On top of the aforementioned problems, absence of pertinent irrigation policy, water management guidelines and water legislation impede irrigation development.

11.2.2 Irrigation Policy And Strategy

In 1988 (G.C) a committee was formed to formulate irrigation policy. The National Irrigation Policy and Strategy Workshop was held and resulted in the preparation of the National Irrigation Policy and Strategy document even though it has not been approved by the then government. On the basis of River Basin Master plan studies, irrigation policy and strategy will have to be formulated which the MWR is currently attempting to do.

11.2.3 Review of Development Of Irrigation Schemes

A large number of small, medium and large scale irrigation projects have been studied and few have been implemented so far. With the exception of few projects such as Gode large scale irrigation whose construction began 10 years ago, most of the projects have been completed. Here are some of the major medium and large scale irrigation projects.

Medium scale irrigation projects

- Medium scale irrigation feasibility study and design.
- Alaba medium scale irrigation project construction started but discontinued.
- Gulina, Ejersa, Elbayeh, Borkena and Meki Ziway medium scale irrigation projects whose construction is completed.

Large scale irrigation

- Amibara irrigation development - construction completed
- Amibara Drainage 1 -construction completed
- Alwero Irrigation Dam construction completed
- Gode Irrigation diversion Dam construction - to be completed in the 1997/98 F.Y.
- Lower Awash Large Scale Irrigation design -discontinued
- Angelele Bolhamo Irrigation - Feasibility & design- discontinued
- Birr and Kogoa Irrigation feasibility study - Feasibility study completed.

Previously, medium and large scale irrigation sites were used to be identified by the former EVDSA to conduct pre-feasibility and feasibility studies. When the feasibility studies were completed, they were handed over to the then WRDA for design. The construction part was the responsibility of the then EWWCA. The implementing of irrigation projects follows the pre-feasibility, feasibility, design and construction chain. It has been difficult to immediately begin the next step in the chain and longer delays necessitate updating the previous work.

Irrigation development projects both medium and large scale as listed above, have been under way for years and most of them have been completed. Among the medium scale irrigation projects, Gulina, Borkena and Meki-ziway which altogether enable to develop 5400 ha. appeared in the respective regional plans during the 1986, 1987 E. F.Y. and are now completed. Among the large scale irrigation projects, only Gode irrigation diversion dam has remained far behind the schedule and it is expected to be completed in the current budget year.

Apart from medium and large scale irrigation projects, small scale irrigation developments were undertaken before

1986 E. F.Y. Since 1986 a substantial number of small scale irrigation projects have been planned by regions. For instance, in 1986 and 1987 Eth. F.Y., more than 90 small scale irrigation projects were included in the plan, albeit, information about their status is not available.

Atwero dam which enable irrigate 10,000 hectares was completed. In Amibara irrigation farm 4000 hectares which was abandoned is now ready for development. Gode Irrigation dam is on the eve of completion. Though the main infrastructures are completed or nearly to be completed for these projects, no development activities have started. The main limitation in this regard is low level of private sector involvement particularly in the large scale schemes. More effort needs to be made in mobilizing the private sector.

Regarding small scale irrigation some regional states are now launching 5 to 10 year development plans. The Amhara Region for instance through Sustainable Agricultural and Environmental Rehabilitation Program (SAERP) plans to

construct 540 small scale irrigation schemes covering an area of 65435 hectares in ten years. Similarly Oromia plans to construct 180 small schemes covering an area of 19,200 hectares over five years. Similar programs are also set in Tigray. These programs involve farmers in planning, implementation, operation and management and eventually the schemes will be given to the farmers with the underlying objective of cost recovery.

11.2.4 Government Investment On Irrigation Development

Irrigation projects comprise irrigation studies and design, construction and irrigation related activities such as flood protection, river flow monitoring, strengthening irrigation design capacity and the like. For these various types of irrigation projects, investments were made at a national level between 1983- 1985 E.F.Y and there after at both regional and national levels. The capital budget allocated and expended are shown in the following Table.

Table 11. 5 Capital Budget Allocated and utilized for Irrigation

(Million Birr)

No	Budget years (E.F.Ys)	Source of Finance							
		Treasury		External loan		External assist		Total	
		Allocated	Utilized	Allocated	Utilized	Allocated	Utilized	Allocated	Utilized
	1983	52.97	29.37	25.87	5.47	17.54	3.06	96.37	37.90
	1984	33.98	17.38	13.74	10.11	9.29	2.86	57.01	30.35
	1985	25.85	24.62	57.42	24.53	23.81	6.95	107.08	56.10
	1986	101.77	36.15	47.33	30.31	10.84	1.14	149.94	67.60
	1987	93.22	58.25	45.13	23.63	11.26	10.12	149.61	92.00
	1988	29.69	29.43	7.99	3.30	2.43	2.69	40.11	35.42
	1989	19.52	16.47	0.60	-	-	-	20.12	16.42
	1990 estimate	3.71	3.71	-	-	-	-	3.71	3.71
	1983-1990	360.71	215.38	198.08	97.35	75.17	26.82	523.95	339.50

Source: For 1983- 1987 compiled from the MoF reports.

For 1988-1990 taken from MWR reports and do not include regional projects.

The expenditure of the 1988-90 period are for projects executed by the central government. There is no information regarding regional projects for these budget years. From 1983-1985 a little more than 63% of the capital budget from the treasury was utilized. The percentage decreased to 47.7% when external loan and assistance are taken into account indicating that these sources of the capital budget are often not reliable. Expenditures for budget years 1986 and 1987 E.F.Ys are both for central and regional projects and the capital budgets allocated from the treasury decreased by 8.4% in 1987 compared to 1986. The actual expenditure, however increased in 1987 by 61.1% and 36.1% from treasury and the overall capital budget respectively compared to 1986. It seems that government's commitment to irrigation has still not progressed well.

If we consider some specific projects such as Alwero, upto the end of 1989 E. F. Y. a

total of Birr 122.6 million (71.5% of the estimated project cost) was utilized. For Gode, which is still underway, a total of Birr 69.9 million (72.9% of the estimated project cost) was utilized until the end of 1989 E. F. Y. (MWR's 1989 Report). The actual expenditures could be made available when audit reports are prepared after the projects are completed. Therefore the above figures only refer to preliminary estimates.

11.3 Master Plan Studies of Major River Basins

The name given to Ethiopia as the "Water Tower of East Africa" is evidenced by her large number of rivers such as the Blue Nile, Tekeze, Omo-Ghibe etc. These rivers are of great potential for hydropower, irrigation, drinking water supply and development of fishery. The areas the rivers drain are called basins and Ethiopia has 11 basins as listed in the following Table.

Table 11.6 Major River Basins of Ethiopia

No.	Name of basins	area (km ²)	Mean Annual Runoff (10 ⁹ m ³ /yr)	Location
1	Blue Nile River Basin	199,812 ¹	52.60	Amhara (46.36%) Oromiya (131.27%) Benshangul (22.37%)
2	Tekeze River Basin	90,001 ²	7.63	Amhara, Tigray, Beuhangul/Gu.
3	Baro Akobo River Basin	74102	11.89	Gambella, Oromiya
4	Omo-Ghibe River basin	78213	17.96	Oromiya, SNNPRS
5	Genale Dawa River Basin	171042	5.88	Somalia, Oromiya, SNNPRS
6	Wabi Shebile River Basin	202697	3.16	Oromiya Somalia, Harari
7	Awash River Basin	112697	4.60	Amhara, Oromiya, Afar
8	Mereb River Basin	7189	0.26	Tigray
9	Afar (Dankil) Basin	2223	---	Tigray, Afar, Amhara
10	Rife valley Lakes Basin	52739	5.64	SNNPRS, Oromiya
11	Ogaden Basin	77121	---	Somalia
		1,067,827	109.62	

Source: BCEOM 1997 Abbay River Basin Integrated Development Master Plan phase 2 Report

Note

1. includes the area of L. Tana (3042 km²)
2. Only 82,000 km is in Ethiopia

Despite the fact that Ethiopia has a huge amount of water resources potential as indicated in the above Table (nearly 110 BMC mean annual runoff), an insignificant portion of it is being utilized. The water resources potential in the basins could enable develop 3.5 million hectares under irrigation and generate 135,311 GWH/yr but only 5.0% and 1.3% of the potentials respectively are utilized (BCEOM, 1997 Abbay Basin integrated Development Master plan phase 2 Report).

In order to utilize the diversified natural resources in the basins for various development activities, it is imperative to thoroughly investigate, collect and analyze data regarding the resources, identify possible development projects and finally prepare development master plans. Such comprehensive river basin integrated

master plan studies have been a recent phenomenon. In the earlier periods, some fragmented, piecemeal studies were conducted for some basins, inter-alia, the following are worth mentioning.

- Natural Resource base studies for Abbay, Awash, Tekeze, Mereb, Wabi Shebele and Rift Valley Lakes Basins between 1964-1975 G.C.
- Master plan for surface Water Resources Development in Awash Basin studied by Halcrow and completed in 1990 G.C.
- Land and Water Resources Development Master plan study for the Gambella plain by SELKHOZPROM EXPORT between 1982-1990 G.C.
- Master plan study for Baro- Akobo upper basin conducted by ARDCO-

GEOSERV and completed by ULG & TAMS in 1995 G.C.

These studies either focus on some specific natural resources or are not basin-wide. River basin integrated development master plan studies on the other hand, cover all sectors including agriculture, industry, livestock, wildlife and forestry, tourism, environment, water resources and socio-economy comprehensively which identify multi-sectoral development interventions. Water resource projects are required to be studied at a pre-feasibility level. The objectives of these master plan studies are:

- identification of the resource base both in quality and quantity.
- suggesting various development alternatives using existing resources.
- setting development priorities, identify projects and undertake pre-feasibility studies for selected projects
- prepare master plan documents that could serve as a guide for development initiatives in the basins covering 30-50 years.

11.3.1 Completed River Basin Integrated Development Master Plan Studies

The Omo-Ghibe master plan report has identified possible irrigation, hydropower, forest and other projects. Regarding irrigation development, it is recommended that by extending existing Omo-Rate irrigation farm and developing it further in the north, south of Omo-Rate and west Bank of Omo substantial amount of land could be developed through large and medium scale irrigation. It is also suggested to maximize the possibility of extending existing small scale irrigation farms. Hydropower projects have been identified in different sites including Gojeb whose design is nearly completed. It is proposed that farm forest and industrial

forest development should be given emphasis at a potential area of about 5.7 million hectares. (Omo-Gibe River Basin Development Master Plan Study, Survey and Analysis Report. Agricultural Resource Development Studies, volume 1x August 1995).

Baro- Akobo River Basin Integrated Development Master plan which was the continuation of previous studies made by SELKHOZPROM EXPORT and ARDCO_GEOSERV took fourteen months and was completed in Oct.1996. By considering six development scenarios, scenario 1 (base case scenario) referring to sectoral development and scenario 5 (referring to irrigation and hydropower) are selected to be applied in the basin's resource development. Based on the chosen scenarios, irrigation, hydropower and other development projects have been identified.

The main emphasis under scenario 1 are water supply, roads and agriculture while for scenario 5 are Baro river planning study, irrigation and hydropower developments. In the case of Irrigation development, three large scale irrigation projects have been identified namely Itang, Dumbong and Gilo-2 which cover an area of 113,000 hectares of which 49,000 hectares is the commercial component. As to the hydropower developments 5 hydropower sites have been identified at Geba, Birbir, Baro, Kashu and Sor with a total installed capacity of 1075 MW. The estimated cost for all possible development projects as indicated in the master plan period is US \$ 5.26 billion (The Baro-Akobo River Basin Integrated Development Master Plan Study project's office report, March 1997).

Regarding capital expenditures for Omo-Ghibe River Basin Integrated Development, Birr 30.30 million was allocated from the treasury between 1984-

1988 and Birr 9.58 million (31.62%) has been utilized. Out of the Birr 50.1 million earmarked from ADB's grant, Birr 34.24 million (68.34%) was utilized (MoF and MWR reports E. F.Y 1984- 1988). For Baro- Akobo on the other hand, since 1975 Eth.FY. a total of 5.57 million Ruble and Birr 58.36 million was used. The cost does not include that of 1975 and the Ruble is simply estimate.

11.3.2 On-going River Basins Integrated Development Master plan studies

Abbay and Tekeze Rivers Integrated Development Master plan studies were started in Tikmet 1987 and are now nearing completion. Together with the achievements made during the first five months in 1990 Eth.FY. of the entire project activities, 82.22% of Abbay and 95.05% Tekeze have been accomplished. Mereb River Basin has been incorporated in the Tekeze project in 1990 Eth. F.Y. and 78.10% of which is completed at present. In general the projects will be completed in F.Y. 1990.

Upto the current budget year, Birr 65.38 million and Birr 45.38 million have been allocated for Abbay and Tekeze and assuming that the 1990 budget will be used, the actual expenditures will reach upto Birr 58.39 million (89.30%) and Birr 36.66 million (80.78%) respectively of the allocated capital budget. The entire expenditure is covered from central treasury.

Among the remaining major basins for which Master Plan studies will be conducted in the coming budget years are Genale Dawa, Wabi Shebele. The Danakil and Ogaden basins are however not important with regard to their water resources; hence master plan studies for these basins may not be essential for some years to come for Rift valley Lakes, it would be enough to carry out some studies. Once all basins are studied and have master plan documents, they will eventually be revised as circumstances demand.

Table 11.7 Capital Budget Allocation And Utilization for Abbay and Tekeze River Basins Master Plan Studies
(in million Birr)

Budget years (E.F.Y)	ABBAY		TEKEZE	
	Planned/Revised capital budget	Actual expenditure	Planned/Revised capital budget	Actual expenditure
1986	2306.00	1380.51	2037.00	1059.15
1987	16746.00	21551.51	11462.69	5063.76
1988	17002.00	13883.80	10630.00	9820.94
1989	16295.00	8537.59	12562.00	12025.80
1990*	13032.00	13032.00	8691.40	8691.40
1986-1990	65381.00	58385.41	45383.09	36661.05

* estimate

Sources: For FY 1986-1987, the information are obtained from MoF reports and the allocated capital budgets are revised)

- For FY 1988-1990 the information are obtained from MWR reports and the allocated capital budgets are planned

11.4 Outstanding Issues and Problems of the Sector

Data Base Deficiency:- Assessment of the water resources is an important prerequisite to planning, development, policy formulation and the operation and management of water resources in their multiple uses. Hence the establishment of integrated, reliable data bases including the functions of gathering, storage, retrieval, analysis, dissemination and use of hydrological, meteorological, hydrogeological etc data must be a priority consideration.

Efficient use of water:- The issue in this case lies on the cost of production /exploitation and the price at which it is made available to the consumer. Although water is such an essential commodity, there is no provision yet to levy tariff rates that would allow full cost recovery. In fact there is a tendency to subsidize the cost to consumers especially to private connections. And if people are not made to pay the full cost of water (or any thing else) they have a tendency to use more than they actually need. Therefore, to effect the efficient utilization of water, introduction of appropriate tariff rates which penalize wastage and inefficiency should be designed. Water losses especially in the urban systems which is referred to as "unaccounted for water," is estimated up to 40%, and should be reduced or at least should not be allowed to exceed this level.

Establishment of the conjunctive use of ground and surface water resources:- Planning for droughts, which is recurrent in our case, is becoming more difficult as populations increase and the demands

nse to levels approaching the total resources available. Hence there is a need to use ground and surface waters in a conjunctive manner so that full use is made of surface waters in year of plenty and ground water only withdrawn in years of scarcity, namely, drought.

Resolution of conflicts between water demands for different uses .

The main purposes for which water resources are exploited are:-

- Domestic purposes
- Animal watering
- Industrial and mining use
- Irrigation
- Hydro-electric power

In regions of scarcity the priority for water use is likely to be as set out above. In areas of severe water scarcity domestic and animal supplies clearly have the first priorities and thus allocations to industry and irrigation must be considered cautiously particularly for irrigation which has large water demands. Of all the uses, hydro-electric power has no effect on the volume of available water for other uses.

Development of Irrigation:- In regions which are vulnerable to recurrent drought in Ethiopia, the challenges of scarcity of water resources could only be met with irrigation schemes which operate at efficiency levels that are achievable with modern technology. This however, does not rule out the building of small scale irrigation schemes by the community using *local materials and traditional technology*. The desire to make the best of the available irrigation technology brings to the forefront the need for a lot more on irrigation research in the Ethiopian reality

Environmentally Sound use of Water Resources:- Interactions between resources, environment, people and development make it necessary for decision makers to think in terms of trade offs between alternative course of actions. Hence there is a consequent need to establish a continuous balance between natural supply, water demands and environmental requirements. That is to say, all water development activities should aim to meet both socio-economic and environmental objectives.

The above problem & issues are not the only ones in the sector there are other areas of critical concern as well. Issues of pollution, incidence of floods and droughts, water quality, legislation, and matters related to the utilization and management of scarce water resources certainly deserve serious attention.

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Chapter 12

Construction, Housing and Urban Development

12.1 Construction

12.1.1 Evolution of Construction Activities in Ethiopia

The evolution of the construction sector in Ethiopia could, generally, be reviewed in four distinct periods. The first covers the period prior to 1968 when most civil works (including roads) were carried out by foreign contractors through international competitive bidding. Relevant skilled manpower was also largely employed from abroad. Since these contractors didn't retain a local branch after executing a single project, the establishment of indigenous construction contractors had generally been impeded.

The second phase in the development of the construction sector was that spanning the period 1968 to 1982 when some small domestic contractors had been developed. In order to build their capacity and enhance their competitiveness in the sector the government took initiative to help them participate in the construction of feeder road projects financed by the World Bank. For instance, the three domestic contractors: BERTA construction company, National Engineers and Contractors (NEC) and Ethiopian Building Road Construction (ETBRC) were awarded contracts under the Bank Group's fifth and sixth highway projects. The fourth contractor, Ethiopian Earth Moving Equipment (EEE), was awarded the Yabello-Moyale highway under the Fourth Highway Program and the paving of Awasa - Dilla road under The Seventh Highway Program, both projects financed by the Federal Republic of Germany. During this period ERA's force account operation in the road sector was also increasing.

The socialist command economic policy followed by the Derg had brought the then developing domestic private construction companies under state control in 1982. State owned construction companies were established and the mushrooming contractors withered out. That was a lost opportunity for the creation of a competitive construction industry and could be taken as the third period (1982 - 1992) in the evolution of the sector. Over this period the government increased the building capacity of the Ethiopian Roads Authority (ERA) and monopolized road construction activities. Some of the state-owned firms were also recognized and had been involved in the construction of roads. Construction projects were carried out without competitive bidding by awarding directly to government construction companies.

Besides the prevailing policy problems, some of the major bottlenecks that hampered the construction sector over the three periods mentioned above were:

- Shortage of trained manpower;
- Shortage of construction machinery and equipment in terms of both quantity and quality;
- Low level of management and maintenance of machinery;
- Lack of a standard design;

12.1.2 Policy Measures of the Construction Sector Since 1991

Since the takeover of power by the Transitional Government of Ethiopia (TGE) in 1991, the Government has worked towards transforming the nation's command production system into a market-based economy. Reform

measures were introduced with a positive impact on the private construction industry. Some of these measures include:

- Issuing of a proclamation to encourage and coordinate investment. Local and foreign private investors have been allowed to participate in all areas of construction activities with priority given to local investors;
- State-owned construction and consulting companies have been reorganized as autonomous enterprises. Their financial position was analyzed, debt to the government was canceled and capital was fixed as per their revolving assets. The policy stated that the enterprises will subsequently be privatized.
- Rural road construction and maintenance responsibilities were decentralized. Regional governments have had the autonomy to decide on how to construct and manage these roads. A good example is Oromiya regional state where domestic private contractors were awarded three rural road projects at a total project cost of Birr 51.4 million.
- The Derg's policy of directly awarding projects to Government construction firms was abandoned thereby creating a competitive environment. Seventeen rural road projects at a cost of over 1 billion Birr were awarded to domestic contractors to encourage contractors and raise the building capacity of the country.
- Assistance was given to the private sector by providing low interest credit facilities to purchase state-owned construction equipment. No

performance bond was requested to cover default by the contractors.

- Professional Engineers with a minimum of 10 years of experience were allowed to have a grade six construction license enabling them to bid in projects with a cost of up to Birr 2.5 million

National Building codes and standards (EBCS1 - EBCS11) have been also issued to undertake building construction works as per the required quality and consistency. The Ethiopian Building Codes and Standards (EBCS) is a comprehensive document covering the following aspects:

- Issuing Proclamation which pertains to the efficiency and effective application of these codes defining powers, duties, and responsibilities.
- Issuing Regulations to ensure safety from fire and health hazards related to occupancy and use of buildings;
- Structural Design Practices for loading, the use of Concrete, Steel, Composite Steel and Concrete, utilization of timber, masonry, foundation system of Buildings, earthquake resistance;
- Issuing Regulations for laying down the requirements of water supply, drainage and sanitation;
- Issuing Regulations for safe and efficient design of electrical installation systems for buildings;
- Issuing Regulations for laying down the requirements of ventilation and air conditioning systems

Class/Grade	
1	A
2	B
3	B
4	B
5	B
6	B
7	B
8	B
9	B
10	B

Class/Grade	
1	
2	
3	
5	
6	
9	
10	

12.1.3 The Present Structure and Capacity of the Construction Industry

Presently, there are a total of 1107 local construction companies registered under the Ministry of Works and Urban Development. General contractors constitute 183 (16.5%) out of which eight are government owned. The rest are registered as building, Road and Special

contractors which constitute about 891(80.5%), 21(2%), and 12(1%), respectively. The number and class of contractors registered under the ministry which regulates their activities and sets standards is presented in Table 12.1 below. Of the 1107 contractors in different categories about 963 (87 per cent) have a capacity below Birr 2.5 million and most of them are building contractors.

Table 12.1: Number and Class of Construction Contractors

Class/Grade	Size of job they can undertake (in million Birr)	Category of License								Grand Total
		General Contractor (GC)		Building Contractor (BC)		Road Contractor (RC)		Special Contractor (SC)		
		Gov't.	Private	Gov't.	Private	Gov't.	Private	Gov't.	Private	
1	Above 20	8	12		1					21
2	Below 20		5		1					7
3	Below 15		9		4		1			14
4	Below 10		11		21		-			32
5	Below 5		17		50		3		1	71
6	Below 2.5		112		143		5		-	265
7	Below 1.0		8		298		12		2	320
8	Below 0.5		-		66		-		3	69
9	Below 0.25		-		300		-		5	305
10	Below 0.1		-		2		-		1	3
	Total	8	175		891		21		12	1107

Source:- IPS, Study to strengthen the five construction enterprise, p.4 and Domestic contractor capacity building program p.12.

Note:- The list doesn't include contractors registered in regional states and international contractors and firms.

Table 12.2 Annual Construction Capacity of Different Categories of Contractors

(value in Million Birr)

Class/Grade	Volume of a Single Project that can be Undertaken	General Contractors			Building Contractors			GC+BC
		Total #	Estimated Annual Capacity	Total Annual Capacity	Total #	Estimated Annual Capacity	Total Annual Capacity	Overall Annual Capacity
1	Above 20 million	20	25	500	1	15	15	515
2	Below 20 million	6	15	90	1	10	10	100
3	Below 15 million	9	10	90	4	5	20	118
4	Below 10 million	11	5	55	21	3	63	117.5
5	Below 5 million	17	2.5	42.5	50	1.5	75	237.6
6	Below 2.5 million	112	0.5	89.6	148	1.0	148	153
7	Below 1.0 million	8	0.5	4.0	298	0.5	149	33
8	Below 0.5 million	-	-	-	66	0.5	33	90
9	Below 0.25 million	-	-	-	300	0.3	90	0.4
10	Below 0.10 million	-	-	-	2	0.2	0.4	1474.5
	Total	183	-	871.10	891	-	603.4	-

Source:- IPS, Study to strengthen the Five Public Construction Enterprises, Final Report, May 1998, p. 12.

There are also two major government owned consulting enterprises and numerous private consulting firms undertaking design and supervision works on transport and building projects. Design and supervision works related to water work is being performed by the Ethiopian Water Resources Authority. The government as owner of the enterprises is represented by the Public Enterprises Supervising Authority.

Table 12.2 demonstrates the estimated annual construction capacity at about Birr 871 million for general contractors category and an annual capacity in the order of Birr 603 million for building contractors category. Therefore, it can safely be assumed that there is, at present, an annual construction capacity of about Birr 1474 million.

Capacity in Machinery and Equipment

According to the Ministry of Works and Urban Development's minimum machinery and equipment requirement for registration, contractors with a significant number of machinery are those classified as grades one to four. Here, equipment considered as the most critical type that affect construction works are earth moving equipment like dozers, graders, loaders, dump-trucks crane etc. Accordingly, there are only 40 general contractors, nine building contractors and one road contractor which altogether makeup 50 contractors having relatively eligible number of equipment and machinery. Moreover, some surveys and studies have revealed the prevalence of problems in availability and utilization. These same studies have also indicated that a good deal of the machinery have also gone out of service. The non-existence of Equipment Rental Organizations have also aggravated the shortage of machinery and equipment. See Table 12.3 below.

Table 12.3 Contractors' (Grade 1 - 4) Capacity: Machinery

No.	Type of Machinery/Equipment	Number of Machinery							Total	
		General Contractor GC				Building Contractor BC				Road Constructor RC
		1	2	3	4	1	2	3		
1	Dozer	43	18	12	12	3	2	6	12	108
2	Crane	20	1	-	2	1	-	-	-	24
3	Loader	37	18	9	10	2	3	5	6	90
4	Crusher	29	12	17	7	3	3	13	2	85
5	Grader	24	8	7	6	1	-	1	8	55
6	Excavator	10	3	4	5	-	1	-	2	25
7	Sheep foot Roller	-	2	-	-	-	-	-	3	5
8	Roller	41	15	14	16	1	3	4	4	98
9	Dump Truck	110	31	61	37	6	4	21	24	204
10	Compactor	11	9	16	9	5	3	5	-	59
	Number of Contractors	11	6	10	13	1	1	7	1	47

Source - Domestic contractor capacity Building Program: Ministry of Works and Urban Development Feb., 1998, p 13

12.1.4 Review of Road Construction

12.1.4.1 Background

The start of planned and modern road development in Ethiopia is associated with the establishment of the Ethiopian Highway Authority (EHA) in 1951. Subsequent periods then saw the implementation of six consecutive highway projects and two road sector programs. The main objectives of the highway projects ranged from rehabilitating the main portion of road network left by the Italians (First Highway Project launched in 1950) to implementing major construction and road improvements (Second Highway Project - 1957), asphalt surfacing of existing roads and construction of new roads (Third Highway Project, 1963), constructing main roads and asphalt surfacing existing roads (Fourth Highway Project, 1968), construction of gravel standard feeder roads (Fifth Highway Project, 1972). The construction of feeder roads had been further continued during the Sixth Highway Project in 1975.

With the commencement of the sector programs, the focus of the road sector projects shifted towards institutional issues. The major objective of the First Road Sector Program (1978 - 1982), for instance, was to improve the institutional setup of the highways authority. The Second Road Sector Program (1984 - 1986) was also designed so as to continue capacity building for the roads sector. It is to be noted that both sector programs were also having components towards the construction of new roads, paving existing roads and extending the construction of regional roads.

In general, though, any observed shift of emphasis in road sector program is largely attributable to changes in government transport sector policies, and prevailing overall economic policies at large. Earlier periods witnessed strong inclination towards constructing primary or secondary level roads while subsequent

periods stressed on the need to construct feeder level roads. It is no coincidence that the shift of emphasis to feeder level roads (regional roads) in 1968 occurred just at the time of the launching of the Third Five Year Development Plan.

During the post 1991/92 periods, the need to build dependable and adequate infrastructure has obtained an even stronger urgency in the national economic development agenda. To this effect, huge sums of money has been allotted annually to the construction, rehabilitation, upgrading and maintenance of the country's road network.

On the institutional dimension, major (i.e. truck and major link) road construction activities are handled by the Ethiopian Roads Authority, while regional states handle the construction of regional roads. To improve the nationwide construction capacity, both local and foreign private contractors have been allowed to participate in construction works while ERA's own force account still plays a dominant role in the road construction business.

12.1.4.2 The Road Stock (Network)

Ethiopia's classified road stock comprises about 23,812 km of networked roads. On the basis of formal division of responsibilities for construction and maintenance between ERA and the Rural Roads Organizations of Regional Governments (RGRRO) as well as the type of services the roads are intended to provide; the roads can be classified into trunk, major link and regional (rural) roads.

The trunk road network extends radially from Addis Ababa along broad movement corridors connecting major urban areas, ports, important border points and areas of high agricultural outputs and of economic importance. This network is divided into eleven principal corridors as described in the Table 12.4 below.

Table 12.4 Ethiopia's Trunk Road Network

Corridor	Length (km)
Addis Ababa - Assab	About 886 km
Addis Ababa - Zalanbessa	>> 933 km
Addis Ababa - Mereb River	>> 1162 km
Addis Ababa - Kurmuk	>> 775 km
Jimma - Gambella	>> 441 km
Addis Ababa - Mizan	>> 533 km
Alemgena - Jinka	>> 692 km
Modjo - Moyale	>> 698 km
Nazareth - Gode	>> 855 km
Dire Dawa - Gode	>> 701 km
Awash - Dewelle	>> 504 km

Source: Road Sector Development Program I(1997-2000)

Major link roads connect the trunk roads with agricultural production areas, processing plants, mining areas, tourist attractions, hydroelectric stations and generally areas of high economic activity. Rural roads constitute the remaining portion of the classified road networks which are under the jurisdiction of regional governments.

Accordingly, trunk roads constitute 8180 km of road, with major link roads and regional roads accounting for the remaining 7589 km and 8043 km of road, respectively. Alternatively, the type of road surface can be used for categorization purposes. Using the latter approach, the country's road stock can be divided into 3656 km of asphalt surfaced roads and 20156 km of gravel surfaced sections.

Given the country's total surface area, which is approximately 1.1 million km², and its population size, approximately 57 million (in 1997) the current level of road stock is very low. Ethiopia's road network is considered to be far from adequate even by sub-Saharan Africa standards. According to a 1994 World Bank estimate, the average for Africa was 0.61 km per 1000 population and 50 km per 1000 km². The same indicators for Ethiopia would, however, reveal road density per 1000

population of around 0.43 km and density per 1000 square kilometer of 21 km.

The problem of attaining a marked change in the level of the road network is largely attributed to the forbidding construction costs involved. A time-series study of changes in the network would as a result show very low annual increments to the existing stock. Between the periods 1989/90 and 1996/97, for instance, the total classified road network increased from about 17,830 km to 23,812 km. This is roughly a 4.2 percent annual average growth rate.

Other than the three categories of road type included in the road network data for Ethiopia, the country is also estimated to possess some 30,000 km of unclassified, low standard earth roads. These roads are mostly found in the form of track or trails which are basically unsuitable to motorized transport. Movement on these roads is also largely limited to dry weather periods.

12.1.4.3 Trends in Road Construction

Notwithstanding a number of institutional changes related to the road sector, the pre-1992 period is characterized by the monopolization of all major road construction activities by public entities such as The Ethiopian Transport

Construction Authority (ETCA) and the recent ERA. These institutions constructed all trunk and major link level roads while other public organizations and ministries shared some of the construction works for rural roads.

The lack of participation by either local or international private contractors seems to have restricted the potential to expand the existing road network further. For the period between 1982/83 -1988/89, for instance, the annual growth in the classified road network even averaged 2.7 percent (World Bank, 1993). A good proportion of this increase is accounted for by rural roads while the share of primary and feeder roads was relatively low.

The next three years, period 1989/90 - 1991/92 then saw an all time low of road construction activities. Escalating civil war and the resulting deterioration in stability during those years practically halted all major road construction projects.

Even in 1992/93, construction works were relatively low with roughly 42 km of road-works registered in a full year's time. See Table 12.5 below for details.

The following years witnessed marked increase in the level of construction activities. The increased emphasis given to the sector has enabled the capital budget allotted to road construction to increase sharply. It is also after 1993/94 that major maintenance and rehabilitation works resumed on a large scale.

In terms of financial performance, actual expenditure for road construction through the Ethiopian Roads Authority (ERA) rose from an all time low of 14.2 million Birr in 1991/92 to over 375 million Birr in five years time. Capital expenditure for road construction has been in effect doubling each year during the last five years of the study.

As indicated by the division of responsibilities between ERA - an arm of the federal government - and the Rural Roads Organizations of Regional Governments (RGRRO), the latter had also been undertaking road construction and maintenance works during the period under study. The data collected for five regional governments as depicted in Table 12.6 below shows that the volume of road construction activity had been on average on the rise during the six year period ending in 1997/98.

Table 12.5 Physical and Financial Performance Of the Ethiopian Roads Authority (1991/92 - 1997/98)

Year	Length of roads (km)		Total expenditure (Million Birr)
	Constructed	Major maintenance	
1991/92	4.00	-	14.2
1992/93	42.13	-	29.3
1993/94	316.42	720.28	99.96
1994/95	411.44	401.94	193.6
1995/96	661.43	363.93	313.0
1996/97	805.00	118.96	375.8
1997/98*	384.00	340.00	997.4

Source:- Various Annual Reports of ERA and MEDaC.
* Plan.

Table 12.6 Roads Constructed by Regional Governments*
(1992/93 - 1997/98)

Year of construction	Length of Roads Constructed (km)				
	Amhara	Oromiya	Tigray	Gambella	BeniSh.-Gumuz
1992/93	44.0	-	67.33	31.85	-
1993/94	150.8	146.2	113.45	31.85	6
1994/95	246.6	131.3	211.85	31.85	30.3
1995/96	310.1	168.0	153.00	31.85	36.2
1996/97	342.8	305.0	171.24	31.85	7.7
1997/98**	415.0	357.0	150.60	49.46	7.7
Total	1509.3	1107.5	867.47	208.71	87.9
Total cost of construction (million Birr)	300.4	156.9	143.1	30.2	43.6

Source: Regional Bureaux of planning & Economic Development

* Includes RR50 and RR30

** Annual plan figures

The Amhara and Oromiya regions had, for instance, constructed 1509.3 km and 1107.5 km of rural roads (i.e. RR50 and RR30 standard) during the six years time at the cost of 300.4 million Birr and 156.9 million Birr, respectively.

12.1.4.4 The Five Years Road Sector Development Program

The five years Road Sector Development Program (RSDP) launched by the Ethiopian Roads Authority is a comprehensive program which integrates implementation of road investment with major policy and institutional reforms for the period 1997 - 2002. The main objectives of this program include:

- improving overall transport operating efficiency through the rehabilitation and maintenance of the existing road networks.
- creating road access to undeserved rural areas and food deficit localities thereby expanding the coverage of the road network at the same time;

- developing improved institutional capacity both at the central and regional level that handle the road sector;

The program is basically the first phase of a ten year road sector development program extending from 1997 to 2007, and the program is currently under implementation since its launch in September 1997

The main targets of the program include increasing the national road density from its current level to about 0.46 km per 1000 population and 27 km per 1000 squares km. This will be an expansion of the network which is expected to raise the current status of the two density indicators by 7 percent and 28.6 percent, respectively.

Specific Targets

To achieve the desired road density with in the program period, both improvement and expansion of the existing road network will be undertaken. The proposed construction targets are summarized in the accompanying table (Table 12.7) below.

Table 12.7 Targets of the Road Sector Development Program (Phase I) (1997-2002)

No.	Proposed Activities	Total length (in km)	Estimated cost (in million Birr)
1	Rehabilitation of trunk roads	2382	5076
2	Upgrading of trunk roads	3895	6087
3	Upgrading of major link roads	1248	1476
4	Construction of new major link roads	1077	1147.6
5	Construction of regional roads	5399	2311
6	Rehabilitation of regional roads	8043	1186.8
7	Maintenance of all roads		1470.5
8	Bridge and culvert rehabilitation		10.5
9	others		532.8
Total			19301.2

Source:- Road Sector Development Program I (1997-2002)

From the Table above, one can observe that roughly 57.8 percent of the estimated total cost of the program will be used to rehabilitate and upgrade the existing trunk roads. Since these roads constitute the major routes which handle a significant proportion of annual traffic, the need to recondition and upgrade them can never be over emphasized. Besides, any improvement to major link roads as well as regional roads would be incomplete without a corresponding improvement in the interregional highways.

Financing Strategy

The program is estimated to cost a remarkable 19 billion Birr (See Table 12.7 above). About 56 percent of the estimated program cost is expected to be covered by multilateral organizations and donors countries including the World Bank, European Union, African

The rehabilitation, upgrading and new construction works are expected to change the magnitude and composition of the countries road stock in such a way that increasing proportion of the network are transformed to asphalt surface with gravel surfaced roads decreasing in absolute magnitude (Table 12.8 below) With regard to rural roads, the program period is expected to generate more than 67 percent expansion to the existing stock.

Development Bank, Japan, Germany, Italy, the Netherlands, the Nordic Development Fund and the UK government, with the balance to be covered from the government treasury.

During the launching of the program in September 1997, the tentative breakdown of financial sources was envisaged as follows See Table 12.9 below.

Table 12.8 Expected Expansion in the Road Network

Fiscal Year	Length (km)			
	Asphalt	Gravel	Rural	Total
1996/97	3656	12113	8043	23812
1997/98	3749	12249	9437	25435
1998/99	4295	11917	10599	26811
1999/00	5312	11285	11638	28235
2000/01	6341	10500	12613	29454
2001/02	7141	9794	13442	30377

Source:- Road Sector Development Program I (1997-2002)

Table 12.9 Sources of Finance for the Five Years Road SDP

Source	Amount of Program Cost (million Birr)	Percentage Share (%)
1. Foreign	10762.9	55.7
Loan	6982.7	36.2
Grant	3780.2	19.5
2. Government	7565.1	39.2
3. Road Users	973.2	5.0
Total	19301.2	100.0

Program Implementation and Monitoring

Major civil works will be awarded to contractors on Internationally Competitive Bidding (ICB) basis with ERA's force account operations largely limited to areas where foreign contractors will be less interested. Regarding maintenance works, ERA's role will continue to be crucial until a stage is reached whereby periodic maintenance activities are handled by private contractors. The overall level of implementation of the program will then be monitored annually through the Ethiopian Roads Authority.

12.1.4.5 Salient Features of the Road Fund

In the process of creating adequate and sustainable road network, the role of maintaining existing roads is very important. The cost of delaying required maintenance has proven to be so substantial that an economically sound approach demands that maintenance activities be undertaken on the right time.

Hitherto approaches in Ethiopia's past road maintenance works do not however reflect the implied urgency given the deteriorated situation of the country's road network. According to a 1995 survey, only 11 percent of paved roads and 19 percent of unpaved roads were found in good conditions with the rest being found mostly in poor condition.

The overall implication for current and future road sector activities is hence very clear. First, it is required that the backlog of maintenance activities be met as urgently as possible. Secondly, there is a need to organize the sector's strategies in such a way that future maintenance requirements are met on a sustainable basis.

These problems have resulted in the establishment of a Road Fund which by Proclamation No. 66/1997 has already been passed into law. The basic objective of the Road Fund will be to finance road maintenance requirement on a sustainable and timely basis. To this effect, the existing governmental-financing will shift into a fee-for-service basis whereby road users

directly pay for maintenance requirements through the Road Fund.

More specifically the establishment of the Fund is expected to contribute to the national economy by:

- making sufficient funds directly available for road maintenance;
- reducing the financial burden on the government;
- strengthening financial discipline such that the public gets benefits out of its tax obligation.

The required funds are raised through indirect tax system which include:

- a fuel levy;
- vehicle axle load levy;
- overloading fines;

To administer the Fund, a high powered Board has been established which comprised of the Minister of Works and Urban Development (chairman), several Vice-Ministers and the general manager of the Ethiopian Road Authority together with heads of states of regional governments and representatives of the private transport sub-sector.

The office has collected about Birr 328.92 million and disbursed about Birr 158.89 million during the 1997/98 F.Y. This amount is not enough to cover the annual road maintenance costs of ERA let alone cover road maintenance costs of Regional Governments and Municipalities. Thus the Fund is expected to be capable of covering all road maintenance costs in about five years time. Regarding the use and distribution of the resources raised by the fund, some 70%, 20% and 10% of annual disbursements will go to finance maintenance activities by the ERA, the Regional Governments and Municipalities respectively.

12.1.4.6 The Domestic Road Construction Industry

The decade preceding the year 1991/92 was rather a static period with regard to its contribution to the nation's road construction industry. A few public owned contracting companies along with the ERA's own force account constituted the whole domestic road construction capacity. The reason behind this was the policy environment that prevailed during the period which limited the role of the private sector in all major economic activities including the construction sector.

Licensing of Contractors

Following the introduction of the market oriented policy initiatives, private sector involvement expanded into all major economic sectors. As a result, a large number of contractors and consultants enter the industry annually. Between the periods 1995 and 1997, for instance, the number of contractors registered under both the general (GC) category and road works (RC) category increased from 141 to 210 (Table 12.10 below). The bulk of this increase is accounted for by lower class contracting permits such as GC class 6. Although a systematic assessment of the private contracting industry is yet to be conducted, the increase in non-construction sector activities together with the governments emphasis on infrastructural development is believed to have increased the demand for construction.

On the other hand, the number of contractors of the RC category (those who are qualified to undertake construction works of roads and related civil engineering works only) have declined in absolute terms in the past two years. This category include mostly very low class contractors (with low construction capacity) and frequently get involved in small rural road projects. The low capacity of these contractors coupled with its limitation to conducting road construction projects only may have contributed to the observed decline.

Table 12.10
Contractors Registered By MoWUD
(1995 - 1997)

No.	Contractor's Category	Class	Capacity (Million Birr)	Total Registered as of	
				May 1995	October 1997
1	General (GC)	1	Above 20.00	8	11
2	GC	2	upto 20.00	8	6
3	GC	3	- 15.00	9	10
4	GC	4	- 10.00	10	11
5	GC	5	- 5.00	15	18
6	GC	6	- 2.50	57	121
7	GC	7	- 1.00	1	8
8	Road (RC)	3	Above 15.00	1	1
9	RC	5	upto 5.00	3	3
10	RC	6	- 2.50	3	3
11	RC	7	- 1.00	11	11
12	RC	8	- 0.50	2	2
13	RC	9	- 0.25	13	5

Source: - Ministry of Works and Urban Development (MoWUD)

Machinery and Equipment

One approach towards assessing the capacity of the private contracting industry is to take an inventory of major machinery and equipment which are currently in use. Such an approach is, however, not easy to implement. There has not been dependable record or information on the level and conditions of equipment and machinery in the country in general and the private sector in particular.

In general, though, most post 1991/92 period surveys and assessments on the capacity of both government and private contractors show that major machinery and equipment are in short supply compared to the work load that contractors have had. Secondly, the existing equipment and machinery do not operate at full capacity for reason of frequent breakage caused by a long service years. According to an assessment of the private contracting industry, for instance, the average service year of major earth moving fleet of one of the biggest private contracting industry is estimated at about 15 years (ERA, 1996).

As a result, a substantial magnitude of the equipment stock of many contractors are in very poor conditions. According to the existing situation in late 1995, this same company had 25 percent of its earth moving equipment not in a working condition. Other

governmental and private contracting companies have been also experiencing similar problems. A survey of rural road projects conducted on five contracting companies in mid-1995 indicated that on average, 15 percent of the time of major equipment and machinery is spent on repair and maintenance (MEDaC, 1995).

Financial Factors

Several contracting firms display low current ratio (current assets divided by current liabilities) indicating a threat to the companies ability to meet their obligation (ERA, 1996). Difficulties arising from shortages of working capital were also observed on several rural road projects (MEDaC, 1995). The role of financial factors in restricting fast progress in the private contracting industry is hence presumed to be far from insignificant.

By way of summary, the development of infrastructural capacity at large and roads in particular has been one of the focus areas for government policy in Ethiopia. The current status of roads however leaves much to be desired. Not only is the size of the road network very low compared to the country's land area and population size, but the existing stock also requires substantial amount of rehabilitation and upgrading works.

The five year road sector program and the ensuing second phase is expected to contribute significantly towards achieving both objectives. Participation in road construction by indigenous private road contractors as well as foreign contractors will provide the additional capacity required to implement the ambitious road construction program envisaged by the RSDP. With regard to financing, multinational organizations such as the IDA as well as bilateral sources will cover a good portion of the investment requirement. Domestic sources for road financing include the government as well as road users fees collected through the Road Fund.

12.2 Housing and Urban Development

12.2.1 Background

Ethiopia is one of the least urbanized countries in Africa. According to the 1994 Census Results, the country's urban population was estimated at 6,884,655 which accounts for 13.8 per cent of the total population of 50,032,356 (excluding the Somali Region). Even though the country has such a low rate of urbanization, it has exhibited a significant growth rate of urban population estimated to be around 4.4 per cent per annum.

The urban system of the country is also characterized by the absence of well structured urban hierarchy and typified by the dominance of Addis Ababa (the primate city), with a greater number of other small urban centers and limited number of intermediate urban centers. Most of the urban centers fall within the lower urban hierarchy where only few of the major urban centers have better infrastructure facilities.

During the Derg regime, the Government had intervened extensively in the Housing and Urban Development Sector where it had completely abolished the Housing and Urban Development Policies of the preceding government by nationalizing all Urban Land and extra houses. All this was

materialized through the Proclamation No. 47/1995, "A Proclamation to Provide for Government Ownership of Urban Lands and Extra Urban Houses". This was a powerful Proclamation which brought a radical change in all urban areas of the country.

Under this proclamation, urban land was nationalized and fallen under government ownership. Land was allocated freely for home builders since then.

With respect to housing, all extra urban houses were nationalized indiscriminately and the rent of these houses was reduced to 50%. Kebeles have been responsible for the administration of these houses whose rent is below Birr 100 and the Agency for the Administration of Rental Houses (AARH) has been responsible for those with rents above Birr 100. Renting of houses by private individuals was also suspended. It was assumed that nationalization could resolve the housing problem. However, this situation has aggravated the housing problem in all urban centers of the country. Since most of the houses could not get adequate maintenance, they continued to deteriorate at a faster pace. This problem has still remained to be an outstanding issue for the present Government.

Housing finance was also provided at a subsidized interest rate, where mortgage loans were provided to cooperatives and private home builders substantially below-market interest rates. The Construction and Business Bank (previously Housing and Savings Bank) was lending money at 4.5 per cent for cooperatives for housing construction and 7 per cent for private individuals. Notwithstanding its new financial policy, the present Government has also decided to continue with the agreements related to loans already extended to housing cooperatives during the Derg period with the then loan rate.

12.2.2 Housing and Urban Development Policies and Strategies

After the downfall of the Derg regime, the country has changed its economic policy from that of a command economy to a market-oriented one. With regard to the sector, new policies have been designed to replace the previous socialist policies of the sector.

Policies

After the end of the Derg era, The Transitional Government of Ethiopia (TGE) issued the country's New Economic Policy in November, 1991.

Policies pertaining to the Housing and Urban Development include:

- The Government retains ownership of all urban land but ensures its equitable distribution for housing construction;
- The right to ownership including the right to use, rent, transfer the house, etc. will be guaranteed;
- Private individuals can construct houses for rent;
- The State will sell nationalized houses but priority to buy will be given to the present occupants. Compensation will be paid to the previous owners whenever appropriate;

Accordingly, the Government has issued a Proclamation in February, 1995 which allows for the sale of government-owned houses to individuals and has set up an office which is responsible for this activity. The office has already started selling some of the AARH's business houses while it is still conducting a study to devise modalities for the sell of AARH and Kebele Houses. EPRDF, after winning the 1995 General Election, has issued the 5 year Program of

Development, Peace and Democracy. The major policies of the Program related to the Housing and Urban Development include:

- Regarding development of the urban economy, and the over all economy at large, it emphasizes the development of infrastructure such as electricity, roads and railroads, telecommunication, water supply, and sanitation;
- Towns which have adequate water supply and sanitation are very few. Unless these problems are overcome, it is impossible to keep the health of the urban population and provide water supply adequately which is a barrier to the development of economic activities. Therefore, the Central Government, Regional Governments and Municipalities would have to invest heavily and alleviate these problems;
- The housing problem is also rampant in all towns of the country. Hence, EPRDF plans to alleviate the problem through the construction of Low-cost houses by municipalities, allocation of plots for private home builders and encouragement of private investment by real estate developers;

As mentioned earlier, housing finance policy of the past regime was contented on provision of loans below the market rate which used to discriminate by ownership and sector. The mortgage loan rate was set at 4.5 per cent for housing cooperatives and 7 per cent for private individuals. The then HSB and the now Construction and Business Bank (CBB) was the only government retail bank which has specialized in real estate development and had been providing housing loans at the aforementioned interest rate for

housing cooperatives and private home builders.

After the coming to power of the new Government, the Bank's name was changed from HSB to CBB and its scope of mandate has also broadened including the provision of commercial banking services. Moreover, private banks have also begun to be established to provide short-term loans for any kind of activities including housing. Through the financial sector reform, interest rate was adjusted to avoid subsidy and be partly governed by market forces. This has been so since October 1992 where an upward adjustment on the rate of interest has been effected. The new financial policy has eliminated subsidy and eliminated the discrimination of the rates with respect to ownership and sector.

The new interest rate was adjusted several times by setting the minimum deposit rate and maximum lending rate. At present, the minimum deposit rate is set at 6 per cent while the lending rate is being left to float.

Strategies

Urban Land Legislation

Land is a key factor of production for housing construction and overall economic activities. Its availability and efficient allocation plays an important role for the economic development of the country.

The new legislation on land is the urban lands lease holding proclamation No. 80/1993 which defines the land tenure system in urban areas. The Proclamation defines "LEASE HOLD" as the tenure system for the Ethiopian urban center where the state will retain ownership of all urban land and ensures its equitable distribution for housing construction.

The proclamation further stipulates:

- The proclamation shall not be applicable to urban lands previously constructed;

- The duration of the lease will be between 50 - 99 years which varies from one sector to another;
- The rate of the lease rent would be determined on auction.
- Payment of the lease rates for private home builders is 50 cents per square meter per year on annual installment basis.

Similarly, following the lease holding proclamation of the Federal Government, most of the Regional Governments have also issued their own urban land legislation. For instance, Region 14 has issued its land lease regulation in 1994 (Regulation No. 3/1994).

As per the lease holding system, it is believed that an auction would determine the market value of an urban land and this, in turn, avoids the view on land as a free good which was inherited from the previous regime. This is one of the objectives to be achieved under the lease holding system. Generally, the lease holding system would help urban centers generate their additional revenues by which urban centers or municipalities could enhance the construction of houses, infrastructures and other urban facilities of high priority.

Currently, the lease holding system is being implemented in Addis Ababa Administration and in other large towns of Regions where they have allocated several plots of land for investors on the basis of auction.

Rental Income Tax

The income tax amendment Proclamation No. 62/1993 fixes the income tax rates on rental housing. The proclamation has levied two types of income taxes on rental housing.

This includes:

- 35% flat rate on incomes of organizations and associations having legal personality; and
- A rate which varies from a minimum of 10% to a maximum of 45% on personal incomes from house rents, as per the following details:

Rent (Birr)	Tax Rate
upto 1,200	Exempt
1,201 - 6,000	10%
6,001 - 12,500	15%
12,501 - 21,500	21%
21,501 - 33,500	28%
33,501 - 50,000	36%
Over 50,000	45%

The rental income tax is higher than the income taxes of other business. For example, the maximum rate for other business is 40% whereas rental income tax reaches upto 45% which might have a discouraging effect on investment on the housing sector.

Capital Gains Tax

Proclamation No. 108/1994 of the Federal Government has levied payment of tax on gains from capital. This is a newly introduced tax which is paid in accordance with the gains realized from the increase in value upon the sale of:

- Shares and bonds; and
- Urban houses.

In general, the rate of tax levied on gains realized from the increase in value of capital assets listed above is 30%. The owner of the house would be required to pay 30% of his/her profit the first Birr 10,000 being exempted from any tax obligation. The Addis Ababa Administration has already started applying this tax rate on sale of houses.

This tax rate seems to be very high as compared to tax rates on other sectors and is expected to have a negative impact on the development of the housing sector.

12.2.3 Housing Characteristics and Conditions

According to the 1994 Census, there are 852 urban centers (excluding the Somali Region) with population size of 6,884,655 and accounting for 13.8 per cent of the total population with a total housing stock of 1,414,019.

According to the definition of the Ministry of Works and Urban Development, the number of towns stood at almost half of that reported by the CSA census. During the last five years, status of township has also been given by Regional governments. Therefore, currently, there is no agreed upon definite figure on the number of urban centers. Due to this problem, this study has been prepared based on the CSA data. In general, the ensuing data on housing characteristics and conditions have been compiled from the 1994 population and Housing Census Results. Regional distribution of major urban centers and their corresponding population size is depicted in Table 12.11 below.

Table 12.11 Regional Distribution of Urban Centers and their Population Size (1994)

Population By Interval Group	R E G I O N										Total	%
	Harar	Dire Dawa	Alfar	Oromiya	Southern Region	Amhara	Tigray	Gambella	Bonshangul & Gumuz	Addis Ababa		
5,000 AND BELOW			22	284	124	146	55	5	12		648	76.1
5,001 - 10,000		1	4	44	10	34	8				101	11.9
10,001 - 15,000			1	21	7	10	1		1		41	4.8
15,001 - 20,000			1	5	1	4	3	1			15	1.8
20,001 - 25,000				9	4	3	1				17	2.0
25,001 - 30,000				4			4				8	0.9
30,001 - 35,000					2						2	0.2
35,001 - 40,000					1	2	1				4	0.5
40,001 - 45,000					1						1	0.1
45,001 - 50,000				2		1					3	0.4
50,001 - 55,000				1							1	0.1
55,001 - 60,000												
60,001 - 65,000												
65,001 - 70,000					1						1	0.1
70,001 - 75,000				1							1	0.1
75,001 - 80,000	1										1	0.1
80,001 - 85,000												
85,001 - 90,000				1							1	0.1
90,001 - 95,000												
95,001 - 100,000						2	1				3	0.3
100,001 - AND OVER		1		1		1				1	4	0.5
TOTAL TOWNS	1	2	28	373	151	203	74	6	13	1	852	100
TOTAL POPULATION	76,378	173,188	85,879	1,962,804	704,818	1,265,315	468,478	27,180	36,027	2,084,588	6,884,655	

Source:- Akalo Kifle, "Urban Management In Ethiopia: The Challenges and The Prospects", May 1997.

Table 12.12 Urban Housing Units by Region and Type of Building

No.	Region	All Housing Units	TYPE OF BUILDING									Not Stated
			Non Storied Detached	Non Storied 2 Units Attached	Non Storied 3-5 Units Attached	Non Storied 6 Or More Units Attached	One Or More Storied Detached	One Or More Storied 2-3 Units Attached	One Or More Storied 4-6 Units Attached	One Or More Storied 7-10 Units Attached	One Or More Storied 11 Or More Units Attached	
1	Tigray	115,421	87,104	20,532	13,274	4,559	1,808	1,051	352	97	54	732
2	Afar	21,878	11,338	4,357	4,485	1,274	119	-	-	-	28	101
3	Amhara	285,203	153,022	81,047	30,929	22,403	2,787	2,117	785	145	218	1,892
4	Oromiya	400,169	241,208	91,818	50,859	17,016	711	819	490	209	71	3,303
5	Somali	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
6	Snnp*	142,212	85,299	25,840	13,015	5,538	103	134	133	15	10	1,135
7	Banish Gumuz	8,490	8,288	1,072	583	470	15	5	9	-	-	97
8	Gambella	11,268	4,240	892	613	310	14	5	-	-	-	114
9	Harari	17,445	9,138	4,024	2,394	404	401	252	79	9	10	134
10	Addis Ababa	374,742	148,188	104,578	88,230	25,080	2,499	3,105	2,810	648	880	724
11	Dire Dawa	38,382	23,064	7,018	4,093	1,240	158	150	93	24	15	527
	Total	1,414,019	750,883	327,574	218,135	78,354	9,503	7,038	4,789	1,145	1,282	8,099

Source:- CSA, Results of the 1994 Census
 NA: Data Not Available
 *SNNP: Southern Nations, Nationalities And Peoples' Region

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Types of Housing Units

The urban housing units are dominantly characterized by non-storied type of building which represents 97.6% of the total housing units out of which 53.5% are detached and 44.1% attached non-storied buildings. On the other hand, 1.8% of the total housing are classified under one or more storied buildings consisting of 0.7% detached and 1.1% attached one's; while 0.6% of the total housing units are not-stated (not defined). Details are depicted in Table 12.12 above.

Water Supply

The major sources of water supply for the urban housing units are piped water, spring or well, and lake. About 74.8 per cent have access to piped water facilities, 15.7 per cent use protected and

Housing Amenities and Facilities

Lighting

The majority of the urban housing units use electricity. Of the total housing units, 67.6 per cent use electricity while 30.7 per cent use lantern and kerosene, 1.3 per cent use other type of lighting, and 0.4 per cent of the total houses are not stated. Details are described in Table 12.13 below.

unprotected spring or well, and 9.0 per cent use pond or lake. The remaining 0.5 per cent are not stated. Overall, data from the 1994 Census Results revealed that the majority of urban housing units have access to piped water facilities. Details are described in Table 12.14.

Table 12.13 Distribution of Urban Housing Units by Region and Type of Lighting

No.	Region	All housing Units	Type Of Lighting					Not Stated
			Electricity Meter Private	Electricity Meter Shared	Lantern	Kerosene	Others	
1	Tigray	115,421	15,150	40,770	5,299	50,942	2,591	569
2	Afar	21,678	3,089	8,390	3,948	4,708	1,207	336
3	Amhara	285,203	47,217	110,050	10,074	114,524	2,190	1,118
4	Oromiya	406,169	95,076	156,065	27,422	120,869	5,098	1,639
5	Somali	NA						
6	Snnp	142,212	23,295	46,042	9,071	60,655	2,540	609
7	Benish. - Gumuz	8,499	752	2,548	372	4,549	199	79
8	Gamoella	6,268	559	1,081	300	3,746	487	95
9	Haran	17,445	6,574	10,056	128	469	84	134
10	Addis Ababa	374,742	168,814	189,190	888	11,487	3,844	519
11	Diredawa	36,382	10,585	21,386	1,257	2,509	414	231
	Total	1,414,019	371,111	585,608	58,759	374,458	18,754	5,329

Source:- CSA, Results of the 1994 Census.

NA: Data Not Available.

Table 12.14 Urban Housing Units by Region and Source of Drinking Water

No.	Region	SOURCE OF DRINKING WATER					
		All Housing Units	Tap Water	Protected Well/ Spring	Unprotected Well/ Spring	River / Pond Lake	Not Stated
1	Tigray	115,421	76,698	8,633	16,051	13,299	740
2	Afar	21,678	15,536	307	2,721	2,975	139
3	Amhara	285,203	199,655	28,622	26,138	29,249	1,539
4	Oromiya	406,169	281,534	48,333	37,454	56,568	2,280
5	Somali	NA	NA	NA	NA	NA	NA
6	Snp	142,212	78,961	22,047	18,890	21,396	918
7	Benish.-Gumuz	8,499	3,333	1,343	1,991	1,763	69
8	Gambella	6,268	3,556	984	507	1,140	81
9	Harari	17,445	16,855	271	90	65	164
10	Addis Ababa	374,742	366,340	2,511	4,038	1,191	662
11	Diredawa	36,382	34,433	1,263	302	5	379
	Total	1,414,019	1,056,901	114,314	108,182	127,651	6,971

Source: CSA, Results of the 1994 Census
 NA: Data Not Available

Toilet Facility

Generally toilet facilities of most urban areas are very poor. According to the Census Results, 41.9 per cent of the urban housing units have no toilet facility while 26.9 per cent have shared pit latrine, 24.3 per cent have private pit latrine and 5.8 per cent have flush toilet. The remaining 1.1 per cent of the houses are

not stated. Details are described in Table 12.15 below.

Telephone

The majority of the urban housing units do not have telephone facilities. Out of the total housing units, 91.9 per cent do not have telephone. Only 8.1 per cent have telephone facility. Details are described in Table 12.16 below.

Table 12.15 Urban Housing Stock by Region and Toilet Facility

No.	REGION	TOILET FACILITY						Total Housing Stock
		Has No Toilet	Flush Toilet Private	Flush Toilet Shared	Pit Private	Pit Shared	Not Stated	
1	Tigray	80,799	2,737	3,051	11,332	15,896	1,626	115,421
2	Afar	12,644	1,055	186	4,377	3,404	12	21,678
3	Amhara	175,400	4,524	3,290	52,033	46,664	3,292	285,203
4	Oromiya	162,241	7,374	5,494	135,685	90,926	4,449	406,169
5	Somali	NA	NA	NA	NA	NA	NA	NA
6	Snnp	51,001	1,757	1,234	54,151	32,382	1,687	142,212
7	Benish - Gumuz	2,982	190	336	2,573	2,272	146	8,499
8	Gambella	4,198	190	197	818	736	129	6,268
9	Harari	5,006	889	520	4,422	6,236	372	17,445
10	Addis Ababa	89,508	30,113	14,815	67,895	168,732	3,679	374,742
11	Diredawa	8,531	1,662	851	10,831	13,811	696	36,382
Total		592,290	50,491	29,974	344,117	381,059	16,088	1,414,019

Source:- CSA, "Results of the 1994 Census"

NA: Data Not Available

Table 12.16 Urban Housing Units Of Towns By Region And Availability Of Telephone

No.	Region	All Housing Units	AVAILABILITY OF TELEPHONE		
			Has Telephone	Has No Telephone	Not Stated
1	Tigray	115,421	2,766	112,176	479
2	Afar	21,678	377	21,134	167
3	Amhara	285,203	11,323	273,029	851
4	Oromiya	406,169	22,255	382,475	1,439
5	Somali	NA	NA	NA	NA
6	Snnp	142,212	5,532	136,029	651
7	Benish - Gumuz	8,499	140	8,276	83
8	Gambella	6,268	167	5,993	108
9	Harari	17,445	1,591	15,742	112
10	Addis Ababa	374,742	66,804	307,575	363
11	Diredawa	36,382	3,597	32,574	211
TOTAL		1,414,019	114,552	1,295,003	4,464

Source:- CSA, Results of the 1994 Census

NA: Data Not Available

Status of Tenure

The Census result indicates that 45.4 per cent of the housing units are owner occupied, 24.4 per cent are rented from Kebele, 20.4 per cent are rented from private households and 1.3 per cent are rented from AARH. There are also rent-free houses (6.7%), rent from other organization (0.5%), and houses with paying difference in rent (0.3%), while the remaining houses (1.0%) are not stated (not defined). (See Table 12.17 below)

Urban Housing Units by Region and Type of Tenure

Table 12.17

No	Region	All Housing Units	TYPE OF TENURE							Not Stated
			Owner Occupied	Rented From Kebele	Rented From Public Housing Agency	Rented From Other Organization	Rented From Private Household	Paying Difference in Rent	Rent Free	
1	Tigray	115,421	52,324	3,017	593	195	47,734	697	8,633	1,328
2	Alar	21,678	10,938	2,041	-	25	6,007	-	2,331	336
3	Amhara	285,203	142,290	57,684	2,601	1,496	64,038	771	12,749	3,514
4	Oromiya	406,169	197,713	98,486	2,971	2,431	70,454	925	28,127	5,062
5	Somali	NA								
6	Snnpr	142,212	81,830	23,103	773	883	26,646	289	6,779	1,900
7	Benishangul-Gumuz	8,489	4,754	438	27	41	2,122	-	975	142
8	Gambella	6,268	3,365	341	63	137	1,089	25	1,063	185
9	Harari	17,445	5,265	6,951	710	123	2,426	55	1,700	215
10	Addis Ababa	374,742	128,997	142,005	9,277	1,272	61,256	957	20,464	1,424
11	Dire Dawa	36,382	15,148	10,230	1,264	439	6,013	132	2,517	609
	TOTAL	1,414,019	642,624	345,286	17,776	7,042	287,785	3,851	84,338	14,724

Source:- CS, Results of 1994 Census.

NA: Data Not Available.

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Chapter 13

Domestic Trade and Tourism

13.1 Domestic Trade

13.1.1. Background

Domestic trade activity encompasses all business transactions relating to trade in goods produced locally or imported and services within a national territory. The spatial dimension denotes activities carried out within the confines of national boundaries while the functional dimension describes the purely exchange activity, although some processing or slight change in the way goods appear is made.

The sector as a chain link between the producer of goods and services on the one hand, and consumer of final product or inputs to manufacturing sector, on the other, plays a crucial role in economic development. It has therefore a macro-economic role (as it acts as an intermediary between demand and supply) and a micro-economic role in the sense that it provides an outlet for producer enterprises and satisfies the needs of users, producers and consumers.

Domestic trade during the Axumite kingdom was in a good position, but it took its modern shape under the regime of Emperor Menilik. Trading activities that were taking place once within a week in traditional markets were supplemented with the upcoming of small shops in towns. Particular impetus in domestic trade were attained with the construction of railway line from Djibouti to Addis Ababa, thereby increasing the number and type of commodities available for sale. However, due to cultural influence, lack of adequate capital and knowledge almost all

of the modern shops were owned and run by foreign nationals (Armens, Arabs etc.)

After the Italian invasion the modernization of domestic trade took a land mark. A responsible Ministry aware of its duties and responsibilities backed by various rules and regulations for efficient operation was set up. Institutions were also set up to provide training to prospective Ethiopians in the field of trade and commerce. Above all a commercial Code was introduced in order to in force law governed business transactions. The business environment had been highly liberalized until the take over power by the Derg after the 1974 Revolution.

After the takeover of power by the Derg-regime the whole system of economic management including domestic trade had made a big turnaround. Mass nationalization from small retail trade shops to large business enterprises took place. Every activity of the national economy was guided under central planning; profit motive gave its way to social objective, every measure to strengthen the socialization process was encouraged and if necessary subsidized. The final outcome of all these measures was general economic crisis in which domestic trade is a part.

The economy stood from moving ahead on its course and demanded change. The reform measures started during the last years of the regime were not adequate enough to the demanded change. And as a necessity, a radical change in all sphere (economic, political and social) took place with the overthrow of the Derg-regime by EPRDF. Since then, many important reform measures are being undertaken

based on the principles of the Transitional Period Economic Policy and a number of policy measures, rules, regulations and directives were issued to bring back the business environment governed by market law.

13.1.2 Review of Policies and Strategies

13.1.2.1 Pre 1991/92 Policies and Strategies

Ownership Policy

Being motivated by socialist ideology, the Derg regime nationalized both wholesale and retail trading enterprises mainly owned and run by foreign nationals and restructured others not nationalized to meet its socialist oriented objectives. In other words, government monopoly in manufacturing, distribution, transportation and finance was the order of the day. The measure of nationalization stifled the rising participation of national entrepreneurs in all sectors. After nationalizing and restructuring, trade organizations, the strategy followed was to structure them into wholesale and retail trading corporations and enterprises under the supervision of the then Ministry of Domestic Trade. Functional specialization was given to those wholesale trading corporations, one to take part in the wholesale trading of agricultural products and the other in the wholesale trading of manufactured products.

The participation of private organizations and individuals particularly in domestic wholesale trading activities was very limited. For instance, in food grain marketing merchants in Arssi, Bale and Gojam have been banned altogether. In Wollega and Gondar grain merchants have to surrender all their purchases to the Government owned Agricultural

Marketing Corporation (AMC); while in other surplus producing areas such as Shoa surrendered 50 percent of their annual purchases to the corporation.⁷ In the domestic wholesale trade of manufactured products Ethiopian Domestic Distribution Corporation (EDDC) was the sole monopoly and private traders were forced to take part in the trading items with slow rate of turn over allocated to them by the corporation.

Distribution Policy

The distribution policy followed during the Derg-regime was mainly a direct reflection of its ownership policy. As the ownership policy was based on socialist ideology the distribution policy was in favor of socialized sectors.⁸ Those sectors under public ownership and cooperatives were given priority in the distribution of goods and services. The private sector, on the other hand, was entitled for the residual. For instance, from 1985/86 to 1991/92 EDDC sold on the average 31 percent of its sales to private traders while the rest went to socialized sectors. Moreover, all of AMC sales was directed to government institutions and urban dwellers associations.

The most important strategies employed in the distribution of basic or essential goods where shortage was common were quota allocation and rationing. Basic commodities such as sugar, wheat flour, salt, etc. were under strict quota allocation. The then existing administrative regions were receiving their quota from EDDC depending on supply. After the quota allocation, rationing was

⁷ Peter Hopcraft, Grain Marketing Policies and Institutions in Africa, Finance and Development, March 1987, Vol. 24, No. 1, P38
⁸ Agricultural Pricing and Marketing Policy of Ethiopia A synopsis, December 1987, Addis Ababa, P.12

No. 76/1976. According to the proclamation:

- Trading activity is allowed only to proprietorship;
- No licensing to government employees;
- Wholesaling is limited to the capital ceiling of 300,000 Birr and retailing to 200,000 Birr;
- Only one business license and one business undertaking to an individual. Branch establishment was prohibited.
- An individual could get license only in a region in which he resides; and;
- License provision is tied to supply conditions;

It was hardly possible to get license for trading goods in short supply.

These restrictive licensing conditions to private traders were relaxed with the introduction of Mixed Economy Policy at the dying hours of the Derg-regime. Following the relaxation, so many new wholesale, retail and service licenses were issued to individuals and business associations. For instance, new licenses issued in 1988/89 before the relaxation of licensing conditions-were 3163, while this number went up to 30729 in 1990/91 i.e. after the relaxation of those restrictive licensing conditions.

13.1.2.2 Post 1991/92 Policies and Strategies

With the overthrow of the Derg- regime by E.P.R.D.F and the establishment of the Transitional Government of Ethiopia (TGE) inmid-1991 changes took place in the political, economic and social conditions of the country. No more highly *centralized* economic management. Rather the rule of market forces was institutionalized with some government *intervention when necessary*. The importance and constructive role of the

private sector in the national economy appreciated and an enabling environment for its operation created. The foundation for the changes observed was laid down with the adoption of the country's New Economic Policy during the Transitional Period. Subsequently, various proclamations, regulations and directives as well as reform measures were introduced so as to create favorable legal framework for the implementation of the adopted policy.

Review of Liberalization Measures

Trade liberalization, particularly that of food grain marketing was started in the previous regime as part of the reform measures envisaged in the policy of Mixed Economy. However, there was doubt on the side of the public about the continuity of the system as there was still heavy government hand in all sectors of the economy.

The first most important step taken was the removal of restrictions on traders. Private traders were allowed to operate side by side with government parastatals. Control on inter-regional grain movement was also removed and as a result price differentials between surplus and deficit areas were narrowed down. The Quota system-the main instrument in AMC's grain purchase was abolished.

Another major area of reform undertaken was price deregulation. The practice of fixing prices and enforcement of price controls was more or less abandoned.

The coming into power of the TGE, the adoption of the New Economic Policy and the subsequent measures taken under the New Economic Reform Program further consolidated the reform measures started in 1990 and introduced additional ones. This time, the reform measures have been

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done mainly through urban dwellers association and service cooperatives to final consumers depending again on supply and family size. But those urban dwellers not registered in Kebele Associations were not entitled even to rationing and as a result they were forced to buy those basic commodities at very high prices from private shops. Like wise, the movement of food grains from region to region by private traders was strictly forbidden. Only AMC had the mandate to move grain between regions and other public organizations were getting permissions to do so when a need arise. Restrictions on the movement of food grains by private traders adversely affected the consumers in deficit areas by pushing up grain prices, erode incentives of producers in surplus areas by depressing prices and hinder both the expansion of marketed supplies and the development of an integrated national market so important for the country's economic development'. In January 1988, the government announced that private traders would be issued permits to move grain as long as they agreed to sell half of their purchase to AMC at AMC buying prices. As of late 1988, there were reports of some private traders moving grain in some areas. However, there was a disincentive to trade in cases where the official prices at which traders must sell to AMC are lower than local prices at which they purchase grain.

Pricing Policy

During most all the period of the Derg the role of market forces (supply and demand) in price determination was more or less taken over by administratively managed pricing practices. No uniform pricing policy or procedure had existed across

* Ethiopia: Recent Economic Development and Future prospects, Vol. 1, The World Bank, 1984

sectors or commodities. In this section the pricing policies followed with regard to manufacturing and agricultural commodities will be reviewed.

The price of manufactured products which were considered very basic and in short supply was determined by the Ministry of Domestic Trade and announced to consumers through public notices. These commodities may be imported and/or domestically produced. After price determination price control was the next step to ascertain its implementation. The price of other manufactured products was determined on a cost plus basis. However, this mechanism of price determination had had its own limitation as it allows the inefficiency of manufacturing and trading enterprises to be transmitted to consumers in the form of additional costs

More problem was observed in the pricing mechanism of agricultural commodities or food grains. Based on the cost of production study undertaken by the Ministry of Agriculture, national farm-gate and wholesale prices of food grains were introduced in 1980/81 (1973 E.C). These fixed prices continued to be operational in the purchasing activity of AMC until 1987/88 (1980 E.C) where minor upward price modification was introduced. The upward price revision ranged from 6 to 10 percent depending on the type of crop. Official marketing of food grains with fixed prices ended with the introduction of the Mixed Economic Policy in March 1989/90.

Licensing Policy

Domestic trade licensing involves the issuance of licenses to wholesale, retail and service trading activities:

The licensing policy during the past regime aimed at limiting the participation of private traders as depicted in proclamation

all rounded ranging from macro economic to sectoral policies and are radical enough to bring structural change in the whole economy.

As a result of the liberalization measures undertaken so far in domestic trade:

- New entrants as well as established traders can move food grain freely from market to market;
- Access to licenses and legal recognition is easier now;
- Success has been attained in correcting the taxation effects through increasing prices, especially in the main producing areas, without raising prices in the main consuming areas;
- Substantial decline has been observed in the activities of parastatals and a shrinkage in their purchase and distribution network;
- The traditional private marketing system has shown revival;
- Parallel marketing have been terminated;
- Types of markets and market channels in both rural and urban areas are diversified;
- Private trade has appeared to be more efficient in making available goods in time and place compared with public sector trade;
- Better quality grain has been shipped to the central markets as prices are permitted to reflect widely agreed perceptions of quality differences;
- The private sector producer-consumer, margin has narrowed due to a sharp increase in producer prices, without change in the already inflated consumer price;
- Most grain markets have remained integrated both at local and national levels;
- Success has been observed in promoting a degree of market competitiveness at the primary level and at the central markets by inducing

a degree of marketing efficiency in private trade and enhancing self-employment;

- Private traders have started to take the initiative to invest in productive activities by leaving aside their heavy involvement in illegal trading practices;
- Markets have started to experience price fluctuation related to supply and demand; and
- As can be observed from the trend in the number of new domestic trade licenses (both wholesale and retail trade) issued; the volume of commodities handled and the number of participants in private trade have increased since the launching of the reform.

Review of Privatization Measures

Nationalization and Socialization were the basic economic principles of the previous government.

In the New Economic Policy, adopted by the then TGE and the now FDRE, Government commitment to have only limited participation in wholesale trade and its complete withdrawal from retail trade activities has been well expressed. The role of the private sector in running wholesale and retail trading more efficiently is fully appreciated. Towards the translation of its commitment in to practice, the government has created an appropriate institution by proclamation No. 87/1994-a proclamation to provide for the establishment of the Ethiopian Privatization Agency.

After doing a preparatory work for almost a year, the Agency started its full-fledged activity of privatizing public enterprises in February 1995 by selling retail trade shops and stores as well as small and medium sized hotels through tenders.

So far, a total of 126 retail trade shops and stores have been offered for privatization out of which 108 of them are sold (69 sold on tender basis while 39 sold directly to employees organized under a safety-net program). The remaining 18 are yet to be privatized. The fact that about 86 per cent of the offered shops and stores are privatized is a good start in private sector participation in modern retail trading activity.

In addition to the new licenses issued to domestic wholesale and retail trade participants and the privatization measure, the data from the Ethiopian Investment Authority also indicate private sector participation in investing in wholesale and retail trade activities. From July 1992 to April 8/1997, a total of 117 projects with a

capital of 387.5 million Birr and employment creation potential of 5408 have got certificates in the area of wholesale and retail trading activities. Their share, in the total number of projects certified, is 3.5 percent. Though, this share seems insignificant, it shows an attitudinal change on the side of the business community that have been accustomed to "air-to-air" trading practices for almost two decades.

The indicators outlined above revealed that the participation of private sector in domestic trade and in the national economy at large has been encouraging. Table 13.1 below depicts the profile of private sector participation in whole sale trade for the period July 1992-April 1997.

SUMMARY OF PROJECTS CERTIFIED
(From July 1992 - APRIL 8/1997),
OPERATIONAL AND UNDER IMPLEMENTATION
(From July 1992- January 8/1997)

Table 13.1

Project Status	Total	Wholesale & Retail Trade	Share of Wholesale & Retail Trade out of Total in %
1. CERTIFIED			
No. of Projects	3306	117	3.5
Capital in '000 Birr	25653317	387454.2	1.5
Employment Creation	202266	5408	2.7
2. OPERATIONAL			
No. of Projects	663	12	1.8
Capital in '000 Birr	4709257.7	33178	0.7
Employment Creation	27416	343	1.3
3. UNDER IMPLEMENTATION			
No. of Projects	475	12	2.5
Capital in '000 Birr	3501304.2	54006.6	1.5
Employment Creation	35013	352	1.0

Source: Ethiopian Investment Authority

13.1.3 Structure and Performance of Domestic Trade

13.1.3.1 Wholesale Trade Under Public Enterprises

Wholesale trade in manufactured and agricultural products was more or less under government monopoly during the past regime. Both imported and domestically produced manufactured products were allowed to be distributed under the sole monopoly of EDDC and agricultural products mainly through AMC. Even though, there were licensed private wholesale traders, most of them in manufactured products, they were forced to take slow moving commodities from EDDC. The next section reviews the establishment and performance of two government parastatals.

Wholesale Trade in Manufactured Products

EDDC was established by merging together nationalized trading organizations under Regulation number 13/1975 with an authorized and paid up capital of 10 and 5 million Birr, respectively. The main objective of the corporation was to strengthen the arm of government in the socialization of wholesale trade in manufactured products. At the time of its establishment, it was having a storage capacity of 28,000 Sq. Meter, 8 cargo vehicles, 18 branches, 338 workers and an annual sales turnover of 40 million. The position of the corporation was further strengthened by Regulation number 104/1987 with the intention of the government to fully socialize the wholesale trade in industrial products. This time, its authorized capital was raised to 90 million Birr and its paid up capital to 20 million.

After the downfall of the Derg, the corporation was restructured as Merchandise Wholesale and Import Trade Enterprise and its paid up capital raised to 50 million Birr by Regulation number 103//1992. The enterprise no more enjoys monopoly and has been left to operate under competitive environment. Stabilizing consumer markets and becoming profitable were the two main objectives of the enterprise.

The purchase capacity of the enterprise has shown ups and downs depending on the environment in which it operates. For instance, in 1982/83 the enterprise purchased goods worth 542.7 million Birr. This figure went up to 1,078.5 million Birr in 1986/87 while it plummeted again to 301.5 million Birr in 1994/95. The main reason for the big jump shown in the purchase history of the enterprise in 1986/87 was the directive issued from the government. According to the directive, producers were limited only to undertake production activities and distributors to fully undertake distribution activities.

As a result of this directive issued on the 8th of July 1986, the purchase figure more than doubled or exhibited a growth of 112 percent compared to the preceding year. However, after this big jump the purchase of the enterprise exhibited a declining trend until 1990/91; mainly reflecting the problem of the manufacturing sector in getting spare parts and raw materials. The observed revival in the purchase figure through 1991/92 to 1993/94 again fall dramatically in 1994/95; mainly due to the competitive environment created and the challenge faced by the enterprise from the private sector.

Regarding sales, its trend follows more or less that of purchase. The 567.5 million Birr sales registered in 1982/83 jumped to

1,145.6 million Birr in 1987/88 and fall back to 491.4 million Birr in 1994/95. Significant growth in sales transaction (a growth rate of 102 percent) took place in 1986/87 compared to the previous year. As explained in the purchase section, this spectacular growth is attributable to the directive issued from the government. At the time of its establishment, the sales turnover of the enterprise was 40 million Birr. The fact that this figure went up to 1,145.6 million Birr witnessed how giant the enterprise was made through years. Again the fall in sales transaction to 491.4 million Birr in 1994/95 is explained by the competitive environment created and the coming into play of other private forces.

Throughout the Twelve years history of the enterprise for which data are available, the lowest year-ending stock was registered in 1990/91 and the highest in 1993/94. The volume of ending-stock is mainly the direct reflection of the interaction of opening stock, purchase and sales activities. The cumulative effect of low domestic and foreign purchase due to under capacity production of the manufacturing sector and shortage of foreign exchange for direct import as well as the relatively better performance in sales account for the lowest year ending stock observed in 1990/91; while the lowest sale compared to purchase is the main cause for the highest year ending stock in 1993/94. The lowest sale intum resulted from quality and price problems of certain products like building materials and textiles. These products were available in better quality and at lower prices in the market outside the enterprise.

Another aspect of the enterprise that is worth mentioning is its employment creation capacity. In 1982/83 the number of permanently employed persons was 1672. This figure has gone up to 3328 in 1988/89 and has fallen to 2517 in 1994/95. From 1984/85 to 1988/89 employment showed an increasing trend.

However, the period 1989/90 through 1994/95 witnessed a decreasing trend in employment on a year to year basis. The growth in employment in 1986/87 compared to that of 1985/86 was very significant (52 percent); witnessing how the monopoly position of the enterprise was strengthened with the intention of the previous government to fully socialize the wholesale distribution of manufactured products. As manufacturing enterprises were prohibited to undertake any type of distribution activities by the directive issued in 1986/87; workers employed in the distribution section of those enterprises were transferred to EDDC and this was the main reason for the big jump in employment from 1985/86 to 1986/87. On the other hand, the lowest employment level observed in 1994/95 since 1986/87 is the result of the restructuring process that has begun in 1992. Table 13.2 below provides measure performance indicators for whole sale trade activities under public enterprises.

PERFORMANCE INDICATORS OF EDDC/MWITE

Table 13.2

Budget Year	Purchase ('000 Birr)	Sales ('000 Birr)	Ending Stock ('000 Birr)	Permanent Employees (#)
1982/83	542736	567484	NA	1672
1983/84	572809	596641	178095	1730
1984/85	435375	512159	128253	1696
1985/86	508803	565350	156426	1813
1986/87	1078510	1142240	210922	2762
1987/88	1068765	1145582	237573	3286
1988/89	900214	1108056	134700	3328
1989/90	760234	907686	117102	3307
1990/91	442531	572413	84811	3110
1991/92	473897	496270	88102	2931
1992/93	615623	674375	149006	2895
1993/94	846939	817565	325978	2613
1994/95	301494	491427	185405	2517

Source: Ministry of Trade Statistics Bulletin No. 4, Sept. 92; Annual Plan Execution Reports and Trade and Tourism Sector Study, Trade and Tourism Division (MOPED), July 1995.

NA = Data Not Available

Wholesale Trade in Agricultural Products

AMC was established with proclamation No. 105/1976 with the principal objective of executing Government's policy in the field of whole sale food grain marketing, procurement and distribution of inputs and maintaining national grain reserve. At the time of its establishment its authorized and paid up capital stood at 100 and 21.1 million Birr, respectively. With Regulation No. 103/1987, its authorized capital was raised to 130 million Birr and its paid up capital to 90 million Birr. The intentions behind this Regulation were to fully socialize the wholesale trade in food grains and coordinate wholesale trade in manufactured products with wholesale trade in food grains.

After, the downfall of the Derg-regime, AMC was restructured as the Ethiopian Grain Trade Enterprise (EGTE) with Regulation No. 104/1992. At this time its authorized and paid up capitals have remained the same as that of the Regulation issued in 1987. However, major changes in its form of

management and objectives have been effected. The management was made autonomous and its objectives mainly became stabilizing both producers and consumers markets.

One of the enterprise's performance indicators is purchase of food grains both from domestic and foreign sources. Domestic sources include service cooperatives, producers cooperatives, private merchants, state farms and other institutions. From 1980/81 to 1989/90, the share of the socialized sector in the enterprise's domestic purchase ranged from a high of 96 percent to a low of 55 percent while that of the non-socialized sector (the share of private merchants) from a high of 45 percent to low of 4 percent. And again total purchase from domestic sources varied between 100 per cent in 1980/81 to 45 per cent in 1994/95. In terms of absolute magnitude the enterprise's domestic purchase reached as high as 6.2 million quintals and its foreign purchase reached 3.2 million quintals.

The magnitude of foreign purchase largely reflects the weather condition prevailing in the country. For instance, foreign purchase rose to millions of quintals from 1984/85 to 1987/88 reflecting to the severe drought

and the recovery periods in the aftermath. In normal years foreign purchase has been limited to hundreds and thousands of quintals. At its peak purchase year (1986/87), the enterprise was able to mobilize a total of 7.7 million quintals of food grains both from domestic and foreign purchase sources. Significant decline in the volume of domestic purchase had been observed from 1983/84 to 1984/85 mainly due to drought and from 1989/90 to 1990/91 because of the 1990 reform measure undertaken by the previous government in the areas of food grain marketing.

The reform measures, though not comprehensive enough to change the whole economy, has ended the monopoly position of the enterprise in food grain marketing by easing entry barriers to private traders and creating a competitive environment; eased restrictions on inter-regional grain movement. As result, the reform benefited farmers in surplus producing areas and consumers in deficit areas through liberalization and stabilization of prices to the advantage of both producers and consumers

AMC's domestic purchase out of the total marketable surplus of the domestically produced food grains can also be taken as a rough indicator of the performance of the enterprise in food grains Marketing. The enterprise has purchased 35 percent of the estimated marketable surplus in 1980/81. This share has reached a maximum of about 62 percent in 1987/88. After this peak, the share has shown a steady decline and reached a trough of about 4 percent in 1993/94 mainly due to the effect of liberalization in food grain marketing.

Another performance indicator of the enterprise is sales of food grains and the activity was fully destined to organized

urban consumers such as the Addis Ababa Urban Dwellers Association, Ethiopian Food Corporation, Ministry of Defense, Ministry of Internal Affairs, Ethiopian Oil Seeds and Pulses Export Corporation, Relief and Rehabilitation Commission, etc. Most of the sales went to the first three customers. For instance, from 1985/86 to 1991/92 sales to the Addis Ababa Kebele shops, Food Corporation and defense was on the average about 81 percent of the total sale Volume of sales had been largely a reflection of customers demand, opening stock and domestic and foreign purchase. As a result of these factors, sales has fluctuated between a maximum of 6.8 and a minimum of 1.2 million quintals from 1980/81 to 1994/95. Particularly after the 1990 liberalization of food grain marketing, volume of sales depicted a decreasing trend because of the ending of the monopoly role of the parastatal.

It is normal for any business enterprise to hold some amount of goods as a commercial stock to meet the demand of its customers until normal production and/or harvesting time comes. Apart from this basic business principle, maintaining national grain reserve was one of the objectives assigned to the enterprise at the time of its establishment. But there was no directive limiting the amount of reserve to maintain and showing the cost coverage mechanism. Due to this, the year ending stock position of the enterprise was very high sometimes and very low at other times. For example, the year ending stock position of the enterprise in 1984/85 was about 0.9 million quintals of food grains; while it was 6.3 million quintals in 1987/88.

The enterprise had 1678 permanent employees in 1980/81. This level of employment, showing a steady rise, has reached a maximum of 3942 in 1989/90. The socialization drive was mainly responsible for this big jump in the level of employment. But as a result of the 1990

Table

Fiscal year
1980/81
1981/82
1982/83
1983/84
1984/85
1985/86
1986/87
1987/88
1988/89
1989/90
1990/91
1991/92
1992/93
1993/94
1994/95

Source:

liberalization of food grain marketing and the subsequent restructuring of the enterprise after the downfall of the Derg-regime, the number of employees was reduced to 2963 in 1994/95. Table 13.3

below describes the performance of the enterprises during the period 1980/81-1994/95.

PERFORMANCE INDICATORS OF AMC/EGTE

Table 13.3

Fiscal year	Purchase In '000 Qtl.*			Sales in '000 Quintal*	Estimated Marketable Surplus of Food Grain in '000 Qtl.	Share of AMC's Domestic Purchase from the Marketable Surplus in %	Stock Position at the end of the year in '000 Qtl.	Number of Employees at the end of the year (Permanent)
	Domestic	Foreign	Total					
1980/81	4369	516	4885	5317	12477	35.0	1444	1678
1981/82	4591	546	5137	4520	9219	49.8	2337	2040
1982/83	5738	375	6113	5423	10951	52.4	3145	2734
1983/84	4100	262	4362	6232	8783	46.7	2148	2825
1984/85	2312	1721	4033	5321	7436	31.1	862	2846
1985/86	4360	3218	7578	5572	8420	51.8	2769	3065
1986/87	6172	1572	7744	5573	10037	61.5	4940	3648
1987/88	5623	1280	6903	5513	9120	61.7	6327	3720
1988/89	4662	678	5340	6755	9693	48.1	5168	3917
1989/90	3146	292	3438	5404	8366	37.6	2566	3942
1990/91	1378	114	1492	3458	8149	16.9	1303	3707
1991/92	1035	349	1384	1641	10257	10.1	1178	3379
1992/93	1079	176	1255	1453	9579	11.3	1731	3251
1993/94	309	-	309	1210	8827	3.5	910	3159
1994/95	707	869	1576	2286	NA	INA	1120	2963

Source: Agricultural Marketing Corporation, Statistical Digest, August 1987 and Annual Plan Execution Reports of the Corporation and the Ministry of Trade.

*Purchase and Sales exclude grain obtained and transferred by Swap Mechanism.

NA = Data Not Available.

13.1.3.2 Wholesale Trade Under Private Enterprises

Private traders have the flexibility and efficiency to move goods better than government parastatals to areas where and when they are needed. Besides, they can efficiently supply to consumers at a lower cost. However, the extent to which they are able to compete effectively in the market is dictated by the capacity they have in terms of access to capital, storage and transportation.

Recognizing this fact, before the declaration of socialism in Ethiopia and subsequent nationalization of the major means of production and distribution, trade was in the main in the private hands and the role of government was limited to the regulation and promotion of the private sector. Since the issuance of the proclamation, however, the feature of trade has been completely changed and the whole thing became hostile to private sector participation. Private businesses were made owner operated, limited to only one type of business with no branches and there was a ceiling on the level of their capital.

Due to data limitation, it is hardly possible to discuss in detail about the purchase, sales, stock position, level of employment, initial capital, etc.; of private wholesale traders. But few points can be said about the level of their participation in terms of new domestic trade licenses issued for private wholesale traders in the pre and post reform periods.

During the 1988/89 fiscal year, 198 new domestic wholesale trade licenses were issued for private traders. During the third quarter of 1989/90, the previous

government introduced a policy of Mixed Economy that allowed for limited private sector participation by removing some of the then existing restrictions. As a result of this, 1868 new domestic wholesale trade licenses were issued during the same budget year (1989/90). This figure reached 14626 in 1990/91, showing a very dramatic growth rate of 683 per cent compared to the new licenses issued in 1989/90. This big jump was a clear indication of how in a hurry the business community was to exploit the opportunity created after so many years of restrictive business environment.

After the downfall of the Derg-regime, the Transitional Government of Ethiopia adopted New Economic Policy during the second quarter of the 1991/92 fiscal year. The New Economic Policy brought about fundamental changes in economic outlook, management and structure.

In May 1992 the TGE undertook another big step not only in legalizing but also broadening the scope of private sector participation by issuing proclamation No. 15/1992- a proclamation to provide for the encouragement, expansion and coordination of investment. These measures are believed to have brought attitudinal change on the side of business men who thought trade as the only area of participation to make up their mind and take part in other economic sectors. This fact can be partly substantiated by looking at the number of new domestic wholesale trade licenses issued in 1991/92 and 1992/93 which stood at 13946 and 3492, respectively. Both figures are lower compared to the one issued in 1990/91. (Table 13.4 Below).

New Domestic Trade Licenses Issued (1988/89-1992/93)

Table 13.4

Type of License	1988/89	1989/90	1990/91	1991/92	1992/93
Wholesale	198	1868	14626	13946	3492
Retail	1991	4641	12046	43911	26628
Services	974	1766	4057	9110	5122
Total	3163	8275	30729	66967	35242

Source: Ministry of Trade Statistical Bulletin, No. 4, Sept. 92, pp. 15 - 17 and Trade and Tourism Sector Study, Trade and Tourism Division (MOPED), July 1995, p. 36.

those organizations were in commodity distribution.

13.1.3.3 Retail Trade

Apart from whole sale trade, the previous government was also trying to have strong hold even in retail trading by organizing publicly owned retail trade enterprises like Ethiopian Retail Trade Corporation (ERTC) and Ethiopian Households and Office Furniture Enterprise (ETHOFE) and giving priority in commodity distribution to organized consumers such as Urban Dwellers Association in urban areas and Service Cooperatives in rural areas.

The level of government participation in retail trade can be demonstrated by looking at the activity indicators of ERTC. The purchase of ERTC from both domestic and foreign sources reached a maximum of 210 million Birr in 1992/93. Its sales value also reached some 256 million Birr in 1988/89 and number of persons employed permanently stood at 3066 in 1989/90. Regarding the participation level of organized consumers, from 1985/86 to 1991/92, both urban dwellers associations and peasant associations were having on the average a share of 35.1 percent in total EDDC sales; and urban dwellers associations only a share of 26.2 percent in total AMC sales. These shares indicate how favored

In the New Economic Policy adopted by the TGE, the government's commitment to withdraw from retail trading is clearly stated. Accordingly, tangible measures are being undertaken since 1994/95 to privatize government owned retail trade organizations. Due to this and other favorable conditions created after the coming into power of the TGE, the number of new retail trade licenses issued reached as high as 43911 in 1991/92; showing an annual average growth rate of 264.5 percent compared to the preceding year (Table 13.4 above). The New Economic Policy recognizes the participation of voluntarily organized cooperatives in retail trading, but they are no more been favoured and enjoy priority this time.

13.1.3.4 Petty Trade

Unregistered and unlicensed household-run economic establishments/activities including small shops and other retail trades and sales of local drinks and food are included under petty trade. As the activity is unregistered and not licensed, it is hardly possible to shade light on its performance in quantitative terms. But there is a general belief that many households in urban areas earn their livelihood from this activity.

The survey carried out by the Central Statistical Authority (CSA) in collaboration with the Ministry of Labour and Social Affairs (MOLSA) on urban informal sector for the year 1996 G.C. is a major step forward in giving highlights about petty trade, among other informal activities, in quantitative terms.

The Survey conducted covered Seven sub sectors with a total number of 584,913 establishments and estimated current value of fixed assets of 1,973.9 million Birr. Trade, Hotels and Restaurants (one of the Seven Sectors covered and mainly consisting of petty trade) has employed 295,376 persons in its 244,857 establishments/activities. As per this one time survey result, its share in employment stands at 40.4 percent. The contribution of the sector to value added at market price stood at 30.6 percent - by contributing 236.7 million Birr in absolute terms in the year under consideration. It stands next to manufacturing in terms of its contribution to number of establishments, employment and value added. Out of the 244,857 establishments, only 93,782 or 38.3 percent have fixed locations.

Regarding capital, about 66.8 percent of the petty trade establishments do have an initial capital of up to 250 Birr and 11.8 percent initial capital with in the range of 251-500 Birr. The three main sources of initial capital in the order of their importance are:

- own Saving,
- borrowing from friends/relatives, and
- assistance from friends/relatives.

Of all the 244,857 establishments, 68.3 percent are located in the Addis Ababa, Amhara and Oromiya Urban Centers. Of the total 2,604,172 household members earning their livelihood more or less from

the sectors covered under the survey, 1,081,314 or 41.5 percent are from petty trade activity.

13.2 Tourism

13.2.1 Background

Tourism deals with the movement of people away from their normal residence for holiday, recreation and leisure activities, business, meetings, visiting relatives and other purposes. International tourism involves persons traveling to different countries while domestic tourism is the travel of persons within the territory of their own country.

Half a century ago, tourism was a peculiar little industry mainly based in western Europe and USA. It was viewed largely as a frivolous endeavor largely within the domain of those with a lot of time and money on their hands with no better way to spend it. As standard of living, levels of education and means of transportation and communications improved, the ability and willingness of the world upper, middle-upper, and middle class to travel increased.

Tourism has significant economic and social benefits. Among the many benefits derived from the sector, the following are the major ones:

- promotion of foreign exchange earnings;
- the development of areas with no other immediate possibilities of expanding economic activities;
- creation of new jobs;
- a boost for the local production of goods and services consumed by tourists;

Tourism

- the generation of more tax revenue for the government;
- the integration of national cultures and societies and safeguarding of the national cultural identity;
- reasonable returns on investment in the sector, and
- the promotion of the sort of image of any country that attracts holiday makers and above all foreign business men and government leaders as part of the drive to step up international political and economic cooperation.

Nowadays the sector is one of the major economic sectors in the world and is expanding at a steady rate. By the year 2000, Tourism is expected to become the largest industry in the world and international tourism will constitute the biggest component of international trade. As indicated in World Tourism Organization's (WTO) report, the volume of world tourists in 1990 was 459.2 million and the number had reached 546.3 million in 1994. World receipt from this movement also increased from USD 264.7 billion in 1990 to USD 346.7 billion in 1994. However, the benefits of these developments may be skewed towards Europe and America as current trends has revealed. For instance, in 1994 about 60% and 28% of world tourists visited Europe and America respectively while 50% of the total world tourism receipts went to Europe and 27% to America. During this time the share of African tourism was only 3% in volume and 2% in receipts. This indicates the low development level of African tourism industry as observed in all other economic sectors.

Even within African countries, the volume and receipt from tourism was not evenly

distributed among countries. This was mainly because of the political instability and backwardness of many African countries. Tourism statistics compiled by the Ethiopian Tourism Commission also shows that from the total African tourism volume and receipts in the year 1994 and 1995, the lion's share went to only very few countries. Almost 60% of Africa's share in tourism both in terms of volume and receipt was accounted for by only three African countries namely, Morocco, Tunisia and South Africa. Ethiopia's share in overall Africa was not more than 0.5% in terms of both volume and receipt. This indicates that Ethiopia's status in the tourism industry is in its infant stage, despite the fact that the country's endowment with endemic natural and historical attractions is great.

Before the coming into power of the Derg-regime, Tourism was showing spectacular growth due to favorable policy environment, despite the existence of some organizational weaknesses. But during the socialist oriented command and central economic management system the sector had faced so many problems and its growth was retarded in relative terms.

For example, the volume of tourist flow and foreign exchange earning in 1973/74 showed a respective growth rate of 250.8 and 390.2 percent compared to the performance in 1963/64. The same variables in 1990/91 exhibited a growth rate of 101.8 and 171.2 percent, respectively in comparison to 1974/75.

Currently, the sector has gained momentum and recovery has been witnessed both in tourist flow and foreign exchange earning as the sector is given due emphasis in terms of policy, strategy and other supportive measures.

13.2.2 Review of Tourism Policies and Strategies

Policies

Ethiopia is among the countries of the world which possess great and unique tourist attractions. But, owing to lack of integrated policy, trained manpower and other financial and material support that had been vital for the development of the sector, proper utilization and administrations of these resources has not been effected.

The sector has relatively enjoyed favorable policy environment during the Imperial period. The Military Government that came into power in 1974/75 had also stated in its economic policy to give the sector due attention and promised to accord foreign tourists the traditional Ethiopian hospitality. However, unlike the policy statement that seems to be conducive to attract foreign tourists, the ideology that was being pursued and the propaganda work done at the time of the then government was against the interest of the major tourist generating developed countries. Moreover, lack of peace and stability as well as recurrent draught and famine changed the total image of the country from tourist attracting to tourist frustrating.

On the domestic front, facilities that used to provide services to international tourists during the Imperial period were nationalized by the Military government. Concomitant to this was the restriction imposed on the private sector to take part in high and medium level tourist service provision. Moreover, international tourists were obliged to accommodate themselves only in publicly owned hotels and to use the service of public tour operators.

The hostile environment for international tourists, the restriction imposed on private sector participation, the low level of public investment on tourism promotion and development, inadequate tourist facilities and underdeveloped infrastructure, all accounted for the poor performance of the sector in terms of tourist flow, foreign exchange generation and job creation.

After the demise of the military government, it is possible to say that, a new era has dawned for the healthy development of the industry. Recognizing the crucial role of the sector in economic development, the Transitional Government of Ethiopia (TGE) has given due attention to the sector in its Transitional Period Economic Policy. In the policy document:

The need for creating conditions for the sector's expansion and growth with private capital participation;

The issuance of appropriate regulation and directives to this end; and

The participation of private tour operators side by side with government tour organization on competitive basis; are clearly stated in the general economic policy of the country. More detailed sector-specific policy that facilitates the development of tourism industry is expected to be designed in the near future.

The new economic policy, the economic liberalization measures, various supportive proclamations and regulations of the sector issued by the government and the peace and stability attained in the country are believed to have provided the required impetus for the development of the industry.

Strategy for the Development of Tourism in Ethiopia:

On the basis of the general policy, the present government has designed short term, medium term and long term strategies to facilitate the rapid development of Tourism in the country which include the following:

Study, protect and develop the country's Tourist attractions

The State of Ethiopia's natural or man-made tourist attractions has been a cause for alarm for many years now. In this regard, the immediate aims are for Ethiopia to arrest the deterioration of its well known historical monuments and buildings, end the removal of items of national heritage from the country, halt the widespread game poaching, albeit human encroachment on wildlife sanctuaries and parks, mitigate deforestation and no less importantly preserve the various cultures of its peoples. In subsequent periods, the focus should be on the restoration and preservation of known attractions, identification study, and development of new ones.

Improve, Develop and Expand Tourist Facilities

In Ethiopia, tourist service providing facilities and organizations, such as hotels, restaurants, means of transport, tour operators, among others, are not standardized and classified. To improve the quality and amenity of hotel services in Ethiopia, the already commenced classification and standardization study of Hotels should be continued. The Ethiopian Tourism Commission and regional bureaux are expected to ensure that hotels catering tourists meet

standards set in accordance with their classifications or grades.

Tourism can help raise the demand for goods and services produced by the various sectors in the economy. In order to expand the foreign exchange earnings in tourism, local producers and manufacturers of food, beverages, furniture, equipment and construction materials should be encouraged to produce items that are good enough to substitute imports. The impact of these measures is envisaged to the medium and long terms.

With respect to international transportation, the Ethiopian Airlines is expected to be the principal carrier for tourists coming to Ethiopia in the short-run. The Ethiopian Airlines should therefore increase the frequency of its flights from countries where tourists originate to Ethiopia. The airline should invest on additional aircraft's for its domestic flights to tourist attraction sites. In the medium term, because of the growing demand for domestic flights there should have additional investment on small air crafts by the airline as well as by private investors.

Improve and Expand Tourism Infrastructure

Tourism infrastructure in Ethiopia at present is in a poor condition. Unless improvement and expansion begin in the immediate future, it would be a serious problem for the development of tourism. Here, particular attention should be given to water and electric power supplies, and other waste disposal systems, airports, roads, communication networks, etc. Their availability could safeguard health and ensure comfort and better access to tourist attractions while their absence or inadequacy is apt to make difficult the

continued marketing and promotion of the country as a tourist destination as tourists are health conscious and competition among destinations is keen.

The investment requirements for developing the tourism infrastructure mentioned above in the various regions which have tourist attractions will be high. In light of a possible limitation on availability of resources, it will be useful to set priorities among attractions and among types of infrastructure. It should nevertheless be noted that one means of attracting private investment to tourism development is to lay the necessary infrastructure in advance in the area having tourism potential.

Promote the Country's Tourism Resources

During most of the Derg Regime, war, famine and deprivation have been the distinguishing features of Ethiopia. The country's image has been marred for nearly two decades due to the social and economic policies of the previous government and the persistent poverty and famine. The sector is expected to campaign effectively to change Ethiopia's image abroad.

The Tourism commission along with private tourist service organizations and Ethiopian Airlines are expected to undertake promotional activities in the major tourist-generating countries like in Western Europe, North America, Far East, and the middle East.

Although Ethiopia is better endowed with valuable natural and man made tourism attractions as compared to its neighboring countries in Africa, it has not managed to attract as many visitors as even neighboring Kenya and Egypt. Hence, mechanisms should be devised by government and non governmental tourist

service agencies along with Ethiopian Airlines to render Ethiopia a major tourist destination and to help extend the length of stay of tourists. These, among others, are the major tourism development strategies.

13.2.3 Review of Tourist Attractions

Given its outstanding archeological and historic sites, scenic beauty, wildlife and national parks, arts and crafts and rich cultural diversity, Ethiopia has much unique potential for developing and enjoying its many benefits. The major attractions worth mentioning are outlined below.

Culture

Since around 2,800 B.C. the present day Ethiopia, known by the name "Punt", was an important and highly developed trade partner of Egypt. Paintings in Hatshepsut Temple in Deir el Bahari, Egypt, are the first-historical evidence of the existence of the country and people of Ethiopia.

Ethiopia's old and consistent history puts her together with Egypt, at the top of African countries with the richest historic and cultural resources. Highlights of the 3000 year old cultural history are:

- The historical towns of Aksum, Lalibela, Gondar;
- Various Buildings and monuments like Axum's stelae and other historical monuments and ruins of palaces and temples, Lalibela's intricately designed rock-hewn churches of the thirteenth century, the castles of seventeenth-century Gondar, the medieval walled city of Harrar in the east which had flourished for centuries as a center for caravan trade and Islamic culture in the

country are some of the major cultural and historical attractions;

- *Paintings and cave paintings;*
- Lucy, the first known human being, the skeleton of a 20 year old girl, exhibited in the National Museum of Addis Ababa, who is believed to have lived in Ethiopia 3.5 million years ago;
- Human technology: the oldest tools of human civilization which were found near Melka Konture, that dates back to approximately 1.5-2 million years;
- Monasteries, forming part of Ethiopia's 1600 year old history of Christianity, are frequently found to be the most beautiful sceneries;

Most of the cultural attractions are found in the Northern part of Ethiopia.

Land Scape

Ethiopia has had a dramatic geological past. As a result the country has one of the most diversified landscapes in the world:

- Steep mountains such as Ras Dashen-the so called roof of Africa which is more than 4,600 Mt high;
- Table mountains more than 3000 Mt high with settlements, monasteries and old churches;
- Deep canyons with dramatic wild water and waterfall like Nile Gorge or the Blue Nile Falls near Bahir Dar;
- Deserts such as the Dallol Depression, one of the hottest and the lowest depressions in the world;

- African Savannah land with authentic Tukul settlements and abundant wildlife;
- Rivers and lakes like the mysterious Lake Tana, which is the source of the Blue Nile, one of the longest rivers in the world;
- Caves such as Sofomar, which is also said to be the biggest cave in Africa; and
- Rift valley with its beautiful lakes, like Lake Ziway with its five islands and monasteries, Lake Langano with its beach, Lake Abyata with its best birds and national park, Lake Shala with its birds and National park, Lake Chamo and Lake Abaya.

All these make Ethiopia a unique destination for land scape seekers.

Wildlife

Ethiopia's dramatic geological past has placed a decisive role in making the country a beautifully endowed natural haven for many kinds of wildlife, creating numerous and unique habitats and ecological niches.

More than 800 species of mostly very colorful birds are found in Ethiopia, of which 27 are found exclusively in Ethiopia. And what makes Ethiopia different from other countries is that visitors can see these birds everywhere when traveling around this vast country.

- Jungle birds in the South west;
- Desert birds in the North west;
- Savannah birds in the west;
- Mountains birds in central Ethiopia.

So Ethiopia is an outstanding destination for all tourists interested in birds and a unique destination for bird watchers.

Ethiopia has more than 100 separate mammal species, including all major African mammals, which has made safan tourism in Kenya, Tanzania or Namibia so successful. Mammals such as Lions, Leopards, Cheetah, Hyena, Elephants, Giraffes, Buffaloes, Crocodiles, Hippopotamus.

In addition to this, there are also seven endemic mammals in the country, such as:

- Walia Ibex
- Simyen Fox
- Swyen Hartebeest
- Mountain Nyala
- Gelada Baboon
- Somali Wild Ass
- Menelik Dukule

All this makes Ethiopia a unique destination for all wildlife watchers in the world.

Ethnic Diversity

Ethiopia is believed to be a melting pot of peoples. The two main components are said to be Semitic speaking and Hamitic speaking people. But around 500 years ago increasing linguistic and cultural specialization had become the order of the day. This process went on until very recent times.

As a result of this process, the country is a home to some 58 million people speaking more than ninety five languages and dialects, writing in special characters, professing Christianity, Islam and until

recently an early form Judaism, plus a number of other faiths that are less familiar to the rest of the world.

There is today an incredible diversity of tribes including:

- Tignans in the Northern part of Ethiopia.
- Amharas in the North West
- Oromos all over central Ethiopia
- Harrarie in the East
- and many different tribes in the South such as the Mursi people, etc.

This rich ethnic diversity of smiling, colorful and friendly Ethiopians makes Ethiopia also a unique destination for people and society who would like to know more about the make up of the peoples of Ethiopia

13.2.4 Trends in the Inflow of Tourists

Global movement is to a greater extent dictated by trends in the economic conditions of the advanced countries that are the major participants in the tourism industry. In 1994 the economies of most of the industrialized countries came out of recession and the recovery since then has had a positive effect on global tourism.

Regional Distribution of Tourists by Country of Origin

Most of Ethiopia's international tourist flow originates from Africa and Europe as shown in table 13.5 below. The fact that both OAU and ECA headquarters are located in Addis Ababa is the basic reason for Africans to become dominant in international tourist flow. In the case of Europe the strong economic tie that the country has had to the continent (almost half of the country's export and import are

destined to and originated from European Economic Community member countries) and Ethiopia's membership to ACP as well as the relative geographic proximity that the country enjoys compared to other continents can be attributed as the major factors for Europeans to flow to Ethiopia. (See Table 13.5 below)

International Tourist Arrivals By Continent of Origin

Table 13.5

Region of Origin	Year in G.C									
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Africa	35005	36938	34635	35718	36463	40859	37168	38441	35607	37402
Europe	22057	20437	21069	21582	21993	24570	31804	35652	39198	40905
Americas	5470	4943	8144	8352	8513	9495	11740	13743	14917	15957
Middle East	5523	5335	7504	7746	7916	8842	6964	9300	12739	13538
Asia	7638	8661	7394	7590	7696	8562	9610	6097	6315	6771
Not Specified	757	530	600	593	632	744	784	103	109	159
Total	76450	76844	79346	81581	83213	93072	98070	103336	08885	114732

Source: Ethiopian Tourism Commission, Tourism Statistics Summary November 4, June 1997.

During the period 1988 to 1997 the continent of Africa on the average has a share of about 41 percent and that of Europe has a 30 percent from international tourist flows to Ethiopia. The remaining 29 percent has been accounted for by America, Middle East and Asia. With regard to the country of origin, based on the average from 1992-1997, USA generated the highest percentage of visitors and Italy stood second with United Kingdom taking the third position with a share of 7.2, 6.2 and 5.3 percent respectively (See Table 8a in the Appendix).

According to Table 13.6 below, international tourist arrivals from all regions increased after 1992 with an average growth rate of 5.9 percent per annum which sharply contrasts with the annual average growth rate which averaged around 2.2% per annum before 1992. The highest growth rate was recorded in 1993 with 11.8 percent per annum. Generally this improvement in international tourism flow is attributable to the various liberalization measures undertaken and to the peace and stability achieved in the country. (See Table 13.6 below)

**International Tourist Arrivals by Continent of Origin
Percentage Change Over the Previous Year (%)**

Table 13.6

Year/Region	1989	1990	1991	1992	1993	1994	1995	1996	1997
Africa	5.5	-6	3	2	12	-9	3	-7	5
Europe	-7	3	2.4	1.9	11.7	29.4	12.1	10	4.4
America	-9.7	64.8	2.6	1.9	11.5	23.6	17.1	8.5	7.0
Middle East	-3.4	40.7	3.2	2.2	11.7	-21.2	33.5	37	6.3
Asia	13.4	-14.6	2.7	1.4	11.3	12.2	-36.6	3.6	7.2
All Regions	0.5	3.3	2.8	2.0	11.8	5.4	5.4	5.4	5.4

Source: *Tourism Statistics*

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Tourist flow from Europe and America registered a continuous positive growth rate from 1990 onwards while that of other regions show ups and downs. The growth rate of tourist flow from Europe before 1992 was not that much significant but after 1992 the average growth rate rose to 13.5 percent and specially the highest growth rate was recorded in 1994 which was 29.4 percent and the least was in 1989 with a negative growth rate of 7 percent.

Tourists By Purpose of Visit

As per the records during the period 1992-1997, the structure of Tourism in Ethiopia, is described as follows:

- Business Tourists 26.5%
- Vacation Tourists 19.7%
- Transit Passengers 13.6%
- Conference Participants 10.8%
- Visiting Relatives 9.1%
- Not Stated 20.3%

Among the classified purposes of visit, the main important category for tourism

industry is vacation tourism as tourism by its very nature emphasizes vacation and site seeing. Growth in tourist flows averaged 7.1 percent during the period 1992 to 1997 showing an encouraging trend compared with the negligible growth records before 1991.

As a source of foreign currency receipts, conference tourists are very important. As described in the above classification the share of this category during the period 1992-1997 averaged 10.8 percent. This category of visitors are much more related with the availability of international conference center. In addition to this, attractiveness and coziness of accommodation places, with easy accessibility of natural and historical tourist sites would initiate visitors to take some days off for enjoyment hence elongating their days of stay which would improve national receipts from tourism.

Table 13.7 below depicts as the number of tourist bed nights has shown an average growth rate of 14 percent during the period 1992-1997. The highest growth rate recorded was in 1992.

Number of Tourist Bed Nights by Tourist Category

Table 13.7

Year G.C	Total	Rate of Growth (%)	Foreign	Rate of Growth (%)	National	Rate of Growth (%)
1987	748,521	0.6	310,862	25	437,659	-11.7
1988	777,491	3.9	324,913	4.5	452,578	3.4
1989	824,088	6.0	326,587	0.5	497,501	9.9
1990	774,759	-6	337,221	3.3	437,538	-12.1
1991	662,665	-14.5	349,719	3.7	315,946	-27.8
1992	884,138	33.4	353,655	1.1	530,483	67.9
1993	988,890	11.8	395,556	11.9	593,334	11.8
1994	1,043,280	5.5	417,312	5.5	625,968	5.5
1995	1,100,660	5.5	440,264	5.5	660,396	5.5

Source: Taken from Catering and Tourism Institute Model-Hotel project Document

1996	1997
-7	5
10	4.4
8.5	7.0
37	6.3
3.6	7.2
5.4	5.4

As can be observed from the Table above, the highest share of bed nights is taken by domestic tourists while the share of foreign tourists being about 40 percent on the average. From this, one can observe that the industry has a strong domestic base. But the relative share of domestic and foreign tourists in tourist bed nights should be reversed as one of the main objective of tourism promotion in the economy is to generate foreign exchange. To reverse the trend observed, an all round effort is required so as to attract foreign tourists and encourag them pass many nights. The effort may range from promoting the country's tourist attraction centers to investing in infrastructure, hotels and other tourist facilities.

The average length of stay for tourist, in Ethiopia varies with the purpose of visit. It ranges from 5 to 10 days for conference tourists, 3 to 5 days for vacation tourists, 20 days for hunting and safari tourist on average. Hotel records over the years show that average length of stay is 3.5 days and 4.5 days for domestic and foreign tourists respectively.

Trends in Hotel Occupancy Rate by Tourists

As shown in Annex table 8e, in 1994 Ras Hotel enterprise has the highest room occupancy rate while Hilton has the lowest. Ghion Hotel and Filweha performed nearly equally well while Ethiopia Hotel enterprise closely followed Ras Hotels. Bed occupancy rate nearly followed the same pattern while the Hilton stands first in terms of length of stay.

In 1995 Filweha Hotel performed best in terms of both room and bed occupancy rates and Ghion and Hilton hotels the lowest, the former in terms of room occupancy and the latter in terms of bed occupancy rates. In the case of average length of stay in nights, the Ghion hotel performed best.

The year 1994 is marked for its better performance both in terms of bed and room occupancy while 1993 is cited for its remarkable performance in terms of average length of stay for public hotels enterprises.

13.2.5 Trends in Foreign Exchange Earnings from Tourism

The Tourism industry in Ethiopia has been under performing in terms of foreign exchange generation compared to the potential that the country is endowed with. In this area neighboring Kenya is doing well, though its tourist attractions are limited in variety. For instance, in 1995 Kenya earned 411 million USD by hosting 902,000 international tourists while Ethiopia earned 36 million USD by hosting 103,336 tourists. From these performance indicators, expenditure per tourist in Kenya worked out to be 455.7 USD and that of Ethiopia 348.4 USD.

The foreign exchange earned from tourism was on the average about 6.3 and 8.2 percent of the foreign exchange earned from total merchandise export between the periods 1987-1991 and 1992-1996, respectively. Although the average during the period 1992-1996 shows improvement, still much more remains to be done compared to the country's potential. See Table 13.8 below.

Domestic Trade & Tourism

International Tourist Arrivals and Receipts

Table 13.8

International Tourist Arrivals**	Receipts from Tourism	Merchandise	Foreign Receipts as % of Merchandise
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International Tourist Arrivals and Receipts

Table 13.8

Year	Tourists Arrivals**		Receipts from Tourism		Merchandise Export Earning (In Million Birr)	Tourist Receipts as a % of Merchandise Export Earnings (%)
	Number of Tourist	Change over previous Year (%)	In Million Birr	Change over previous Year (%)		
0	1	2	3	4	5	6=(3÷5)×100
1987	73,144	-	29.6	-	765.6	3.9
1988	76,450	4.5	39.3	32.9	871.7	4.5
1989	76,844	0.5	42.9	9.2	935.0	4.6
1990	79,346	3.3	52.3	21.9	613.8	8.5
1991	81,581	2.8	38.8	-25.7	390.4	9.9
1992	83,213	2.0	57.8	48.8	523.4	11.04
1993	93,072	11.8	107.8	86.7	1007.5	10.7
1994	98,070	5.4	144.3	33.8	2062.4	7.0
1995	103,336	5.4	145.0	0.5	2602.3	5.6
1996	108,885	5.4	182.7	26.0	2783.1	6.6
1997	114,732*	5.4	230.2	26.0	-	-

Source: Tourism Statistics

* Provisional Data

** This figure shows tourists entering the country VIA Addis Ababa airport only.

Foreign exchange receipts from tourism comes from the provision of services: hotels, tour operation, duty free and duty paid, and souvenirs sales. As shown in Table 13.8 above, receipts from tourism increased from Birr 29.6 million in 1987 to Birr 52.3 million in 1990 showing an average growth rate of 21.3 percent per annum.

When we look at tourist arrivals, the average growth rate during these years was 2.8 percent. In-terms of receipts there was a sharp decline in 1991 compared to the preceding year but positive growth is observed in the case of tourist arrivals. This seems contradictory as receipts are positively correlated with tourist flows. However, reporting errors or differences in the length of stay may explain much of the mismatch.

Tourist receipts which stood at around Birr 57.8 million in 1992 increased to Birr 230.2 million in 1997. From 1992 to 1997 the growth was steady and a significant jump was registered from 1992 to 1993. This is again explained by the prevalence of peace and stability in the country and the devaluation of the Ethiopian Birr against the USD.

13.2.6 Government Investment in Tourism Promotion and Development

As one of the oldest nations in the world with beautiful scenic environments, several national parks with interesting wildlife, outstanding archeological and historic sites and such cultural diversity, Ethiopia has much potential for attracting tourists. However, the country has largely remained unknown as a tourist destination. Limited infrastructure development and lack of promotional activities in the international markets have among others deterred the growth of tourism in the country.

During the past regime tourism promotion activity was almost undertaken by the Ethiopian Tourism Commission. Private tourism operators were not allowed to participate in the tourism sector as had been true in other sectors. Because of this the private sector was not involved in tourism promotion and development activities.

Hence the responsibility of promotion and development of the tourism industry was solely shouldered by one government agency, i.e., the Ethiopian Tourism Commission.

Investment on Tourism Promotion and Development

Table 13.9

Fiscal Year	Trade Fairs. & Exhibition	posters and Brochures	Total	Fixed Physical Investment
1987/88	160,000	300,000	460,000	NA
1988/89	150,000	263,300	413,300	NA
1989/90	150,000	263,000	413,000	NA
1990/91	72,700	236,840	309,540	NA
1991/92	72,700	236,840	309,540	NA
1992/93	42,500	236,900	279,400	NA
1993/94	750,000	500,000	1,250,000	600,000
1994/95	673,900	437,000	1,110,900	2,012,300
1995/96	500,000	199,600	699,600	653,000
1996/97	700,000	500,000	1,200,000	NA
1997/98	800,000	550,000	1,350,000	NA

Source: Tourism Commission
N.A= Not Available

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As depicted in Table 13.9 above, overall government developmental expenditure on tourism promotion had been steadily declining during the period 1987/88 to 1992/93. However, it has picked up since 1992/93 and in the 1997/98 F.Y., showing an annual average growth rate of 37 percent.

A comparison of budget allocation for tourism promotion in Ethiopia's with some other African countries shows that Ethiopian Tourism promotion effort in this regard has not been sufficient to exploit the untapped tourism resources of the country and to change its previous image among countries with potential tourist flows to Ethiopia. For instance, Egypt, Tunisia and neighboring Kenya allocated budget for tourism promotion equivalent to USD 24.9 million, USD 16.5 million and USD 3.9 million, respectively in 1995. With regard to Ethiopia, the budget allocated for tourism promotion for the same year was USD 0.19 million.

Currently Ethiopian Tourism Commission has already started and encouraging private tour operators to participate in joint promotion activities of the sector. They are also invited to participate on trade fairs and exhibitions. This seems to be a good start for tourism development in the country.

13.2.7 Review of the Role and Participation of Private Sector in Tourism Development

As in all other sectors, private entrepreneurs were not allowed to participate in the development of the tourism industry during the previous regime. Their participation was confined to operating the small low graded hotel business activities and they were not in a position to provide services to international tourists. Tour operation was not also allowed to be the private sector. There was only one tour operator which was owned by the government.

It was after the mixed economic policy that the private sector started to participate in the tourism sector. It was after 1990 that higher standard hotels began to be constructed by private entrepreneurs and also private tour operators and travel agents mushroomed.

Recently there are more than 98 tourist standard hotels out of which about 58 hotels are owned by the government. The remaining hotels are mostly constructed very recently. There are more than eighty private travel and tour operators established during the past 6 years alone, and most of them are located in the capital city of the country Addis Ababa.

With regard to private investment in the tourism industry, the number of projects approved since July 1992 are 295 out of which 25 projects started service rendering and the other 72 projects are in the implementation phase (Table 13.10)

**Summary of Projects Certified (From July 1992-April 8/1997),
Operational and Under Implementation (from July 1992-January 8/1997)**

Table 13.10

Project Status	Hotel and Tourism Projects	Share of Hotel and Tourism Projects out of Total in %	Total
1. Certified			
No. of Projects	295	8.9	3306
Capital in '000 Birr	1,253,512.6	4.9	25,653,317
Employment Creation	12,372	6.1	202,266
2. Operational			
No. of Projects	25	3.8	663
Capital in '000 Birr	23,093.1	0.5	4,709,257.7
Employment's Creation	296	1.1	27,416
3. Under Implementation			
No. of Projects	72	15.2	475
Capital in '000 Birr	326,056.1	9.3	3,501,304.2
Employment Creation	2,855	8.2	35,013

Source: *Ethiopian Investment Authority*

The share of approved Hotel and Tourism projects in the national total is 8.9, 4.9 and 6.1 per cent in terms of number of projects, investment capital and employment creation potential, respectively. Moreover, visiting projects under implementation gives a more promising share for Hotel and Tourism projects. Besides, the ongoing privatization process of hotels and restaurants is another aspect to assess private sector participation in tourism. As at July 1998, 30 hotels and restaurants have been offered for privatization by the Ethiopian Privatization Agency, out of which 14 are privatized (10 sold on tender basis and the remaining 4 sold directly to employees organized under safety net programme). Though, the number of hotels and restaurants already privatized is less than half of what have been offered for privatization, it can be taken as a good indicator of private sector participation.

Generally, in a country where the tourism sector was totally reserved for government

for almost two decades, the participation observed so far by the private sector in investing in hotel and tourism projects is encouraging.

13.3 Outstanding Issues and Problems of Domestic Trade and Tourism

13.3.1 Domestic Trade

Demand outstrips supply as population grows faster than production showing that production or supply is the major bottleneck for the smooth functioning of the whole economy. Domestic trade as one sector of the economy is heavily affected by supply conditions. In economies like Ethiopia, supply in turn is highly influenced by the performance of agriculture. Anything positive to agriculture is good for both trade in manufactured and agricultural products. Agriculture plays a determining role in domestic trade.

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Although the role of agriculture in the country's economic development is well recognized, the sector has failed in meeting what is expected of it; as it is surrounded by so many structural and policy induced problems. Its failure in meeting the country's food needs has made it necessary to depend on food imports both in the form of aid and direct purchases. Its failure to supply raw materials for industry has increased dependence on imported raw materials and has further weakened the linkage between agriculture and industry, thereby adversely affecting the dynamic growth of the economy.

The unsatisfactory growth of food and agricultural production (below the rate of population growth) may be attributed to several factors other than the draught. These include: inadequate supplies of fertilizers, other support services, inadequate farmers' incentives, and restrictions on the transport and trade of grains. Even the limited supply of modern inputs and services was directed to favored sub sectors such as state farms and producers cooperatives that account only for 5-6 percent of agricultural production.

Another area of constraint for the smooth functioning of domestic trade is underdeveloped infrastructure especially in the form of road network, transportation system, storage and credit facilities.

Ethiopia has had long traditions of open, competitive marketing, with flexible prices that vary predictably with the scarcity of the commodity, its quality and with transport and storage costs. These marketing systems were efficient, responsive and self-financing and were ideally suited to dispersed small holder economies with variable rainfall and changing market conditions. Instead of building on these market institutions and

improving their competitive performance with improved and adequate infrastructure, the previous government introduced restrictive controls, fixed prices and large monopolistic agencies with no effort in investing in infrastructural networks that facilitate rural-urban market integration.

All the measures undertaken so far by the Federal and Regional Governments in tackling infrastructure deficiencies mainly in rural areas have started to yield positive outcomes in input and output marketing as well as in achieving market integration. However, further concerted effort is required to overcome the long overdue problems of trade sub-sector

Information flow on price, demand and supply conditions is the other basic factor that affects the efficiency of domestic trade. Information is a power to bargain and make decisions on what to produce and how much to invest. It also improves competitive performance and facilitates market integration. Lack of timely and accurate market information hampers market performance and hurts both producers and consumers; particularly poor and remote farmers, traders and consumers will be on the disadvantageous position. There is, therefore, an urgent need for a system of generating and disseminating timely and accurate market information.

The other basic issue in domestic trade that is worth mentioning is consumers protection. Any goods transacted must contain the necessary marketable quality; meaning, the good must fit the job that the buyer would reasonably expect of goods of that type. This condition is fulfilled when traders clearly understand as the goodwill of customers is extremely important for the success of their business. However, it is possible to say, many businessmen in Ethiopia are not well

aware of this fact. Selling below standard products such as adding banana to butter and clay sand to pepper are the usual phenomena. This is common for non-established businesses whose policy is "hit and run".

As more competitive business environment is created and new established business men who give priority for their reputation come into the trading business scenes, the tendency to cheat consumers will be minimized. In addition to this, institutions involved in standard setting should strengthen themselves to enforce their standards and here by protect consumers. If established, business associations can play a role in protecting consumers by developing a code of business practice to be adhered by their members. The creation of consumers associations and the forum to hear their complaint are also the other dimensions to think about; taking for granted, already, the existence of the legal framework to protect consumers from unfair trading practices. In the absence of a legal framework, priority should be given for its institution.

13.3.2 Tourism

Current trends in the world show that the tourism industry is becoming the leading sector and major employer in the world economy. The travel preferences are also increasingly shifting in favor of destination in non-industrialized and lesser known countries which are endowed with ancient cultures and less disturbed ecologies. Ethiopia offers these demanded attractions and it has the potential to become a unique and internationally competitive tourist destination. Given all the tourist attractions, tourism in Ethiopia is still at its infant stage. The key observed constraints to the growth and development of the sector, among others are:

- Lack of coherent product identity;
- Lack of effective international marketing strategy and action in the market place;
- Lack of harmonization between those administering tourist attractions and tourism operators;
- Poorly qualified and weak manpower base in the sector;
- Lack of demarcated national parks;
- Lack of policies and laws ruling the conservation and proper care of wild life;
- Lack of infrastructure around the tourist attraction area i.e. lack of basic utilities like clean water, electricity, telephone networks, health facilities, road transport etc.;
- Cumbersome tourist formalities pose problems on the smooth entry of tourists;
- Lack of awareness among the people that natural and cultural resources are precious and should be protected and developed for the continued benefit of all;
- Lack of organized information about the sector which lead to lack of input for different purpose ;
- Lack of comprehensive joint international promotion activities with the private sector and Ethiopian Air lines and
- Limited amount of promotional materials.

Given the ongoing government efforts towards tackling the aforementioned constraints much more needs to be done through the concerted effort of private participants and public bodies like that of the Ethiopian Tourism Commission.

Chapter 14

Transport and Communication

14.1 Road Transport

14.1.1 Background

In the history of modern transport in the country, road transport services take the forefront which accounted for more than 95% of the total volume of ton km and passenger km being transported while the remaining 5% is accounted for by other forms of transportation. In the domestic freight traffic flow, scantier amount is conveyed by air and inland water transport.

Following the rooting-out of Italian aggressors from the face of Ethiopia, the transport sector was in disarray for a long period of time. The need to put the sector into shape was so invoking that Proclamation No. 16/1943 was promulgated portraying for the first time rules and procedures to be adhered by investors in the sector.

In the course of time, it was increasingly asserted that revenue accruing to transport operators ought to be commensurate to the services rendered by them. Thus, by 1960 a proclamation came into force by fixing transport tariff. After successive improvements, a government organization named "Road Transport Administration" was instituted bestowed with the responsibility of overseeing the safety and quality of passenger and freight transport services, issuing license, regulating area of operation and trip schedule. In 1969, the mandate of yearly inspection of vehicles, and issuing of driving licenses was transferred from the municipality to the authority and this continued till 1976.

The Imperial Regime had taken such important steps which shaped the transport sector.

After the take-over of power by the Derg, the cropping up of private transport operators was stifled and road transport operations came under state regulation and control following the state proclamation of 1976 which helped establish two state agencies under the Ministry of Transport and Communications namely the Road Transport Authority (RTA) and the National Road Transport Corporation (NATRACOR). The proclamation charged RTA with the responsibilities of determining vehicle size and weight, registration and inspection of vehicles, issuing licenses, setting road transport tariff as well as enforcing safety and load regulations. The NATRACOR on the other hand was given the power to provide road transport services using state owned trucks and buses, and control the private commercial fleet owned by road transport companies and individual operators as associates.

As the need to partition the NATRACOR into small and manageable units became apparent, two government parastatals namely Freight Transport Corporation (FTC) and Public Transport Corporation (PTC) were brought into existence as a result. To centralize the management of transport operations, the country was divided into six freight and seven passenger transport zones ("Ketenas") complying with the 1976 provision. These two government organizations were preoccupied with route, cargo and passenger assignment to operators.

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The Ethio-Djibouti (CDE) railway is a single track with 781 km. length having one meter gage jointly owned by the governments of Ethiopia and Djibouti. Construction of the railway commenced in 1897 within the demarcation of Djibouti which later on reached Dire Dawa in 1902. The rail way was not extended to Addis Ababa until 1917. The railway was originally built by the French who were involved with its management for many years. The 1981 treaty between the government of Ethiopia and Djibouti replaced the previously existing organization, the "Compagnie du Chemin de Fer Franco - Ethiopien de Djibouti a Addis Ababa" with the present binational organization the Chemin de Fer Djibouti - Ethiopien (CDE)."

The Ethiopian Airlines (EAL) was established in 1945 with paid up capital of 2.5 mill. Birr. It started operation with five DC-3 air crafts from the U.S.A World War II surplus. The first scheduled flights were domestic ones connecting Addis Ababa with major towns of Dire Dawa, Asmara and Gondar. A few months later, however, the service was extended to neighboring cities of Cairo, Djibouti and Aden. The total workforce at that time was only 159. The airline by joining the jet age shuttles and higher capacity air crafts is currently entertaining scheduled and chartered services loan even wider part of the world.

The Ethiopian Shipping Lines (ELS) was set up in the year 1964 and began operation in 1966 by deploying three newly built vessels (two cargo and one oil tanker) in the Red Sea and North Europe trading routes. The start up capital was contributed by the Ethiopian government amounting 49% and the rest by foreign companies. This mode of ownership was annulled after two

years of service by scrutinizing the services of the organization which are highly attached to the benefits of the country. Thus, ownership become within the full grip of the government. Since then, much alteration have been made on its organization and vessels type to meet the growing domestic demand for shipping services and to cope with international competition.

Before the advent of the Derg, there were many national and foreign private transitors alongside three government owned organizations namely Marine & Transit Service under the Ethiopian Shipping lines, Ship Transit Enterprise under Ministry of Foreign Trade and, Transit Service Organization under Ministry of Transport. All these were merged together in 1978 and formed one giant Marine and Transit Service Corporation which monopolized the market without any potential competitor. Following the fall of the Derg, private transitors and forwarders have been allowed to participate in the market.

14.1.2 Review of Policy Measures in the Transport Sector

The commercial road transport industry in Ethiopia was so unique, having characteristics which differ markedly from such industries elsewhere. These unusual characteristics were partly the result of deliberate policies introduced under the Derg regime which placed the entire commercial truck and passenger transport sector under effective control of the state, and partly the consequence of the major food relief programs which have been necessary since the early 1980's. Food relief has become one of the major freight flows in Ethiopia accounting for 20-25 per cent of ton-kms transported and generated a relief transport sector which used to operate

more or less independently of the commercial sector.

The very monumental policy change in the sector occurred during 8 May 1992 heralding the deregulation of freight transport industry with the statement issued by the Ministry of Transport and Communications. This statement annulled proclamation No. 107/1976 that put the sector under close state regulation and control. The main content of this new policy included:

- Zonal transport offices (ketenas) established according to the proclamation No. 107/1976 to control & regulate commercial road transport operations were closed down;
- Freight rates were no longer to be fixed by government authorities;
- Private operators were no longer required to report to government agencies for their route and cargo assignment;

Regarding passenger transport, modest deregulation was effected prior to the change in the political regime whereby tariff-fixing for mini buses was terminated. The process continued and extended to midi-buses by the issuance of directives from the Ministry of Transport and Communications in September 1994.⁷

The tariff and operation of intercity buses are still regulated in the sense that they operate according to trip schedules prepared on a monthly basis by RTA and association representatives with fixed tariff for the routes. Middle

⁷ Mini-buses are those with less than 12 seats while that of midi-buses includes buses with seats between 12 to 30. This is but a general classification.

and Maxi buses are still operating in one of the seven passenger transport zones. These practices are a continuation of the pre-deregulation period, but the retention of this practice is strongly desired by the private operators mainly because of the fear of cut-throat competition among themselves.

Major liberalization of the transport industry begun with the government's Proclamation No. 14/1992. The proclamation emphasizes the promotion of efficiency and equitable distribution, and regular services provision for passenger and cargo transport. It permits individuals to operate either as associates of government enterprises as they used to be or establish their own companies, or organize themselves into independent associations.

Following the 1992 proclamation, many of the private commercial freight and passenger transport operators left the corporations and formed their own independent associations. Some, however, continued as associates of government enterprises. At the moment, entry into the existing association is free. Any group of individuals can obtain licenses to form associations provided the minimum requirements are met. These include:

- Having a minimum of 50 members in the case of freight transport and 30 in the case of maxi-buses, and should not exceed the maximum fleet size set by RTA;⁸
- Submitting the list of members to RTA;

⁸ The maximum fleet size requirement for associations should not exceed about 300 vehicles and the purpose is to promote competition by avoiding monopolistic tendencies.

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- Having mobile c

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- Ensuring that they have office facilities with relevant staff, managers and accountants;
- Having printed freight orders, tickets, mobile cards and other forms.

The procedure to obtain licenses for private and share companies is more or less the same except that no limit is set concerning the number of trucks and buses they are supposed to have. In a nut shell, deregulation of the industry and domestic market liberalization has in effect substantially diminished state monopoly in the road transport industry.

The mammoth capital outlay needed to take part in the rail transport services is a handicap to the private sector. The cost of power units like locomotives and auto rails, conventional trains, passenger coaches, wagons and the physical infrastructure like the construction of rails, sleepers and other sidetracks are well beyond the reach of the private sector. As a result, proclamation No. 37/1996 vividly presented that rail transport services are reserved for the government.

Besides, any domestic potential investor is welcome to join the air transport industry using aircraft with a capacity of up to 20 passengers or with cargo capacity of up to 2700 kg as plainly stated in the Investment (amended) Proclamation No. 116/1998. In this regard, 4 domestic investors are licensed to operate in the commercial air transport services while Midroc Ethiopia takes license for own use (non commercial one).

The revised investment proclamation as well relaxed areas of investment that were formerly the protected right of the government. For instance, investors are by now allowed to invest in telecommunication services in

partnership with the government which was an entirely impossible area before the amendment. No investor has yet appeared to acquire investment license up until 11 June 1998, the date in which the proclamation come into force.

The Ministry of Transport and Communications as per the Proclamation No. 4/1995 is bestowed upon the responsibility of expanding, and supervising air, rail and sea transport services as well as postal and telecommunications services; regulate maritime and transit services as well as road transport services that link regions. Thus, those organizations which are being engaged in the system are accountable to the Ministry. These includes freight and passenger transport enterprises or government parastatals, and the private sector, the Road Transport Authority, the Ethio-Djibout Railway Enterprise, the Ethiopian Shipping Lines, the Marine and Transit Service Enterprise and private clearing and forwarding agents, the Civil Aviation Authority, the Ethiopian Air Lines, Postal Enterprises, and the Telecommunication Corporation.

14.1.3 Road Transport Service

Referring to the pre-reform structure, all commercial road transport operators were organized into regional "ketenas" which were then managed either by the Ethiopian Freight Transport Corporation (EFTC) or the Passenger Transport Corporation (PTC). These parastatals not only operated large fleets of truck and bus themselves but also managed the rest of the sector.

In the case of trucking, EFTC acted as the commercial trucking organization. In addition to its own fleet, EFTC controlled all the private sector operators as its sub-contractors. EFTC would thus obtain the business, allocate

loads to individual truckers, organize payments and others. An individual truck owner was effectively responsible only for operating and maintaining his/her vehicle. For these commercial services, the private operator paid a 5 per cent commission.

Following the deregulation, EFTC was re-organized into three dry cargo trucking enterprises namely Comet, Bekelcha, and Shebele, and a bulk oil transport enterprise named Woira in which each of the parastatals still retain a number of associates as sub-contractors. The enterprises' fleet size range between 150 - 200 vehicles comprising the newest of the ex-EFTC vehicles.

In addition to these parastatals, four haulier companies have been established to provide employment and income for workers retrenched from different governmental organizations. These are Tarik Public and Freight Transport share Company with 23 freight vehicles, Nib, Noah, and Abisinya Transport Share Companies having 80, 179, and 118 freight vehicles which altogether constitute 400 freight vehicles. These companies were established through the social safety-net program.

Besides, government policy has clearly indicated that road transport will be primarily a private sector activity and there is almost universal experience that a vigorous and competitive private sector produces efficient low cost transport services. Following the deregulation as of 14 August 1992, there have been 38 private freight transport associations with a total fleet size of 5373, 41 freight transport companies having 1250 freight vehicles and 162 independent freight transport

operators with 302 trucks giving rise to a total fleet size of 6,925.

By the same token, deregulation of the inter city passenger transport sector ended the dominant role of the PTC and the ketena system, transferring responsibility for regulating the sector to the RTA. Subsequently many of RTA's operational powers and responsibility were devolved to RTBs. After a period of continued control, the government also withdrew from its fare schedule setting roles for the mini and midi bus sectors, retaining control only over inter-urban maxi - buses and intra-urban bus transport. The operational role of PTC in the sector was taken up by an inter-urban bus enterprise namely Walia, and the Addis Baba urban bus enterprise called Anbessa. Walia currently owns 88 operational maxi buses which are assigned across 130 routes of long; medium, short and round distances all over the country .

Urban transport has still remained regulated. Conventional urban bus transport is confined to Addis Ababa and to a limited extent in Jimma which remains the effective monopoly of the parastatal enterprise Anbassa. Service is being provided by deploying 326 buses of ages ranging from 2 - 17 years with a daily availability of 87 per cent. The city of Addis Ababa is divided into 5 zones namely Yeka, Merkato, Piyassa, Aratkilllo and Legehar surroundings so as to coordinate the provision of the service.

As of 14 August 1998, private bus operators are organized into 26 public transport associations with 3883 buses, 6 passenger transport companies managing 89 buses and 3 independent passenger transport operators owning 5 buses constituting a total fleet size of 3977. The private operators still stick to

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Source:

areas previously defined by the "ketena" system. Most associations continue the system of rotating routes among their members every 15 days. This rotating pattern of operations was initially required when passenger fares were fixed by government and did not differentiate between routes of varying profitability. The system has been maintained now in an attempt to protect the weakest bus owners with the oldest and least efficient vehicles. The schedules are determined by the association and then registered by the relevant RTB Offices.

14.1.3.1 Review of Fleet Size

The total volume of registered fleet size has been increasing during the post reform period with an average annual growth rate of about 8 per cent. In absolute terms, fleet size for road

transport increased from 60576 in 1990/91 to 96502 in 1996/97. The total fleet size is dominated by private cars which account for about 42 per cent of total fleet size on average during the period 1990/91 to 1997/98. The next dominant type of vehicles in Ethiopia are trucks (with varying capacity of up to 180 quintals) whose share in total fleet size was about 23 per cent. Over the period 1990/91 to 1996/97, the number of trucks have been growing faster than any other vehicle with average growth rate of 15 per cent per annum; their share in total fleet size likewise increased from 19 per cent in 1990/91 to 24 per cent in 1996/97. Private cars, though dominant in number have been growing by 5 per cent per annum with the share in total fleet size declining from 46 per cent to 35 per cent between 1990/91 and 1996/97.

Registered Vehicles By Type And Size

Table 14.1

No.	Type of vehicle	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1	Private cars	26717	28423	30902	35686	35219	37906
2	Station wagons	10421	5636	6094	6101	7847	8090
3	Taxi less than 5 seats	1004	2070	1705	1850	1935	2057
4	Taxi 5 - 12 seats	3267	3163	3164	4455	5060	4465
5	Buses less than 30 seats	2853	1491	5453	6994	7567	9635
6	Buses above 30 seats	807	551	889	1699	2387	2625
7	Truck upto 70 Quintals	6813	10630	10347	11069	11492	12286
8	Trucks 71-180 Quintals	5019	5590	5866	8504	10713	10996
9	Trailers	1185	1903	1761	2505	3227	3698
10	Truck-tractors	497	737	515	480	1286	1108
11	Semi-trailers	323	271	478	360	971	190
12	Tanker	542	908	760	1191	994	1085
13	Tanker Trailers	250	600	276	877	900	856
14	Semi-tanker-Trailers	54	28	44	7	7	36
15	Motors, machinery & special equipment	1017	1087	1465	1501	2252	1469
16	Unspecified vehicles	-	1432	-	-	-	-
Total		60769	64520	69719	83279	91857	96502

Source: Ministry of Transport and communication (Statistical Bulletin

The third largest stock of vehicles belong to the group of buses with seats above and below 30 persons. Except for a decline in the first two years of the reform period, their fleet size has been increasing steadily accounting for about 10 per cent of total fleet size since 1993/94. However, more than 75 per cent of buses are mini-buses with less than 30 seats. Station wagons which are largely under the services of government institutions and non-governmental organizations account for about 8 per cent of total fleet size since 1992/93; their share has been more than 15 per cent in the preceding years. Taxis closely follow station wagons with 7 per cent share and their number has been increasing at 8.5 per cent per annum during the post reform period. Unlike buses, the total stock of registered taxis is dominated by those with seats for 5-12 persons (about 70 per cent).

The total number of vehicles including the major ones described on Table 14.1 above has been growing fast during the period under review with a serious implication on the need for additional roads and, maintenance and upgrading of the existing ones. Lack of a commensurate increase in the road stock inadvertently affects the efficient utilization of vehicles, increases the maintenance and operational cost of vehicles and lead to widespread traffic accidents.

14.1.3.2 Freight Rates of Road Transport

Following the deregulation of road transport in May 1992, freight transport has been operated on competitive basis among all freight operators, public and private. Public enterprises like the private ones were allowed to set their own freight rates based on the prevailing market situation. Accordingly, the Ministry of Transport and Communications compiles data on freights rates of both public and private enterprises (represented by selected freight transport associations) for some major routes on monthly basis. However, for the purpose of this report, data have been summarized on annual basis for broader comparison of trends in freight rates for major routes and among private and public freight operators.

Freight Rates of private and Public Enterprises by Major Routes

Table 14.2

(cents/quintal/Km)

Routes	Type of fleet	Private Operators						Public Enterprises					
		91/92	93/94	94/95	95/95	96/97	97/98	91/92	93/94	94/95	95/96	96/97	97/98
Addis Ababa-Assab	T/Trailer	3.433	1.724	1.842	2.010	1.823	1.870	3.483	2.017	1.846	1.372	1.516	1.493
Assab-Addis Ababa	"			3.052	3.183	2.849	3.033			3.079	3.166	2.880	2.838
Addis Ababa -Jimma	Truck	3.433	3.381	3.85	3.517	3.548	3.517	3.483	3.662	3.762	3.913	3.537	3.389
Jimma -Addis Ababa	"			3.483	3.483	3.515	3.483				3.731	3.599	3.413
Addis Ababa-D.Dwaw	Truck	3.483	3.870	4.551	3.895	4.118	3.817	3.483	4.037	4.254	4.283	4.004	3.585
D.Dawa-Addis Ababa	"			2.913	2.596	2.318	2.585				3.259	2.571	3.070
Addis Ababa-Mekele	Truck	3.483	3.614	3.817	3.741	3.950	3.474	3.483	3.993	4.420	3.834	3.369	3.627
Mekele-Addis Ababa	"			3.586	3.585	3.534	3.597				3.784	3.590	3.420
Addis Ababa-Nekempt	"	3.483	3.384	3.535	3.491	3.491	3.429	3.483	3.662	4.510	4.632	3.511	3.737
Nekempt-Addis Ababa	"			3.483	3.529	3.515	3.483			3.550	5.430	3.683	3.532
Addis Ababa-D.Markos	"				3.585	3.716	3.585				3.740	3.667	3.875
D.Markos-Addis Ababa	"				3.585	3.569	3.585				3.695	3.590	3.536
Aggregate Average	"	3.483	3.195	3.437	3.334	3.329	3.248	3.483	3.408	3.679	3.625	3.295	3.309

Source: Road Transport Authority

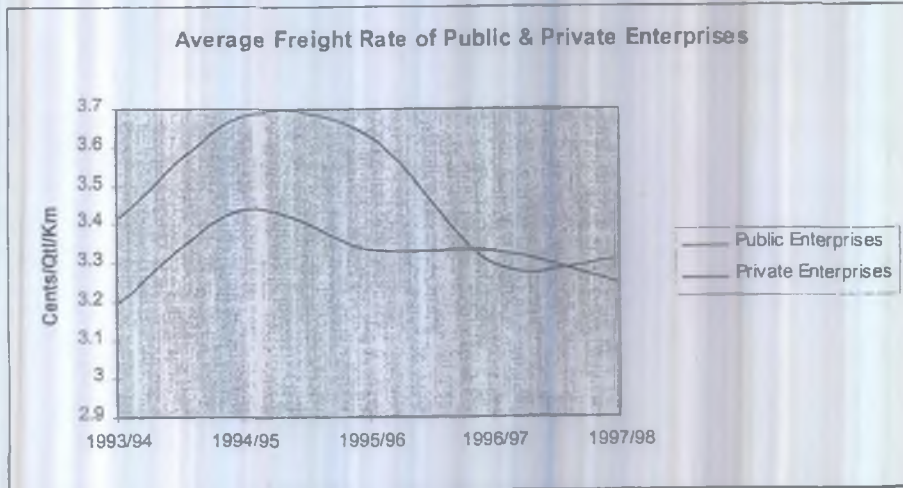
- - Average of July-March, for the 1997/98 F.Y.

Immediately before the deregulation of the sector, i.e., in 1991/92, a uniform tariff rate was set both for public and private freight operators irrespective of the route (condition of road) and seasonal variation in cargo availability. This rate was 3.483 cents per quintal for each kilometer traveled. Once prices were set free to be determined through negotiation by freight operators and their customers, wide variations occurred among routes and type of enterprises.

The Addis -Assab route was the first to experience a sharp decline in tariff both by public and private operators after the deregulation of the sector. It declined to

and remained stable around 1.8 Cents/Qt/Km for private operators and well below that for public enterprises until 1997/98. The Addis-Dire Dawa and Mekele routes, noted for their terrible road conditions, faced on the other hand, an immediate increase in tariff both by public and private operators after the deregulation of the sector. The rate of increase in these routes was relatively high in the case of public enterprises than the private sector. Relatively marginal post-deregulation tariff increments were made on outgoing operations to Nekempt and Jimma. See Table 14.2 for details.

Figure 14a:



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Despite the ups and downs of freight rates in various routes, the expected post deregulation surge in freight rates has not materialized which could be attributed to significant increase in the number of imported trucks for which government gave incentives in the form of duty free importation. Freight rates were more or less stable after the deregulation with that of the private sector on the whole showing a sign of decline (albeit marginal). It was also observed that private sector freight rates have mostly been below and sometimes equal to their public counterparts almost in all routes showing that private freight operators are more competitive than public enterprises.

14.1.3.3 Performance of Freight Transport

With regard to road freight transport, annual performance was measured based on fleet size and estimated number of working days per year and average distance traveled per day. It is revealed from Table 14.3 below that volume of dry cargo transported on roads increased steadily from 11,874.22 thousand tons in 1991/92 to 23,866.5 thousand tons in 1996/97. This is tantamount to an average growth rate of about 15.5 per cent per annum. Dry Cargo in Ton-km also grew at the same rate and stood at 5,873.32 million ton-km in 1996/97 up from 2,906.56 million in 1991/92. The increase in agricultural and industrial output coupled with growing volume of imports is the major reason behind this strong performance.

* There is however, a suspicion that private freight transport associations report lower tariffs than they actually charge.

Trends in Road Transport Services

Table 14.3

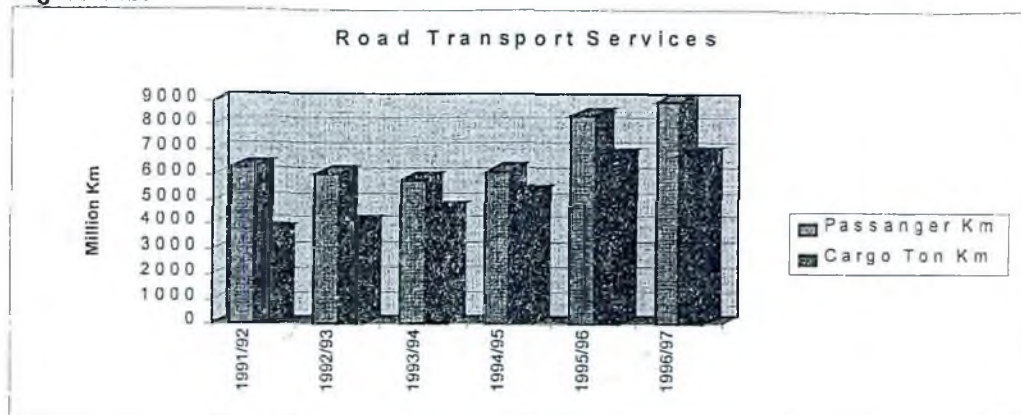
Item	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	Annual Average Growth Rate (%)
1. Passenger Transport							
1.1 No. of Passengers ('000)	6356.64	6221.0	6511.7	6783.0	7538.8	8701.6	8.9
1.2 Passenger-km (million)	6285.9	6039.3	5826.9	6148.2	8384.5	8981.0	8.0
2. Dry cargo							
2.1 Ton ('000)	11874.22	13091.77	15330.7	17984.6	23414.66	23866.5	15.4
2.2 Ton-km (million)	2906.56	3198.62	3750.2	4408.6	5761.52	5873.32	15.5
3. Liquid cargo							
3.1 Ton-km (million)	826.2	824.2	871.3	905.0	956.2	961.3	3.5

Source:- National Accounts Team, MEDaC.

However, these figures on road transport should be interpreted with

caution as it is not based on actual reports from the freight transporters especially in the private sector.

Figure 14b:



Measurement of annual liquid cargo transport was even more difficult than passenger and dry cargo transport. Apart from the absence of actual data on private sector performance, the existence of a variety of liquid cargo, i.e., different types of petroleum products with varying density makes it difficult to estimate the volume of dry cargo transported each year. With all the short comings, the total liquid cargo transported has been estimated to increase from 826.2 million cubic-meter-kilometer in 1991/92 to 961.3 million in 1996/97 with an average growth rate of 3.5 per cent per annum.

Estimates of the Road Transport Authority indicated that the share of public freight transport enterprises in total dry cargo transport stood at about 32 per cent during the years 1994/95 to 1996/97. In terms of ton-kilometers their share is close to 15 per cent during the same period. This shows that the bulk of domestic freight transport is being undertaken by the private

sector in recent years. It also asserts that a systematic way of gathering data on private transport activities needs to be in place to provide a reliable and fair measurement of the performance of the sub-sector.

Annual transport of liquid cargo (petroleum products) also declined in the post reform period (to 773 tons per annum on average) by about 23 per cent from the average annual performance in the pre-reform period. The associated increase in liquid cargo transported by the Ethio-Djibouti rail way company during the same period is believed to have reduced the volume of petroleum transported by road.

14.1.3.4 Performance of Passenger Transport (Inter-urban)

Table 14.3 above also depicts the performance of road transport sub-sector with respect to interurban passenger transport. The number of passengers transported and passenger kilometers covered were computed

1996/97	Annual Average Growth Rate (%)
701.6	8.9
8981.0	8.0
23866.5	15.4
5273.32	15.5
961.3	3.5

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using the average seat capacities of different buses (60, 40 and 20) and the estimated average number of days and average kilometers each group of vehicles would work/cover in one year. This is done for the reported number of registered vehicles so as to establish these performance indicators. Based on this approach, the number of passengers transported among urban centers (interurban) showed marginal decline during the years 1991/92 to 1993/94 and began to grow thereafter successively. The average growth rate of passenger transport during the period 1991/92 to 1996/97 therefore stood at 8.9 per cent per annum. Like wise, the total distance passengers traveled during the years (passenger-km) increased by 8 per cent per annum.

It has to be noted, however, that the actual performance of passengers transport could vary widely from what is depicted in Table 13.4 though it fairly indicates the average rate of growth and the increasing tendency during the period under review. The major problem in this regard is the absence of performance reports from private passenger transport enterprises since the deregulation of the transport sector in 1991/92.

As explained earlier tariff rates in the public transport sector are in some cases regulated and market determined in other cases. Fares for cross-country buses are government controlled while that of small seat capacity (less than 45 seats) transport services are deregulated. Although no data are available, observed tariff in the deregulated public transport sector has not risen dramatically as expected. This is presumably due to the comparatively large number of buses in this category which allow for strong competition in the public transport sector.

14.2 Railway Transport

14.2.1 Background

The close rival to the road mode of transport is rail transport which accounts for about 5 per cent of the total freight movement in the country. This rate is expected to increase since May 1998 for the port of Djibouti is getting importance over the port of Assab following the Ethio-Eritrian border conflict.

The Ethio-Djibouti railway company is one of the oldest rail lines in the continent which has operated for 100 years having a single track line of 781 km of which 681 km stretches in Ethiopia and the remaining 100 km in Djibouti. There are a total of 34 stations along this route among which 28 are found in Ethiopia and the remaining in Djibouti.

The rolling stock of the CDE consists of 17 road locomotives, 5 auto rails, 4 shunting locomotives, 22 passenger coaches, 403 freight wagons and 87 fuel tankers. Passenger and freight services are split at Dire Dawa. This means that one train is formed at Djibouti to run to Dire Dawa and another is formed at Dire Dawa to run to Addis Ababa. Likewise trains formed at Addis Ababa terminate at Dire Dawa.

The only railway line in the country which links the port of Djibouti to Addis Ababa started around 1916/17. Its construction took about 19 years. The railway line which is 781 km in length and equally owned by the two governments is characterized by aging track and rolling stock and is of one meter gauge standard.

A study finance being conduct management s age old track study includes schemes on r various activitie currently under timely consid decisions made the railway mi completely res future would cle

14.2.2 Perfo Djibout

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A study financed by European Union is being conducted to rationalize its management system and improve the age old track and rolling stock. The study includes alternative investment schemes on roads and privatizing the various activities and services that are currently under the railway system. If timely considered and appropriate decisions made the life long problems of the railway might be mitigated (if not completely resolved) and the systems future would clearly be defined.

14.2.2 Performance of the Ethio-Djibouti Railway

Except for the year 1994/95, performance of the railway transport

sector has generally been poor during the post reform period. The number of passengers transported by rail domestically has been declining until 1994/95 with a moderate recovery thereafter. International passengers, on the other hand, declined in number from 1993/94 onwards from a relative stable size in the preceding years. Total number of international passengers in 1996/97 was 73,700 down from 150,400 in 1993/94. Likewise the total distance traveled by international passengers who used the railway (expressed in passenger-kilometers) decline from 42 million in 1993/94 to 21 million in 1996/97 as depicted on Table 14.4 below.

Performance of the Ethio-Djibouti Railway Organization

Table 14.4

Type of service	Fiscal Years						
	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1. Passenger in '000							
1.1 Domestic	840	570	578.6	515.0	378	645.4	687.9
Passenger KM in Million	240	164	191.8	144.4	111.9	133	135.7
1.2 International	165	130	132.2	150.4	135.8	120.7	73.7
Passenger KM in Million	45	36	37.8	42.1	38.8	33	21.2
2. Freight in ton							
2.1 Domestic	90000	50,000	60,965	46,520	47,716	62,340	58001
Ton KM in '000	30000	16000	22053	15802	84628	21872	20047
2.2 International							
2.2.1 Import (Ton)	130000	110,000	100,323	94,690	84,628	108,561	98252
Ton KM in '000	60000	50000	52487	51403	41440	50725	52851
2.2.2 Export (Ton)	95000	70,000	72,665	69,363	72,285	67,747	75801
Ton KM in '000	48000	34000	37099	35098	35360	31379	33142
3. Total							
3.1 Passenger in '000	1005	700	710.8	665.4	514	766	761.6
3.1.2 Passenger KM in Million	285	200	229.6	186.5	150.7	166	156.9
3.2 freight in ton	315000	230,000	233,953	210,572	204,629	238,649	232053
3.2.1 ton KM in '000	138000	100000	111639	102303	93025	103976	106039

Source: Ministry of Transport and Communication

With regard to domestic freight transport, performance of the railway company exhibited ups and downs but it was relatively stable as compared to the declining trend in passenger transport. About 47 to 62 thousand tons of cargo have been transported each year by the railway company domestically during the period 1991/92 to 1996/97. Domestic cargo transported during the pre-reform period averaged within the range of 70 to 90 thousand tons per annum indicating to reduced level of performance in the post reform period.

The international freight transport service by the Ethio-Djibouti railway is split into import and export. Unlike a relatively stable domestic cargo transport, import cargo carried by the railway company declined steadily during the period 1990/91 through 1995/96 at the rate of 10 per cent per annum on average. After a moderate recovery in 1995/96, volume of import through this line declined again in 1996/97. Although volume of import through the railway company began to decline since 1985/86, about 164 thousand tons of import used to be transported annually until 1990/91. The annual average volume of import for

the post reform period is only around 104 thousand tons.

Export, however, has not been declining sharply as that of import. Sharp decline was observed only in 1991/92 (probably because of security problems) by about 26 per cent. Marginal declines in volume of export was observed in 1993/94 and 1995/96. Export to Djibouti via the railway strongly recovered in 1996/97 showing a 12 per cent growth over the preceding year. Nearly 70 to 75 thousand tones of export was carried by the Ethio-Djibouti railway company during the post reform period which is but below the pre-reform average of 75 to 100 tons of export especially in the second half of the 1980's.

Ethiopia's export carried by the railway company is dominated by fruits and vegetable destined mainly to Djibouti and near by Arab sates, followed by export of sugar and molasses. On the import side, fuel and lubricants have been the major items of import carried by the railway company during the post reform period (grain & flour have been dominant in the pre reform period) followed by metal and metal products.

Figure 14c

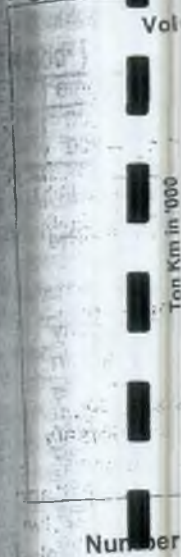


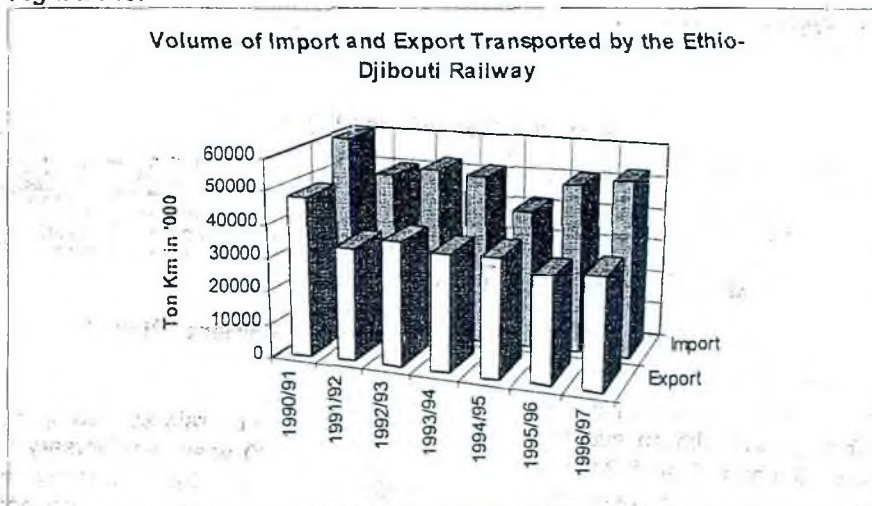
Table 14.5

Type of Equipment
1. Auto-rail
2. Passenger coaches
3. Line Locomotive
4. Freight Wagon
4.1 Dry Cargo
4.2 Tankers

Source:

The decline in over the railway company status of the (status of maintenance) transport equipment capacity and they are the transport they have also decline in recent years. By 1996/97 there for passengers and for cargo which was 20, respectively. Passenger coach have also decline the existing facilities the verge of their are intermittently

Figure 14c:



Number of Locomotives, Passenger Coaches and Freight Wagons

Table 14.5

Type of Equipment	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1. Auto-rail	6	6	6	6	6	6	4	5	5
2. Passenger coaches	38	36	36	31	31	31	31	31	31
3. Line Locomotive	20	17	17	22	22	22	18	17	13
4. Freight Wagons									
4.1 Dry Cargo	470	465	581	570	435	435	460	460	460
4.2 Tankers	128	125	157	155	155	155	130	130	130

Source: Ministry of Transport and Communication

The decline in overall performance of the railway company is the result of poor status of the infrastructure (due to lack of maintenance) and aging of the transport equipment affecting its capacity and smooth operations. Not only are the transport equipment old, they have also declined in number in recent years further eroding its capacity. By 1996/97 there were only 5 rail cars for passengers and 13 line-locomotives for cargo which were 6 and more than 20, respectively, until 1993/94. Passenger coaches and freight wagons have also declined in number. Some of the existing facilities are said to be on the verge of being written-off and they are intermittently in and out of duty.

See Table 14.5 for the capacity of the liner.

14.2.3 Operating Income & Expenses

Traditionally the Ethio-Djibouti railway company had a problem of covering operating expenses out of operating income and hence mostly been unprofitable. This situation has not changed in the post reform period; only in 1992/93 was operating income higher than operating expense. The gap between revenue and expense as could be observed from table 14.6 seems to be widening since 1994/95.

Financial Position of CDE

Table 14.6

('000 Birr)

	1989/90	1990/91	1991/92	1992/93	1993/94	1995/96	1996/97
Operating income	30140	30805	22690	43960	44830	54000	52850
Expense	32279	32750	28440	42030	50841	59200	57490

Source: Ministry of Transport and Communication

Both operating revenue and expenditure of the company were expanding during the post reform period with an average growth rates of about 9 and 9.8 per cent per annum, respectively. Investment in the company has also been low during the post reform period. Only in 1995/96 and 1996/97 F.Ys were relatively large volume of capital expenditure (to the tune of Birr 14.8 and 11.9 million) effected in the company, respectively. Investment expenditures as high as Birr 10.7, 42.2 and 20.9 million were made in the years 1982/83, 1983/84 and 1987/88, implying that much needs to be done in this regard to upgrade the capacity, service quality and profitability of the company.

The increase in the operating expense of the company is attributed mainly to aging of its locomotives, rail cars, passenger coaches and freight wagons which in the one hand reduce its capacity to transport cargo and increases the current expense for a unit of operation (service) on the other. The company's passenger transport service is also said to be more of a social obligation than a profitable activity. More than 75 per cent of the company's revenue comes from freight transport which compensates the loses incurred by passenger transport. More over, the size of the company's personnel is said to be large relative to its present level of service capacity further worsening the expenditure revenue gap.

14.2.4 Development Plan for the Future

The Ethio-Djibouti railway company celebrated its 100 years anniversary in 1997/98. Though the company is respected for long years of service and socio-economic development of the two countries along its route, it was revealed that its capacity and service quality has deteriorated severely along the course of its history especially in the past two decades. Ironically, the demand for rail transport has increased following the Ethio-Eritrean boarder conflict which shifted the importance of the Assab Port to that of Djibouti.

To overcome the problems of poor capacity and to meet the recent increase in demand for railway transport, the Government of Ethiopia and Djibouti have undertaken studies which are already completed. These studies envisage a grant agreement with the European Community for about 35 million European Currency Unit (ECU) which includes purchase of passenger and cargo locomotives (rail cars), rehabilitation of the railway and maintenance of bridges and communication equipment and supply of spare parts. In the short-run a grant from the Government of France was secured and four new locomotives have been purchased which began operation in January 1998. The purchase of these locomotives and repair of the rail way has helped improve performance in recent months.

It is apparent that the existing level of technology in the Ethio-Djibouti railway company is too old and there is a pressing need to introduce modern transport facilities in this sub-sector in the medium to long run. The company's hope for the future relies heavily on the realization of these medium to long term plans for which resources need to be mobilized from the two countries and external sources. Studies indicated that a minimum of 102 million ECU will be need to finance expenditure on different components of the project. This would enable the age old company to level-up to financial health and competitiveness it used to enjoy during the commencing of its services.

14.3 The Ethiopian Shipping Lines (ESL)

14.3.1 Background

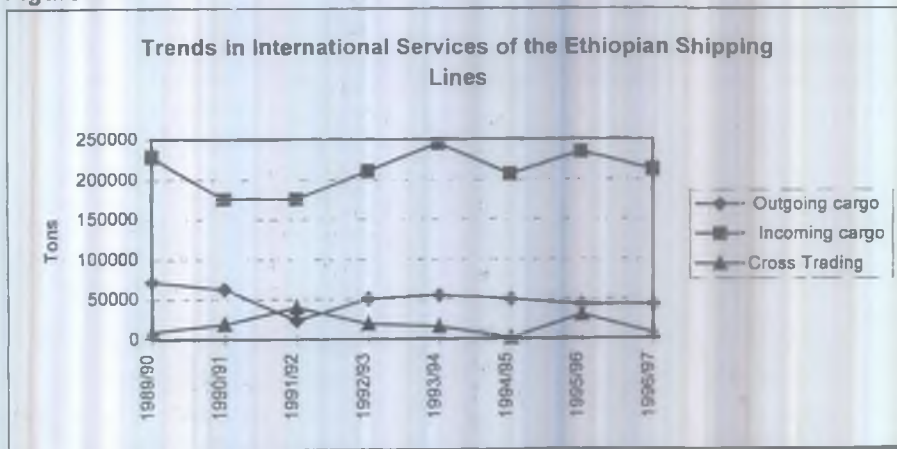
The Ethiopian shipping lines is organized to provide international regular line service to western Europe including Germany, Britain, Belgium, Holland and Sweden; the Mediterranean surrounding including Italy, Spain, Turkey and Mediterranean countries; Far East including China, Japan, Korea, and Singapore, and Gulf and Indian Sub-continent including the United Arab Emirates, Saudi Arabia, Iran, Yemen and India. Coastal service on the other side used to reach Assab - Massawa, Massawa Assab, Assab - Djibouti, and Djibouti- Assab. The third type of service include cross trading service referring to the conveying of non Ethiopian import and export cargo. This service is provided on a call for cargo basis indicating that it is not a regular one.

The enterprise currently has 11 vessels of different capacity with a total dead weight of 95,041 ton and a realized capacity of 74,241 ton. Among these, 10 are dry cargo carriers and the remaining one is fuel carrier. The enterprise is carrying 40 per cent of import and 20 - 25 per cent of export cargo for the country in recent years while the remaining is shared by international companies like P & O Nedloyd, Messina, Pil, Wec, and Maersk Shipping Companies.

14.3.2 Performance of the Ethiopian Shipping Lines.

Outgoing cargo carried by the Ethiopian Shipping Lines (ESL) tended to decline during the period 1990/91 to 1996/97 as compared to its performance in the 1980's. Total outgoing cargo which was 62 thousand tons in 1990/91 declined to about 42.8 thousand tones in 1996/97. Some increase in performance was observed in between, i.e., during 1992/93 and 1993/94 whereby 50.3 and 54.4 thousand ton of cargo were carried out of Ethiopia. Since 1990/991, all outgoing cargo has been carried by the own vessels of ESL unlike the pre-reform period when leased vessels were used to handle some of the outgoing cargo. During the 1980's, ETS used to transport 60 to 86 thousand tons of outgoing cargo annually, of which leased vessels carried about 20 per cent in the first half of the 1980's. The share of leased vessels declined sharply in the second half of the 1980's and was nil since 1989/90 as a result of declining volume of export. Details on the international services of ESL are presented on table 14.7 below.

Figure 14d:



Incoming cargo, on the other hand, was generally increasing during the period under review except 16 and 9 per cent decline in 1994/95 and 1996/97, respectively. In absolute terms, incoming cargo increased from 175.5 thousand tons in 1990/91 to 212.6 thousand tons in 1996/97. Incoming cargo reached a historic peak in 1993/94 (244.7 thousand tons) probably because of large volumes of food aid imported to overcome the food shortage brought as a result of the drought that occurred in the same year. A bulk of the incoming cargo was carried by own vessels of ESL during the post-reform period with the share of leased vessels declining from 17 per cent in 1991/92 to 12 per cent in 1993/94. Thereafter, ESL literally used only its own vessels to handle incoming cargo to Ethiopia.

Transport & Communication

International Service of the ESL

Types of Service	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
	74005	52478	33524	50331	54423	49222	42602	42803

Table 14.7

International Service of the ESL

Table 14.7

(In tons)

Types of Service	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1. Outgoing cargo	71605	62178	23524	50331	54423	49222	42602	42803
1.1 own vessels	71605	62178	23524	50331	54423	49222	42602	42803
1.2 leased vessels	-	-	-	-	-	-	-	-
2. Incoming cargo	228652	175544	175547	211198	244699	206964	234251	212580
2.1 own vessels	189376	167298	145359	180238	215103	206964	234251	211773
2.2 leased "	39276	8246	30188	30960	29596	-	-	807
3. Cross Trading	9324	19064	39829	19181	15803	1100	30300	7273
3.1 own vessels	9324	19064	39829	19181	15803	1100	30300	7273
3.2 leased "	-	-	-	-	-	-	-	-
4. Total (1+2+3)								
4.1 own vessels	270305	248540	208712	249750	285329	257286	307153	261849
4.2 leased "	39276	8246	30188	30960	29596	-	-	807

Source: Ministry of Transport and Communication (MOT&C)

Apart from international services, the ESL also provides coastal services carrying cargo along the ports of Assab, Massawa, Djibouti and Aden. Though the liner carries both dry and liquid cargo along the coastal areas, the volume of dry cargo declined drastically in the post reform period while that of liquid cargo gained momentum. As Table 14.8 shows some 78 to 98 thousand tons of dry cargo used to be transported annually along the coastal areas during the second half of the 1980's which declined to about 12 thousand tons in 1991/92 and 1992/93. By 1995/96 and 1996/97 the volume has

dropped sharply to 992 and 453 tons. Liquid cargo (petroleum), carried along the coastal areas on the other hand, increased from 167.3 thousand tons in 1992/93 to 211.4 thousand tons in 1996/97. Both liquid and dry cargo carried along the coasts were handled by the own vessels of ESL unlike the pre reform period where leased vessels were involved especially to handle liquid cargo. In general, coastal service (both liquid and dry) showed an increasing tendency in the post reform period though it has been well below the average level of performance during the 1980's.

Coastal Service of ESL

Table 14.8

In tons

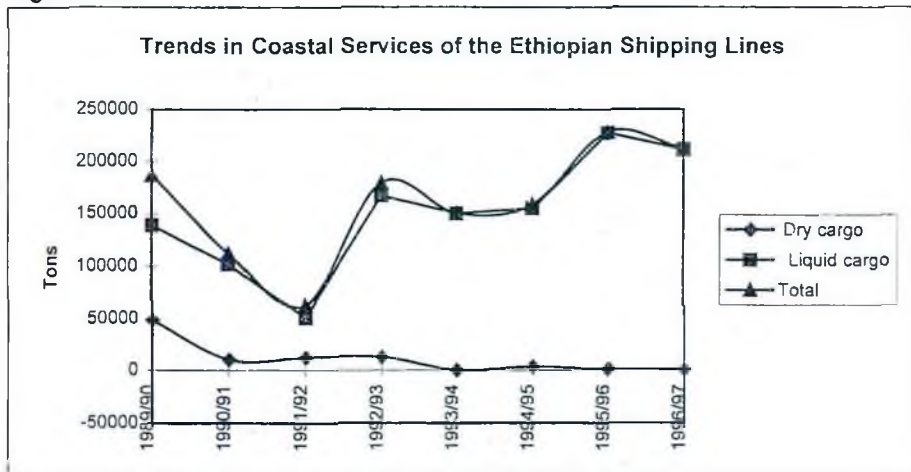
Type of Service	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
1. Dry cargo	48685	10407	12262	12636	-	3512	992	453
1.1 own vessels	48685	10407	12262	12636	-	3512	992	453
1.2 leased vessels	-	-	-	-	-	-	-	-
2. Liquid cargo	138987	101759	50496	167306	150261	155090	227270	211369
2.1 own vessels	74211	101759	50496	167306	150261	155090	227270	211369
2.2 leased "	64776	-	-	-	-	-	-	-
3. Grand Total (1+2)								
3.1 own vessels	122896	112166	62758	179942	150261	158602	228262	211822
3.2 leased "	64776	-	-	-	-	-	-	-

Source: Ministry of Transport and Communication (MOT&C)

As stated above, physical performance of the Ethiopian Shipping Lines tended to decline during the post reform years of 1991/92 to 1996/97 except a moderate recovery in incoming cargo and coastal services. Even in this case, the average annual performance (in terms of cargo transported) was below the annual average before the reform program. One of the obvious reasons for the decline was the exposure of the liner to international competition by removing the cargo reservations of all Ethiopian exports and non-aid imports to

Ethiopia which were practiced during the Derg period. Since the launching of the reform program however, importers and exporters can choose their own shipper based on their own criteria. As a result of this, ESL' share in total Ethiopian foreign trade has declined from more than 70 per cent in the pre-reform period to less than 40 per cent by 1996/97. The abandonment of use of leased vessels in recent years is a result of this development limiting services by own vessels of the liner.

Figure 14e:



In tons

1995/96	1996/97
992	453
392	453
-	-
7270	211369
72	211369
-	-
8220	211822
-	-

Some of the reasons for the preference of customers to use other shippers than ESL are:

- the limited size of fleet (in number & capacity) reduces the frequency of availability of the ESL vessels at any international port which reduces its competitive advantage;
- the vast size of vessels and market coverage of international shippers allows them to reduce tariffs and operation costs (as a result of their scale of operation) which the ESL hardly manages to do;
- since the target of the ESL service is the domestic market (instead of international sea transport) it serves only limited ports and routes in accordance with Ethiopia's direction of trade thus reducing its importance for international trade.

It has also been indicated that the majority of the ESL fleet are multipurpose vessels purchased to suit the mix of the Ethiopian foreign trade. However, the current practice of shipping involves the use of containers which the Ethiopian vessels are not suitable for. Thus the liner is currently preparing the ground for the acquisition of vessels that allow shipping of goods in containers. This entails a huge demand on financial resources both for vessels and containers. The current trend of the ESL's operating surplus (operating income less operating expenditure) however, does not allow to undertaking such an ambitious investment plan implying the need for government support and availability of credit. It is important to note that the liner used to be able to acquire new

vessels out of its own resources during the early and mid-1980's.

14.3.3 Operating Income and Expense

The Ethiopian Shipping Lines demonstrated a steady increase in operating income and expenditure during the post reform period. However, the annual average rate of growth in income (8.7 per cent) was below that of expenditure (11.5 per cent) giving rise to shrinking size of its operating surplus. Between 1992/93 and 1996/97, its operating surplus has declined from 9.5 million USD* to about 4.78 million USD.

A number of factors account for the fast growth in expenditure relative to its revenue performance. Firstly the sheer old age of the vessels has increased the cost of periodic maintenance on the one hand and the unit cost of operation on the other. In addition to this, the personnel expenses of the liner are increasing owing to the escalating standards of living in the rest of the world demanding commensurate increases in salaries of shore-based and onboard personnel. On the other hand, the removal of cargo reservation of imports to and exports from Ethiopia to ESL has reduced its capacity utilization resulting in slower paces of revenue performance during the period under review.

* US Dollars is used for the evaluation of financial performance to avoid the revenue increases from devaluation of the Birr since October 1992.

14.4 Air

14.4.1 Bar

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Financial Position of ESL

Table 14.9

In '000 Birr

Income/ Expense	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
Operating income	107094	96162	211396	272536	270603	314833
Operating expense	107394	92776	170877	218431	230501	263269

Source: MoTC

14.4 Air Transport

14.4.1 Background

The Ethiopian Air Lines (EAL) is an airliner of international reputation designed to provide domestic and international services. It has so far acquired 18 passenger and 4 cargo aircraft of different capacity and makes.

Domestic service is being provided by the Fokkers, DHC-6s, and occasionally by Boeing 737. The rest are latest aircraft providing international services to cope-up with international competition. The thread of the Ethiopian service is reaching most Africa, Asia, Europe and recently the USA rendering it the leading airliner in Africa.

Ethiopian Airlines (EAL) was established in 1945, with a capital of Birr 2.5 million under a management contract with Trans World Airlines (TWA). Institutionally, it is structured within the Ministry of Transport and Communication under the immediate auspices of the Civil Aviation Authority.

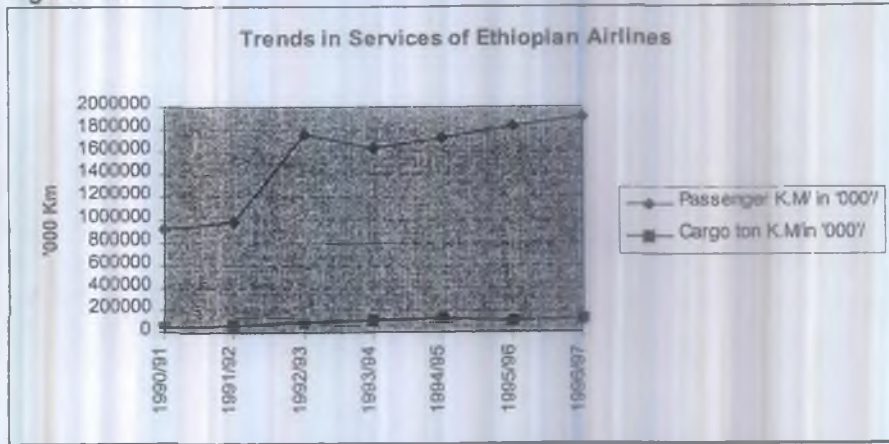
Ethiopian's first establishment was marked by flying six DC-3 aircraft to three neighboring countries' capital cities (Aden, Cairo and Djibouti) and four domestic cities (Addis Ababa, Asmara, Gondar and Dire Dawa).

14.4.2 Capacity and Scope of Operation of EAL

At present the Ethiopian Airlines is serving two International Airports, namely Bole and Dire Dawa, and twenty-nine domestically operational airports on a regular basis. Out of the 29 domestic airports, only Bahir Dar, Gambela, Jimma Gode, Mekele, Lalibela and Arbaminch have paved runways. Gondar and Axum are under construction to a pavement level and the rest are gravel strips which are not suitable for the operation of jet aircraft.

The Airline is the leading and most efficient carrier in Africa operating a combination of modern aircraft and flying to over 37 international destinations, 24 of which are in Africa, 9 in the middle and far East, and 4 in Europe. Its current fleet composition includes two Boeing 767, five Boeing 757, one Boeing 737, one Boeing 707, five Fokkers, two L100-30, two ATR-42 and five DHC 5&6 aircrafts. While these are own fleets of the carrier, Ethiopian has recently added one Boeing 767 (passenger) and two Boeing 707 for cargo under lease contract. Therefore the Airline is currently operating with 26 different categories of aircraft. Out of the total fleet, two Boeings (707 and 757), one DHC.5 and two L 100-30 are for cargo while the remaining are passenger aircraft.

Figure 14f:



The number of international passengers carried by the Ethiopian kept on increasing during the period 1991/92 to 1996/97 by an average rate of 4.2 per cent per annum. Passenger-kilometer, however, sharply increased by 14.8 per cent per annum owing to steady increase in number of hours flown and additional routes served by the air-liner.

The average passenger kilometer during the post reform period of 1991/92 to 1996/97 was 97 per cent higher than the annual average for the period 1985/86 to 1990/91 which indicates to a steady increase in the international passenger services of EAL.

International and Domestic Services of EAL

Table 14.10

Type of service	Years						
	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
A. International							
Passengers	384023	430815	472570	438172	465614	468283	530158
Passenger K. M/ in '000/'	848696	905368	1605002	1503135	1600561	1727281	1805826
Cargo/in ton/	18135	23659	24622	26776	32401	31017	34364
Cargo ton K.M/in '000/'	43843	53811	88415	102835	118807	111651	128519
B. Domestic							
Passengers	201494	264390	299748	283752	283907	262177	277580
Passenger K.M/ in '000/'	67363	78654	143347	129893	120947	110400	109345
Cargo/in ton/	1364	1750	2265	1568	1573	791	1104
Cargo ton K.M/in '000/'	698	103	1644	1033	881	380	490

Source: Ethiopian Air Lines S.C

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In terms of cargo transport, performance of EAL showed a steady increase from 23.6 thousand tons in 1991/92 to 34.4 thousand tons in 1996/97 which amounts to an average growth rate of 7.7 per cent per annum. The annual average volume of cargo during the post reform period under discussion (28.8 thousand tons) was also 26 per cent higher than the average for the pre-reform years of 1985/86 to 1990/91. Cargo-ton km. showed rather high rate of increase, i.e. 19 per cent per annum since 1991/92, unlike the 1.8 per cent annual average growth during the second half of the 1980's.

Given the mountainous topography of the country and low level of road networks, the domestic air transport services of EAL have strategic role in the economy. Though the number of passenger and passenger-kilometer for domestic services was on the decline after its peak level in 1992/93, some 278.6 thousand passengers have been carried each year on average during the period 1991/92 to 1996/97. This is close to 60 per cent of the size of international passengers during the same period. The average number of domestic passengers between 1991/92 and 1996/97 was also 63 per cent higher

than the average for the period 1985/86 to 1990/91. Domestic cargo transport by the air liner however, remained below 2000 tons throughout the post reform period unlike the 1985/86 to 1988/89 period when 25 to 30 thousand tons were carried per annum. Sharp increases in the fleet size and improved efficiency of service in the road freight transport sector following the deregulation could be the reason for the decline in the demand for air cargo.

14.4.3 Trends in Operating Income and Expenditure

As can be seen from Table 14.11 below, the Airline's operation looks financially healthy throughout the post reform period. However, the annual average growth rate of operating income (23.6%) was a little less than the growth experienced in operating expense averaging 25 per cent during the years 1991/92 to 1996/97. The growth in operating income and expenditure for comparable periods of time prior to the reform program averaged 11.3 and 12 per cent, respectively. This is an indication that although the enterprise is still profitable, the size of profit has been dwindling in recent years.

Financial Position of EAL.

Table 14.11

In '000 Birr

	1988/89	1990/91	1992/93	1993/94	1994/95	1995/96	1996/97
Operating Income	501321	643327	1142071	1263995	1616971	1656623	1666703
Operating Expense	427131	584478	1062007	1154467	1365392	1493844	160439
Capital Expenditure	47437	226149	143411	192710	27136	82733	72244120

Source: EAL.

Regarding investment, the Ethiopian Airlines has constantly been spending quite a sizable amount of fund for the purchase of air crafts and accessories. Investment outlays of the carrier between the years 1983/84 and 1993/94 ranges between 12.8 and 237.8 million Birr except in 1985/86 where a mere 100 thousand Birr was allocated for capital expenditure.

The share of investment outlays between the enterprise's own fund and government is not distinctively recorded on the source of data made available. However, it is customarily known that Ethiopian Airlines used to finance its investment outlays mainly through foreign loan, particularly from suppliers credit. The Government's role in this regard has been to issuing guarantee to the creditors and exempting the Airline from various taxes, duties and charges.

At present the situation under which the Airline has been operating has completely changed. The command economy with various forms of subsidies and grants is no more in place, and the Airline is expected to freely compete and win its survival. The future of the Airline therefore depends much on what can be done on its own.

14.5 Communication

14.5.1 Evolution of Communication Services in Ethiopia

Communication is one of the most fundamental elements necessitated for economic, social and political development of any country. The communication service in Ethiopia include telecommunications, postal and Media (radio, press, TV) services.

Unabated by distance, terrain, and/or without human movement; communication enabled the transmission of data or any other information from one point to another.

It is to be recalled that the history of communication services dates back to 1894 (some 104 years) in Ethiopia. This coincided with the introduction of various innovations to Ethiopia during the time of Emperor Menelik II through the intermediary of his Swiss Advisor Alfred ILG. Although it is very difficult to trace back to where and when it was started, it could safely be claimed that communication services has undergone tremendous developments from the early days when smokes and drums had been used as a means of communication to this day of satellite communication technology. Exchange of information or data through these new technologies has significantly accelerated the pace of modern civilization. The availability of advanced meanses of communication are nowadays taken as indicators of economic development.

Engineer Alfred ILg and his collaborator M. Chefneux were granted a contract to link Addis Ababa with Harar through Rail, Postal, Telegraph and Telephone connections and work on the project which had started in 1894 and the 477 kilometer telephone line was completed after three years in 1897.

Telegraph line (Addis Ababa to Djibouti) was also installed parallel with the construction of the then Franco-Ethiopian Rail ways which commenced in 1898 and completed after almost twenty years in 1917. Concomitantly, the 880 kilometer telephone line following the North-South direction connecting Asmara with Addis Ababa was installed within three years and

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became operational in 1905. Since then, efforts were exerted to connect major towns and cities of the country in every direction.

Up until 1904, communication services were supervised by a foreign advisor (an individual). But latter as telephone and telegraph lines were found to be vital for administrative, foreign relations, and dissemination of news, the communication facilities began to be run by an office in the Imperial Palace and was accorded the direct attention and supervision of Emperor Menelik II himself assisted by a foreign expert M. Cehfneux who was replaced by Ethiopian latter in 1907.

A group of French experts undertook a project to study and restructure telecommunication and postal administration which started in 1909 and accomplished after more than 2 years in 1911 and this became the cornerstone for the establishment of the then Ministry of Posts, Telegraphs and Telephone (MOPTT).

After the establishment of the MOPTT, the requisite services in the field of communication had been rendered through the intermediary of a few lines. The greatest beneficiary of the then available service was the Government itself. During the period spanning 1915 to 1932, there were only 200 telephone subscribers in Addis Ababa. There were also telephone subscribers in other major Urban Centers. The first telephone subscriber in Addis Ababa was the then Bank of Abyssinia - the pioneer in banking activities in Ethiopia.

Another aspect of the development endeavor by the then MOPTT was the commencement of work on the Kaliti Radio Station which was completed in 1934/35 which opened the path for the

introduction of long distance communication with London and Paris. Ethiopia became a member of Universal Postal Union (UPU) in 1908 and International Telecommunication Union (ITU) in 1932.

The invasion and occupation of Ethiopia by Fascist Italy, three years before the outbreak of World War II, disrupted communication facilities in Ethiopia. Following the end of Italian occupation after 1941, the first automatic telephone exchange system was installed in Addis Ababa and Asmara.

The MOPTT was reestablished after the war and undertook various restoration among them being the rehabilitation of telegraph and telephone communication and re-installation of radio communication equipment.

Despite efforts towards restoring and expanding communication facilities in the aftermath of the war, shortage of skilled manpower in communication technology and financial resources were the major constraints towards achieving the goal.

The reconstruction and rehabilitation effort had at the time materialized through the technical study conducted by the World Bank via assessing the damage done to Ethiopia's communication facilities as a result of the war. The study also explored ways and meanses of providing loans to Ethiopia to financing the rehabilitation and reconstruction program.

The study proposed a short-term (three years) Investment program worth 2.2 million USD to be carried out as part of the first phase of the rehabilitation effort. This study also proposed the re-establishment of semi-autonomous telecommunication body. The proposals

made by the technical experts was readily accepted and the then Imperial Board of Telecommunication of Ethiopia (IBTE) independent of the then MOPTT was established as a chartered organization by proclamation No. 131 in December 1952.

The IBTE commenced its operation as an autonomous body as of January 1, 1953. During the period 1953 to 1974 three four-years and one five-year Development Programs were implemented.

Directives were subsequently issued by the Imperial Government of Ethiopia on October 17, 1975 stipulating that changes should be effected in names of public bodies. Accordingly, the Board of Telecommunication was renamed "The Ethiopian Telecommunication Service Organization" without much change in its functions. The organization's name lasted for over 5 years under this name and in accordance with the decisions made at the 513th meeting of the Board of Directors on January 31, 1981, the organization came to be known as the "Ethiopian Telecommunication Authority".

Between 1975 and 1994 two Development programs were implemented: the fifth and sixth Development programs. The Seventh Development program (1995-1999) is currently being implemented.

As to postal services, the proclamation providing for the establishment of the postal office (No. 240/1966) laid the administrative infrastructure for the improvement, expansion, and modernization of the Ethiopian Postal System. Under this proclamation, the post office was organized as an independent department of the MOPTT. The post office was granted autonomy

and was headed by a Director General discharging his duties under the supervision of the Minister of MOPTT. There were 12 postal districts each headed by a Head post master. The general administration and financial execution of the post office were directed from Head Quarters in Addis Ababa.

Other significant achievements of the post office worth mentioning were the initiative taken to improve postal services in big towns as well as expansion of facilities to smaller towns and even to rural areas. Mobile post offices were also established for operation in remote localities. Plans were also underway to introduce a small modern circular shaped post office in every town and village of Ethiopia and targets were set to register average growth rates of 8 percent per annum during the Third Five year Plan. The postal Training Institute was established at the General Post Office in order to upgrade the skills of post office staff both at headquarters and regional levels.

As to the development of Media service in Ethiopia, Press was the pioneer in this area. The first Amharic weekly news paper "Aemiro" was published in 1895 and had been distributed among the then Royal Family members. Following this, another weekly news paper "Berhanena Selam" was published and distributed. During the years spanning 1925-1928 (E.C.) weekly news papers: "Ethiopian Commercial", "Kissatie Berhane", and "Atbiya Kokeb" were published. During the Italian occupation a news paper named "Bandirachen" was published and distributed among freedom fighters.

Immediately after the restoration of freedom from the Italian occupation

(1941), 14 news papers came into existence and the number of news paper circulation was raised to 30,000 per day in the case of Addis Zemen and the Ethiopian Herald. With the seizure of power by the Transitional Government of Ethiopia (TGE), over 300 news papers and Magazines have received licenses following the free Press proclamation of October, 1992.

Regarding the organizational set up of the press, it was first run under the then "Ministry of Pen" and latter taken over by the then Ministry of Information". The press services were rendered under a unit that was established as one of the Departments of the Ministry of Information. As of March, 1995 the Department was organized as a semi-autonomous agency called the "Ethiopian press Agency".

The Ethiopian Television service was established in 1964. Its service was confined mainly within the capital city of Ethiopia - Addis Ababa. Additional TV stations had not been installed in major towns of the country until 1992. TV service coverage has reached up to 35 percent of the total area of the country by the end of the period of the Derg. After the TGE came into power, an additional 39 towns got TV services. Currently the TV penetration rate in Ethiopia has reached up to around 55 percent of the area of the country.

The Ethiopian News Agency, established some 55 years ago has 33 branch offices all over the country and has recently embarked on a modernization project with a view to computerize its Head Quarters and Branch Offices.

The Ethiopian Radio Agency was established during the Reign of Emperor Haile Selassie on September

2, 1935. The Ethiopian Radio Agency (ERA) operation was interrupted during the Italian occupation. The ERA had been moved from its previous location (near Tikuer Anbessa Hosptal) to Abune Petros square by the Italians from where it is currently broadcasting.

14.5.2. Performance of the Communication Sector

14.5.2.1 Telecommunication Network and Facilities

The Ethiopian Telecommunication Corporation (ETC) has been providing its service to the public through the use of an integrated system of cables: manual, Semi-Automatic, Automatic exchanges, VHF/UHF, and Microwave radio relay systems, satellite earth stations as well as Customer Premises Equipment (CPE).

The corporation has already embarked on the newly introduced telecommunication facility: Digital Radio Multi-access System (DRMAS) serving some remote towns at different locations of the country. Further more, the ETC has introduced the internet system of information exchange for international as well as national use since the beginning of the 1997/98 fiscal years. The internet system has a facility for the transmission of electronic mail, the World Wide Web (WWB), and File Transfer Protocol (FTP), etc.

The number of service centers connected with the above integrated system of cables was 483 in 1985/86. This level of net work and facility had reached 536 by 1995/96 showing an average growth rate of 1 percent per annum over the ten years period. Out of these service stations that have had access to these facilities more than 34

per cent of them (183) have been provided with Automatic and Semi-Automatic exchange systems in 1995/96. Out of the remaining 353 service stations 70 percent of them have been equipped with Manual Exchanges and the balance have had access to rural radio call and pay stations.

During the ten years spanning the period 1985/86 to 1995/96, the towns and cities that have been provided with Automatic Exchanges System have recorded an annual average growth rate of 5.8 per cent-from 25 towns/cities in 1985/86 to 44 in 1995/96. The semi-automatic exchange stations which were 55 when they started operation in 1992/93 has reached 153 in 1995/96 showing an annual average growth rate of 40.6 per cent over the period (1992/93 to 1995/96). While the Automatic and semi-automatic exchange systems have shown substantial growth as discussed above, the Manual Exchange Systems, however, have declined at the rate of 4 per cent per annum during the decade spanning 1985/86 to 1995/96 attributed mainly to a tendency of shifting from Manual to Semi-Automatic and Automatic Exchange Systems over time.

Installed Capacity of the Automatic Exchange system have increased from 100,400 in 1994/95 to 161,180 in 1995/96 showing an annual average growth rate of 4.8 percent over the period. Installed Capacity of Semi-automatic Exchanges and Manual exchanges have, however, exhibited a declining trend over their respective periods. (see Table 14.12 below)

Number of Telecom Facilities and their Installed Capacities.

Table 14.12

Facilities	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	992/93	1993/94	1994/95	1995/96	Annual Growth Rates %
Public Stations	483	487	492	494	506	512	466	475	486	512	536	1.0
Automatic Exchanges	25	25	25	33	35	38	35	36	37	40	44	5.8
Semi-automatic St.	-	-	-	-	-	-	-	55	74	113	153	40.0
Manual Exchanges	371	375	380	384	384	388	367	375	314	290	250	-4.0
Autom. Exc. Capacity	100,400	100,400	100,400	139,000	145,436	148,908	137,708	142,756	143,756	150,556	161,180	4.8
Manual Exc. Capacity	23,635	24,565	25,265	25,660	25,950	26,745	26,565	26,866	15,270	13,900	17,622	-3.0
Semi-Auto. Exc. Capacity	-	-	-	-	-	-	-	11,404	13,616	14,638	11,375	-

Source:- ETC: Annual Statistical Bulletin, 1995/96 G.C.

As depicted in Table 14.13 below, the installed capacity of the local telephone exchange in the country as of June 1995/96 was 190,177 lines of which 85 per cent are automatic, while 17,622 lines (9 per cent), and 11,275 lines (6 per cent) are manual and semi-automatic, respectively. Total installed capacity in the preceding fiscal year (1994/95) being 179,094 lines, installed capacity in 1995/96 had shown

a growth rate of 6.2 per cent. Automatic exchanges have shown a growth rate of 7.1 per cent in 1995/96 while semi-automatic and Manual Exchanges showed a more than 20 per cent increase and an 18.2 per cent decline, respectively in 1995/96. Percentage of utilized capacity has, however, declined for all exchange systems during the same period.

Utilization of Automatic, Semi-Automatic and Manual Exchanges (1994/95-1995/96)

Table 14.13

No.	Type	1994/95				1995/96			
		No. of Xges	Capacity	DEL's Connected	% Utilized	No. of Xges	Capacity	DEL's Connected	% Utilized
1	Automatic Xges	40	150,556	130,538	86.7	44	161,180	136,589	84.7
	- Analogue	20	86,300	73,575	85.25	24	95,900	78,216	81.56
	- Digital	20	64,256	56,963	88.65	20	65,280	58,373	89.42
2	Semi - Automatic Xges	113	14,638	10,174	69.50	153	17,622	11,587	65.75
3	Manual Xges	290	13,900	5,854	42.12	250	11,375	4,837	42.52
	Total	443	179,094	146,566	81.8	447	190,177	153,013	80.5

Source:- ETC: ASB, 1995/96

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Of the 103,499 waiting list for telephone subscribers (Table 14.14 above) in the country in 1995/96, 59 per cent of them were from Addis Ababa while the central region accounts for some 71 per cent of total and the other regions accounted for the balance. The Direct Exchange Lines (DEL's), PBX's and Coin Boxes have registered an annual average growth rate of 3.8, 2.2, and 1.7 per cent, respectively over the same period.

In terms of spatial concentration of public telephone stations (service stations) in the country, 70 per cent of the 512 Public Telephone exchanges in 1994/95 were distributed in Central, Southern, Western, and North-Western

Regions as shown in Table 14.15 below while the balance belongs to eastern, North-Eastern, and Northern regions of the country. A little less than 50 per cent of these exchange systems have been located only in the Central and Southern Regions of the country in 1994/95. More than 85 per cent of these exchanges system are located in the Central region. The pattern of spatial distribution have not shown much difference in 1995/96 for which latest information is made available. The total number of public Telephone Exchanges have increased from 512 in 1994/95 to 836 in 1995/96, a growth rate of 4.7 per cent 1995/96.

Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

Table 14.15

Region	1994/95										1995/96										Total
	Region										Region										
	DEL	EXB	COB	DEL	EXB	COB	DEL	EXB	COB	DEL	EXB	COB	DEL	EXB	COB						
Central	312	15	1	312	15	1	312	15	1	312	15	1	312	15	1						
Southern	100	1	0	100	1	0	100	1	0	100	1	0	100	1	0						
Western	50	0	0	50	0	0	50	0	0	50	0	0	50	0	0						
North-Western	30	0	0	30	0	0	30	0	0	30	0	0	30	0	0						
Eastern	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0						
North-Eastern	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0						
Northern	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0						
Total	512	16	1	512	16	1	512	16	1	512	16	1	512	16	1						

Source: ETIC Annual Statistical Bulletin

The spatial distribution of PBX's as at June 1996 is being presented under Table 14.16 below. Accordingly, the total number of PBX's in the country for the period was 1338 of which 87 per cent (1169) belongs to the Automatic Exchange system and the remaining 13 per cent (169) to Manual Exchanges. Of the total number of Automatic Exchanges in the country, 82 per cent were located in the central "region" while the balance belongs to the remaining five "regions" in the same year (1995/96). The capacity of the automatic PBX's was 7891 DEL's and 5094 EXTS and of the total DEL's and EXTS capacity 84 and 87 per cent of them belongs to the central region, respectively for the same year. The spatial distribution of Manual DEL's and EXTS Capacity among regions follows the same proportion as that of Automatic DEL's and EXTS as shown in Table 14.16 below.

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Table 14.15

Region	1994/95										1995/96										Total
	Region										Region										
	DEL	EXB	COB	DEL	EXB	COB	DEL	EXB	COB	DEL	EXB	COB	DEL	EXB	COB						
Central	312	15	1	312	15	1	312	15	1	312	15	1	312	15	1						
Southern	100	1	0	100	1	0	100	1	0	100	1	0	100	1	0						
Western	50	0	0	50	0	0	50	0	0	50	0	0	50	0	0						
North-Western	30	0	0	30	0	0	30	0	0	30	0	0	30	0	0						
Eastern	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0						
North-Eastern	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0						
Northern	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0						
Total	512	16	1	512	16	1	512	16	1	512	16	1	512	16	1						

Source: ETIC Annual Statistical Bulletin

The spatial distribution of PBX's as at June 1996 is being presented under Table 14.16 below. Accordingly, the total number of PBX's in the country for the period was 1338 of which 87 per cent (1169) belongs to the Automatic Exchange system and the remaining 13 per cent (169) to Manual Exchanges. Of the total number of Automatic Exchanges in the country, 82 per cent were located in the central "region" while the balance belongs to the remaining five "regions" in the same year (1995/96). The capacity of the automatic PBX's was 7891 DEL's and 5094 EXTS and of the total DEL's and EXTS capacity 84 and 87 per cent of them belongs to the central region, respectively for the same year. The spatial distribution of Manual DEL's and EXTS Capacity among regions follows the same proportion as that of Automatic DEL's and EXTS as shown in Table 14.16 below.

Of the 193,499 waiting list for telephone subscribers (Table 14.14 above) in the country in 1994/95, 88 per cent of them were from Addis Ababa while the central region accounts for some 71 per cent of total and the other regions accounted for the balance. The Direct Exchange Lines (DELS), PBX's and Coin Boxes have registered an annual average growth rate of 3.8, 2.2, and 1.7 per cent, respectively over the same period.

In terms of spatial concentration of public telephone stations (service stations) in the country, 70 per cent of the 512 Public Telephone exchanges in 1994/95 were distributed in Central, Southern, Western, and North-Western

Regions as shown in Table 14.15 below while the balance belongs to eastern, North-Eastern, and Northern region of the country. A little less than 80 percent of these exchange systems have been located only in the Central and Southern Regions of the country in 1994/95. More than 85 per cent of these exchange system are located in the Central region. This pattern of spatial distribution have not shown much difference in 1995/96 for which latest information is made available. The total number of public Telephone Exchanges have increased from 512 in 1994/95 to 536 in 1995/96, a growth rate of 4.7 per cent 1995/96.

Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

Table 14.15

Region	1994/95				1995/96			
	Total Public Stations	Automatic Exchanges	Manual Exchanges	Total	Total Public Stations	Automatic Exchanges	Manual Exchanges	Total
Central	358	358	0	358	365	365	0	365
North-Eastern	1	0	1	1	1	0	1	1
North-Western	1	0	1	1	1	0	1	1
Southern	1	0	1	1	1	0	1	1
Western	1	0	1	1	1	0	1	1
Eastern	0	0	0	0	0	0	0	0
Total	362	358	3	363	370	365	3	373

The spatial distribution of PBX's as at June 1996 is being presented under Table 14.16 below. Accordingly, the total number of PBX's in the country for the period was 1338 of which 87 per cent (1169) belongs to the Automatic Exchange system and the remaining 13 per cent (169) to Manual Exchanges. Of the total number of Automatic Exchanges in the country, 82 per cent were located in the central "region" while the balance belongs to the remaining five "regions" in the same year (1995/96). The capacity of the automatic PBX's was 7891 DELS and 5094 EXTS and of the total DELS and EXTS capacity 84 and 87 per cent of them belongs to the central region, respectively for the same year. The spatial distribution of Manual DELS and EXTS Capacity among regions follows the same proportion as that of Automatic DELS and EXTS as shown in Table 14.16 below.

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Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

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Central	358	358	0	358	365	365	0	365
North-Eastern	1	0	1	1	1	0	1	1
North-Western	1	0	1	1	1	0	1	1
Southern	1	0	1	1	1	0	1	1
Western	1	0	1	1	1	0	1	1
Eastern	0	0	0	0	0	0	0	0
Total	362	358	3	363	370	365	3	373

Source: ETC Annual Statistical Bulletin

The spatial distribution of PBX's as at June 1996 is being presented under Table 14.16 below. Accordingly, the total number of PBX's in the country for the period was 1338 of which 87 per cent (1169) belongs to the Automatic Exchange system and the remaining 13 per cent (169) to Manual Exchanges. Of the total number of Automatic Exchanges in the country, 82 per cent were located in the central "region" while the balance belongs to the remaining five "regions" in the same year (1995/96). The capacity of the automatic PBX's was 7891 DELS and 5094 EXTS and of the total DELS and EXTS capacity 84 and 87 per cent of them belongs to the central region, respectively for the same year. The spatial distribution of Manual DELS and EXTS Capacity among regions follows the same proportion as that of Automatic DELS and EXTS as shown in Table 14.16 below.

Of the 102,400 units for the telephone exchanges (Table 14.14 below in the country in 1992/93 F.Y. 70 per cent of the units were in the public sector and 30 per cent in the private sector. The total number of units was 102,400 units.

Regions as shown in Table 14.15 below were used for the survey. The total number of units was 102,400 units. The total number of units was 102,400 units.

Table 14.15
Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

Table with 10 columns: Region, Public, Private, Total, Exchange, etc. Rows for North, South, West, East, and Total.

Regions as shown in Table 14.15 below were used for the survey. The total number of units was 102,400 units. The total number of units was 102,400 units.

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Table 14.15
Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

Table with 10 columns: Region, Public, Private, Total, Exchange, etc. Rows for North, South, West, East, and Total.

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Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

Table with 10 columns: Region, Public, Private, Total, Exchange, etc. Rows for North, South, West, East, and Total.

Regions as shown in Table 14.15 below were used for the survey. The total number of units was 102,400 units. The total number of units was 102,400 units.

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Table 14.15
Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

Table with 10 columns: Region, Public, Private, Total, Exchange, etc. Rows for North, South, West, East, and Total.

Survey of The Exchange Economy

Transport & Communications

Of the 102,400 units for the telephone exchanges (Table 14.14 below in the country in 1992/93 F.Y. 70 per cent of the units were in the public sector and 30 per cent in the private sector. The total number of units was 102,400 units.

Regions as shown in Table 14.15 below were used for the survey. The total number of units was 102,400 units. The total number of units was 102,400 units.

Table 14.15
Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

Table with 10 columns: Region, Public, Private, Total, Exchange, etc. Rows for North, South, West, East, and Total.

Survey of The Exchange Economy

Transport & Communications

The spatial distribution of POTS in the country in 1992/93 F.Y. 70 per cent of the units were in the public sector and 30 per cent in the private sector. The total number of units was 102,400 units.

Regions as shown in Table 14.15 below were used for the survey. The total number of units was 102,400 units. The total number of units was 102,400 units.

Table 14.15
Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

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Survey of The Exchange Economy

Transport & Communications

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Survey of The Exchange Economy

Transport & Communications

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Table 14.15
Public Telephone Stations (Service Centers) by Region (1994/95 to 1995/96)

Table with 10 columns: Region, Public, Private, Total, Exchange, etc. Rows for North, South, West, East, and Total.

Private Branch Exchanges (PBX's) by Region 1995/96

Table 14.16

REGION	Private Branch Exchanges						DEL's Connected to PB				Extensions Connected to PBXs			
	No. of PBXs	Automatic Capacity		No. of BPX	Manual Capacity		Automatic		Manual		Automatic		Manual	
		DELS	EXTS		DELS	EXTS	DELS	Utilized %	DELS	Utilized %	EXTS	Utilized %	EXTS	Utilized %
Central	961	6,595	44,163	123	700	3,761	5,632	85.40	529	75.57	39,206	88.78	2,963	78.78
Northern	9	72	312	1	4	16	31	43.06	2	50.00	312	100.00	16	100.00
Eastern	46	359	1,808	2	6	55	108	30.08	3	50.00	1,361	75.28	26	47.27
Western	41	144	991	8	28	118	90	62.50	23	82.14	680	68.62	95	80.51
Southern	45	282	1,567	13	22	286	79	28.01	13	59.09	1,154	73.64	188	65.73
N. Eastern	23	143	771	4	5	60	35	24.48	5	100.00	500	64.85	53	88.33
N. Western	44	296	1,342	18	59	249	78	26.35	18	30.51	1,046	77.94	222	89.16
Total	1,169	7,891	50,954	169	824	4,545	6,053	76.71	593	71.97	44,259	86.86	3,563	78.39

Source:- ETC: Annual Statistical Bulletin

No.	Country
1	S. Africa
2	Belgium
3	Canada
4	Emirates
5	France
6	Finland /ID
7	Germany
8	Greece
9	India
10	Italy
11	Cote D'Ivoire
12	Japan
13	North Yen
14	Singapore
15	Sweden /I
16	Switzerland
17	UK /IDR/
18	S. Arabia
19	Egypt
20a	USA /AT
20b	USA /MC
20c	USA /Sp
21	Djibouti
21a	Eritrea
22b	Eritrea /I
23	Kenya
24	Tanzani
25	Uganda
26	Zambia
	Tot

Source:-

With regard to Telecommunication gets access to the help of microwave cable system, Table 14.17 b Ethiopia has the world via Ethiopia has North America

Table 14.17

With regard to the level of external Telecommunication facilities, Ethiopia gets access to the rest of the world with the help of satellite, PANAFTEL microwave network and submarine cable system. As can be seen under Table 14.17 below, as at June 1996, Ethiopia has had access to the rest of the world via 26 direct routes. Hence, Ethiopia has had access to countries in North America, Europe, Africa, Asia,

and the Middle East with the help of around 369 satellite circuits as at June 1996. Communication with Saudi Arabia and Egypt is through the use of submarine cable system via the Republic of Djibouti. Ethiopia has had access to the countries of Eastern Africa like Tanzania, Uganda, and Zambia using the PANAFTEL microwave network.

Ethiopia's Direct International Lines (1995/96 F.Y)

Table 14.17

No.	Country	Telephone		Telex		Telegraph	
		Media	Circuits	Media	Circuits	Media	Circuits
1	S. Africa	SAT	4	-	-	-	-
2	Belgium	"	4	SAT	4	-	-
3	Canada	"	20	-	-	-	-
4	Emirates	"	12	-	-	-	-
5	France	"	16	SAT	8	SAT	1
6	Finland /IDR/	"	6	-	-	-	-
7	Germany	"	19	SAT	6	-	-
8	Greece	"	4	SAT	6	-	-
9	India	"	4	-	-	-	-
10	Italy	"	45	SAT	16	SAT	1
11	Cote D'Ivoire	"	4	SAT	2	-	-
12	Japan	"	4	-	-	-	-
13	North Yemen	"	4	-	-	-	-
14	Singapore	"	3	-	-	-	-
15	Sweden /IDR/	"	18	SAT	8	-	-
16	Switzerland	"	9	SAT	6	-	-
17	UK /IDR/	"	50	SAT	10	SAT	1
18	S. Arabia	Cable	18	-	-	-	-
19	Egypt	"	6	-	-	-	-
20a	USA /AT & T /IDR/	SAT	58	SAT	21	SAT	2
20b	USA /MCI /IDR/	"	65	SAT	-	-	-
20c	USA /Sprint/	"	20	SAT	-	-	-
21	Djibouti	MW	20	MW	4	MW	1
21a	Eritrea	MW	95	-	-	-	-
22b	Eritrea /Assab/	"	44	-	-	-	-
23	Kenya	"	19	MW	4	MW	1
24	Tanzania	"	2	-	-	-	-
25	Uganda	"	2	-	-	-	-
26	Zambia	"	4	-	-	-	-
Total		SAT	369	-	87	-	5
		MW	186	-	8	-	2
		CABLE	24	-	-	-	-

Source:- ETC: Annual Statistical Bulletin

In general, telephone subscribers are categorized into four major groups: Business, Residence, Government, and Others. Of the 148,739 telephone subscribers in the country in 1994/95, 61 per cent of them were Residential Telephone Subscribers while the remaining 19, 18, and 2 per cent were Business, Government, and "Others" subscribers, respectively. The total number of telephone subscribers has increased by 4.4 per cent in 1995/96 and reached 148,739 as depicted in Table 14.18 below.

14.5.2.2 Telecommunication Services and Traffic

The major telecommunication services rendered by the ETC are: Telephone, Telegraph, and Telex.

As shown in Table 14.19 below, Telephone traffic, via metered, inter-urban calls, and international outgoing calls has registered an annual average growth rate of about 5.8, 3.1, and 9 per

cent through the ten years spanning the period 1985/86 to 1995/96.

As to developments in recent years, the overall volume of metered telephone calls had increased from 540 million calls in 1994/95 to 568.3 million calls in 1995/96, a 5.2 per cent increase over 1994/95 while inter-urban telephone calls reached 6.1 million calls in 1995/96 showing a growth rate of about 13 per cent over the preceding fiscal year (1994/95).

With regard to telegraph messages, the domestic and international outgoing traffic has declined at the rate of 4.5 per cent per annum over the period 1985/86 to 1995/96. Telex traffic has also declined at an almost the same rate over the same period. The declining trend in the volume of services rendered via Telegraph and Telex has been mainly attributed to the increasing availability of improved or more efficient meanses of communication like telephone, facsimile services, and the recently introduced communication technology, the Internet Services.

Classification of Telephone Subscribers

Table 14.18

S.N	Type of Subscribers	1994/95	1995/96
1	Residential	89,531	92,876
2	Business	26,155	28,079
3	Government	23,669	24,602
4	Others	3,097	3,182
	Total	142,452	148,739

Source: ETC

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Volume of Telephone, Telex Traffic, and Telegraph Messages.

Table 14.19 (In Millions)

No.	ITEMS	1985/86	1986/87	1987/88	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	Annual Growth Rates (%)
1	Telephone Traffic (Millions)												
1.1	Metered (Pulses)	322.8	333.7	356.4	311.5	362.8	395.9	423.5	470.8	523.6	540.0	568.3	5.8
1.2	Inter Urban Calls (Via Operator)	4.5	4.7	4.9	4.6	4.3	4.4	3.0	3.7	4.4	5.4	6.08	3.1
1.3	International Calls (OG)	0.29	0.39	0.48	0.67	1.2	1.7	2.1	2.8	3.1	3.1	3.41	19.0
1.4	International Minutes (OG)	2.2	2.6	2.9	4.7	7.3	8.9	10.1	10.9	11.5	10.5	10.35	6.0
2	Telegraph Messages												
2.1	National	0.28	0.31	0.31	0.25	0.29	0.26	0.14	0.15	0.15	0.16	0.18	-4.5
2.2	International (OG)	0.014	0.015	0.015	0.016	0.014	0.012	0.007	0.005	0.006	0.003	0.003	-16.5
3	Telex Traffic												
3.1	National Calls	0.18	0.17	0.19	0.24	0.23	0.19	0.09	0.09	0.07	0.05	0.04	-16.3
3.2	Inter. Calls (OG)	0.35	0.37	0.41	0.39	0.35	0.27	0.21	0.17	0.12	0.1	0.96	-15.0
3.3	Inter. Minutes (OG)	1.1	1.2	1.1	1.1	1.1	0.8	0.67	0.57	0.46	0.27	0.43	-9.8

Source:- ETC:ASB (1995/96 F.Y.)

Table 14.20 below, shows regional distribution of the volume of domestic telephone traffic in the country. Of the 568.3 million metered telephone call flows in 1995/96, some 68 per cent (383.9 million) was accounted for by the Central region followed by the Southern and Eastern Regions which accounts for 8.1 per cent and 6.9 per cent of overall metered calls in the country, respectively. The balance (17.4 per cent) was accounted for by the remaining Regions. More than 50 per cent of the total 6.1 million inter-

urban calls made in 1995/96 have also been accounted for by the Central, Western and Southern Regions. The pattern in the distribution of inter-urban telephone calls seems to be relatively evenly distributed among regions except in the case of the Northern region which accounts for 4.9 per cent of Metered Telephone calls and 3.3 per cent of Inter-urban Telephone calls in 1995/96, respectively.

Metered and Inter urban Telephone Calls By Region

Table 14.20

In Million

No.	Region	Metered Telephone				Inter-urban Telephone			
		1994/95		1995/96		1994/95		1995/96	
		Calls	% flow	Calls	% flow	Calls	% flow	Calls	% flow
1	Central	371.2	68.7	383.9	67.6	1.2	22.2	1.4	23.0
2	Northern	17.8	3.3	27.7	4.9	0.1	1.9	0.2	3.3
3	Eastern	37.4	6.9	39.4	6.9	0.8	14.8	0.9	14.7
4	Western	25.8	4.8	24.2	4.3	0.9	16.7	1.1	18.0
5	Southern	44.3	8.2	46.3	8.1	1.2	22.2	1.1	18.0
6	N. Eastern	15.2	2.8	15.6	2.7	0.6	11.1	0.7	11.5
7	N. Western	28.3	5.3	31.2	5.5	0.6	11.1	0.7	11.5
	Total	540.0	100.0	568.3	100.0	5.4	100.0	6.1	100.0

As shown total volume of telephone calls has increased over the period. In terms of international flows: Europe, America in 23.4, 20.5 calls, respectively countries UK, Italy, Spain and Kenya per cent international calls made in proportion preceding 1

14.5.13

Telephone important generation telecommunication (telegraph). urban services a per cent of Ethiopian Corporation Telex service per cent.

Table 14.20 shows the share of inter-urban calls which in 1989/90 in gross revenue is followed by urban telephony fact has d

1995/96 have also been dominated by the Central, Western and Southern Regions. The volume of inter-urban and international telephone calls is relatively low in all regions except the Northern region which accounts for 4.9 per cent of total inter-urban and 3.3 per cent of international telephone calls in

Region	In Million	
	Inter-urban Telephone flow	International Telephone flow
Central	22.1	11.1
Western	14.8	11.1
Southern	16.7	0.7
Northern	22.1	0.7
Other	11.1	0.7
Total	100.0	100.0

As shown in Table 14.20 above, the total volume of international outgoing telephone calls to the rest of the world has increased to 3.4 million in 1995/96, showing a growth rate of 8.2 per cent over the preceding fiscal year (1994/95). In terms of geographic distribution of international outgoing telephone call flows: Europe, Africa, Asia, and North America in that order accounts for 40.9, 23.4, 20.5 and 14.6 per cent of total calls, respectively in 1995/96. Of the countries in those continents, U.S.A, UK, Italy, Saudi Arabia, Djibouti, France, and Kenya altogether receive about 68 per cent of the total 3.4 million international outgoing telephone calls made in 1995/96. Almost the same proportion of calls was made during the preceding fiscal year (1994/95).

1989/90 to 29 per cent in 1995/96. Hence, revenue generated from inter-urban and international telephone call charges has become the most important sources of revenue generation for the ETC.

14.5.2.3 Revenue and Financial Performance of the Telecommunication Subsector

Telephone service is by far the most important in terms of revenue generation relative to the other telecommunication services (telex and telegraph). In 1995/96, the urban, inter-urban, and international telephone services altogether generate some 95 per cent of the gross revenue of the Ethiopian Telecommunication Corporation (ETC) while Telegraph and Telex services accounted for some 2.4 per cent.

Table 14.21 below demonstrates that the share of revenue generated from inter-urban and international telephone calls which stood at some 49 per cent in 1989/90 increased to 68 percent of total gross revenue generated in 1995/96. It is followed by revenue generated from urban telephone call charges which in fact has decreased from 41 per cent in

**Composition of Operational Revenue, Expenditure and Gross Profit
By Type of Service (1989/90 -1995/96)**

Table 14.21

(Million Birr)

No.	Items	(1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	Annual average growth Rates (%)
1	Revenue	152.1	187.1	192.0	253.4	292.7	445.7	495.2	30.0
1.1	Urban Telephone	62.6	70.8	71.9	81.6	88.3	129.3	144.0	27.7
1.2	Interurban & Int'l	69.7	97.3	106.7	155.5	182.9	294.3	330.4	34.4
1.3	Telegraph & Telex	17.2	13.8	10.4	11.8	9.9	11.9	11.9	9.6
1.4	Others	2.6	5.2	3.0	4.5	11.6	10.2	8.9	-
2	Expense	130.1	145.9	100.3	154.3	179.2	194.5	223.8	9.5
2.1	Urban Telephone	30.3	30.5	28.7	34.4	37.0	43.0	46.6	7.5
2.2	Interurban & Int'l	16.9	16.6	16.7	19.0	18.8	20.9	24.3	6.3
2.3	Telegraph & Telex	6.2	6.8	6.4	6.9	7.1	7.2	6.4	1.0
2.4	Others	76.7	92.0	48.5	94.0	116.3	123.4	146.5	11.2
3	Gross Profit	22.0	41.2	91.7	99.1	113.5	251.2	271.4	54.6
3.1	Urban Telephone	32.3	40.3	43.2	47.2	51.3	86.3	97.4	37.8
3.2	Interurban & Int's	52.8	80.7	90.0	136.5	164.1	273.4	306.1	36.6
3.3	Telegraph & Telex	11.0	7.0	4.0	4.9	2.8	4.7	5.5	40.2
3.4	Others	(74.1)	(86.8)	(45.5)	(89.5)	(104.7)	(113.2)	(137.6)	-

Source:- ETC: ASB (1995/96)

Survey of The Ethiopian Economy

Transport & Communication

Financial position of the ETC

(Million Birr)

Table 14.22

No.	Items	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	Annual Average Growth Rate (%)
1	Revenue	110.1	118.8	131.4	127.1	152.1	187.1	192.0	253.4	292.7	445.7	495.2	16.1
2	Expense	86.3	97.4	111.4	111.3	130.1	145.9	100.4	154.3	179.2	194.5	223.8	10.0
3	Gross Profit (1-2)	23.9	21.4	20.0	15.8	22.0	41.2	91.6	99.1	113.5	251.2	271.4	-
4	Net Fixed Asset	156.0	217.6	260.2	288.9	295.7	307.8	287.8	595.3	637.5	776.1	-	19.5
5	ROA (% x 100)	15	10	8	5	7	13	32	17	18	32	-	8.6
6	Current Asset	170.6	179.7	223.2	172.9	202.9	259.3	294.7	363.6	431.00	498.5	-	12.7
7	Current Liability	62.0	47.5	59.3	53.2	68.3	193.1	217.5	314.6	304.5	289.4	-	18.6
8	Current Ratio (6/7)	2.8	3.8	3.8	3.2	3.0	1.3	1.4	1.2	1.2	1.7	-	-
9	Total Asset	326.6	397.3	483.4	461.8	498.6	567.1	582.5	958.8	1068.5	1274.6	-	16.2
10	Long term Debt	60.5	123.6	182.4	185.8	185.1	186.5	175.5	417.8	442.1	504.7	-	-
11	Total Liability	122.5	171.1	241.7	239.3	253.4	379.6	393.0	732.4	746.5	794.1	-	-
12	Net - Asset (9-11) (Equity Capital)	204.1	226.2	241.7	222.5	245.2	187.5	189.5	226.4	322.0	480.5	-	10.0
13	Asset Coverage Ratio (9/11)	2.7	2.3	2.0	1.9	2.0	1.5	1.5	1.3	1.4	1.6	-	-
14	Debt/Equity Ratio (10/12)	0.3	0.5	0.8	0.8	0.8	1.0	0.9	1.8	1.4	1.1	-	-
15	Net worth/Total Liab. Ratio (12/11)	1.7	1.3	1.0	0.9	1.0	0.5	0.5	0.3	0.4	0.6	-	-
16	Capital Investment	31.3	70.0	50.4	59.8	22.7	38.5	17.2	68.0	65.8	153.3	76.1	-
17	Out-put/Capital Ratio (1/12)	0.54	0.53	0.54	0.57	0.62	1.0	-	1.12	0.91	0.93	-	-

Source:- ETC: Annual Statistical Bulletin (1995/96)

As depicted in Table 14.22 above, the gross revenue of ETC has increased from 110.1 million Birr in 1985/86 to Birr 495.2 million in 1995/96 showing an annual average growth rate of 16.1 per cent over the decade.

The same Table 14.22 also shows that gross operating expense which stood at 86.3 million Birr in 1985/86 has also increased at the rate of 10 per cent per annum and reached 223.8 million Birr in 1995/96. Such a remarkable financial position of the corporation as exhibited by revenue performance relative to expense through the decade ending in the 1995/96 F.Y is mainly attributed not only to the tariff increments but also to improved services rendered both to domestic as well as international users.

Table 14.22 also depicts that the average return on asset (ROA) ratio measured as a proportion of gross profit to net fixed assets being 15.5 per cent over the last ten years which is way above banks' loan rate of some 11 per cent, the ROA of the corporation is found to be satisfactory. The RoA was 17, 18, and 32 per cent in 1992/93, 1993/94, and 1994/95, respectively. The average current asset to liability ratio through the years 1985/86 and 1989/90 which was 3.3 declined to 1.2 in between 1990/91 and 1994/95 owing to the incorporation of residual surplus payable in the current liability component of the balance sheet since 1990/91. This indicator shows that the ETC has the ability to meet its current obligation.

The average asset coverage ratio which stood at 1.8 for the last ten years has been an indication that the ETC has had the ability to meet even its long term obligations. The debt-equity ratio of the corporation which was 0.3 in 1985/86 has improved to 1.8 and declined to 1.4

and 1.1 in 1993/94 and 1994/95, respectively. As a result, the debt-equity ratio increased to 1992/93. The corporation in 1992/93 borrowed more money than ever before. The debt/equity ratio which fell within the range of 0.3 to 1.1 during the decade ending in 1995/96 except 1992/93 and 1993/94 has been favorable to the ETC.

As depicted in Table 14.22 above, the declining average net worth to liability ratio for ETC in recent years (especially 1992/93 and 1993/94) was mainly attributed to increased borrowing from financial institutions for the finalization of the fifth Telecommunication Development Program.

14.5.2.4 Review of Reform Measures in Communication

Communication service in Ethiopia ever since its establishment have been state owned. The then Ethiopian Telecommunication Authority between 1953 and 1974 relatively enjoyed a certain degree of autonomy. However, during the Derg regime, the management autonomy of the then Ethiopian Telecommunication Authority (ETA) had been drastically curtailed, the overriding objective of the then socio-economic formation being expanding and strengthening of socialist production relations. This major objective was serving as the leading economic policy of the country up until the formulation of the Ten Year Perceptive Plan (1984/85 to 1993/94) which served as a planning framework up until the Decree of the Mixed Economic policy in March, 1990.

The TGE took power in May 1991 before this Reform program was even fully launched. The TGE issued the New Economic Policy of Ethiopia in December 1991 and subsequently

and 1994/95, the debt-equity ratio was 92/8. The ratio was more than double before. The ratio fell within the range of the decade to 1992/93 and is due to the ETC.

22 Above, the ratio of liability to assets (especially loans) is mainly due to borrowing from the finalization of communication

Reform Measures

1 Ethiopia ever have been state owned. Ethiopian economy between 1974 and 1991 enjoyed a monopoly. However, the new regime, the National Election Authority (NEA) detailed, the new socio-economic policy expanding production and distribution. The objective was economic policy formulation of the PDP (1984-85) as a planning Decree of the March, 1990.

in May 1991 the program was even issued the constitution of Ethiopia in subsequently

June 1999

launched an Economic Reform program in October 1992.

The New Economic Policy Vis-à-vis communication was articulated via emphasizing the need for maintaining telecommunication and postal services under state ownership as essential public services with the possibility of subsequently exploring the modality for private sector participation.

With the objective of discharging its responsibility efficiently, the Ethiopian Telecommunication has under gone changes after a thorough restructuring study which culminated with a split of the then ETA in to two organizations: the Ethiopian Telecommunication Agency and the Ethiopian Telecommunication Corporation, the former being responsible for devising regulatory mechanisms and the latter for operational issues and provision of basic services.

Private sector participation was already on the agenda in the area of provisions of Customer Premise Equipment (CPE) which include private radio communication, equipment, telephone apparatus, PARX's, Telex Machines Fax Machines, Data Modems, coin telephones, card phones, phone patch units, cordless telephones, answering machines, private meters, mobile radio paging systems, and TVRO. Some of these equipment /services have already been liberalized since August 1, 1995.

It is believed that importation of CPE through private operators will actually reduce demand for foreign exchange by the Ethiopian Telecommunication Corporation (ETC) and would enable concentrate its scarce resources on the provision of basic telecommunication services upon which the private sector has little or no comparative advantage.

This has also a direct bearing on competitive ability of the ETC.

With regard to postal services, a restructuring and tariff study have been completed and submitted to the Ministry of Transport and Communication for approval in 1997.

As to the Media, all media services have been under full control of the Ministry of Information up until the fall of the Derg. After the seizure of power by the TGE in 1991, a fundamental change has been made in the history of the country: restructuring of the Media and the declaration of the freedom of the press. As a result, media services have been restructured with three semi-autonomous agencies of the Ministry of Culture and Information since March, 1995. These agencies are: the Ethiopian Press Agency, Ethiopian Radio and Television Agency, and the Ethiopian News Agency. These Agencies have to operate under the Board elected by and accountable to the then Council of Representatives and the now House of Representatives although they are technically accountable to the Ministry of Culture and Information.

With regard to tariffs, the first major tariff revision for telecommunications services was made in 1980. The revisions encompassed the following measures:

- Urban call charges were raised by 50 percent
- Inter-Urban call charges were raised by 15-20 percent
- Subscription and rental charges remained unchanged
- International call charges were left to international and bilateral agreements

The second tariff revision for telecommunication was effected on July 1, 1994. As per this revision:

- Urban call charges were raised by 43 percent (14c to 20c)
- International call charges remained unchanged
- Subscription charges were raised by 165 percent (115 to 305 birr)
- Rental charges for residential was raised by 60 percent (5 to 8 birr)
- Rental charges for business was raised by 240 percent (5 to 17 Birr)
- International call charges was raised by 75 percent

With regard to postal service, revision had already taken place on rental charges for private Boxes. Additional ten thousand Private Boxes have been hired by new customers as per the revised tariff structure since January 1, 1996. The revised tariff has the following structure:

- Tariff Rate for small Private Boxes was raised by 50 percent to 18 Birr per annum.
- Tariff Rate for Medium Private Boxes was raised by 167 percent to 48 Birr per annum
- Tariff Rate for Big Private Boxes was raised by 300 percent to 96 Birr per annum

The revised tariff is expected to apply for about 58,600 already hired private Boxes as at July 1, 1996

Tariff revision had also been effected for Advertisement via the voice of Ethiopia and Ethiopian TV. A new tariff structure was introduced since December 1, 1993 and has had the following features.

- It is divided in to "prime" and "basic"
- The tariff rate differs on the basis of language of advertisement and type

of advertisement (trade, public, development, politics, religion)

The above mentioned tariff structure has been revised further on the ground that it was more expensive than other meanses of advertisement. Another revision was sought and hence a tariff structure revised for the second time has been introduced since April, 1997.

14.5.2.5 Review of Development/ Investment Programs in the Communication Sub-Sector

The First Development program of the now Ethiopian Telecommunication Corporation had commenced with the rehabilitation and reconstruction of the communication infrastructure destroyed during the Italian fascist invasion and occupation. The overall implementation of this program took 6.7 million Birr of which 3.7 million Birr (55 percent) was financed through loan secured from the World Bank and the remaining 3 million Birr was financed from the government's own sources.

Under the Second Telecommunication Development Program, the expansion of automatic exchanges in Addis Ababa, Debre Zeit and Asmara, the installation of manual exchanges in around 50 towns; the extension of telegraph and telephone links had been effected. In addition, conducive conditions were created for the installation of Telex links. The program was financed through loan obtained from the World Bank and government's own resources. The overall cost of this program was 15 million Birr of which almost 50 percent was secured from the World Bank.

A number of projects were implemented through the Third Telecommunication Development Program: the expansion of telephone exchanges in Addis Ababa,

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Asmara and Debre Zeit; the installation of automatic exchanges in Dire Dawa, Keren, Massawa, and Dessie; the extension of manual exchanges in 83 towns; the expansion of long-distance Urban telephone lines and the provision of radio, telegraphs in some rural areas were the most prominent ones. The overall project cost of the Third Development Program stood at Birr 27 million of which more than 59 percent was loan obtained from the World Bank and the remaining 41 percent was financed from the government's own-sources of finance.

The Fourth Telecommunication Development Program witnessed the implementation of the following: expansion of automatic exchanges in Dessie, Asmara, and Massawa; the establishment of telephone exchanges in Nazareth, Jimma, Harar, and Assab; the installation of 250 manual exchanges and provision of inter-urban transit exchanges between Addis Ababa, Dessie, Asmara, Nazareth and Dire Dawa. The total cost incurred in accomplishing the program was 41 million Birr of which 55 percent was obtained from foreign loan and the balance was financed from the organization's own funds.

During the implementation of the Fifth Telecommunication Development Program, a satellite earth station and other products of modern telecommunication technology were instituted. Microwave communication facilities were introduced in several regional towns. The overall program implementation cost stood at 125 million Birr of which 64 percent was secured from foreign loan and the balance was made available from the organization's own resources.

The nature of the projects during the launching of the Sixth Telecommunication Development Program were different from those in the preceding development programs. The package included: the installation of modern digital exchanges, the installation of additional international communication facilities (facsimile data transmission, etc.), the establishment of the second satellite Earth Station and domestic satellite in Sululta, Asmara, Mekele, Gode and Humera, and the introduction of optical fibers in the telephone exchange network. The total cost of implementing this program was 316 million birr and is 47 percent more than the total cost incurred during the implementation of all the previous five Development programs (214.7 million Birr). This program was conducted during the period of the Transitional Government of Ethiopia (TGE) and has managed to rehabilitate the communication facilities damaged during the protracted civil war. The rehabilitation and reconstruction fund was obtained from IDA (8.3 million birr) and was implemented under the supervision of the Emergency Recovery and Reconstruction Program (ERRP). Of the 316 million fund allocated for the sixth Development Program, about 68 percent was obtained as a loan from international financial institutions and the balance from the organization's own fund.

The Seventh Telecommunication Development Program, being a continuation of the successive programs, was supposed to cover the period 1992-1996 and has been redesigned to encompass the five years spanning 1995 to 1999. The major objectives of the Seventh Telecommunication Development Program which is currently in its third year of implementation are:

- to open 200 telephone stations in small towns and villages currently without any telephone lines;
- to improve rural communication;
- to increase Automatic telephone exchange capacity from 142,756 to 370,500 lines;
- to rehabilitate microwave links by replacing the old analog systems with digital microwave system;
- to establish adequate telecommunication facilities to neighboring countries through PAVAFTEL networks;
- to improve the international service;
- to expand digital local exchanges;
- to provide additional capacity on existing microwave and UHF links;

As to development /investment programs in postal services, the development effort has been dictated by social rather than commercial grounds. In the sixteen years between 1981 and 1996, total expenditure on development programs in the sector is estimated at 7.7 million Birr or a little more than half a million Birr development expenditure per annum on average. It is believed that this amount of development expenditure lagged far behind the cost required to accommodate the expressed demand for postal services. The improvement in literacy rate after the launching of the literacy campaign in 1979, the formation of Peasant Association, and Urban Dwellers' Associations (kebels) contributed for the significant increase in the demand for postal services.

As depicted in Table 14.23 below, the major components of development expenditures of postal services are: building and other construction works and purchase of vehicles and buildings on average accounted for some 77 per cent of overall expenditure in 1996. Historically project implementation of

postal services has not proceeded as planned. For instance, project implementation performance averaged 36 per cent over the period spanning 1981 to 1996 excluding the 1981 and 1982 which registered implementation rates of 96 and 112 percent of the target, respectively.

With regard to development Expenditures in the Media Sub sector, it was incorporated in the Ten Year Perspective Plan (TYPP) which was launched in 1984/85 by the Derg regime. In the TYPP about 97.5 million birr was allocated for strengthening and expansion of the Media of which only 24.8 million Birr (25 per cent) had been used during the seven years period of TYPP (1984/85 to 1990/91).

The Media sector has witnessed significant achievement in the allocation and implementation of development expenditures during the five years of the TGE (1992-1996) in which a 153.2 million Birr development expenditure has been effected throughout the period. During these five years, six TV stations were opened, a Mass Media Training Center was constructed, the Ethiopian News Agency (ENA) Building was completed, and its computerization and modernization is still underway, and purchase of new broadcast equipment and transmitters for channel II and replacement studio equipment effected.

The 153.2 million Birr development expenditure effected during the five years (1992-1996) has not included the construction cost of the Head office building worth some 44 million Birr; The over all Development Expenditure to improve and expand the services of the Media Sector during the period 1992-1996 was thus estimated at 197.2 million Birr.

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Development Expenditures of the Communication Sub-Sector

Table 14.23

S.N	Sector/sub sector	Period	Amount of Expenditure (Million Birr)
1	Telecommunication		
	First Development program		6.7
	Second " "		15.0
	Third " "		27.0
	Fourth " "		41.0
	Fifth " "		125.0
	Sixth " "		316.0
	Seventh " "	1995-1999	169.0 (USD)*
2	Postal Services	1981-1996	7.7
3	The Media		
	• The period of the Derg	1984/85-1990/91	24.8
	• The period of Transition	1992-1996	197.2

(*)

N.B. This is the total amount of Development Expenditure required from external sources and 130.9 million USD is already secured through loan and grant from different donor agencies.

was letters 5600 were parcels, and 25,600 EMS items.

14.5.2.6 The Performance of Postal Services, Media and the Press

Volume of Postal Traffic

Postal services have been expanding since 1991/92 with the volume of both domestic and international postal traffic achieving an average growth rate of 5.6 per cent per annum until 1995/96. Annual increase in international postal traffic was higher than the domestic one during the period 1991/92 to 1995/96; the former grew by 8.5 per cent per annum while the latter increased by 3.2 per cent.

However, domestic postal services are dominant in terms of volume accounting for 54 per cent of the total postal traffic in 1995/96, the residual was accounted for by international postal exchange. Out of the total domestic traffic in 1995/96 17.4 million or 99.6 per cent

Compared with the preceding fiscal year, volume of letters and EMS handled has increased by 4.5 and 8.9 per cent, respectively while the number of parcels declined by 17.6 per cent. The number of parcels handled domestically declined sharply in recent years (it stood at more than 20,000 per year before the reform) owing mainly to the increase in postal charges for parcels. The performance of postal services is shown in Table 14.24 below.

Number of Postal Service Stations: Previous Versus New Administrative Setup

Table 14.25

No.	As per the previous Administrative setup	1989/90	1990/91	1991/92	1992/93	Growth Rates (%)	No.	New Administrative Set up	1993/94	1994/95	1995/96	Average Growth Rates (%)
1	Arsi	23	23	18	20	11.1	1	Tigray	32	34	34	-
2	Bale	20	20	16	14	(14.3)	2	Afar	10	10	10	-
3	Shewa	193	190	73	77	5.5	3	Amhara	146	146	147	-
4	Addis Ababa	40	40	40	40	-	4	Oromia	241	241	243	-
5	Gondar	35	35	35	40	14.3	5	Ethio somali	16	16	21	31.3
6	Gojam	57	55	55	52	(5.8)	6	Benshangu I G.	3	3	3	-
7	Wello	75	76	47	43	(9.3)	7	Southern Ethiopia	67	67	67	-
8	Wellega	44	43	44	48	9.1	8	Gambella	8	8	8	-
9	Tigray	23	23	18	19	5.6	9	Harrare	1	1	1	-
10	Illubabor	26	27	24	21	(14.3)	10	Addis Ababa	39	39	45	15.4
11	GamuGofa	17	17	17	17	-	11	Dire Dawa	5	5	5	-
12	Harrerge	60	62	64	64	-						
13	Sidamo	65	65	47	49	4.3						
14	Kefa	202	202	58	57	-						
	Total	880	878	556	561	0.9			568	570	584	2.5

Source:- MTC: Statistical Report, 1996 G.C.

There were 584 Postal Offices in Ethiopia during the 1995/96 FY of which 41.6 and 25 per cent were in Oromia and Amhara regions, respectively. About 11.5 and 7.7 per cent of the postal offices were also located in SNNP region and Addis Ababa, respectively while Tigray and Somali regions account for 5.8 and 3.6 per cent during the same year. It is important to note that the total number of operational postal offices since 1991/92 (ranging between 560 to 580) is far below their number immediately before the reform program which stood at about 880. The trend in the number of postal offices is depicted in Table 14.25 above.

The Media and the Press

Three government-owned institutions handle the majority of mass media services in Ethiopia currently: the Ethiopian Radio and Television Enterprise, Ethiopian News Agency, and Ethiopian Press Agency.

Radio Ethiopia has a multilingual domestic broadcasting service in Amharic, Oromigna, Tigrigna, Somali, Harari and English with an additional regional optout program in Afar, Agnwak, Nuer, Oromigna, Tigrigna and Somali. In addition, Radio Ethiopia broadcasts an external service on short wave in Somali, Afar, Arabic, English and French languages targeting neighboring countries and the local diplomatic community. National Radio broadcasts a discontinuous service for about 13½ hours on average between Monday to Friday and 17 hours on average during Saturdays and Sundays.

Ethiopian TV transmits 7½ hours on average each day in 4 languages:

Amharic, Oromigna, Tigrigna and English.

The Ethiopian News Agency receives news from its external sources and disseminate news to its customers abroad. ENA with the help of its 33 branch offices collects and disseminates news within the country.

The Ethiopian Press Agency publishes and circulates two daily and two weekly News papers in different languages namely; Addis Zemen in Amharic, Herald in English, Beresa in Oromigna and AlAlem in Arabic, Addis Zemen & Herald are daily news papers whereas Beresa & Alalem are weekly ones.

Since the declaration of freedom of press in October 1992, a number of press agencies have come to the scene publishing and distributing news papers and magazines to the public. There was a dramatic surge in the number of private press agencies when the Press Law first came into effect. About 381 licenses were given to such enterprises during the years 1992/93 to 1996/97 of which 314 started their operations. However, 286 of them returned their licenses in a short period of time and 13 and 72 press agents were left in 1994/95 and 1995/96, respectively. Their number has increased to 113 again in 1996/97 (See Table 14.26 below).

Table 14.26

No	Types of Press	1992/93	1993/94
1	News Papers	28	65
2	Publication	-	-
3	News Agency	-	-
		93	93

Source:-

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Status of Private Publishers (1992/93-1996/97)

Table 14.26

No	Types of Press	Licenses Issued					Total	Operational					Returned & Not Functional
		1992/93	1993/94	1994/95	1995/96	1996/97		1992/93	1993/94	1994/95	1995/96	1996/97	
1	News Papers	28	79	60	54	45	266	28	100	89	55	92	174
2	Publication	65	30	9	4	5	113	56	56	24	16	19	94
3	News Agency	-	1	1	-	-	2	1	1	1	1	2	-
		93	110	70	58	50	381	157	114	114	72	113	268

Source:- MIC

The reasons for the sharp decline in the number of private press enterprises include, among others: an increase in the cost of paper and printing; attitudinal change of the readers making them selective in their readings and the gradual decline in the demand for some sort of news and magazines as a result.

Despite all these, the circulation of private news papers and magazines currently outstrips that of the public. Apart from the press agents, two Private News Agencies have been licensed since the coming in to force of the press freedom, of which only one is currently thriving in the market.

Chapter 15

Education

15.1 Background

Education has played a positive role in the development of society by promoting a range of activities which stimulate creativity and innovation. Education is both a product of society and a major factor in social change. Thus, education must involve the whole society in its operation and offer the possibility of a life-long process of learning if it is to be of maximum use to society. There is a close interaction between economic growth and development in education as no single country has achieved sound economic development without a well established education system.

Investing in peoples' education boosts the living standards of households by expanding employment opportunities, raising productivity, attracting capital inflow and enhancing earning power. It has also been asserted by various studies that better education has value in its own right, enabling people to lead more fulfilling lives. The global recognition of the importance of investing in human capital has thus led to unprecedented world wide increase in schooling in recent years.

The Ethiopian system of education has a long way to go so as to play a dynamic role in the process of economic development. Despite the expansion of education in Ethiopia, the parallel growth of population has hindered sufficient reduction of adult illiteracy which is estimated at 77% for female and 55% for male in 1995 (World Bank 1996). Gross

enrollment ratios are still very low even by Sub-Saharan Africa standards. It is estimated at 34.6 per cent for grades 1 to 6, and 30 per cent if grades 1 - 8 is considered. The need for the expansion of the coverage and quality of education has still remained to be a major challenge.

In a country with wide spread poverty, there exist competing needs for development finance among various sectors. The education sector, apart from huge investment on building schools, demands text books, teaching aids and school equipment which are essential for sustaining the quality of education. The recurrent cost implication of training and paying teachers is also a formidable task.

Enrollment ratio (gross) at the primary level has remained low despite the continued effort by government, the community and donor organizations. As per the Education Sector Development Program (1998-2002), it is envisaged to achieve a 50 per cent enrollment ratio by the year 2000 (ESDP).

Apart from the low level of gross enrollment ratio, primary education suffers from high rate of dropouts (28% for grade 1) which results into wastage of resources and inefficiency of the system. Inefficiency is also aggravated by repeaters with serious implication on labor and financial resources. It is estimated that the number of primary school age persons that could have been admitted might have increased

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by 15 to 20 per cent without extra expenditure, had there not been repeaters.

Traditionally, the Ethiopian education system showed little concern about the fate of students after leaving school. The mismatch between the qualification of students and the demands of employers has become a serious issue with the growing unemployment of school leavers (secondary). Thus, the reorientation of education towards meeting the manpower demands of the economy has been and still is a major policy issue of the Government of Ethiopia.

15.2 Policies and Strategies of the Education Sector

Attempts to formulate the educational sector policies during the Imperial Regime were limited to Proclamations (1943 & 1948) which has dealt with the organization and duties and, responsibilities of the Ministry of Education and Fine Arts. It was in the First Five Year Plan (1957-61), though not mainstreamed, that an attempt had been made to adapt the Ethiopian education to the needs of the country and expand the coverage of the service. However, measures were not taken to meet these objectives except for limited activities in the provision of special training for selected students aimed at manning the civil service, the growing commercial and industrial sector and the education system itself.

After the seizure of power by the Derg in 1974, the Regime set new educational sector objectives and directives which could be summarized as "education for socialist consciousness, education for production and, education for science and research". Thereafter, the Educational Policy Study for the

People's Democratic Republic of Ethiopia (PDRE) was conducted which came up with the following policies and objects.

- Principal priorities are universalization of primary education and the eradication of illiteracy;
- Special consideration will be given to backward areas and women;
- Practical education based on the society's needs should be developed for different age groups for the betterment of the citizens as well as lay the foundation of socialism.
- Prepare the ground work to develop an educational system which is based on democratic centralism and that could be strengthened by the participation of the working people, and.
- Produce the high and middle level manpower in line with the demands of the country. In addition research should focus on societal problems as well as enhancing the peoples culture,

In 1991 the Transitional Government of Ethiopia (TGE) provided overarching objectives of education for the transition period which were built upon the policies of the Derg except the latter's socialist orientation. These are: education for production which relates practical and technical skills to attitudes expressing respect and love for labour; education for scientific consciousness emphasizing an environment for inquiry and experimentation and, the application of scientific methods to all aspects of learning.

Since 1994, however, a new Education and Training Policy has been adopted taking into consideration the structure of education as it evolved overtime and the long term objectives set for it. The General objectives of the new education and training policy are:

- to develop the physical and mental potential and the problem solving capacity of individuals by expanding education and in particular by providing basic education for all;
- to bring up citizens who can take care of and utilize resources wisely;
- to bring up citizens who respect human rights, stand for the well-being of people, as well as for equality, justice and peace, endowed with democratic discipline;
- to bring up citizens who differentiate harmful practices from useful one, who seek and stand for truth, appreciate aesthetics and show positive attitude towards the development and dissemination of science and technology in society.

In order to implement the objectives specified, the government of Ethiopia has developed various strategies, which are pertinent to the overall development objectives in general and educational development program in particular.

These strategies have focused on reorientation and modification of the existing educational system, revising and improving curriculum that fits with in the educational objectives set out in the Education and Training Policy of Ethiopia including the following aspects:

- A vocational/technical training system shall be established

parallel to the academic system and will have its independent structure but with appropriate linkage to the academic system. Students who discontinue the formal academic education and who wish to acquire a skill will be trained in different vocations or techniques at a level and competence corresponding to their educational background;

- Educational organization and administration shall be restructured in accordance with the devolution of power from the central government to regions that is being currently exercised. The administration of elementary and secondary education and training shall be decentralized in line with the ongoing regionalization process;
- The training and professional competence of teachers shall be upgraded with the view of improving the quality and standard of education. Teacher training institutions shall also be upgraded, diversified, and expanded in line with the requirements of the new educational system and service. The institutionalization of mechanisms for an attractive and realistic salary to teachers so as to elevate their status in the community and there by enhance their motivation and professional attitude.
- The focus in the short term shall be on rehabilitating existing institution and improving the availability of educational materials, while the focus in the medium and long term shall be on expanding elementary and secondary education. Special attention shall be given to building and expanding the parallel

vocational/technical training system to enable individuals to acquire skills in the short term and expand the long term. Attention shall be given to educational and provision of levels of education.

- The link between research and development and strengthening of the educational system shall be increased. The financing system shall be restructured to increase allocation of resources for infrastructure provision. The focus shall be on elementary and secondary education. Financing shall be prioritized. Community participation and donor support shall be encouraged for basic services. Special attention shall be given to introducing and expanding the benefits of education to the poor and disadvantaged.

According to the strategies, Ethiopia has already initiated policies and integrated a

15.3 Structure of the Education System

The structure of the education system is

vocational/technical training so as to enable individuals respond to the resurgence in the economy in the short term and its envisaged expansion in the medium and long term. In general, due attention should be given to educational service expansion and provision of materials at all levels of education;

- The link between academic research and production shall be strengthened;
- The financing of the educational system shall be improved by increasing government budget allocation particularly for infrastructure building and provision of educational materials. The focus will be on elementary and secondary education. Financing higher education will be prioritized as deemed essential. Community and private sector participation shall be encouraged and promoted in the provision and assistance of educational services. Different cost sharing schemes shall be studied and introduced particularly for beneficiaries of higher education.

According to the above cited strategies, the government of Ethiopia has attempted to implement the already established policy in relation to other development policies and strategies through an integrated approach.

15.3 Structure And Performance of The Ethiopian Education System

The structure of the Ethiopian

Educational system for the regular (formal) program has been changed a number of times based on the policies and objectives of the sector in different political regimes. During most of the Imperial regime, for instance, the school structure was 4-4-4 i.e., 4 years of primary, 4 years of middle and another 4 years of secondary education. In 1967, it was changed to 6-2-4 by extending the primary education to grade 6 and limiting junior secondary education to grades 7 and 8. This has, however, been the school structure for more than 25 years until the new educational and training policy of the Federal Democratic Republic of Ethiopia came in to force in 1993/94. According to the new policy, the Education structure has changed to 8-2-2 giving more emphasis to the vocationalization of the education system and enhancing problem solving capacity of students. The following sections are devoted to the assessment of developments in the education system at various levels.

15.3.1 Primary Education

The change in the structure of primary education over time has implications on the school age of the pupils involved. This in turn affects the enrollment ratio at the primary level, despite the fact that not all the students in primary education belong to that age group. In any case, Ethiopia has one of the least enrollment rates which according to the reports of the Ministry of Education, was 23 and 34.6 per cent in 1993/94 and 1995/96, respectively, for grades 1 to 6.

Participation Rate and Gender
Parity Index for Primary Education (1-6)

Table 15.1

Year	Boys	Girls	Total	Gender Gap	Gender Parity Index
1992/93	23.2	16.2	19.7	7.0	0.70
1993/94	31.9	17.9	22.8	14.0	0.56
1994/95	35.7	22.1	29.0	13.6	0.62
1995/96	43.2	25.6	34.6	17.6	0.59

Source:- Ministry of Education, Annual Education Statistics, 1995/96:2

Apart from the low level of enrollment ratio, primary education in Ethiopia suffers from persistent disparity between sexes. Recent estimates indicate that 30 to 40 per cent fewer girls than boys attend school at national level. The indicators for rural areas signify an even worse condition. The numerical disparity is only one aspect of the inequality that exists between sexes. Girls also attend school for a far lesser time than boys on average. Often, girls receive just a couple of years formal education before leaving school without mastering basic education. Girls on average account for about 37.3 per cent of total primary school participation in 1995/96.

As indicated in Table 15.1 above, primary education enrollment rates increased successively during the years 1992/93 to 1995/96. It increased by about 15 percentage points reaching 34.6 per cent by 1995/96. Though enrollment rates of both boys and girls increased during this period, the participation gap has widened from 7 to 17 percentage points. The Gender Parity Index (Ratio of enrollment rates of girls to boys) also declined from 0.7 in 1992/93 to 0.59 in 1995/96*

* Gender parity Index equals 1 in the case of equal rates of participation

Basic Indicators of Primary Education (1-6)

Table 15.2

Indicators	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Number of:							
Schools	8434	8120	8674	9276	9704	10204	10752
Teachers	68457	69743	86372	94654	102126	92526	109257
Students	2063635	1855694	2283638	2722192	3380068	4005708	4607733
Ratios							
Student/Teacher	30	27	27	29	33	43	42.2
Student/Classroom	-	-	40	52	55	56	-
Student/School	245	229	264	294	349	393	429

Source: Ministry of Education EMIS, Annual Education Statistical Abstract .

As shown in Table 15.2 above, the number of primary schools has increased from 8120 in 1992/93 to 10,752 in 1997/98 with an average annual growth rate of 5.8 per cent. However, the growth in the number of students which averaged 20 per cent far exceeded that of schools during the same period leading to an increase in student to classroom ratios from 40 to 56 during the period 1992/93-1996/97. Student to teacher ratios has also increased from 27 in 1993/95 to 43 in 1996/97. The number of primary school teaches increased by 9.4 per cent per annum during the post reform period ending in the 1997/98 F.Y.

Students have to sit for the national examination to certify their completion of primary education at grade 8 according to the new education and training policy. In 1994/95 and 1995/96, a total of 194,136 and 197,566 students sat

for grade 8 national examination with promotion rates of 61.1 and 61.7 per cent, respectively. This shows that the number of students transited to secondary education grew faster than the number of annual examinees.

15.3.2 Secondary Education

Secondary education in Ethiopia has long been divided into two sub-phases namely Junior and Senior secondary education, i.e., 2 years of junior and 4 years of senior secondary years. According to the new ETP, however, the former 2 years of junior schooling has been made part of the primary education. The new secondary education is also divided into two cycles where grades 9 and 10 are the end of general education and grades 11 and 12 are considered as the preparatory levels for tertiary education.

Basic Indicators of Secondary Education (7-12) Level
Table 15.3

Indicators	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	Annual Average Growth (%)
Number of:							
Schools	1433	1378	1470	1560	1650	1841	7.5
7 - 8	1149	1099	1167	1230	1304	1472	7.6
9 - 12	284	279	303	330	346	369	7.2
Teachers	23133	21970	21598	22779	25075	25368	3.6
7 - 8	11265	10796	10611	11544	12932	13262	5.2
9 - 12	11868	11174	10987	11235	12143	12106	2.0
Students	775193	712489	714623	747226	810604	889081	5.7
7 - 8	359111	348803	357428	376330	407851	462586	7.3
9 - 12	416082	363686	357195	370896	402753	426495	4.0
Ratio							
Student/Teacher							
7 - 8	32	32	34	33	32	35	
9 - 12	35	33	33	33	33	35	
Student/Classroom							
7 - 8	-	-	58	60	62	64	
9 - 12	-	-	44	57	61	65	
Students/School							
7 - 8	313	318	306	306	313	314	
9 - 12	1465	1304	1179	1124	1164	1156	

Source: Ministry of Education EMIS, Annual Education Statistical Bulletins.

Enrollment in secondary education has increased rapidly in line with growth in the number of schools. According to sources from the MoE, enrollment in secondary education (7-12) during 1992/93 stood at 712,489 which further rose to 889,081 in 1996/97 showing an annual average growth rate of 5.7 per cent. Gross enrollment for Junior and senior Secondary students has shown an annual average growth rate of 7.3 and 4.0 per cent, respectively during the period 1992/93-1996/97. The number of secondary schools has also shown an annual average growth rate of 7.5 per cent per annum over the same period. However, growth in the number of secondary school teachers has not been commensurate with the rate of growth in the number of schools and students. The number of teachers has shown an annual average growth rate of 3.6 per cent during the period while that of secondary schools show an annual average growth rate of 2 percent. Enrollment

ratios for senior secondary education increased from 6.3 per cent in 1993/94 to 8.1 per cent in 1995/96. However, most of this increase was accounted for by boys whose enrollments ratio improved from 7.7 to 9.2 per cent while that of girls increased marginally from 6.9 to 7.0 per cent during the period under review (1992/93 to 1996/97).

With regard to the quality of education services provided at the secondary level, Pupil to Teacher Ratios (PTR) increased from 32 in 1992/93 to 35 in 1996/97. This has been, however, found to be below the targets set for the period. Considering the maximum capacity of a teacher to supervise and follow class activities with in a class period, the national target for PTR was set not to exceed 40. The fact that the education system absorbs all graduating teachers every year explains much of the recent developments in PTR especially at secondary level. However, the student to class room ratios

increased from 44 in 1993/94 to 65 in 1996/97 implying that more secondary schools need to be established to improve the quality of education.

15.3.3 Technical/Vocational Training

Technical/vocational education in Ethiopia is provided at different levels (both by public and private agencies) within the formal educational system as well as outside it. Institutions which are responsible for the training of high level vocational and technical personnel are higher education institutions. Below the university level, there are a number of technical and vocational training schools and institutes which cater for the training of personnel at the middle and lower levels in different occupations. These included vocational Comprehensive Secondary Schools which provide basic knowledge to secondary level students in the fields of industrial arts, commerce, agriculture and home economics.

A third category of vocational training institutions comprises training centers attached to certain public agencies for the provision of training for the employee or would be employees of those agencies. Such training centers have been organized by the Ethiopian Airlines, the then Ethiopian Electric Light Power Authority and the now EEPSCO, the Telecommunication Agency of Ethiopia, Ethiopian Road Authority, etc. Similarly, a sizable amount of technical/vocational training is being carried out by private institutions. Private enterprises in this field dominate the commercial (mainly typing) computer training, metal and woodworks, welding and vehicles maintenance.

These are mainly run by private profit-making individuals and organizations.

The fifth category in the inventory of vocational training facilities is the informal on-the-job training that is being provided virtually in all types of industries. There is no formal apprenticeship training program. There are also no regulations governing on-the-job training. It is therefore, difficult to define and properly assess the extent and scope of this type of training that may be available in the country.

In 1996, the Ethiopian government established 25 vocational skill up grading and training centers to pupils who have dropouts from the different levels of the education system. These centers are expected to be more closely aligned to the demands of the labour market and are expected to alleviate the shortage of skilled labour in regions. At present the 25 vocational training centers are found in Tigray, Amahra, Orimiya, Southern Nations Nationalities and Peoples Regions. The training schemes have concentrated in the fields of Auto mechanics, Wood work, Metal work, Electricity, Building and maintenance. Depending on the profile of participants, the duration of training ranges between 6 to 10 months. Nonetheless, most of the participants are 12th grade graduates who have not been able to proceed for further education after ESLCE. The locations of the centers are in rural areas. Each of the training center, accommodate 300 trainees on the average. As the centers are at their infant stage, there is no systematically organized data that describe their activities. This system of vocational training is intended to support the new

Education and Training Policy of Ethiopia.

However, this review has focused on the regular program of technical vocational education recognized and regulated by the Ministry of Education. There are 17 technical/vocational institutions, which provide 21 specialized training courses for three years after grade 10. Trainees are selected from different schools according to their performance in grade 10. The best are always going to be the winners.

Of these 17 technical and vocational schools, five of them are administered by the missionaries, which are usually know as non-government schools. The following fields of specializations are mainly given by the regular program of technical vocational schools. These are: Auto mechanics, Building, Drafting, Electricity, Electronics, General Mechanics, Machine Technology, Surveying, Wood Technology, Accounting, Secretarial, science, Brick Layer Painter and Plastering, Joiner Carpenter, Electro-gas Welder, Fitter Plumber, Reinforcement Assembler, Concrete Structure, Food and Nutrition, Home Management and House Keeping, Textile and Clothing Agro Mechanics, and General Agriculture. Trainees graduate with diploma after completion of their training in these technical fields. The role of the Ministry of Education is that of supervision as to whether the Non-government Technical/Vocational schools are operating according to the standards set by the Ministry of Education (MoE).

In 1995/96, a total of 2,738 students were enrolled under these 17 technical schools. This enrollment rate shows a growth rate of 3.95%

over the previous year (see Annex 1 and Annex 2).

15.3.4 Teacher Training Programs

The formal education system has been characterized by rapid growth in student enrollment which has not been accompanied by adequate growth of teachers indicating the growing need for more teachers. There are currently different institutions which train teachers for primary and secondary education. Teachers for primary schools (particularly for the first cycle) are trained locally in a one year training program while teachers of secondary schools (including the second cycle of primary education) are graduates of colleges and universities with Diplomas and first Degrees. There are, however, in service training programs to upgrade the skills of teachers as a strategy to reduce the number of non-qualified teachers in the education system.

Elementary School Teachers' Education

There exist thirteen elementary school Teachers' Training Institutions (TTI) in six regional states. The respective plan of the Ministry of Education clearly indicates that in the near future this program will be introduced in the remaining regional states depending upon the development priority of each region (see Table 15.4)

Courses offered under this program include: Pedagogy, Psychology, the respective regions National and Nationalities languages, English, Mathematics, Science subjects, Arts subjects, Music, Physical education, Handicrafts, Drawing, Agriculture and Home Economics. An average of 5000 teachers that graduate with certificates from all TTIs in the

country join the teaching force annually. (for the first cycle)

As far as the new education and training policy is concerned, teachers for the second-cycle (grades 7 & 8) of elementary schools are recruited from graduates of junior colleges or higher Education Institutions. These institutions are Kotobe College of Teachers Education, College of Pedagogical Sciences, Bahir Dar Teachers College, Ambo College of Agriculture, Addis Ababa University and Nazareth Technical Colleges. Since the adoption of the New Education and Training Policy, other teachers training colleges which especially prepare teachers for the second cycle are being opened under the jurisdiction of each Regional Education Bureau. Four colleges have been opened since 1996 in Addis Ababa, Tigray, Oromiya and Amhara regions. These colleges produce subject specialized teachers after two years of training and are expected to improve the quality of education at the primary level.

It is assumed that these regions have the capacity of administering colleges which give pedagogical training for the second cycle of primary education. Each of these teacher training colleges has a capacity of accommodating 300 to 800 students every year. Apart from the training program in Addis Ababa, the rest of the colleges have been upgraded from TTIs.

Secondary School Teachers' Education

Teachers who are qualified for grades 9 to 12 are trained in different institutions receiving a Bachelor degrees in various disciplines. Kotobe College of Teacher Education, Ambo College of Agriculture, Addis Ababa University, Nazareth Technical College, Alemaya University of Agriculture, Dila Teachers Education and Health Science College, Bahir Dar Teachers College are the major producers of the teaching force at this level of education. For instance, for the year 1995/96, 463 of the graduates were from eight higher learning institutes (see Table 15.4 below)

Number of Teachers Training Institutions (TTIs) and Graduates By Region

Table 15.4

Region	Teacher Training Institutes					
	Schools		Teachers			
	1994/95	1995/96	1994/95		1995/96	
			M	F	M	F
Tigray	1	1	15	2	14	1
Afar	-	-	-	-	-	-
Amhara	3	3	72	7	59	1
Oromiya	5	5	134	11	77	8
Eth.Somali	-	-	-	-	-	-
Benshangul /Gumuz	-	-	-	-	-	-
SNNP	2	2	89	4	74	2
Gambella	1	1	16	0	15	0
Harari	1	1	21	1	22	1
Addis Ababa	-	-	-	-	-	-
Dire Dawa	-	-	-	-	-	-
Total	13	13	347	25	261	13

* Data for Assela TTI not available for the year 1995/96

**Graduates From Higher Institutions Joining
the Teaching Force (1995/96).**

Table 15.5

Institute	Diploma	Under graduate	Post graduate	Total
AAU College of Social Science	-	52	10	62
AAU Faculty of Education	117	72	21	210
AAU Faculty of Science	-	115	37	152
Institute of Language Studies	-	48	1	49
Bahir Dar Teachers College	183	30	-	213
Ambo College of Agriculture	25	-	-	25
Kotobe College of Teacher Education	192	77	-	269
Nazareth Technical College	29	-	-	29
Total	546	294	69	1009

Source:- Ministry of Education Annual Educational Statistics EMIS

Almost all the graduates displayed in Table 15.4 above are supposed to serve in secondary schools. However, those who are holding Diploma are supposed to upgrade to degree level, in order to serve as teachers of secondary education. If the diploma holders fail to upgrade their status through the in-service training program, they would become primary school teachers for the second cycle.

15.3.5 Higher Education

Currently, there are two universities, twelve colleges and three higher education institutions in the country. The principal objectives of higher education institutions are:

- to train and produce qualified manpower required for national development;
- to conduct research and disseminate results, and;
- to provide community services;

The list of higher education institutions is depicted in Annex 3. There are 51 fields of studies/courses where freshman

students join in higher education institutions (see Annex 4). Apart from these, there are a number of courses given in the degree program after students accomplish their freshman course successfully. Besides Courses listed in Annex 4, Statistics, Geology, Pharmacy, Civil, Mechanical, Electrical, Textile, Industrial and Chemical Engineering are some of the courses on which students embark after successful completion of their freshman courses.

There has been 15,438; 15975, and 17378 students enrolled in 1993/94, 1994/95 and 1995/96, respectively. Similarly, the number of graduates in the regular program has been 3,363; 4,438 and 3314, in 1993/94, 1994/95 and 1995/96, respectively. Apparently the enrollment figures and number of graduates could have been significantly higher than reported had the evening program been included. A significant number of students attend evening and correspondent (distance) learning in the sphere of higher education.

15.4 Government Capital Expenditure on Education

Financial outlays on building human capital is tantamount to a long-lasting investment on socioeconomic development. In this regard, the then TGE and the now FDRE has given special attention to the provision of basic education to its citizens as a public good.

As indicated in Table 15.6 below, government capital spending on the education sector* increased from Birr 43.2 million in 1990/91 to about Birr 442.0 million in 1995/96. This is a remarkable improvement showing a 60 per cent annual average growth rate over the period 1991/92 to 1995/96. It also sharply contrasts with the growth rate of capital expenditure on education during the pre reform period of 1980/81 to 1990/91 which averaged 3.5 per cent per annum. The share of capital spending on this sector in total capital expenditure during the Derg period was also 3.7 per cent on average. Given the importance accorded to the social sector in general and the education sector in particular, by the Transitional Government of Ethiopia, the share of capital expenditure on education successively increased from 4 per cent in 1991/92 to 12.4 per cent in 1995/96, i.e, an average share of 7.9 per cent of total capital expenditure during the same period. According to preliminary estimates for 1996/97 and 1997/98, the share of capital expenditure on education in total capital outlay averaged 10 per cent.

* Refers to the regular program only.

**Government Capital Expenditure on Education
(1990/91-1995/96)**

Table 15.6

'000 Birr

Item	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	Annual Average Growth Rates (%)
General Education	35785.7	27789.4	56402.6	171716.2	205194.7	164543.0	48.5
Higher Education	7409.0	10392.2	31989.9	84256.8	64031.8	277917.9	72.7
Education	43194.7	38181.6	88352.5	255973.0	269226.5	441860.9	80.1
Share in total Capital Expenditure	3.6	4.0	5.0	9.5	8.5	12.4	

Source: MOF.

Allocation of public investment on general education (primary and secondary education) during the period 1980/81 to 1990/91, claimed the lion's share in capital expenditure on education which on average was 76 per cent of total. However, its growth rate was only 0.7 per cent per annum indicating the less than dynamic expansion of primary and secondary education during the same period. Having on average claimed some 24 per cent of capital expenditure on education, Higher Education during the Derg period experienced a relatively faster growth in annual capital spending averaging about 14 per cent.

The wide disparity in allocation of capital expenditure between general and higher education during the Derg period seems to have been narrowed since 1991/92. For the period 1991/92 to 1995/96, capital expenditure on general education was 63 per cent of the sector's total while that of higher education was 37 per cent. This has not indicated lack of emphasis on general education and a primary focus on higher education. Rather, the government's current education policy gives utmost priority to enhancing education at the primary level while at the same time strengthening and upgrading higher education. Government capital spending on general and higher education has experienced a 42 and 70 per cent annual average growth rate, respectively, for the period 1991/92 - 1995/96.

A new phenomenon witnessed since 1993/94 is that Regional States have begun to play a significant role in the execution of Education programs. In effect, almost all of the capital expenditure on general education has been under the jurisdiction of regional governments while the Federal Government undertakes investment on higher education.

Regional governments have undertaken 90 and 86 per cent of capital expenditure on general education in 1993/94 and 1995/96 with the exception of 1994/95 when the federal government spent about 40 per cent of capital budget on this sub-sector.

With regard to utilization (implementation) of capital budget, less than 53 per cent of the annual budget allocated for general education have been utilized between 1993/94 to 1995/96. A relatively better utilization of funds is observed in the case of higher education where 92, 64 and 82 per cent of the budget was utilized during the period 1993/94-1995/96, respectively. Hence, strengthening the capacity of regional states in implementing educational sector projects is equally important (along increasing the allocation of budget) if the desired goals of improving primary education are to be met in due time.

15.5 Trends
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Education, as to human res of a high development country. W government designed a p for the involv as well as education. sector partic been encour Ethiopian e policies on radical government contribution attempted t government accommod the total e 1970s Review, la that the encourage non-gover allocating yearl ext recognize and chur to certai governme school fe power by schools. pub s have governr trained the parti been r period c The Tra liberaliz all wini levels time in on the

15.5 Trends in Private Sector Participation in Education

Education, as a very important factor to human resources development, is of a high priority in the overall development endeavor of the country. With this premise, the government of Ethiopia has designed a policy that is conducive for the involvement of the community as well as the private sector in education. Since then, private sector participation in education has been encouraging. A review of the Ethiopian experience showed that policies on private education shifted radically with a change in government. Recognizing their contribution, the Imperial Regime attempted to further strengthen non-governmental schools which accommodated about one-fourth of the total enrollments by the early 1970s. The Education Sector Review, launched in 1971, indicated that the then government encouraged the continuing growth of non-government schools by allocating 2 to 3 percent of total yearly expenditures as subsidies to recognized first level private, mission and church schools which conform to certain standards set by the government in terms of quality and school fees. Since the take over of power by Derg, most of the private schools, had been transformed to public schools, and these schools have been subsidized by government through the provision of trained teachers on demand. Thus, the participation of private sector had been negligible during the latter period of the Derg.

The Transitional Government of Ethiopia liberalized the education sector by allowing private sector participation at all levels of education while at the same time increasing government expenditure on the sector. Along this line, the

investment code gave incentives to investors in the education sector in terms of tax holidays and duty free importation of materials and equipment. There is also preferential treatment of land leased for the purpose of building schools.

However, the rate of private sector participation has not been impressive in this sector as witnessed by the number of non-government schools and participation of students in general education. Provisional data from the Ethiopian Investment Authority as well doesn't tell any strong development in this regard. During the period spanning 1992/93 upto the first 9 months of the 1997/98 FY, investment certificates were given to 108 projects in the education sector* with an estimated capital cost of about Birr 808.0 million. However, only 3 projects worth Birr 6.3 million have yet been reported as operational during the same period.

Table 15.7 and 15.8 also depict a declining trend in the number of non-governmental private schools during the post-reform period except for a tone of recovery in 1996/97. They have declined from 658 in 1990/91 to 539 in 1995/96 and latter picked up to 757 in 1996/97. In 1997/98 the number has declined again back to the 1995/96 level. The number of students catered in non-government schools also indicated only marginal increase during this period, i.e. from 316.9 thousand in 1990/91 to 327.5 thousand in 1997/98. However, the share of non-governmental schools and students catered in them in general education declined from 8 and 13.6 per cent of the total number of schools and enrolled students in 1990/91 to 5 and 5.9 per cent in 1997/98, respectively as depicted in Table 15.7 and 15.8 below.

* It is not indicated whether they are primary, secondary or tertiary schools.

'000 Birr

1955-56	Annual Average Growth Rates (%)
4543.0	48.5
7917.9	72.7
18009	60.1
12.4	

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Number of Schools in General Education (Grades 1 - 12)

Table 15.7

Item	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Government	7500	7672	8923	9460	10148	9477	11288	10596
Non-Government	658	651	575	684	624	539	757	538
Total	8138	8323	9498	10144	10772	10016	12045	11134
Percentage Share:								
Government	92	92	94	93	94	95	94	95
Non-Government	8	8	6	7	6	5	6	5

Source: MOE, Annual Statistical Reports.

Number of Students Enrolled in Primary and Secondary Education

Table 15.8

Item	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Government	2481.16	2057.04	2289.82	2693.86	3157.18	3868.10	4560.85	5230.87
Non-Government	316.91	288.55	278.56	304.39	312.15	322.57	333.57	327.52
Total	2798.07	2345.59	2568.38	2958.25	3469.33	4190.67	4894.77	5558.39
Percentage Share:								
Government	86.4	87.7	89.0	89.8	91.0	92.3	93.2	94.1
Non-Government	13.6	12.3	11.0	10.2	9.0	7.7	6.8	5.9

Source: MOE, Annual Statistical Reports.

Non-government schools include missionary schools, private and community owned schools, and religious schools. In terms of distribution, profit oriented non-government schools have a

tendency to be concentrated in big urban centers and are believed to provide better quality education than government schools.

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Chapter 16

Health

16.1 Background

Health service forms part of the basic social needs of society. Health is a factor in the development endeavor as a country's future ultimately depends on the well being of its population for the realization of its human potential.

Ethiopia's health status is among the least in the world. Communicable diseases and nutritional deficiencies are the two major contributing factors for such a poor health status. Poor housing and environmental conditions in both rural and urban areas coupled with the under-utilization of existing health care facilities, owing to distances from clinics in remote rural areas, and weak income earning capacities have aggravated health problems in Ethiopia.

Communicable diseases are one of the major causes of health problems. Most of these diseases are caused by overcrowded housing conditions, contaminated water supply, and substandard waste management system. The wide-spread nature of malnutrition, infectious and communicable diseases including HIV/AIDS have affected a large number of people in the country. Malaria and tuberculosis have become major killers in the country.

The primary health problems have largely been related to poverty and lack of adequate health services. The health status of mothers and children in Ethiopia has been characterized by high mortality and morbidity rates. Children under the age of five and pregnant women on average constitute 23 percent of the population. About 65 percent of the total death is believed to have been

accounted for by this segment of the population. Social indicators are the mirror images of the prevailing level of under development in Ethiopia.

16.2. Review of Health Policy

The TGE issued a new health policy in 1993 and has been conceived in conjunction with addressing issues like population dynamics, food availability, the status of women, acceptable living conditions and other prerequisites essential for health improvement. The Health Policy rests on the following major principles:

- democratization and decentralization;
- prioritization of the preventive components of health care;
- equitable distribution of health care;
- facilitation of the participation of the private and non-governmental organizations in health care;
- promoting and strengthening of inter-sectoral collaboration;
- collaboration with sub-regional, regional and international work on health related issues;

The utmost priority of the Health Policy is the development of the preventive components of health care facility. Another major consideration with regard to equitable distribution of health services is its emphasis on social groups and geographic areas which include the following dimensions:

- the family (particularly women and children);

	1996/97	1997/98
	11288	10596
	757	538
	12045	11134
	94	95
	6	5

	1996/97	1997/98
	4560.85	5230.87
	33.57	327.52
	94.77	5558.39
	93.2	94.1
	6.8	5.9

Urban
provide
government

- those diversity of the population engaged in production (productive man power);
- the most neglected and under-served regions and segments of the population including the majority of the rural population, pastoralists and the urban poor and national minorities.

The Health Policy accords prominence to changes in attitude, to enhancing health awareness especially with regard to backward practices, and there by raising responsibility towards the promotion of health service provisions through the dissemination of Information, Education, and communication (IEC).

Areas of emphasis of the Health Policy are:

- The control of communicable diseases, epidemics and diseases related to malnutrition and poor living conditions;
- The promotion of occupational health and safety;
- The development of environmental health;
- The development of an appropriate Health Services Management System;
- The curative and rehabilitative components of health including mental health;
- The development of the beneficial aspects of traditional medicine including related research and its gradual integration into modern medicine;
- The identification of the major health problems through applied health research;

- Strengthening the provision of essential medicines, medical supplies, and equipment;
- The development of human resources with emphasis on expansion of the number of front-line and middle-level health professionals with community based and task-oriented training;

The management of health service has been restructured in accordance with the political and administrative decentralization that has been taking place in Ethiopia in recent years. Accordingly, the regional health bureaus assumed greater authority and responsibility in the planning, organization, capacity building, coordination, implementation and monitoring of health care delivery system in their respective regions. The Ministry of Health is responsible for formulating policies, strategies and guidelines and monitoring their implementation. The MOH also determines and supervises health service standards and devise regulatory mechanisms.

16.3 Review of the Salient Features of the Health Sector Development Program (HSDP)

The health sector is one of the three socioeconomic sectors for which SIPs have been formulated. Accordingly, Health Sector Development Program for the coming five years (1998-2002) has been formulated. Both the FDRE and donors have been involved in the formulation of the Program. The Program is based on the basic strategy of improving access to primary health care in the country.

HSDP's Major Objectives:

- Develop an equitable and acceptable standard of health services system that will reach to all segments of the population given the resource constraint;

- Provide comprehensive Primary Health Care (PHC) on the basis of community-level health facilities and work towards ensuring that all Ethiopians have access to basic PHC by the year 2017;
- Improving the quality of PHC by providing technical training to all personnel and essential medical supplies;
- Transform the existing highly centralized health system into a four tiered system: Primary Health Care Unit, District Hospital, Zonal Hospitals and Specialized Hospitals and Research Institution with appropriate functional linkages. The new system is to be managed in a decentralized, participatory, and efficient manner;
- Improve the financial sustainability of the sector by encouraging private sector investment through developing community-initiated health insurance programs;
- Take steps towards ensuring a regular and adequate supply of effective, safe, and, affordable drugs;

The budget (both recurrent and capital) planned for the Program is estimated at

around 5 billion birr. This allocation would increase the share of health sector expenditure from the total public budget to more than 8 percent from the present level of 6.3 percent. About 75 percent of the budget is to be financed from government's own domestic resources and the remaining would be sought from the donor community. The Health Sector had been under financed, during the previous regime. With the implementation of HSDP, meaningful changes would be realized on health sector budget allocation.

16.4 Trends in the Development and Distribution of Public Health Institutions

Health services which has been provided via the 6-tier health service delivery system has been replaced by the 4- tier health service delivery system, which involved Primary Health care Unit (one health center with five health posts under it), District Rural Hospital, Zonal Hospital, and Referral Hospital. This in turn has brought changes in the standard of the health facilities at different levels. In the new 4 tier system, the lowest unit is the health post. The development of Health facilities in the country in recent years is depicted in Table 16.1 below.

Health Institutions

Table 16.1

Type Of Institution	Fiscal Year				
	1984 (1991/92)	1985 (1992/93)	1986 (1993/94)	1987 (1994/95)	1988 (1995/96)
Hospitals	89	73	73	85	86
Health Centers	160	157	157	187	231
Health Stations	2,222	2087	2,087	2,482	2037.1
Health Posts*	12,106	-	-	1,197	1223
Hospital Beds	9569	9569	-	10,120	11,492
Health Center Beds	-	-	-	1,136	1,464
Pharmacies	-	-	-	146	175
Drug Shops	-	-	-	119	138
Rural Drug Vendors	-	-	-	1,136	1466

Source:- MOH: Annual Health Statistics Report of Ethiopia, Dec,1996
Health and Health Related Indicators Dec, 1995

In the year 1991/92, there were 12,106^{*} health posts, 2222 health stations, 160 health centers, and 89 hospitals. Health coverage during the same year had been estimated at about 45 percent. Not much change has been witnessed in the number of health facilities during the period 1992/93 - 1993/94. This decline might be attributed to exclusion of health facilities in Eritrea after the session of Eritrea. During the 1992/93 - 1993/94 period, the country was engaged in rehabilitation and reconstruction of war torn infrastructure. During the year 1994/95, the declining trend of health facilities reversed and the number of health institutions has picked up. However, the rate of increase in the number of health facilities has not been as fast as the rate of population growth in the country. Hence, no significant increase in health coverage could be observed. In the face of a population size of 52.3 million (1994 census) in the year 1995/96, there were 1223 health posts, 2037 health stations, 231 health centers and 86 hospitals. Their distribution among regions and between urban and rural areas has been uneven. The spatial distribution of Health facilities is depicted in Table 16.2 below. _

^{*}As per the current set up of the health care delivery system in Ethiopia, a health post is part and parcel of the primary Health Care Unit (PHCU). The number of health posts cited for 1991/92 (12,106) declined to 1223 in 1995/96 as depicted in Table 16.1 above. Most of the health posts as per the previous setup of the health service delivery system have not been functional and have been reorganized so that they adequately fit in to the new system.

Distribution of Health Facilities By Region (1995/96)

Table 16.2

TYPE OF HEALTH FACILITIES

Drug Shops

Rural Drug Vendors

Distribution of Health Facilities By Region (1995/96)

Table 16.2

Region	TYPE OF HEALTH FACILITIES																		
	Hospitals		Health Centers		Health Stations		Health posts	Pharmacies				Drug Shops				Rural Drug Vendors			
	MOH	Others	MOH	Others	MOH	Others		public	private	Red Cross	Total	public	private	Red Cross	Total	public	private	Red Cross	Total
Tigray	6	0	19*	0	132	25	271	-	9	-	9	-	6	-	6	-	162	1	163
Afar	2	0	3	0	31	2	-	-	1	-	1	-	2	-	2	-	42	-	42
Amhara	9	2	45	1	507	68	236	5	11	3	19	2	21	-	23	17	210	-	227
Oromia	16	9	58	21	69	255	342	11	18	5	34	10	25	1	36	2	447	4	453
Somali	3	0	9	0	72	0	0	-	3	-	3	-	1	-	1	-	5	-	5
Ben & Gum	2	0	3	0	65	7	0	-	-	-	-	-	1	-	1	-	5	-	5
SNNPR	7	3	33	3	316	81	322	6	2	-	8	-	10	-	10	2	279	-	381
Gambella	1	0	1	2	37	12	0	2	3	-	5	-	1	-	1	-	5	-	5
Hareri	5	6	16	0	9	159	21	3	4	1	8	1	2	-	3	-	19	-	19
Diredawa	2	2	1	0	6	16	10	9	62	1	72	-	39	-	39	-	13	-	13
Addis Ababa	5	6	16	0	9	159	21												
Total	58	28	204	27	1253	784	1223												

* 6 Specialized Zonal Clinic, with 50 beds each are included in Tigray

Source:- MOH, Annual Statistical Report, 1996.

At national level, health stations to population ratio, health centers to population ratio and Hospitals to population ratio was 1:21, 173, 1:272,356 and 1:584,414, respectively in 1995. These rates are, on average three times lower than the SSA average. This clearly attests to the extremely low level of health facilities in Ethiopia even by SSA standards.

The country suffers not only from the poor coverage of health facilities but also from skewed distribution of the existing facilities. Thirty percent of all hospital beds, 62% of the doctors, and 46% of nurses are located in Addis Ababa where less than 5 percent of the country's population lives. This lopsided distribution of Health facilities has long been recognized but has remained unresolved.

The spatial distribution and the ratio of health facilities to population is shown in Table 16.3. The health station to population ratio has been more or less evenly distributed except in Benshangual/Gumuz and Gambella. The status in Somali is found to be worse compared to other regions. In the year 1994/95, health center to population ratio was estimated to be 1: 272, 356 at the national level. Tigray, Afar, Benshangual and Gumuz, Dire Dawa and Addis Ababa are believed to be in a better condition seen against the national average while the indicator for the rest of the regions has been greater than the national average. The disparity between regions is even worse in the case of hospitals. The hospital to population ratio at the national level (1995) was 1:584, 494. The same indicator for Amhara region (1:1257663) and SNNPR (1:1 153,000) which stood at more than twice the national average reveals a far worse health service delivery in the respective regions.

Regional Health Facility Indicators (1995)

Table 16.3

Region	Population (000)	Health Facility to Population Ratio							
		Hospitals	Health Centers	Health Stations	Pharmacy	Drug Shop	Rural Drug Vendors	Health Posts	Private clinics
Tigray	3136.3	261,335	224,019	22,243	348,474	522,711	19,241	11,530	224,019
Afar	13834.3	380,000	190,000	22,353	760,000	380,000	18,095	-	-
Amhara	13834.3	1,257,663	307,429	28,291	728,121	601,491	60,944	49,232	288,214
Oromia	18473.8	738,953	293,235	21,863	543,348	279,906	38,093	55,477	-
Somali	2320.0	773,333	331,428	35,152	773,333	2,320,000	464,000	-	-
Benishangul	460.5	230,229	115,115	5,673	-	1,460,459	11,807	-	-
SNNPR	10377.0	1,153,000	305,207	24,474	1,297,128	1,037,703	27,236	39,158	-
Dire Dawa	251.9	83,955	251,864	13,992	31,483	83,955	13,256	-	251,864
Gambella	162.4	162,397	54,132	4,776	-	-	32,479	-	-
Harari	131.1	26,228	-	26,228	26,228	26,228	26,228	-	43,713
A.A	2112.7	132,046	132,046	29,343	29,343	29,343	162,518	-	77,107
Population	52020.0	584,494	272,356	21,173	327,170	342,170	38,476	44,272	121,827

Source: MOH

Health facility indicators for Oromiya and Somali Regions are above the national average while the average for the rest of the regions is less than the national average. The hospital to population ratio in Harari stood at 1:26228. It has been 1:83955 in Dire Dawa 1: 132046 in Addis Ababa. Regional disparities in the distribution of hospital beds to population ratio exhibits the same pattern as shown in Table 16.4 below.

16.5 Medical Personnel

Human resource is a vital component in the package for delivery of health services. The Ethiopian health service delivery system has been characterized by shortage, uneven spatial distribution, and lack of necessary skills. The number and quality of the available health personnel has remained to be highly inadequate to properly address the prevailing health challenges.

Trends in health personnel to population ratio over time has revealed a very

marginal improvement during the 16 years spanning the period 1978-1994.

This indicator, over the past few years, has shown some improvement except

for medical specialists. In most of the rural areas and small towns, the delivery of health care services is primarily dependent upon the availability of health assistants. As shown in Table 16.5 below, the number of health assistants and general medical practitioners has more than doubled during the period 1978 - 1994.

The distribution of health personnel (manpower) has been uneven not only between urban and rural areas but also among the different regions. A sharp contrast is observed in the case of Afar and Harari Regions as Medical Doctor to population ratio stood at 1:69,090 and 1:2914, respectively for the year 1995/96. See Table 16.6 below.

Hospital Beds to Population Ratio By Region

Table 16.4

Region	Population	MOH		Others		All Beds	Hospital Beds to population Ratio
		Number	Ratio	Number	Ratio		
Tigray	3136267	860	3647	-	-	860	3647
Afar	760000	60	12667	-	-	60	12667
Amhara	13834297	931	14860	358	38643.288	1289	10733
Oromia	18473820	1613	11453	680	27167.382	2293	8057
somali	2320000	255	9098	-	-	255	9098
Benshangul	4604590	254	18128	-	-	254	18128
SNNPR	10377028	696	14910	121	85760.562	817	109232
Gambella	162397	95	1709	-	-	95	221
Harari	131139	305	430	430	304.97442	735	531
DireDawa	251864	177	1423	70	3598.0571	247	84
Addis Ababa	2112737	2379	888	637	3316.6986	3016	213
National	52020008	7625	6822	2296	22656.798	9921	-

Table 16.5

Type
Addis Ababa Me
MD Specialists
GMP & H.Os
Nurses (all type)
Pharmacists (all)
Sanitarians
Other medical (Laboratory and Health Assistant)

Source: PHRE

Health Personnel to Population Ratio

Table 16.5

Type of Personnel	1978*		1994	
	Number	Ratio	Number	Ratio
Addis Ababa Medical Doctors +H.O _s	785	1: 38,200	1484	1: 35,054
MD Specialists	241	1:124,500	330	1:157,036
GMP & H.O _s	495	1: 60,000	1154	1: 45,078
Nurses (all types)	1470	1: 20,400	3723	1: 13,973
Pharmacist (all Categories)	107	1:280,000	473	1:109,979
Sanitarians	324	1: 92,600	574	1: 90,627
Other medical technicians (Laboratory and X-ray)	378	1: 79,400	823	1: 63,208
Health Assistants	5329	1: 5,400	11,220	1: 4,624

Source: PHRD (SYNTHESIS AND SUMMRY)

* The Population size in 1978 (30,000,000) and that of 1994 (52,298,178)

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Hospital Beds to population Ratio
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Health Professional to Population Ratio by Region

Table 16.6

Region	Popn. (1000)	H.P. to population Ratio								
		Mds	Health Officers	Nurses	Sanits.	Lab Tecs.	X-ray Tecs.	H.A	Pharmacists	Pharm. Tecs.
Tigray	3,136,267	37,786		12,704	76,494	60,313	196,017	3,548	348,474	74,673
Afar	70,000	69,090		27,143	108,571	152,000	38,000	4,780	760,000	190,000
Amhara	13,834,820	52,602	6,917,149	23,173	103,241	153,714	553,372	4,480	432,322	226,792
Oromia	18,473,820	50,065	6,157,940	18,094	118,482	117,668	439,853	5,469	401,605	284,213
Sorjali	2,320,000	52,727		17,576	96,666	96,666	386,666	7,250	773,333	193,333
Benishangul/ Gumuz	460,459	14,389	460,455	7,195	19,186	25,581	115,115	1,771	115,115	76,743
SNNPR	10,377,028	45,118	2,594,257	20,508	98,829	120,663	610,413	6,016	451,175	220,788
Gambella	162,397	10,826		4,511	13,533	54,132	81,799	1,299	32,479	40,599
Harari	131,139	2,914	56,570	1,900	26,228	8,743	26,228	799	18,734	21,857
Dire Dawa	251,864	7,632	251,864	3,998	35,981	25,186	83,955	3,271	83,955	41,977
Region 14 & Central Hospital	2,112,737	4,835	301,820	2,299	39,863	15,650	35,809	1,973	51,530	55,598
Country	52,020,008	33,303	260,100	13,954	91,585	87,429	287,403	4,624	298,966	178,763

Source: MOH

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16.6 Review of Health Status Indicators

The majority of basic health indicators in the country show that the health status of the population is worse than the average for Sub-Saharan African Countries. Life expectancy at birth averaged only 53 years, 51.8 for male and 54.1 for female. Infant mortality rate is 105 per 1000 live births (98.3 for female and 112 for male), and under five mortality (child mortality) is 159 per 1000 children. The maternal mortality rate is estimated at 5.6 per 1000 live births. The health coverage which has reached 45 percent in 1985 has remained at that level to date.

The most common health problems have had their roots in the complex poverty syndrome of malnutrition. According to the 1993 survey of Ethiopian Health and Nutrition Research Institute (EHNRI), the prevalence of underweight children and stunting stood at 47 and 64 percent respectively among children between the age of 6 and 59 months. The other major causes of child morbidity and mortality are diarrhea, the six vaccine preventable infections, and acute respiratory infection particularly pneumonia. Immunization coverage stood at 28-44 percent in 1994.

Unavailability and inaccessibility of health services has meant that only 21 percent of women attend postnatal services and only about 7 percent of all deliveries are attended by trained health personnel.

The fertility rate in Ethiopia is one of the highest in the world (7.7 children per woman). This high rate is predominately related to early marriage, low levels of women's education, and prestige attached to motherhood and lack of family planning services. Family planning coverage stood at only 7 percent.

According to hospital sources, the 10 leading causes for Hospital deaths in order of their severity are described as follows:

- TB, all forms (27%)
- All types of malaria (10%)
- Bronchopneumonia (8%)
- Typhoid fever (5%)
- Gastroenteritis and Colitis (4%)
- Dysentery (3%)
- Nutritional deficiency (3%)
- Diseases of Liver (3%)
- Hypertension without mention of heart (3%)
- Hypertension with mention of heart (3%)
- others (31%)

The major causes for infant morbidity in the country are gastroenteritis and colitis and acute upper respiratory infections.

The pattern of the Burden of Disease (BOD) is not studied adequately in Ethiopia. According to the PHRD Study, the biggest killers in Ethiopia have been found to be those illnesses that primarily affect pregnant mothers and children under 5 years of age. The study reveals that each of the biggest killers accounted for more than 3.5 and 4.0 percent of total deaths and DLYs lost, respectively. They are ranked below in descending order of their prevalence to the total deaths and DLYs lost.

- Pre maternal condition (16.7% & 16.3%)
- ARI/ pneumonia (14.4% and 17.1%)
- malaria (10.0% and 10.9%)
- NDD/ Nutritional deficiency diseases (7.8% and 9.3%)
- AIDS (7.7% and 8.1%)
- DDS/ Diaheal diseases (7.6% and 9.0%)
- TB/ tuberculosis (4.8% and 4.8%)
- Measles (3.5% and 4.1%)
- Injury /Frame (0.9% and 0.8%)
- CV/Cardio vascular (0.9% and 0.8%)

Regional BOD pattern is depicted in Annex 6.

81% of the rural and 19% of the urban population has not had access to safe drinking water. This puts the national coverage at 26% for safe drinking water as indicated in various studies. The factors that influence water consumption rates include: Volume of water available, water tariffs, family's income, distance from water points, weather condition, and difficult terrain; distance from the household's residence to the water point being the most important determinant factor. The size of the population with access to sanitation facilities stood at only 7%. Ethiopia stood among countries where coverage of safe water supply and sanitation facilities is very low. Access to safe water in Kenya during the period 1985-90 was 80% for urban and 25% for rural areas while access to sanitation facilities was 75% and 39% for urban and rural areas, respectively.

16.7 Review of Health Budget Allocation and Expenditure Performance

The level of public health budget and expenditure in Ethiopia has never exceeded the averages for Sub-Saharan African countries and remains well below the average. During the period 1990/91 - 1996/97, the share of health expenditure in the total public budget increased from 3.3 percent to 6.2 percent. Government expenditure on health has exhibited a substantial improvement as depicted in Table 16.7 below.

During the period 1990/91 - 1997/98, the share of health expenditure in total expenditure and in GDP increased from 1.0 percent to 1.5 percent, and 0.75 percent to 0.9 percent, respectively.

Trends in Expenditure on Health

Table 16.7

Fiscal Year	Expenditure			Health Sector Expenditure			Share in Total Expenditure (%)		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
1990/91 Actual	3698.6	1214.0	4912.6	128.4	32.1	160.5	3.5	2.6	3.3
1991/92 Actual	3305.1	951.8	4256.9	151.5	37.4	188.9	4.6	3.9	4.4
1992/93 Actual	3517.9	1771.2	5289.1	189.2	66.6	255.8	5.4	3.8	4.8
1993/94 Actual	4508.4	2694.4	7202.8	280.7	68.6	349.3	6.2	2.5	4.85
1994/95 Pre Actual	5519.7	3280.0	8799.7	310.2	119.9	430.2	5.6	3.0	4.6
1995/96 Pre Actual	5478.2	3592.2	9070.4	327.4	142.0	469.4	6.0	4.0	5.18
1996/97 Pre estimate	5761.9	4115.8	9877.7	343.6	255.3	598.9	6.0	6.2	6.0
1997/98 Budget	6661.0	5376.7	12037.7	397.8	354.2	752.0	6.0	6.6	6.2

Source: - Ethiopia: Current and Capital Budgetary Allocation for FYs 1993/94-1997/98 and Out turn for FYs 1993/94-1996/97 MOF Sept 2, 1997 A.A

A look at the budget figures reveals that the greater proportion of the health budget goes to the recurrent expenditure. During the year 1990/91, 80% of the health budget was allocated to the recurrent component and this same proportion had been maintained in the following year. This ratio tended to decline since 1994/95 and it declined to 53 percent in 1997/98. The decline in the share of health recurrent budget has been due to the fast growing capital budget, specially in that of the regional health budget.

Since 1993/94, health sector activities have been decentralized and 88 percent of the capital budget on health was allocated to the regions. Capital budget share of regions increased to 98 % in the year 1997/98. Of the total recurrent budget on health, 84% was allocated to the regions in the year 1993/94 and almost the same magnitude has been maintained to date.

Hence, fiscal decentralization in Ethiopia has resulted in a substantial shift of the health budget to the regions and this has been in line with the federal set up of the country. The Health sector has been one of those activities that has been highly decentralized since the establishment of regional governments in 1993.

The health budget and expenditure pattern in the regions have shown a considerable variation. These variations are believed to have been attributed to the backlog of health service demands and to the compelling unchanged reality some regions face (such as the existence of a number of government owned hospitals which consume quite a significant amount of recurrent budget). These differences in health budget across regions resulted in an even greater divergence of the per-capita recurrent expenditure among regional states.

In 1996/97, the highest per capita expenditure (36 Birr) was recorded for that of Harari and the lowest (3 Birr,) for that of the Somali Region.

The proportion of the budget allotted to primary health care in the total health budget, which has been well below 26 percent has tended to increase to 49 percent during the last four years.

A further scrutiny of health sector recurrent budget, reveals that wages and salaries has decreased from 65.4 percent to 53.3 percent during the last five years. The share of non-wage costs, on the other hand, increased from 34.6 percent to 46.7 percent during the same period. The low level of wages and salaries is believed to have forced public health workers resort to private health institutions while the low level of non- wage operating costs has resulted in to poor quality health services at all levels. As the non-wage operating costs include the cost of drug, health institutions could remain with a meager funds for operating costs.

16.8 The Role of Private Health Institutions and NGOs

Private sector health institutions and NGOs contribute in a number of ways to the development of health service delivery. Several Christian missions operating in the country provide health services parallel with the conduct of their religious activities . In 1973, there were 121 mission clinics run by 23 different mission groups. A number of them had been gradually taken over by the Derg regime.

During the late 1980's, about 77%, 15% 5.8%, and 0.5% of the health institutions had been owned by the MOH, by other government agencies, by missionaries, and private operators, respectively.

According to recent sources from the MOH, 91 percents of hospitals, 93 per

Budget Expenditure

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in Total Expenditure (%)		
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	3.9	4.4
	3.8	4.8
	2.5	4.85
	3.0	4.6
	4.0	5.18
	6.2	6.0
	6.6	6.2

1994-1997/98

cent of health centers and 70 per cent of clinics are being owned by the government.

The share of the private sector has been significantly higher in pharmaceutical, retail, and distribution shops. All vendor and drug stores and over 70% of the pharmacies are owned by private operators. A sample survey on these facilities have shown that these supply medicine and also provide treatment services to millions of people every year. This shows that greater reliance could be placed on the private sector. The new health policy incorporates the promotion of the participation of private sector and NGOs in the provision of health care services. The promotion of private sector participation calls for incentive packages such as access to land at reasonable price, provision of tax holiday, and exemption from duty on health equipment, among others.

During the last five years ending in the 1996/97 F.Y, only 13 private health services projects were approved by the Ethiopian Investment Authority. Private investors (operators) are involved in undertaking different types of clinics and few hospitals and all except one have been located in Addis Ababa.

16.9 Outstanding Issues and Problems

The Problem of Cost sharing

Improving coverage of health care services from the current level of 38 to 47 percent of the population, calls for greater participation of the private sector and the strengthening of NGOs. Along with the formulation of HSDP, mechanism of devising user charges for health services should be developed. It is estimated that about 15 to 18 percent of the total recurrent public health spending has been collected annually. There is a need for an upward revision of user charges with an accompanied

improvement in the quality of health services.

Public health institutions need to concentrate on provision of health services based on preventing infectious and communicable diseases. In with regard to general outpatient care in hospitals, the private sector should be an active partner and much remains to be done in this regard in the years to come.

The Health Policy and its Implementation

As clearly articulated in the Health policy of the FDRE the priority of the health sector will be on the preventive and promotive health care. After almost four years of implementation endeavor, it appears seems that there has not been clear consensus on the policy. Resource allocation within the sector both at the federal and regional levels has not reflected that priority and substantial resources are still being used up by the curative health care. Every region has been struggling to establish a new referral hospital which would again exacerbate the situation in the future. Hence, it is essential to create a common consensus on the priority of the Health Policy and establish a workable framework to achieve the stated objectives

Resource Limitations

Lack of resources to address the priority health problems is one of the main obstacles facing the health sector. Regarding health personnel, the public sector is facing a challenge from high attrition rates. The current trend will be aggravated unless adequate measure are taken to curb the situation. According to the report of PHRD study regarding the quality of health care in Ethiopia, the management functions of the system are believed to have been poorly developed. The report states that basic equipment, supplies and physical

facilities are inadequate mechanisms need to be devised to keep up the quality of services in the future.

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Reference

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Synthesis and Summery Dec., 1996 Addis Ababa

17.1 Backgrou

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CHAPTER 17

Social Security

17.1 Background

The evolution of the concept of Social Security has its own unique characteristics depending on the history, culture and development stage of each country. However, wherever it may be, when a member of a society due to reasons beyond his control becomes incapable to work and thus to support himself and/or his dependents, the society which he is a member normally takes action to enable the individual overcome the socio-economic crisis faced by him. It is this support to individuals by other individuals, groups or community to overcome crisis situations, which is behind the concept of social security; and has in the pre-industrialization era been based on religious and cultural grounds or extended family system.

As industrialization and urbanization are at their infancy stage in the present day Ethiopia, the extended family system particularly in the rural areas is by far the most widely accepted and significant institution in taking care of the elderly and others in crisis situations. Due to the rapid migration to urban areas coupled with the relatively fast socioeconomic changes that are taking place in the urban centers themselves, however, this vital social role of the family in supporting the elderly is gradually losing its strength. Although governmental, non-governmental and municipal organizations provide, in a fragmented manner, social welfare services to the elderly they are far from being capable of filling the gap thus created by the changes.

Historically, after the second half of the nineteenth century, the fast migration of people from rural to urban areas in Europe due to industrialization, disrupted the established system of mutual support in crisis situations. Employees insecurity in their new urban environment due to loss of income because of old age, illness, accidents in work place, unemployment, death etc. necessitated and forced the emergence of various social insurance schemes through the co-operation of employees and employers. Finally at the turn of the nineteenth century, however, laws and decrees came out in several European countries that forced the establishment of social security institutions with governmental supports. It is the establishment and expansion of such government - supported social security institutions that brought about the modernization of the concept, its implementation and fast expansion throughout the world. And today social security may be defined as "a series of public measures established to provide protection against the consequences of contingencies which threaten or adversely affect standards of living,"(SSA, 1977:1).

While social security in the developed countries usually covers a wide range of contingencies and the entire population, in the developing countries; it covers only a few risk population groups.

The nine most basic social security programs as recognized by ILO conventions and other international organizations are Old Age Pension, Invalidity Pension, Survivors Pension, Work Injury Benefit, Maternity Benefit, Sickness Benefit, Family

Allowance, Unemployment Benefit and Medical Care (Health Services).

The concept of "Pension" in its present meaning, as some writers indicate was first introduced in Ethiopia immediately after the Battle of Adwa, waged in 1896. The war veterans of the time and later those who rendered services at peace time to the palace, were provided either with land and since 1933 with sheltered home care service, depending on their physical conditions. The home, Menelik II Memorial Home, thus established to provide support and care to those veterans due to their old age or health conditions unable to till the land, had continued its service until now, only with some interruption during the time of the Italian Occupation (PSSA, 1980 EC:17). At this point in history, a shift in responsibility in the provision of social security from the family or the community to the society at large or the government is to be noted. However, according to the conventional norms, it was in 1961 with the issuance of the Public servants Pension Decree and later on amended by the 1963 Proclamation by the government, the foundation for the country's pension scheme was for the first time laid down on a firm ground.

17.2 Review of Policies and the Legal Framework

Article 90 of the constitution of the Federal Democratic Republic of Ethiopia (1995) declares, to the extent the country's capabilities allow, all Ethiopians shall be provided with social security.

The Social Policy of the Transitional Government of Ethiopia (1994:25-26) affirming citizens right to social security states:

- In cases of old age, illness, death, job-related injuries and loss of income due to other accidents, benefit schemes shall be made available to citizens in the formal sector to ensure the stability of the family and the dignity of the person. Conditions shall also be created for the gradual implementation of other kinds of social security benefits;
- Paid maternity and sick leave shall be instituted;
- All appropriate measures shall be taken to gradually provide social security coverage to citizens outside the formal sector.

With regard to the elderly, the Policy (1994:25) states also that, "The government shall endeavor to promote respect and care in the community for senior citizens; and special attention will be given to protect and assist senior citizens who are in need and have no family support."

In its brief existence of a little over three and half decades, the Ethiopian pension scheme has passed through four proclamations that may have to be referred to: the 1963 Public Servants' Pension Proclamation (No. 209), the Public Servants' (Amendment) Proclamation (No. 209/03), the 1975 Employees of Government - Owned Undertakings Pension Proclamation (No. 49), and finally the 1996 Social Security Establishment Proclamation (No. 38). These proclamations state the range (type), the scope (coverage), the source of funds and the current administrative set-up of the Ethiopian social security programs. The Ethiopian Constitution, the Social Policy of the TGE and the aforementioned

Survey of The Ethiopian... proclamation unequal in principle accepted urgency for the provision to all segments of country.

17.3 Type, Coverage and the Ethiopian Scheme

The Ethiopian Pension... publicly and apply to nationality. Pensioner and his (survivors). Survivor pensioner's wife may be, their child of age and the related

The contingency covered by the scheme: old age, invalidity, the military (involuntary) employees of undertakings.

Since 1974 the male and female employees of urban 55 years from the year for women age for the military years depending on public servant after the retirement exceeding ten years

The minimum pension for a servant who works for 50 years and qualifies to receive the amount receives a pension service rendered his basic average

illness, death, and loss of other accidents, shall be made in the formal ability of the person. To be created for entation of other benefits.

sick leave shall

asures shall be provide social citizens outside

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ne 1999

proclamation unequivocally recognize and in principle accept the need and the urgency for the provision of social protection to all segments of the population in the country.

17.3 Type, Coverage and Funding of the Ethiopian Social Security Scheme

The Ethiopian Pension scheme is managed publicly and apply to all who have Ethiopian nationality. It covers the direct (regular) pensioner and his closest family members (survivors). Survivors refers to the regular pensioner's wife or husband, as the case may be, their children under eighteen years of age and the relevant parents.

The contingencies the scheme covers are old age, invalidity and survivors. Presently covered by the schemes are civil servants, the military (including the police) and employees of government owned undertakings.

Since 1974 the age of retirement for both male and female civil servants and employees of undertakings has changed to 55 years from the 60 years for men and 55 year for women previously. The retirement age for the military ranges from 50 - 55 years depending on rank. However, any public servant can be retained in service after the retirement age for a period not to exceeding ten years.

The minimum age for a benefit for a public servant who voluntarily resigns is ten years. If a person resigns after attaining the age of 50 years and after 25 years of service he qualifies to receiving full pension. Though the amount of pension a civil servant receives depends on the number of years of service rendered, it shall not exceed 60% of his basic average salary.

The Ethiopian Pension scheme is contributory and compulsory. Pension benefits are financed by the contributions of the employer (6% in the case of the civil servant as well as those working in undertakings and 16% in the case of the military) and the employee (4%). While the total contribution for civil servants amounts to 10% of basic average salary, it is 20% for the military. Employers are legally bound to collect pensions contributions and transfer them to the relevant funds. However, in practice the established fund at present applies to that of undertakings only.

Payments of benefits are made in cash through the offices of the Ministry of Finance Regional Finance Bureaux or the banks, either in the forms of pension for life or gratuity in lump sum. For both the public servant and the military alike, the amount of pension to be paid for the first ten years of service amounts to 30% of the average basic salary for the last three years preceding retirement. For the periods beyond the ten years, however, for each year of service in regard to the public servant and the military, the increase is by one and one and half percent, respectively.

17.4 Institutional Set-Up and Budget

It is now over three and half decades since the first formal office (Public Service Pensions Commission) for the administration of social security schemes in the country had been established with a staff of eighty three and 1810 beneficiaries (PSSA, 1980 E.C:19). At its initial stage that followed the Public Servants Pension Decree of 1961, the major tasks of the office had been data collection that assisted the screening of lawful beneficiaries, their registration and the amounts of benefits they deserved. Since its first establishment, in response to the political changes the

country has undergone the gradual but continuous progress both in volume and quality of services rendered, the office has undergone significant changes in its organization, including its name.

The present day responsible public office for strengthening and expanding social security programs in the FDRE with its head office here in the capital was established by proclamation (No. 38/1996) as an Authority in July 1996. The Social Security Authority of Ethiopia is an autonomous public office accountable to the Council of Ministers. The Authority has now twenty one branch and sub branch offices and has the power to open new ones elsewhere as necessary.

By way of achieving its objectives the Authority is provided with the necessary powers and duties that include implementing laws, regulations and directives, undertaking studies, collecting contributions, administering social security funds and maintaining separate bodies of accounts for each fund, determining the amount of social security benefit and invest in profitable and reliable ventures.

At the top of the organization of the Authority is a Board with government appointed members a General Manager, and the necessary staff. The Proclamation also makes a provision for the establishment of a Social Security Appeal Tribunal which shall examine and make final decision on appeals made against decision of the Authority relating to social security rights and benefits.

The current total number of employees of the Authority is 864 of which 239 or 28% of the total are in the Head Office and the remaining 625 or 72% of the total are working in the 21 branch and sub branch offices located in 11 regions. Of the total employees of the Authority, 42 or 5% of the total are university graduates with a first degree or above.

The budgetary source of the Authority according to its establishing Proclamation, other than its own source, is subsidy from the Federal Government. The total budget of the current year as shown on the following Table of the Authority is Birr 10,068,600 of which Birr 9.4 million or over 93% of the total is recurrent.

Table 17.1

Year F.Y.
1987/8
1988/9
1989/90
1990/1
1991/2
1992/3
1993/4
1994/5
1995/6
1996/7

Source: C.S.A.

17.5 Review and Future

Current

The total population in 1994 was 54.4 million, estimated population

Size of

Table 17.2

Age	% Share of the total pop*
10-14	
15-19	
20-24	
25-29	
30-34	
35-39	
40-44	
45-49	
50-54	
Total	

Source: C.S.A.

* Total pop. of the above S

**Government Expenditure for Social Security
(1987/88 - 1997/98)**

Table 17.1

Year G.F.Y	Recurrent Budget (Allocated)	Capital Budget (Allocated)	Total
1987/88	2,984,501	384,500	3,369,001
1988/89	3,124,574	73,000	3,197,574
1989/90	3,475,102	405,000	3,880,102
1990/91	3,719,603	40,000	3,759,603
1991/92	3,979,426	50,000	4,029,426
1992/93	5,053,600	125,000	5,178,600
1993/94	5,707,600	-	5,707,600
1994/95	6,397,400	765,000	7,162,400
1995/96	6,374,600	1,224,100	7,598,700
1996/97	6,760,100	199,000	6,959,100
1997/98	9,403,700	664,900	10,068,600

Source: Compiled from yearly Government Budget Proclamations and Budgetary Revenue and Expenditure Reports of MoF

17.5 Review of Current Situations and Future Prospects

Current Situation

The total population estimate of Ethiopia in 1994 was 54.9 million. Of this total estimated population as shown on Tables

17.2 and 17.3 below, 32.2 million or 58.6% were within the economically active age group (10-54 years), 3.8 million or 6.9% were within the pensionable age group. 36 million or 65.5% of the estimated total population of the country fall within the two age groups mentioned above.

Size of Population Within the Economically Active Age Group (10-54) by Age, Rural, Urban and Sex (1994)

Table 17.2

(in thousand)

Age	Rural			Urban			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
10-14	3,492	3301	6793	472	440	912	3964	3741	7,705
15-19	2775	2528	5303	437	444	881	3212	2972	6184
20-24	2002	1771	3773	398	447	845	2400	2218	4618
25-29	1357	1276	2633	290	359	649	1647	1635	3282
30-34	981	1078	2509	188	245	433	1169	1323	2492
35-39	855	1048	1903	154	199	353	1009	1247	2256
40-44	824	979	1803	160	192	352	984	1171	2155
45-49	781	839	1620	144	159	303	925	998	1923
50-54	674	679	1353	109	104	213	783	783	1566
Total	13,741	13,499	27,240	2,352	2,589	4,941	16,093	16,088	32,181
% Share of the total pop*	25.01	24.57	49.58	4.28	4.71	8.99	29.29	29.28	58.57

Source: CSA, Statistical Abstract, 1995 (PP 18, 19, 20, 21).

* Total pop. of the Country was estimated at 54,938 thousand according to the above Source.

**Size of Population within the Pensionable Age Range
by Location Rural and Urban and Sex: 1994**

Table 17.3

('000)

Age	Rural			Urban			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
55-59	534	527	1061	80	77	157	614	604	1218
60-64	406	397	803	58	71	129	464	468	932
65-69	286	279	565	38	53	91	324	332	656
70-74	200	189	389	26	38	64	226	227	453
75+	233	217	450	32	46	78	265	263	528
Total	1,659	1,609	3,268	234	285	519	1,893	1,891	3,787
% Share of the total pop	3.02	2.93	5.95	0.43	0.52	0.95	3.45	3.45	6.90

Source: CSA, Statistical Abstract, 1995 (PP 18,19, 20,21)

Social security is generally said to be a modern institution open to organized urban labour. In Ethiopia, 4.9 million or 9% of the total population that fall within the age groups of 10-54 years, and 519 thousand or 0.95% of those within the age groups of 55 and 75 and above years of age, live in urban areas. This indicates that the member of the total urban population that could potentially be directly affected by social security measures of the country could reach as high as 5.4 million or 10%* of the total population as per the 1994 population and housing census results.

As one study conducted seven years ago shows, the Civilian Pensions Fund covered 300,000 civil servants and officials, 30,000 employees of various autonomous organizations. The Undertakings Pensions Fund covered 410,000 employees and 22,000 employees of mass organizations. Other than the Military Pensions Fund, therefore, the total number of employees covered by the other two Funds at the time was 762 thousand. The same study

* As indicated by the 1984 census results, 9.8% of the country's labour force lived in urban areas and 90.2% in the rural areas.

indicates that statutory social security provisions for pensions was at the above mentioned period, available to approximately a total of 1.3 million persons in the country (Bailey,1990:2-4).

Social security benefits are either paid in the form of pension for life or gratuities in a lump sum. And the recipients of the benefits could either be the pensioners themselves (regular) or their survivors. In 1996/97 F.Y., there were a total of 416,514 pensioners for life in the country (SSA, 1997:9).

Social Security

Income
1994

('000)

Total		
Male	Female	Total
614	604	1218
464	468	932
324	332	656
226	227	453
265	263	528
1,893	1,894	3,787
3.45	3.45	6.90

... social security
... was at the above
... available to
... 1.3 million persons
... (90:2-4).

... are either paid in
... life or gratuities in a
... recipients of the
... be the pensioners
... their survivors. In
... a total of 416,514
... the country (SSA,

June 1999

Survey of The Ethiopian Economy

Social Security

New Entrant Beneficiaries by Type, Number, Causes for & Decided amount of Benefits and Status of Funds, (1995/96-1996/97)

Table 17.4

Types & Causes of Benefits	1995/96												1996/97															
	CIVIL				MILITARY				GOV. Undert.				TOTAL				CIVIL				MILITARY				GOV. Undert.			
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.				
01																												
02																												
03																												
For Life	10,991	7,929.41	14,544	6,819.93	7,828	6,071.95	33,361	20,821.20	25,552	15,544.40	9,507	5,846.98	10,318	3,833.52	5,727	4,665.92												
Regular	3,921	5,162	5,162		3,492		12,575		8,322		3,025		2,603		2,004													
Due to :																												
- Old Age	2,760	1,110	1,110		1,864		5,734		5,094		2,561		573		1,960													
- Sickiness	37	41	41		51		129		121		53		13		55													
- Invalidity					5		3,945		2,019		2		2,006		11													
-	264	5	5		122		391		357		190		4		163													
Resignation																												
- Order	860		23		1,450		2,333		632		217		7		415													
- Incapacity			43				43		9																			
Survivors	7,070		9,362		4,334		20,766		17,320		6,482		7,715		3,123													
Gratuities (a lump sum)	1,081	211.38	68	52.69	1,230	1,928.88	2,389	3,180.95	3,855	5,688.90	1,301	2,019.63	79	54.5	2,485	3,614.85												
Regular	428		18		908		1,354		3,048		895		12		2,151													
Survivors	663		50		322		1,035		807		500		67		234													
Total (1+2)	12,092	9,140.79	14,812	6,972.62	9,058	7,898.83	39,750	24,012.23	29,407	21,233.28	10,808	8,866.49	10,307	3,888.02	6,112	8,478.78												

Source : Compiled from data made available by SSA

In 1996/97 F.Y as shown in Table 17.4 above, the total number of new entrant beneficiaries both regular and survivors for life had been 25,552. However, of these total new entrant beneficiaries, 10,390 pensioners have in the 1996/97 F.Y for various reasons (death, passing the maximum age limit of 18 years for surviving child, remarriage of survivor etc.) had stopped receiving their benefits; thus bringing the 1996/97 F.Y. number of new entrant beneficiaries down to 15,162. The total number of recipients of benefits for life in 1996/97 F.Y. may, therefore, be estimated at 431,676.

As it stands now, as payments other than for Government Undertakings are being carried out by the Ministry of Finance, and

Regional Finance Bureaux; it has not been possible to establish the actual total amount of payments made as benefits from the Social Security Authority Sources.

As shown in Table 17.4, of the total number of new entrant beneficiaries (29,407) in 1996/97 F.Y., 87% were pensioners for life, and 13% were recipients of gratuities in the form of a lump sum. Of the pensioners for life (25,552) or 68% were survivors, 3855 or 32% regular pensioners.

Of the total number of new entrant beneficiaries in 1996/97 F.Y 37% were civil, 35% military and 28% employees of government undertakings and their shares of the total fund (21.2 million Birr) was 42%, 18% and 40%, respectively.

Social Security

Table 17.5
New Entrant Beneficiaries by Type, Number, Decided Amount of Benefits and Status of Funds (1987/88-1996/97 F.Y)

Year (F.Y.) &	Civil		Military		Gov. Undertakings		Total	
	No. of Beneficiaries	Amount	No. of Beneficiaries	Amount	Number	Amount	Number	Amount
1987/88								
1988/89								
1989/90								
1990/91								
1991/92								
1992/93								
1993/94								
1994/95								
1995/96								
1996/97								
Total								B.394.99

New Entrant Beneficiaries by Type, Number, Decided Amount of Benefits and Status of Funds (1987/88-1996/97 F.Y)

Table 17.5

Year (E.C) & Type of Benefits	No. of Beneficiaries and Amount of Benefits (in '000 Birr) by Status of Funds							
	Civil		Military		Gov. Undertakings		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
01	02	03	04	05	06	07	08	09
1987/88	5,591	2,764.95	10,882	3,984.80	3,385	1,645.25	19,858	8,394.99
- For Life	5,123	2,523.89	10,183	3,283.66	2,961	1,407.54	18,267	7,215.09
- Lump Sum	468	241.06	669	701.14	424	237.71	1,591	1,179.90
1988/89	6,729	3,516.35	26,390	8,623.51	3,859	18,443.63	36,978	14,024.49
- For Life	6,207	3,246.36	24,219	6,820.71	3,429	1,626.03	33,855	11,693.10
- Lump Sum	522	269.98	2,171	1,802.80	430	258.60	3,123	2,331.39
1989/90	6,422	3,808.33	21,247	8,949.60	3,751	1,998.32	31,420	14,756.24
- For Life	5,966	3,547.22	19,411	7,894.27	3,427	1,770.37	28,804	13,211.86
- Lump Sum	456	261.11	1,836	1,055.33	324	227.95	2,616	1,544.38
1990/91	6,725	3,852.27	34,849	18,007.69	4,770	2,789.61	46,344	24,647.56
- For Life	6,340	3,628.01	32,408	16,488.40	4,360	2,505.78	43,108	22,622.18
- Lump Sum	385	224.26	2,441	1,519.29	410	281.83	3,236	2,025.38
1991/92	9,040	8,183.80	12,312	2,877.79	5,237	3,907.94	26,589	14,369.53

Continued

Year (E.C) & Type of Benefits	No. of Beneficiaries and Amount of Benefits (In '000 Birr) by Status of Funds							
	Civil		Military		Gov. Undertakings		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
01	02	03	04	05	06	07	08	09
- For Life	7,997	5,172.14	12,238	1,830.81	4,703	2,953.06	24,938	10,956.02
- Lump Sum	1,043	3,011.66	74	46.98	534	534.88	1,651	3,413.51
1992/93	9,829	7,672.26	36,833	24,718.15	8,136	5,601.38	54,798	37,991.79
- For Life	9,114	7,045.30	36,549	24,372.93	6,899	4,193.04	52,562	35,611.27
- Lump Sum	715	626.96	284	345.22	1,237	1,408.34	2,236	2,380.52
1993/94	10,964	10,009.22	10,831	4,894.06	8,546	7,366.95	30,341	22,270.24
- For Life	9,277	7,312.65	10,760	4,816.02	6,562	4,766.44	26,599	16,895.10
- Lump Sum	1,687	2,696.59	71	78.04	1,984	2,600.51	3,742	5,375.14
1994/95	11,975	9,386.22	11,298	2,601.71	7,697	5,456.81	30,970	17,444.74
- For Life	10,421	7,437.87	11,218	2,538.24	6,781	4,197.64	28,420	14,173.75
- Lump Sum	1,554	1,948.35	80	63.47	916	1,259.17	2,550	3,270.99
1995/96	12,082	9,140.79	14,612	6,872.62	9,056	7,998.83	35,750	24,012.23
- For Life	10,991	7,929.41	14,544	6,819.93	7,826	6,071.95	33,361	20,821.28
- Lump Sum	1,091	1,211.38	68	52.69	1,230	1,926.88	2,389	3,190.95
1996/97	10,898	8,866.49	10,397	3,888.02	8,112	8,478.78	29,407	21,233.29
- For Life	9,507	6,846.96	10,318	3,833.52	5,727	4,863.92	25,552	15,544.40
- Lump Sum	1,391	2,019.53	79	54.50	2,385	3,614.86	3,855	5,688.89

Source: Compiled from data made available by SSA.

The number of beneficiaries in the urban labour force has been made t magnitude of the f and rural, that couic social security me However, conside level of socioeconomic country on the one requirements of a as record kee contributions, deliv the other hand, advocate for the of social security basis. Studies sc the incorporatic enterprises in t currently represe the urban labour

Future Prospect

At the beginning of the period, as shown above, had shown the highest numbers registered in 1990/91 compared with the number of beneficiaries. The periods show a growth of 176% respectively contributors for such in the Table, were dispersion of the economic reform pr in the country since

The Pensions Authority had cor the past to e expansion and activities. One Authority (1995: of the private se authority attribu to the conducive government sin

The number of beneficiaries over the ten years period, as shown in Table 17.5 above, had shown significant fluctuations. The highest numbers of beneficiaries are registered in 1990/91 and 1992/93. When compared with that of 1987/88, the number of beneficiaries for the two periods show a growth of 133% and 176%; respectively. The major contributors for such increases, as shown in the Table, were the military, which in turn could perhaps be explained by the dispersion of the military and the economic reform programmes carried out in the country since then.

Future Prospect

At the beginning of this section an attempt has been made to show the potential magnitude of the population, both urban and rural, that could benefit from favorable social security measures in the future. However, considering the present low level of socioeconomic development of the country on the one hand, and the complex requirements of a pension scheme such as record keeping, collection of contributions, delivering benefits etc., on the other hand, authorities in the field advocate for the expansion of the scope of social security programs on a gradual basis. Studies so far conducted consider the incorporation of large private enterprises in the formal sector that currently represent a small proportion of the urban labour force.

The Pensions and Social Security Authority had conducted its own studies in the past to enable it consider the expansion and strengthening of its activities. One such study made by the Authority (1995:5) indicates the prospects of the private sector for fast growth. The authority attributes this positive prospect to the conducive conditions created by the government since 1992.

As the above mentioned study by the Authority indicates, the number of private enterprises, with 10 and more employees, and their permanent employees were 1313 and 56,255, respectively. As the information from the Ethiopian Investment Authority reveals, the employment opportunities that would be created by the projects approved by the Authority from 1992 to June 1997 was estimated at 215,010 persons. Another study, conducted in 1989 by the Pensions and Social Security Authority to introduce the pension scheme to members of agricultural and artisans producers cooperatives, puts the estimated number of potential beneficiaries in the cooperatives at 40,000 persons. The above three estimates that add up to 311,255 persons may roughly indicate the size of population that could be included in the social security programme of the country in the immediate future.

Earlier in this paper (particularly in sections 2 and 4) attempts have been made to review policy, legal and administrative provisions made possible in the past to bring about positive changes, both qualitative and quantitative, in social security schemes of the country. One such outstanding measure by the government in 1996 in rectifying past mistakes and paving the way for brighter future could be the establishment of the Social Security Authority as an autonomous federal public office with the powers to open branch offices and invest in profitable and reliable investment activities.

Ethiopia has been, since 1985, a member of the International Social Security Association (ISSA) which is known for its best research and documentation center in the field. With such possibilities to learn from the experiences of others, access to research findings in the field, ones own commitment to planning and finally the possibilities for the realization of the

country's immense investment potential in the near future, the prospect for strengthening and expanding social security programs in the country would definitely be bright.

With such a bright prospect for the future, the Authority has planned to further revise and consolidate the existing pension laws, to strengthen its offices with qualified manpower, modern facilities and equipment, to establish branch offices so as to strengthen its research capability.

Achieving the basic pre-requisite for the smooth management of social security in the country necessitated consideration of specific areas of research for immediate policy decisions in the field which may also include age of retirement, ranges of contingencies to be included in the social security scheme and the justice and the adequacy of the present amount of benefits.

17.6 Outstanding Issues and Problems

It is almost four decades since social security as conventionally understood is introduced to Ethiopia. Relative to the slow pace in the overall development of the country, the progress so far made in the field, particularly in laying the policy, legal and administrative basis for its accelerated development in the future is indeed encouraging.

In principle the provision of social protection to all segments of the population rural and urban alike, is fully acceptable. However, as the traditional system of old age support is relatively strong in the rural areas and as the socioeconomic infrastructure necessary for the execution of social security

programs are not adequately laid down, the prospect for the geographical extension of the program in the immediate future does not seem feasible. Establishing effective mechanisms to basically sustain the traditional support system as well as providing social assistance programs that target the poor would rather be a more rational approach. Considering the scarcity of resources, even amongst the elderly and poor, it may be necessary to give the highest priority to the handicapped, the displaced, the female and the deserted.

In spite of the achievements so far made, there is a lot more to be expected from the responsible authority in the future. Among these expectations that deserve the highest regard may be, overcoming administrative and legal constraints, expanding investment activities and extending social security schemes to the hither to uncovered section of the population.

Although the lack of income is a decisive factor that adversely affect the standards of living and dignity of senior citizens, their diverse social needs may have to simultaneously deserve the same attention. In this regard the Social Security Authority in cooperation with other pertinent organizations, governmental and non-governmental, may have to organize programs that cater to the social needs of its clients.

Finally, for the effective realization of its declared objectives and as a proof of its commitment to the causes it stands for, the Social Security Authority ought to pre-occupy itself more than anything else in building its own capacity particularly through professionally well qualified manpower.

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Chapter 18

Social Welfare

18.1 Background

The conceptual deviation from viewing social welfare as a charitable act under religious organization to that of an organized and integrated civic responsibility under the auspices of statutory agencies as well as the shift of emphasis from remedial to preventive and developmental functions was effected in the 1960's particularly, since the first International conference of Ministers responsible for social welfare held in New York in Sept. 1968.

Based on the recommendations of the Conference, today, Social Welfare has developmental, preventive and remedial characteristics and functions. In Ethiopia, this triple concept of social welfare has been recognized and accepted since the late 1960s. Ever since, policies and programs in social welfare have been geared to wards the development of preventive and rehabilitative functions.

Consequently, social welfare services began to be recognized as a right to be enjoyed by the people. Any plan or action to be taken by the government has as its main objective to benefit the people. That is, it aims at the development of a better standard of living of the people at large.

At this point, it seems appropriate to mention a statement made by Mr. Kurt Waldeheim, the former UN secretary General on a certain occasion:

"What is development after all if it is not to better the lives of people? And how can

their lives improve if they do not, as children, receive such basic necessities as proper nutrition, access to health services and potable drinking water, and an education that will enable them to realize their full potential and make a constructive contribution to their societies?"

Of course, this should be the ultimate goal. The solution to social problems will require long and hard struggle and a concerted effort.

It is worth mentioning here, that in Ethiopia these problems have received appreciation a long time ago and are being tackled on all fronts. Already, policies have been drafted and are being implemented to benefit the family: of course, with children and women as their main focus and attention.

In general, social welfare programs, when integrated with other social services such as Education, Health and shelter, will inevitably help bring about sustainable social and economic development in the country.

18.1.1 Social Problems

In Ethiopia, due to a low level of economic development, high population growth rates, recurrent drought/ famine and long years of internal conflicts, many kinds of social problems could easily be identified. As most of the problems are directly related to social welfare, it seems

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appropriate to categorize them under four major groupings. And these are problems related to:

- Family, Children, Youth;
- Unemployment,
- Vagrancy and other forms of social deviance e.g delinquency, prostitution, beggary e.t.c. and
- Ageing and disability.

Social problems in the country are getting worse from time to time. Up-to-date, reliable and detailed data on the type, size, extent and nature of the country's social problems are lacking, since country wide studies have not been conducted yet. However, various small-scale and scattered studies have indicated that the problems are on the increase over the past years. The same studies show that the problems are likely to put massive pressure in the future unless timely and appropriate actions are taken.

The prevailing worse conditions have been substantiated by figures obtained from different sources illustrating the number of people who, for various reasons have been victimized and turned poor/vulnerable & thus desperately seeking assistance and support.

Although they may not be up-to-date, the following indicators would help shade some light on the scope and breadth of the social problems that need to be addressed in subsequent years.

- An estimate by UNICEF (1993) puts the number of street children in Addis Ababa alone at 20,000;
- According to a study by the then RRC, close to 1.5 million children have become orphans as a result of man-made and natural disasters;

- As per WHO estimates there are about 5.8 million disabled persons (about 10% of the population of any developing country is disabled);
- Between 1979-82, more than 981,000 job seekers were registered at various labour offices throughout the country. Of this total, 180,000 were students who either are drop out of schools or had completed secondary education, but couldn't manage to join the next level of educational institutions because of their unsatisfactory performance;
- AS a result of flaring up of ethnic conflicts in some parts of the country, especially, immediately after the fall of the military government and the subsequent take over of power by EPRDF, about 250,000 rural families have been displaced. The majority of those families were temporarily staying in shelters in major urban centers;
- Many of an estimated 350,000 members of the former army along with their families plus nearly 400,000 refugee returnees and around 200,000 Ethiopian citizens displaced from Eritrea were badly in need of being re-integrated to the Ethiopian society and economy;
- According to the study conducted by the Ministry of Labour and Social Affairs (1986), the number of prostitutes in the urban Ethiopia stood at 44,707;
- There are about 1 million able-bodied as well as disabled beggars spread all over the towns throughout the country.

In addition, the Economic Reform Program launched by the government since 1992/93 might have a negative social and economic impact on the poorest segments of urban dwellers.

Although no profound study has yet been undertaken to support the

prevalence of drug and substance abuse, there are signs that it is a cause for concern

In Ethiopia, social Welfare programs have been run by the government, private humanitarian NGOs (Local as well as Foreign) and by some religious organizations. Despite problems related to shortages of manpower and financial and material resources, rigorous efforts are being made to mitigate the spread of acute and chronic social problems prevailing in the country.

18.1.2 Institutional Aspects of Social Welfare Activity

The Ministry of Labour and Social Affairs, ever since its establishment, has been trying to bring about an overall social & economic change in the country, though not effectively because of the deep-rooted social problems and the wrong and misguided social and economic policies of past regimes.

Since the onset of the 1997/98 fiscal year, MOLSA has introduced a new administrative structure. The sole objective for introducing the new administrative structure is to be better equipped in order to carry out its duties and responsibilities effectively and efficiently.

In accordance with the new administrative structure, the Ministry's mission and vision, in general, revolve around main functions:-

- With regard to labour affairs, mainly to see to it that the labour law proclamations No.41/1992 are properly observed; and
- Concerning Social Welfare activities, to monitor that the new developmental Social welfare policy is properly implemented;

At present, the ministry is organized into five departments, six services, fifteen teams and three divisions, with one vice Minister at the helm. The unit under the department of the Labour Affairs, the child Youth and Family division, the rehabilitation department & the Women's affairs Department are the major program implementing units, whereas the planning and programming department plays a vital role in coordination and directing the Ministry's functions towards fulfilling its mission and objectives.

The Ministry of Labour and Social Affairs works in close collaboration with Regional Labour and social Affairs Bureaus. It gives technical and professional assistance to strengthen the capacity of experts of the respective bureaus. Occasionally, the Ministry organizes training programs, workshops, and seminars through which experts of the regions could be introduced to new policies and working techniques.

Moreover, there is a forum with the Regional bureaus once in a year so as to help the professionals share experiences among each other and give comments on how the programs of the ministry are integrated with the activities in their respective regions. This forum, it is hoped, will enable the smooth and fast flow of information from the bureaus to the ministry and horizontally to the bureaus.

18.2 Review of Social Welfare Policies

Being fully aware of the complexity of the social problems of the country, a welfare policy has been formulated and issued recently. The policy is compatible with the Economic Reform Program. The policy, in general, aims at harnessing and coordinating the efforts of concerned governmental

organizations, public and in against social p

Some of the are listed below

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organizations, NGOs as well as the public and individuals in the fight against social problems.

Some of the highlights of the policy are listed below:

- training and preparing professionals;
- designing programs aimed at resolving social problems step by step and get rid of them eventually;
- to coordinate meager resources (financial, material, manpower), to be used efficiently, so as to come up with tangible results,
- to coordinate the activities of various programs and projects among each other and also with other development programs;
- to restructure the implementing Ministry (MOLSA) in such a way that it could carry out its duties and responsibilities efficiently and effectively with the scarce resources at its disposal.

In this connection, there are those who believe that the new regional administrative structures would play or be an instrument to win grass-root participation in each region for this important national endeavor.

The strategies drawn to make the policy feasible are the following:

- With the involvement of national and expatriate professionals to conduct research and study concerning the different facets of the country's social problems; compile and publish the findings of the studies;
- To enhance the establishment of more service rendering institutions;
- To promote grass-root participation in the social and economic development efforts; to start launch extensive and comprehensive

community development programs at different levels of governmental structures;

- To issue directives and to devise mechanisms that help create a conducive working atmosphere for various national and International NGOs, Communities and individuals who opt to participate in social welfare activities and development as efforts. Some of the mechanisms to be adapted include:
- timely and efficient registration and issuance of licenses;
- timely and proper assessment, monitoring and evaluation of project performances at their different phases etc.

To conclude, the measures taken by the government reflect a desire to inject greater efficiency & effectiveness to the welfare sector, at the same time minimizing the chronic social problems being encountered. However, it is too early to tell what the overall impact of the policy will be in the future.

Duties of the Ministry of Labour and Social Affairs

The ministry of Labour and social affairs (MOLSA) serves as the Government's focal point with respect to the formulation, coordination and implementation of policies concerning Social Welfare activities.

In accordance with Proclamation No. 41/1992, the following are the powers and duties of MOLSA:

- to ensure the proper implementation of pension and Social Security schemes;

- in cooperation with the appropriate organs, study and give assistance for the implementation of ways and means for the proper upbringing of children and youth;
- Conduct studies and in cooperation with the appropriate organs, ensure the implementation of ways and means for providing assistance to the aged and the disabled as well as the rehabilitation of the disabled;
- undertake studies on the prevention of social problems; coordinate and give assistance to the appropriate organs in eliminating social problems;
- in cooperation with the appropriate organs, study and upon approval, follow up the implementation of ways and means for the protection of family and marriage institutions.

A brief review of the performances of some governmental Institutions during 1987/88 -1997/98

Assessment of welfare program performances may be conducted in the following manner:

- review program contents,
- review the way they are being conducted;
- examining how and by whom programs are delivered;
- investigating problems encountered when conducting programs; & finally
- suggest possible solutions.

According to sources from MOLSA, the number of welfare program and beneficiaries during 1987/88-1997 is described in Table 18.1 below.

Social Welfare

Survey of The Ethiopian Economy

Number of Welfare Programs and Beneficiaries (1987/88-1997/98)

Year	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Number of Welfare Programs											
Number of Beneficiaries											
Groups of people/program type											

Table 18.1

Number of Welfare Programs and Beneficiaries (1987/88-1997/98)

Table 18.1

Ser NO.	Groups of people/program type	NUMBER OF BENEFICIARIES BY YEAR										
		1987/88	1988/89	1990/91	1991/92	1992/93	1993/94	1993/94	1994/95	19/95/96	1996/97	1999/98
1	Home Economics Course participants (Mothers)	4914	2465	2100	N.A	N.A						
2	Kindergarten Program participants (Children)	3050	3570	1129	1625 (E)	N.A	500 (E)					
3	Institutional Care for Children Without support											
	3.1 Ethiopia Children's AMBA	4059	3611	3541	3459	2856	2888	2503	2195	1954	1764	541
	3.2 Children in Orphanages run by RAD	3602	2980	3440	3440	N.A						
	• Debre Markos Orphanage						246					
		120					501					
	• Bole Children's Home			530								
	3.3 children in Orphanages run by CYO			1720	1720							
	• Kehene children's Home	206	-				209	179	182	170	189	377(E)
	• Meky Lee land Children's Home		600				489	480	452	437	475	520
	• Boys and Girls Hostel						219	230	112	107	97	90(E)
4	Juveniles Admitted to A.A Remand Home	200	258	150(E)	100(E)	N.A						

.... Continued

Ser NO.	Groups of people/program type	NUMBER OF BENEFICIARIES BY YEAR										
		1987/88	1988/89	1990/91	1990/91	1991/92	1992/93	1993/94	1994/95	19/95/96	1996/97	1997/98
5	Disabled People Taken Care at shelter Homes	1866	1234	156(E)	1116							
	5.1 Gefarsa shelter home	465					256	252	250	246	139	135
	5.2 Addis House hold and Office Furniture	212					310	300	285	260	245	241
	5.3 National Costume						101	98	80	85	78	-
	5.4 Nazareth Sewing Center						560	542	506	501	475	-
	5.5 Addis Tesfa Hiyot Farm						242	254	250	197	-	-
	5.6 Shashemene shelter for disabled	1000										
6	Nursing Home services for the elderly & the destitute		520	420	332	330						
	• Siga Meda Shelter Home						69	69	68	-	-	-
	• Abraha Bahta Pensioners House						382	392	302	256	240	220
	• Addis Ababa shelter Home						270	271	273	270		
	• Betheselehon Pensioners House											

Source:- MOLSA ,Annual Progress Reports

E= Estimate; N.A=Information not available.

From the Table 1 above, it could easily be understood that the services given for the disabled the Elderly, the destitute and Neglected etc. members of the society (past as well as present) are insufficient considering the huge number of these types of persons who are in desperate need of assistance and support.

Ensuring the welfare of the family, the child and the youth will lead to the formation of a healthy and prosperous society. Failure to meet the welfare of one of these components will definitely lead to an unhealthy social life of the entire community.

The analysis in the paragraphs that follow will emphasize on some of existing social welfare services, the nature & the magnitude of the problems encountered, etc.

Overview of Existing Family Welfare Policies

It is true that the welfare of the family has a decisive role in bringing about a sound social, economic and political development of the society. Bearing this in mind, the government has issued several policies which could promote the welfare of the family. Some of these policies are listed below:

An important arm of the government, MOLSA, has taken the responsibility of taking care of the welfare of the family. The Ministry is empowered to *formulate policies whereby the welfare of the family is properly maintained*. It is also the Ministry's duty to see to it that *that problem oriented projects/programs are developed and put into action*.

With respect to family welfare, the major points articulated in the social welfare policy are listed below:

- programs and services designed to promote family welfare shall be formulated and implemented;
- laws to ensure the social welfare of the family as an institution and strengthen marriage relationships shall be enacted; the existing relevant laws shall be revised.

Moreover, other relevant services shall be made available;

- strategies shall be developed and mechanisms devised in order to facilitate the extension of economic and social assistance to families in difficult situations;
- programs to educate the public about the harmfulness of some traditional practices shall be stepped up;
- all community, non-governmental and voluntary efforts to promote family welfare shall be encouraged and supported.

To protect the health and welfare of prospective mothers as well as their children, family planning programs are being given to a large segment of the female population. Family planning programs have the following objectives:

- helping newly married young, premature couples to postpone having a child shortly after marriage;
- to assist married couples to get more time or to elongate the intervals between births-thereby enabling the mother to get ample time and energy to give proper attention and care for her infant;
- to help families who believe that they have enough children and want to stop giving birth; those women aged below 18 above 40, who do not want to have children could be assisted (source: FGAE; 1996).

18.3 Scope of Social Welfare in Ethiopia

Some of the on-going Social Welfare Programs/activities are affected by:

- Lack of Coordination;
- Lack of clear and distinct policies and directives; and
- The problem of prioritization.

With the introduction of efficient and proper management of manpower and resources, much more could be achieved and the problems could be significantly mitigated.

18.3.1. The Urban Poor

The problems of the urban poor in Ethiopia are critical in terms of their scale and intensity. According to a study by the UNDP, the poverty line for urban people with a family of five has been estimated at birr 2928 per annum in 1992. It is estimated that 60 per cent of the Addis Ababa population live on income below this threshold. Out of a total of 8.1 million people living in urban Ethiopia, more than 50 per cent are believed to be below the poverty line (Government of Ethiopia and UNDP, 1994).

The severity of the problems have become more acute in the face of fast growth of the population in urban areas and the resultant shortage of resources with which to cope up with. The present average annual growth rate of population in Addis Ababa is estimated at about 5.8% (UNICEF, urban issues Vol. No. 20; 1995; 1).

It is an inescapable fact that the city of Addis Ababa is growing fast and will continue to grow; so are the peculiar problems it creates. Infrastructural facilities that were planned for a few thousands of people decades ago are

currently being stretched to satisfy the needs of additional thousands with limited resources. Housing and sanitation problems are overwhelming in Addis Ababa.

The population, particularly vulnerable to the problems described in the foregoing paragraphs are the urban poor. There is an increasing proliferation of slums, squatter settlements, and rising shortages in basic services in Addis Ababa to the extent that most slums areas have no access to facilities like the disposal of human wastes. School facilities in such area are also becoming scarce.

Incidence of infant mortality, gastroenteritis, malnutrition and anemia are becoming frequent incidences as health care services are poor and inadequate.

The urban poor, therefore, seem to be trapped in a Vicious circle in which low and incomes result in poor education, nutrition, and health which in turn lead to low productivity and incomes. The most Vulnerable to these problems are children, young mothers, and women in general.

Measures so far taken to solve these problems have failed to reverse these trends or produce more efficient patterns of urban growth in Ethiopia.

18.3.2 The Disabled

The task force set up by the then ONCCP at the time of the preparation of the Ten Year's perspective plan in 1980 defines disability as follows:" A person is called disabled when one or more of his body parts have suffered an injury/injuries resulting from accident or due to natural mishap/misfortune". Since mental disorder too is considered as a type of disability, the term (disability) refers to physical or mental handicap (defect).

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According to studies by WHO, the causes of disability are many and varied. Some of the major ones are:

- Communicable & non-communicable diseases;
- Malnutrition;
- accident;
- mental and emotional disturbances;
- alcoholic beverages; and
- drug addictions.

Extensive research and studies in the past have proved that disabilities are wide spread in developing countries and are more pronounced where poverty, hunger, diseases & illiteracy are rampant. However, disabilities caused by natural and man-made disasters occur both in developing and developed countries alike.

As country wide studies about the problem of disability have not yet been conducted in Ethiopia, the exact number & the types of disabilities are not known so far. However, there are two ways in which one can judge the extent of disability in Ethiopia. The first method is WHO's directives to determine the number of disabled people in a given developing country. In accordance with WHO's studies, at least 10 percent of the total population of a developing country is disabled. On the basis of this, out of the total population of Ethiopia (1998), about 6 million are estimated to be disabled.

The second source from which we can make rough estimates about the number of disabled is by using earlier studies conducted during 1979-80 in rural Ethiopia in the then 12 administrative regions. The study was undertaken by the Ministry of Agriculture in collaboration with CSA & RAD. As indicated in these studies, out of the total rural population of 26.6 million (excluding the nomadic population), about 1.5 million are

disabled. This is equivalent to 5.5% of the total rural population. However, this is far from WHO's estimate. The studies explained above focused on rural settings, whereas the crippled & the disabled migrate to urban areas where they can get alms better. Hence, it is evident that there are more disabled people in urban areas than in rural Ethiopia. The above studies by MOA, CSA & RAD are believed to have underestimated the number of disabled in the country. Therefore, the fact remains that there are large numbers of disabled people in the country at present.

With regard to services rendered for the disabled, efforts made so far are insufficient; mainly due to lack of funds. These problems have been understood and appreciated long ago. Various sound policies have been issued by the government. Some of the policies promulgated include:

- MOLSA has been given the responsibility & the task to work out and device directives & programs which aim at helping the disabled to get vocational training in various skills that would help them prepare for employment.
- The Rehabilitation Agency has been given the task of re-integrating the disabled and also to coordinate the entire national efforts of helping the disabled.

There are institutions under the Rehabilitation agency which serve as receiving centers, shelter homes, training centers, and small scale manufacturing centers.

Through various programs provided by these centers, presently, more than 1000 disabled people are being assisted. Besides, a large number of the disabled after undergoing short-term training have been gainfully

employed in various handicraft centers & small scale factories on part-time & full-time bases. For instance, the agency called 'Tewahido Tibebe' administered by the former HASIDA, employed not less than 500 disabled people in umbrella and battery production activities.

Besides there are religious and private humanitarian organizations involved in such endeavours:

- The association for the blind gives training in basic education and vocational training and more than 500 people who have been trained and have secured jobs so far;
- The Catholic Religious organization "The Missionaries of Charity" renders extensive services to different categories of disabled people, such as lepers, physically & mentally handicapped, etc. Presently, more than 10,000 people with different kinds of disabilities are getting assistance & support throughout the country;
- An Association for helping the Deaf & dumb assists disabled people to get basic education & vocational training and employment. More than 100 people have been helped by the association, so far.

18.3.3 The Destitute and Neglected Children

The situation of destitute and neglected children in Ethiopia, as in most developing countries is characterized by malnutrition, diseases, early mortality, and for the ones who survived these lack of proper education. This situation is tantamount to squandering what could be considered as the future assets of the country and for this reason, should not be allowed to continue.

The conditions and status of destitute children in a given country can not be seen in isolation from the prevailing level of economic development. These are children who are unable to count upon the support and care of their families. Consequently, this implies that a real and lasting solution to the problems of destitute children could be achieved only by addressing the entire problems of underdevelopment in the country.

The Problem of destitute and neglected children in Ethiopian urban centers are believed to have had either of the following groups:

- Widespread poverty,
- lack of adequate health, shelter, education and other services;
- the disruption of families due to drought/famine;
- armed conflicts, and
- urbanization.

According to UNICEF, there are generally nine categories of destitute and neglected children. These are: street children, children with insufficient family support, disabled children, abused children, unaccompanied and abandoned children, orphans, children traumatized by war and disaster situations, children displaced by war and drought/famine, and delinquents.

All of these categories are believed to be found in Ethiopia. However, the brief analysis in this survey confined to the problems of street children, orphans, children with insufficient family support and disabled children, since information on other groups is not made available.

Street Children

Street children are girls or boys who have not reached adulthood, for whom the street have become their abode

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and source to livelihood: street children are inadequately protected, supervised or helped by responsible adults (definition formulated in Switzerland in 1983). According to UNICEF, the root causes of streetism in urban Ethiopia are poverty, unemployment, broken families, and rural to urban migration caused by drought and civil strife (Ethiopian Gov't and UNICEF; 1992).

The number of street children has been growing at an alarming rate in major towns and is becoming a major social problem. It is estimated that about 100,000 children throughout the country can be considered as street children (MOLSA, 1995).

In 1983, a survey was conducted by the Ministry of Labour and Social Affairs and Radda Barnen to identify factors that make the children go to the streets. About 900 street children (310 girls and 590 boys) from selected areas in Addis Ababa were covered by the survey. The following are some of the major findings of the survey:

- The majority of the street children are poor and are between 9 and 13 years of age;
- A little more than half; about 55 percent came from incomplete families, whereas about 39 percent have parents who still live together;
- About 2/3 of the father of the children are alive and nearly 1/3 are deceased;
- Majority of the street children's mothers (85 percent) are alive; while 13 percent are reported to be dead; and
- The children attend school or have dropped out of third and fourth grades;

Orphans

An orphan is a child who has lost both his parents due to circumstances

beyond his control. There are normally three categories of orphans. These are: war orphans which refer to children who have lost both parents due to war and civil strifes, drought/famine orphans refers to children who have lost both their parents, through drought and famine; and Aids orphans that refer to children who have lost both parents through the AIDs epidemic/scourge (Eth. gov't. & UNICEF 1992). A vulnerable group of children in the Ethiopia's society are displaced children. These have ended up in the streets of Ethiopia main towns. Estimates of the numbers of displaced and unaccompanied minors are difficult to obtain, but one estimate by the former RRC in 1987 puts the total number at 250,000 out of whom 10 percent or 25,000 are orphans. Ethiopians have many traditional ways of dealing with orphaned children. Orphaned children are sometimes given over to the church where they will be raised with strict ecclesiastical orientation. Another traditional practice is the concept of 'Giudefecha.'

This is an Oromo custom by which children are adopted by those willing to raise them when parents fail to do so. Another approach is the system known in Amharic as "Yetut Abat" and "Yetut Inat" (foster father and mother) whereby the foster parents will raise the child as their own in a situation where the real parents are unable to do so (MOLSA, UNICEF, University College Cork, 1993).

Children with Insufficient Family Support

The exact number of children with this type of problem is unknown. However, they are estimated to be large and numerous. The number of children with insufficient family support and who are presently receiving services in orphanages is insignificant when compared to the total number who

seek help. For instance, reports indicate that in 1988 over 16,000 children were being taken care of in orphanages run by governmental and non-governmental organizations.

Disabled Children

Thorough studies have not been conducted to understand the scope and depth of the problems of disabled children in Ethiopia. However, as per WHO estimate which put the disabled children in developing countries at 10 percent of the population, by applying this to the 1994 census report by CSA, the total number of children (Aged 0-14 years) who are disabled could be estimated at about 2.6 million.

It is observable that both children and adults are equally victims of disabilities of one or more types:

- physical deformation;
- mental disorder,
- hearing and Speaking difficulty;
- Sight problem (blindness) etc.

There are many reasons that caused disabilities among children. Of these, the following are the major ones:

- disabilities resulting from accidents, diseases, wars,
- failure to get adequate and balanced diet, especially during early childhood;
- backward and harmful traditional practices;

It is inevitable that backward and harmful traditional ways of raising children may directly or indirectly contribute to psychological and physical disabilities. Some of the most common backward and harmful traditional practices common to nearly all ethnic groups are:

- forcing newly born babies to swallow fresh butter;

- children in rural areas are made eat left-over foods;
- strongly held beliefs and sayings that adversely affect the emotional and psychological make-up of children (as these may ultimately result in developing feelings of inferiority complex among children);
- traditional treatments, such as
 - extracting tooth;
 - burning the face with hot iron;
 - cutting the uvula;
 - female genital mutilation (circumcision); and

The cumulative effect towards the above listed backward traditional practices is bound to adversely affect the normal growth and development of children.

Services Rendered for Handicapped Children

Currently, some government & non-government organizations are taking part in the effort rendering services to handicapped children. However, the services rendered are almost insignificant when we consider the vast number of handicapped children who are in dire need of assistance. For instance, in 1989 all governmental & non-governmental organizations used to give institutional care to 1400 handicapped children only.

18.3.4. EX-soldiers

The number of demobilized ex-soldiers stood at 326,338 out of which 156,710 were of urban origin and the rest of rural origin (Government of Ethiopia and UNDP; 1994).

As part of the Rehabilitation program, the commission for the Rehabilitation of members of the former army & Disabled war veterans gave a monthly stipend of Birr 50 to each for 7

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successive months with a total aid package of Birr 55 million.

In an attempt to re-integrate the ex-combatants to a normal life in urban areas, the Commission has helped 22,550 of them to return to their place of origin or to secure permanent jobs. In addition, 39,330 were employed on a contractual basis, 7,500 were assisted to resume their regular education, 7,908 were assisted to change their military driving licenses to civilians and 7,405 were put on pension.

Furthermore, the commission had devised a revolving loan fund scheme as part of a re-integration program. The commission had initially deposited Birr 20 million in the Development Bank of Ethiopia which was earmarked for a Safety Net program. This program started functioning in 1994.

A large number of urban ex-soldiers have benefited from aid, credit and other services donated by local communities, gov't offices and NGOs. Through the support given by the German Technical Cooperation (GTZ), the Ethiopian Social Rehabilitation Fund, the Italian Cooperation, Local communities and administration and churches and other NGOs, about 3,000 former soldiers have been engaged in cooperative schemes with a total assistance of Birr 10 million. A large number of ex-combatants were also engaged in temporary labour intensive construction works throughout the country with the support and assistance of the donor agencies mentioned above (Commission for the rehabilitation of members of the former Army and disabled War veterans; 1995.)

The commission is said to have successfully accomplished its mission and the program has phased out. As

a result, the office has been closed down and employees transferred to other organizations commencing early 1996.

18.4 Review of Existing Programs to Strengthen Family Welfare

General Home Economics education are being offered by branch offices of MOLSA in various parts of the country. The major components/ of the Home Economics education are:

- proper handling and upbringing of children;
- how to prepare nutritious diets;
- proper way of feeding children;
- how to keep the household neatly & properly;
- how to handle money economically and with thrift &
- to teach family members on close and normal relationship among themselves characterized with love and affection

For instance, reports show that in 1990 more than 600 housewives have participated in Home Economics instructions in various parts of the country.

Children from poor families & with little or no income are being supported financially by certain private humanitarian NGOs, so as to help them to be able to continue their education and not drop out of school.

DPPC has been conducting various rehabilitation programs to help children & families who have been dislocated by natural and man-made calamities. Several thousand families have been assisted to re-settle and become self supporting;

Children of the lowest income group and large families are susceptible to diseases of different kinds. There

could be a number of reasons; but it could mainly be due to lack of balanced diet. To help children of such families, some private philanthropic organizations (e.g. Hope Enterprise, Missionaries of charity, Rada Bamen etc.) have regular feeding programs for the children & Home Economics classes for their mothers.

With regard to MOA's role, the Ministry mainly focuses on educating families on what to do to improve all aspects of their lives. This involves educating families Home Economics courses, how to apply different kinds of agricultural techniques, how to make simple hand-made tools & farm implements, how to apply appropriate technology etc.

With regard to the role of Integrated family Life education (IFLE) Project, IFLE in collaboration with other related government & non-governmental organizations has been delivering comprehensive family service programs. It does this through its main office located in Addis Ababa and also the branch offices it has opened in different regions of the country. The programs, in general, aim at enhancing the social & economic development of the beneficiaries. The instructions given include, ways and methods on how to maximize household earning via the use of different income generating activities, how to design and prepare simple development oriented self help

projects (source MOA, Home Economics Section, 1995)

18.5 Review of Outstanding Issues and Problems

To redress the different aspects of social problems outlined above and many more not mentioned here, the government should take the following measures:

- device mechanisms that would help coordinate public efforts with that of the government's. It should not be forgotten that the participation of the community to achieve the objectives of social welfare is vital. Needless to mention, until such a time that the grass root participation become strong and self-supporting, the government should definitely continue to subsidize programs, train manpower, continue to provide guide lines etc. focusing on the following areas:
- look for internal and external aid and assistance;
- provide with the necessary experts trained in the field;
- obtain up-to-date information and data, conducting intensive and extensive studies and research in the sector; and finally;
- promote credit services and vocational training schemes for alleviating the problems of the poor and the handicapped.

REFERENCE

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5. Ministry of Labour and social affairs and UNICEF, A.A. and University college cork, Ireland, Survey of street children, 1993.
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Appendix 1: Statistical Tables

The annex tables presented below provide relevant volume of data that supplement/complement what have been incorporated in chapters in the main body of the Survey. In most cases the data coverage goes as far back as 1980/81 providing consistent and mainstreamed official data for use by policy analysts in the government, the private sector, Higher Education Institutions, independent researchers, and International Organizations.

The annex tables have been sequenced in accordance with the sequencing of the chapters to which the statistical data are referring in the main body of the Survey. There are chapters in-between for which no annex is provided. The first annex table that comes in the sequence is described as "Table 1a". The second annex Table "1b" and so on until all the annex tables for that chapter are exhausted. The first annex table corresponding to the subsequent chapter is described as "Table 2a" "Table 2b" and so on.

Although the focus of the survey report is on the review of post-reform socio economic developments in Ethiopia, the inclusion of annex tables that contain data prior to the launching of the reform are expected to help establish data bases encompassing both the pre-and post-reform periods.

Table 1a

Gross Domestic Product by Industrial Origin at Current Factor Cost

Million Birr

Aggregate Output

1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
14759.02	15010.43	12701.15	10903.97	7972.05	7338.73	1988/89	1987/88	1986/87	1985/86	1984/85			

Aggregate Output

Gross Domestic Product by Industrial Origin at Current Factor Cost
Million Birr

Table 1a

Activity/year	1973 1980/81	1974 1981/82	1975 1982/83	1976 1983/84	1977 1984/85	1978 1985/86	1979 1986/87	1980 1987/88	1981 1988/89	1982 1989/90	1983 1990/91	1984 1991/92	1985 1982/83	1986 1993/84
Agriculture & Allied Activities	5384.92	5451.82	6318.40	5046.38	6630.28	6693.57	6853.67	6957.68	7338.73	7972.05	10903.97	12701.15	15010.43	14159.02
Agriculture	4783.44	4681.41	5466.17	4161.98	5606.66	5597.62	5632.61	5816.51	6207.06	6732.77	9605.98	11301.52	13577.72	12485.53
Forestry	598.46	767.21	848.64	880.39	1018.83	1090.65	1215.30	1134.84	1124.71	1231.61	1289.38	1389.85	1621.81	1661.31
Fishing	3.02	3.20	3.59	4.02	4.79	5.30	5.76	6.33	6.96	7.67	8.61	9.78	10.91	12.18
Industry	1011.84	1104.22	1205.19	1265.47	1369.97	1517.34	1768.78	1751.51	1763.02	1736.71	1631.03	1508.45	2274.55	2859.19
Mining & Quarrying	12.40	15.30	15.80	15.30	20.70	22.79	17.93	19.81	22.70	24.00	86.20	45.49	132.80	85.30
Large & Medium scale														
Manufacturing	406.42	410.05	436.83	437.04	422.68	472.64	548.69	555.55	553.73	552.05	443.07	330.48	699.20	1150.39
Small Scale industry & Handicrafts	196.43	222.63	258.06	275.44	273.72	325.37	381.13	394.73	389.91	434.41	403.53	517.77	658.74	696.95
Electricity & Water	115.69	117.50	121.81	125.08	135.96	174.07	226.80	230.00	239.60	215.29	244.80	236.48	245.80	253.72
Construction	280.90	338.73	372.68	412.60	516.91	522.47	594.23	551.42	557.07	510.96	453.43	378.24	538.01	672.83
Distributive services	1292.94	1482.35	1613.75	1648.96	1836.18	1985.00	2114.96	2190.81	2226.69	2431.46	2106.87	2351.66	3505.54	3901.53
Trade, Hotels & Restaurants	916.54	1046.30	1106.07	1102.78	1246.60	1294.22	1436.80	1491.35	1466.56	1659.90	1380.03	1455.81	2163.69	2360.85
Transport & communication	376.40	436.05	507.67	546.18	589.59	690.78	678.16	699.46	760.13	771.56	726.84	895.85	1341.85	1540.68
Other services	1635.25	1773.75	1980.87	2047.37	2265.95	2369.62	2575.71	2887.81	3222.40	3559.04	3337.43	3356.33	4500.16	5827.76
Banking & Insurance	254.85	251.54	288.13	228.04	288.76	279.62	331.22	405.11	385.62	383.12	373.57	427.89	661.87	1222.00
Real Estate & Ownership											393.12	412.89	433.69	457.08
Dwellings	238.78	250.08	261.28	274.12	289.07	303.52	318.18	333.30	352.64	373.18				
Public Administration & Defense	616.40	692.60	769.70	797.70	874.60	924.80	976.70	1125.50	1379.30	1609.80	1231.60	959.00	1490.67	1792.70
Education	194.30	225.50	255.30	284.80	309.80	335.00	371.10	394.30	418.70	447.30	425.40	505.10	617.60	752.50
Health	65.60	69.90	75.20	79.60	86.00	91.50	101.40	103.20	110.70	115.70	108.80	128.90	168.80	255.70
Domestic & Other Services	265.32	284.13	330.26	383.11	417.72	435.18	477.11	526.40	575.45	629.93	805.14	923.06	1127.53	1347.78
GDP	9324.95	9812.14	11118.20	10008.17	12102.38	12565.52	13313.11	13787.82	14550.85	15699.26	17979.30	19917.59	25290.68	26747.50

Source: National Accounts (MEDaC)

**Gross Domestic Product by Industrial Origin
at 1980/81 Constant Factor Cost**

Table 1b

Million Birr

Activity/year	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Agriculture & Allied Activities	5384.92	5189.81	5895.30	5155.85	4079.20	4732.64	5620.43	5465.02	5521.26	5814.40
Agriculture (crop & Livestock)	4783.44	4565.99	5248.36	4483.80	3441.42	4022.67	4894.38	4724.62	4765.63	5043.22
Forestry	598.46	620.69	643.69	668.68	634.09	706.31	722.23	736.41	751	766.74
Fishing	3.02	3.13	3.25	3.37	3.51	3.66	3.82	3.99	4.23	4.44
Industry	1011.84	1097.56	1162.26	1231.77	1284.78	1369.17	1478.61	1422.50	1327.82	1265.28
Mining & Quarrying	12.40	14.80	15.10	18.80	24.50	24.19	21.33	16.77	20.30	19.20
Large & Medium scale Manufacturing	406.42	431.96	443.18	480.94	458.16	508.02	565.66	584.75	575.40	556.65
Small Scale industry & Handicrafts	196.43	208.80	231.88	218.51	202.11	233.50	253.32	234.39	210.99	232.99
Electricity & Water	115.69	123.20	128.96	129.63	136.30	146.26	154.20	163.80	170.50	174.60
Construction	280.90	318.81	343.13	383.88	463.72	457.20	484.10	422.79	350.62	281.85
Services	2871.49	3028.1	3187.25	3220.58	3313.11	3434.21	3775.72	3981.46	4056.99	4269.88
Distributive services	1292.94	1349.51	1387.05	1391.63	1404.56	1453.03	1671.66	1727.98	1633.42	1705.83
Trade, Hotels & Restaurants	916.54	958.99	968.32	957.96	933.33	922.92	1135.39	1156.99	1037.15	117.87
Transport & communication	376.40	390.52	418.73	433.67	417.23	530.11	536.27	570.99	596.27	587.96
Other services	1578.55	1678.59	1809.20	1828.95	1908.55	1981.18	2104.06	2253.48	2423.57	2564.05
Banking & Insurance + Real Estate & Ownership Dwellings	493.7	516.3	581.7	560.9	550.8	544.1	643.4	686.5	691.6	701.2
Public Administration & Defense	559.70	612.71	651.15	673.96	732.53	759.41	776.90	851.18	970.14	1061.80
Education	194.36	200.10	206.90	203.80	210.10	212.50	220.20	228.40	243.00	248.90
Health	65.60	68.60	72.00	74.80	78.70	81.80	87.10	88.10	91.80	94.10
Domestic & Other Services	265.32	280.80	297.44	315.51	336.45	356.38	376.48	399.36	426.96	458.09
GDP at 1980/81 constant Basic Prices	9268.25	9315.47	10253.80	9608.20	8676.90	9536.02	10874.75	10868.97	10906.07	11349.56

Source: National Accounts (MEDaC)

Aggregate Output

Gross Domestic Product by Industrial Origin
at Constant Factor Cost

Table 1b continued

Million Birr

Activity/year	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Agriculture & Allied Activities	6114.89	5947.60	6308.32	6078.00	6284.0	7206.2	7453.9	6887.4
Agriculture	5330.71	5147.39	5488.27	5271.85	5450.03	6519.76	6879.29	-
Forestry	779.48	795.20	814.77	800.57	828.60	856.80	887.60	-
Fishing	4.70	5.01	5.28	5.58	5.90	6.10	6.40	-
Industry	1024.14	951.41	1222.33	1307.21	1412.5	1492.1	1609.2	1785.0
Mining & Quarrying	52.10	38.98	57.10	45.00	49.0	55.74	62.6	70.7
Large & Medium scale Manufacturing	336.40	306.90	456.39	514.15	562.4	606.2	640.9	707.7
Small Scale industry & Handicrafts	200.76	201.33	234.25	237.48	256.5	274.8	291.9	316.2
Electricity & Water	179.90	186.86	197.80	207.90	219.3	206.4	234.2	272.2
Construction	254.97	218.15	276.78	302.67	325.3	349.3	379.6	418.2
All Services	3729.1	3572.5	4193.7	4525.2	4834.2	5292	5704.7	6162.1
Distributive services	1304.92	1272.14	1555.13	1650.98	1757.3	1914.7	2093.7	2266.5
Trade, Hotels & Restaurants	760.82	648.51	887.40	945.22	1027.7	1115.5	1208.9	1296.4
Transport & communication	544.09	623.63	667.73	705.76	729.6	799.2	884.8	970.1
Other services	2424.22	2300.42	2638.64	2874.15	3190.5	3377.3	3611.0	3895.6
Banking & Insurance Real Estate & Ownership Dwellings	656.56	623.19	681.06	747.42	810.3	879.7	954.5	1061.0
Public Administration & Defense	913.45	776.64	1017.84	1125.04	1327.8	1391.5	1483.4	1588.6
Education	271.30	278.50	271.10	278.20	287.94	298.0	318.3	340.6
Health	90.80	100.00	114.70	136.80	146.51	154	160.1	167.1
Domestic & Other Services	492.11	522.09	553.94	585.68	618.0	654.1	694.7	738.3
GDP at 1980/8 constant factor cost	10868.16	10471.56	11724.42	11910.33	12644.3	13990.3	14767.8	14834.5

Expenditure on GDP at Current Market Prices

Table 1c

Million Birr

Expenditure components	1973 1980/81	1974 1981/82	1975 1982/83	1976 1983/84	1977 1984/85	1978 1985/86	1979 1986/87	1980 1987/88	1981 1988/89	1982 1989/90
Gross domestic Expenditure	10682.12	11461.78	12566.46	11947.77	14052.28	14629.73	15542.61	16163.58	16611.60	17591.00
Consumption Expenditure	9315.28	10005.14	11130.76	10097.08	12658.25	12404.10	13297.96	13103.07	14342.37	15490.51
Government	1428.80	1630.27	1972.93	1904.80	1997.02	2143.11	2261.87	2706.98	3061.31	3232.31
Private	7886.48	8374.87	9157.83	8192.28	10661.23	10261.00	11036.09	10396.09	11281.05	12258.20
Gross Capital formation	1366.84	1456.64	1435.70	1850.69	1394.02	2225.63	2244.65	3060.51	2269.23	2100.49
Resource Balance	-603.13	-826.02	-791.04	-960.15	-1025.73	-1054.58	-1151.59	-1193.06	-869.46	-765.27
Export of G & NFS	1072.35	1007.17	1064.85	1164.87	1057.07	1271.73	1186.84	1205.37	1422.80	1295.04
Import of G & NFS	1675.48	1833.18	1855.89	2125.01	2082.80	2326.31	2338.43	2398.43	2292.26	2060.31
GDP at Current Market Prices	10078.99	10635.76	11775.42	10987.62	13026.55	13575.15	14391.02	14970.52	15742.14	16825.73
Domestic Saving	763.71	630.62	644.66	890.54	368.29	1171.05	1093.06	1867.44	1399.77	1335.22
Net Factor Income from RoW	-13.66	-17.02	-26.19	-37.13	-63.99	-60.62	-89.15	-125.73	-157.62	-129.85
Net Current Transfers from RoW	100.04	146.40	245.00	348.75	540.65	661.22	471.28	389.46	538.14	459.12
Gross National Savings	850.10	759.99	863.47	1202.15	844.95	1771.65	1475.19	2131.18	1780.30	1664.49
Gross National Product at Current Market Price	10065.34	10618.74	11749.23	10950.49	12962.56	13514.53	14301.86	14844.79	15584.52	16695.88
Gross National Disposable Income	10165.38	10765.13	11994.23	11299.23	13503.20	14175.75	14773.15	15234.25	16122.66	17155.01

Source: National Accounts (MEDaC)

Expenditure on GDP at Current Market Prices

Table 1c Continued

Million Birr

Expenditure Components	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Gross domestic Expenditure	20531.3	22077.9	28969.4	31196.4	37186.2	42694.9	45944.5	50278.9
Consumption Expenditure	18534.9	20166.8	25177.3	26902.7	31617.2	35448.8	38024.7	41144.9
	3165.8	2107.8	2818.8	3155.2	3675.3	4158.1	4585.3	5108.1
			2258.5	23747.5	27941.9	31290.7	33439.4	36036.9
							7010.8	9134.0

Aggregate Output

Expenditure on GDP at Current Market Prices

Table 1c Continued

Expenditure Components	Million Birr							
	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Gross domestic Expenditure	20531.3	22077.9	28969.4	31196.4	37186.2	42694.9	45944.5	50278.9
Consumption Expenditure	18534.9	20166.8	25177.3	26902.7	31617.2	35448.8	38024.7	41144.9
Government	3165.8	2107.8	2818.8	3155.2	3675.3	4158.1	4585.3	5108.1
Private	15369.2	18059.0	22358.5	23747.5	27941.9	31290.7	33439.4	36036.9
Gross Capital Formation	1996.4	1911.1	3792.1	4293.7	5569.0	7246.1	7919.8	9134.0
Resource Balance	-1336.0	-1285.9	-2298.0	-2867.5	-3301.2	-4757.3	-4479.4	-5074.7
Export of G & NFS	1062.2	937.5	2222.5	3223.0	4852.3	4961.7	6441.3	7283.6
Import of G & NFS	2398.2	2223.4	4520.5	6090.5	8153.5	9719.0	10920.7	12358.3
GDP at Current Market Prices	19195.3	20792.0	26671.4	28328.9	33885.0	37937.6	41465.1	45204.2
Domestic Saving	660.4	625.2	1494.1	1426.2	2267.8	2488.8	3440.4	4059.3
Net Factor Income from RoW	-142.3	-178.8	14.1	-459.6	-377.5	-275.4	-107.7	-266.3
Net Current Transfers from RoW	557.1	1011.1	1930.4	2275.8	3651.9	3701.8	2877.7	3809.6
Gross National Savings	1075.2	1457.5	3438.6	3242.4	5542.2	5915.2	6210.4	7602.5
Gross National Product at Current Market Price	19053.0	20613.2	26685.5	27869.3	33507.5	37662.2	41357.4	44937.9
Gross National Disposable Income	19610.1	21624.3	28615.9	30145.10	37159.4	41364.0	44235.1	48747.4

Summary of Government Finance

Table 2a

Million Birr

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Domestic Revenue	2706.7	2207.9	3191.2	3938.8	5912.7	6966.1	7877.4	8400.1
External Grants	463.3	543.0	466.1	987.2	1131.7	1096.8	1504.0	1273.3
Total Revenue & Grants	3170.0	2750.9	3657.3	4926.0	7044.4	8062.9	9381.4	9673.4
Recurrent Expenditure	3640.1	3253.5	3434.5	4399.5	5215.5	5582.2	5716.4	7094.9
Capital Expenditure	1214.1	951.8	1784.9	2694.3	3156.5	3562.6	4299.9	4265.1
Total Expenditure	4854.2	4205.3	5219.4	7093.8	8372.0	10194.0	10016.3	11460.0
Current Saving	-933.4	-1045.6	-21.8	-460.7	697.2	1383.9	2161.0	1305.2
Overall Balance								
Excluding Grants	-2145.7	-1997.4	-2028.2	-3155.0	-2459.3	-3227.9	-2139.8	-3059.9
Including Grants	-1682.4	-1454.4	-1562.1	-2167.8	-1327.6	-2131.1	-635.8	-1786.6
Financing	1682.4	1454.4	1562.1	2167.8	1327.6	2131.1	635.8	1786.6
External (net)	420.8	299.2	720.6	1689.9	1245.9	1388.3	727.9	779.5
Gross borrowing	466.7	350.8	806.8	1798.7	1413.5	1645.1	1012.0	1120.9
Amortization paid	45.9	51.6	86.2	108.8	167.6	256.8	284.1	341.4
Domestic (net)	1263.8	1155.1	841.5	477.8	81.6	742.8	-92.1	1007.0
Banking system	1191.6	1162.0	1107.0	925.0	287.9	-113.6	-824.0	575.0
Nonbank sources		0.0	0.0	-	262.6	222.0	403.2	17.0
Other and residual	72.2	-6.9	-265.5	-447.2	-468.9	579.3	328.7	415.0
Deficit to GDP Ratio								
Excluding Grants	-10.8	-9.6	-7.6	-11.1	-7.2	-8.3	5.2	-6.8
Including Grants	-8.5	-7.0	-5.9	-7.6	-3.9	-5.5	-1.5	-4.0

Source: MoF

Domestic Revenue By Revenue Components (1980/81 - 1997/98 FY)

In Million Birr

Non Tax Revenue	Total
-----------------	-------

Domestic Revenue By Revenue Components (1980/81 - 1997/98 FY)

Table 2b

in Million Birr

Year	Tax Revenue					Non Tax Revenue			Total Domestic Revenue	
	DDT	DIDT	Foreign Trade Tax			Total Tax	Govt. Invest. Income	Others		Total Non Tax
			Imp. Tax	Exp. Tax	Total					
1980/81	489.60	388.00	296.70	188.30	485.00	1362.60	277.50	117.00	394.50	1757.10
1981/82	565.10	396.10	284.70	190.40	475.10	1436.30	328.50	111.80	440.30	1876.60
1982/83	604.30	443.20	306.80	203.80	510.60	1558.10	387.70	228.70	616.40	2174.50
1983/84	656.90	495.30	321.30	257.90	579.20	1731.40	428.10	134.30	562.40	2293.80
1984/85	688.00	523.70	293.00	172.90	465.90	1677.60	396.00	249.60	645.60	2323.20
1985/86	766.00	554.10	293.20	263.00	556.20	1876.30	538.40	391.40	929.80	2806.10
1986/87	906.30	623.10	409.20	153.60	562.80	2092.20	491.90	341.70	833.60	2925.80
1987/88	1012.40	719.30	437.80	147.10	584.90	2316.60	840.00	356.20	1196.20	3512.80
1988/89	1062.10	784.50	360.40	164.30	524.70	2371.30	952.60	575.30	1527.90	3899.20
1989/90	924.60	759.40	418.20	57.10	475.30	2159.30	627.40	356.10	983.50	3142.80
1990/91	831.50	757.80	443.50	20.90	464.40	2053.70	350.60	302.40	653.00	2706.70
1991/92	631.60	540.00	410.10	9.30	419.40	1594.20	299.40	290.30	589.70	2183.90
1992/93	737.70	746.00	703.40	18.60	722.00	2165.20	444.40	541.10	985.50	3150.70
1993/94	945.20	834.10	1250.70	46.50	1297.20	3079.50	506.60	355.70	862.30	3938.80
1994/95	1311.50	945.40	1420.70	201.40	1621.50	3879.70	1443.00	591.20	2034.20	5912.70
1995/96	1753.90	1155.60	1694.40	119.50	1813.90	4723.40	822.40	1420.30	2242.70	6966.10
1996/97*	1904.70	1289.80	2025.10	138.40	2163.50	5358.00	1148.50	1370.70	2519.20	7877.20
1997/98*	1862.10	1180.60	2037.20	181.20	2218.40	5261.10	1400.40	1738.70	3139.10	8400.20

Source: The Ministry of Finance: For the year 1980/81 - 1995/96 annual budgetary revenue and expenditure accounts; for the year 1996/97 and 1997/98, IMF mission report.

Note:

- * =Preliminary Estimate
- DIDT =Domestic Indirect Taxes
- DDT =Domestic Direct Taxes
- IMPT =Import Tax
- EXP =Export Tax

**Recurrent Expenditure by Functional Classification
(1980/81 - 1997/98 F.Y.)**

Table 2c

In million Birr

N o.		ACTUAL										
		1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
1.	General Services	951.6	1101.7	1346.3	1259.9	1242.1	1255.4	1358.1	1712.6	2031.1	2266.4	2001.9
	- Defense	727.1	835.6	1002.3	939.1	926.4	929.4	1011.1	1350.7	1674.0	171.7	1646.0
	- Others	224.5	266.1	344.0	320.8	315.7	326.0	347.0	361.9	357.1	394.7	355.9
	% share	53.1	57.0	52.5	55.6	45.4	47.2	49.3	47.6	51.1	57.7	54.1
2	Economic Services	98.8	124.1	150.0	134.6	138.8	141.5	155.2	190.7	207.0	222.3	221.2
	- Agriculture and water	43.2	50.1	57.3	61.6	66.8	69.3	80.3	107.1	117.8	129.4	121.4
	- Construction	35.0	53.5	61.8	53.0	52.5	50.4	51.3	58.5	53.8	53.9	55.3
	- Others	20.6	20.5	30.9	20.0	19.5	21.8	23.6	25.1	35.4	39.0	44.5
	% share	5.5	6.4	5.9	5.9	5.1	5.3	5.6	5.3	5.2	5.7	6.0
3	Social Services	337.7	358.6	415.7	444.2	536.4	550.5	582.2	601.4	644.2	665.5	646.4
	- Education	205.5	238.1	269.4		328.5	346.4	379.4	405.5	425.6	456.2	447.1
	- Health	77.1	75.8	83.5	85.4	101.2	101.7	111.2	117.6	125.9	132.8	128.4
	- Others	55.1	44.7	62.8	62.0	106.7	102.4	91.6	78.3	92.7	76.7	70.9
	% share	18.9	18.5	16.2	19.6	19.6	20.7	21.1	16.7	16.2	16.9	17.5
4	Various Expenditure	267.1	198.2	468.5	295.5	310.4	369.1	383.7	443.4	494.2	477.3	475.5
	- Interest & Charges	77.7	83.8	91.4	147.5	165.5	190.2	202.2	244.7	248.7	227.5	267.9
	- Subsidy	93.1	25.4	284.9	48.0	36.4	62.5	57.3	69.2	105.3	91.9	61.9
	- Pension	90.4	87.7	92.2	100.0	108.5	116.4	124.2	129.5	140.2	157.9	145.7
	- Others	5.9	1.3	1.4	1.4	1.7	2.7	3.3	4.5	4.7		6.4
	% share	15.7	11.3	19.2	14.4	15.1	16.6	18.9	17.4	17.2	14.5	14.6
5	External Assistance	121.2	132.0	159.0	100.5	407.1	271.4	134.3	466.8	405.3	206.9	288.7
	% share	6.8	6.8	6.2	4.4	14.9	10.2	4.9	13.0	10.2	5.3	7.8
	Total	1776.7	1914.8	2540.8	2236.1	2503.7	2590.8	2619.9	3419.4	3786.2	3838.0	3640.1

Source: MOF revenue and expenditure accounts (1973 - 1978)

: Planning and Research Department (1988 - 1989)

PUBLIC FINANCE

Table 2c Cont.

No.		Actual					Preliminary Actual	
		1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
4	General Services	1060.6	1163.1	1353.1	1657.2	1949.5	1860.2	3215.9

5	External Assistance	121.2	132.0	159.0	100.5	407.1	271.4	134.3	466.8	405.3	206.9	288.7
	share		6.2	6.2	4.4	9.9				10.4	5.3	7.8
	Total	1776.7	1914.8	2540.8	2236.1	2503.7	2590.8	2619.9	3419.4	3786.2	3838.0	3640.1

Source: MOF revenue and expenditure accounts (1973 - 1978)
Planning and Research Department (1988 - 1989)

468

710

Table 2c Cont.

No.		Actual					Preliminary Actual	
		1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
1	General Services	1060.6	1163.1	1353.1	1657.2	1949.5	1860.2	3215.9
	- Defense	634.0	680.8	663.0	772.1	771.6	834.8	2089.5
	- Others	426.6	482.3	690.1	885.1	1177.9	1025.4	1126.4
	% share	32.6	33.9	30.7	31.8	34.9	33.1	45.8
2	Economic Services	243.8	335.5	445.8	567.2	620.5	661.0	659.9
	- Agricul. and water	135.1	173.6	250.2	337.0	387.6	408.0	486.0
	- Construction	70.6	85.3	110.0	153.3	154.9	169.7	89.8
	- Others	38.1	76.5	85.6	76.9	87.0	83.3	83.8
	% share	7.8	9.8	10.1	10.9	11.1	11.6	9.3
3	Social Services	791.1	958.8	1212.1	1402.7	1422.0	1488.4	1723.1
	- Education	490.3	604.0	741.0	863.5	941.0	1025.7	1126.8
	- Health	151.5	189.2	280.7	310.2	328.1	331.5	400.4
	- Others	149.3	165.2	190.4	229.0	152.9	131.2	195.9
	% share	24.3	27.9	27.5	26.9	25.5	26.0	24.3
4	Various Expenditures	750.8	844.6	1335.4	1374.8	1447.5	1450.2	1336.0
	Interest & Charges	307.3	530.5	957.0	838.6	922.5	918.7	835.6
	Pension	194.2	228.2	274.9	274.4	290.6	303.2	308.7
	Others	249.3	85.9	103.5	261.8	234.4	228.3	191.7
	% share	23.1	24.6	30.3	26.4	25.9	25.4	8.8
5	External Assistance	407.1	132.5	53.3	213.5	142.7	256.5	160.0
	% share	12.5	3.8	1.2	4.1	2.6	4.5	2.2
	Total	3253.5	3434.5	4399.7	5215.5	5582.2	5716.4	7094.9

Source: Compiled from MOF Revenue and Expenditure Accounts

469

Public Finance

Recurrent Expenditure by Economic Classification
(1980/81 - 1997/98 F.Y.)

Table 2d

Million Birr

Item No.	Functional Classification	ACTUAL										
		1980/81	19981/82	19982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
1	Wages and operating Expense	1300.8	1452.7	1757.1	1688.6	1757.3	1780.4	1928.6	2324.7	2505.1	2749.6	2710.0
	- Wages and Salaries	629.2	773.1	864.1	928.2	964.7	988.4	1063.5	1354.7	1501.4	1820.3	1637.7
	-Materials, Veh., equip.	608.6	679.6	893.0	760.4	792.6	792.0	865.0	970.0	1003.7	929.3	1072.3
	% share	72.6	75.1	68.6	74.5	64.1	66.9	70.0	64.6	63.1	70.1	73.3
2	Grants and Contributions	87.3	131.9	156.2	150.1	181.6	167.2	170.0	180.0	165.4	198.7	165.9
	% share	4.9	6.8	6.1	6.6	5.9	6.3	6.2	5.0	4.2	5.1	4.5
3	Price Subsidies	93.0	25.4	284.9	48.0	36.4	62.5	57.3	69.2	105.3	91.9	81.9
	% share	5.2	1.3	11.1	2.1	1.3	2.3	2.1	1.9	2.7	2.3	1.7
4	Pension	90.4	87.7	92.2	100.0	108.5	116.4	124.2	129.5	140.2	157.9	145.7
	% share	5.0	4.5	3.6	4.4	4.0	4.4	4.5	3.6	3.5	4.0	3.9
5	Interest & Charges	77.7	83.8	91.4	147.5	165.5	190.2	202.2	244.7	248.7	227.5	267.9
	- Internal Debt	61.9	66.1	70.5	120.5	136.5	155.2	151.8	156.9	184.3	180.4	212.7
	- External Debt	15.8	17.7	20.9	27.0	29.0	35.0	50.4	87.8	84.4	47.1	55.2
	% share	5.2	5.4	4.4	7.8	9.7	9.7	12.2	11.7	11.0	8.0	8.8
6	Others	6.3	1.3		1.4	3.0	2.7	3.3	4.5	216.2	205.5	
	% share									5.4	5.2	0.0
7	External Assistance	121.2	132.0	159.0	100.5	271.4	271.4	134.3	466.8	405.3	206.9	288.7
	% share	6.8	6.8	6.2	4.4	9.9	10.2	4.9	13.0	10.2	5.3	7.8
	Total	1776.7	1914.8	2540.8	2236.1	2503.7	2590.8	2619.9	3419.4	3786.2	3838.0	3640.1

Source: MOF revenue and expenditure accounts

Public Finance

Table 2d Cont.

Item No.	Actual					Pre-Actual	
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
1	Wages and Operating					3780.8	5509.9

Public Finance

Table 2d Cont.

Item No.		Actual					Pre-Actual	
		1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
1	Wages and Operating Expenditure	1799.4	2208.7	2811.5	3290.0	3652.3	3780.8	5509.9
	Wages & Salaries	1176.8	1477.0	1762.2	1893.0	2101.3	2172.9	2653.4
	Materials & equipment	622.6	731.7	1049.4	1397.0	1551.0	1607.9	2856.5
	% share	55.3	64.3	62.4	63.9	70.0	67.7	77.7
2	Grants and Contributions	485.6	328.6	217.8	305.0	387.5	326.9	278.5
	% share	14.9	9.6	5.0	6.8	7.4	5.8	3.9
3	Price Subsidies	59.8	6.0	85.1	149.8	174.5	126.5	-
	% share	1.8	0.2	1.9	3.7	3.1	2.2	-
4	Pension	194.3	228.2	274.9	274.4	290.6	303.4	308.7
	% share	5.9	6.6	6.2	5.3	5.2	5.3	4.4
5	Interest & Charges	307.3	530.5	956.9	838.6	922.5	918.7	835.7
	- Internal Debt	246.0	408.9	809.9	596.8	609.9	635.3	526.1
	- External Debt	61.3	121.6	147.0	241.8	312.9	283.4	309.6
	% share	9.4	15.4	21.7	16.1	16.5	16.1	11.8
6	Safety Net				64.1	12.2	4.5	2.1
	% share	0.0	0.0	0.0	1.2	0.2	0.1	0.0
7	External Assistance	407.1	132.5	53.3	213.5	142.7	256.5	160.0
	% share	12.5	3.8	1.2	4.1	2.5	4.5	2.2
	Total	3253.5	3434.5	4399.6	5215.5	5582.2	5716.4	7094.9

Source: Compiled from MOF Revenue and Expenditure Accounts.

Public Finance

Government Finance Performance Indicators

Table 2e

	Domestic Revenue	Total Expenditure	Deficit	GDP	Ratios to GDP			percentage change over previous year			
					Revenue	Expenditure	Deficit	Expenditure	Revenue	Deficit	GDP
1980/81	1757.1	2296.5	-539.4	10721.3	16.4	21.4	-5.0				
1981/82	1876.6	2649.8	-773.2	11280.9	16.6	23.5	-6.9	15.4	6.8	15.4	5.2
1982/83	2174.5	3807.6	-1633.1	12540.0	17.3	30.4	-13.0	43.7	15.9	43.7	11.2
1983/84	2293.8	3198.1	-904.3	11849.3	19.4	27.0	-7.6	-16.0	5.5	-16.0	-5.5
1984/85	2323.2	3924.5	-1601.3	13876.2	16.7	28.3	-11.5	22.7	1.3	22.7	17.1
1985/86	2806.1	4131.1	-1325.0	14493.3	19.4	28.5	-9.1	5.3	20.8	5.3	4.4
1986/87	2925.8	4136.3	-1210.5	15501.2	18.9	26.7	-7.8	0.1	4.3	0.1	7.0
1987/88	3467.1	5058.1	-1591.0	15996.9	21.7	31.6	-9.9	22.3	18.5	22.3	3.2
1988/89	3899.2	5912.4	-2013.2	16873.4	23.1	35.0	-11.9	16.9	12.5	16.9	5.5
1989/90	3142.8	5369.2	-2226.4	17821.7	17.6	30.1	-12.5	-9.2	-19.4	-9.2	5.6
1990/91	2706.7	4852.4	-2145.7	19815.6	13.7	24.5	-10.8	-9.6	-13.9	-9.6	11.2
1991/92	2207.9	4205.3	-1997.4	20793.0	10.6	20.2	-9.6	-13.3	-18.4	-13.3	4.9
1992/93	3191.2	5219.4	-2028.2	26552.0	12.0	19.7	-7.6	24.1	44.5	24.1	27.7
1993/94	3938.8	7093.8	-3155.0	28355.0	13.9	25.0	-11.1	35.9	23.4	35.9	6.8
1994/95	5912.7	8372.0	-2459.3	34063.0	17.4	24.6	-7.2	18.0	50.1	18.0	20.1
1995/96	6966.1	10194.0	-3227.9	38771.0	18.0	26.3	-8.3	21.8	17.8	21.8	13.8
1996/97	7877.4	10017.2	-2139.8	41465.0	19.0	24.2	-5.2	-1.7	13.1	-1.7	6.9
1997/98	8400.1	11460.0	-3059.9	45188.8	18.6	25.4	-6.8	14.4	6.6	14.4	9.0

Money & Banking

Deposit Mobilization By Banks and Type of Deposits

Million Birr

Table 3a

	1980/81	1981/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	1990/91	1991/92	92/93	93/94	94/95	95/96	96/97	97/98
CBE	1610	1781	2065	2311	2684	2978	3264	3571	3777	4202	4415	5022	5228	7436	9598	11194	12702	15518.1
	802	984	1148	1258	1531	1695	2029	2251	2255	2496	2603	2870	3461	4211	5504	6038	7065	9197.5
								1367		1575	1677	1999	2451	2844	3649	4585	5090	5623.1
																571	547	697.5

Money & Banking

Deposit Mobilization By Banks and Type of Deposits

Table 3a

Million Birr

	1980/81	1981/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	1990/91	1991/92	92/93	93/94	94/95	95/96	96/97	97/98
CBE	1610	1781	2065	2311	2684	2978	3264	3571	3777	4202	4415	5022	6228	7436	9598	11194	12702	15518.1
DD	892	984	1148	1258	1531	1695	2029	2251	2255	2496	2603	2870	3461	4211	5504	6038	7065	9197.5
SD	490	548	656	761	813	940	1053	1208	1367	1575	1677	1999	2451	2844	3649	4585	5090	5623.1
TD	228	249	261	292	340	343	182	112	155	131	135	153	316	381	445	571	547	697.5
CBB	172	183	203	213	223	236	320	376	441	469	521	485	359	386	393	409	557	568.1
DD															11	38	37	26.8
SD	14	20	28	38	36	34	32	59	66	64	76	87	126	161	201	219	261	256
TD	158	163	175	175	187	202	288	317	375	405	445	398	233	225	181	152	259	285.3
DBE	47	47	47	49	50	48	132	135	137	183	185	165	163	170	86	10	38	632
DD																9.4	36	29.6
SD	0.3	0.1	0.5	0.6	0.5	0.5											2.1	2
TD	47	47	46	48	49	47	132	135	137	183	185	165	163	170	86	0.3	0.1	600.4
														34	363	581	987	
ALL BANKS	1829.3	2011.1	2314.5	2572.6	2956.5	3261.5	3716	4082	4355	4854	5121	5672	6750	7992	10110.6	11975.9	13877.9	17705
Demand Deposit	892	984	1148	1258	1531	1695	2029	2251	2255	2496	2603	2870	3461	4211	5530.1	6260.1	7343.5	9546.2
Saving Deposit	504.3	568.1	684.5	799.6	849.5	974.5	1085	1267	1433	1639	1753	2086	2577	3005	3868.5	4984.7	5687.4	6483.7
Time Deposit	433	459	482	515	576	592	602	564	667	719	765	716	712	776	712	731.1	847	1675.1

SOURCE: NATIONAL BANK OF ETHIOPIA

Money & Banking

Credit Disbursement By Client And Source

Table 3b

Million Birr

	1980/81	1981/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	1990/91	1991/92	92/93	93/94	94/95	95/96	96/97	97/98
CLIENTS																		
PUBLIC ENTERP.	547.5	1052	877.8	694.2	478.9	454.4	482.4	517.4	454	387.5	207.5	229.8	627.8	239.7	216.8	621	379.1	163.9
COOPERATIVE	23.4	58.9	53	78.3	35	60.2	94.2	169	178	139.7	119.8	74	124.7	99.4	425.4	524.7	494.5	550.3
PRIVATE	227.5	386.5	362.8	284.9	230.3	211.1	172.4	205.4	187.6	204.3	216.5	247.1	723.8	1411	2695.9	2947.9	3145.3	3867.1
TOTAL	798.4	1497.4	1293.6	1055.4	744.2	725.7	749	891.8	819.6	731.5	543.8	550.9	1476.3	1750.1	3338.1	4093.6	4018.9	4581.3
SOURCES	798.4	1496.7	1293.4	1055.4	744.2	725.7	749	891.8	819.6	731.5	543.9	550.9	1476.4	1750.1	3338.1	4093.6	4018.9	4581.3
CBE	470	1154	1037	642.6	404.4	361	411.3	438.6	416	337.9	340	364.3	1271	1455	2886.8	3436.5	3004.6	2586.2
DBE	308.2	325.1	225.9	363.4	300.4	345.2	301.4	342.9	330	315.6	156	158.4	165	185.2	336.3	447.7	595	1137.7
CBB	20.2	17.6	30.5	49.4	39.4	19.5	36.3	110.3	73.6	78	47.9	28.2	40.4	109.9	115	209.4	179.1	53
PRIVATE BANKS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	240.2	794.2

SOURCE: NATIONAL BANK OF ETHIOPIA(NBE)

Money & banking

Credit Disbursement By Sector

Million Birr

Table 3c

	1980/81	1981/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	1990/91	1991/92	92/93	93/94	94/95	95/96	96/97	97/98
SECTORS	798.4	1496.7	1293.4	1055.4	744.2	725.7	749	891.8	819.6	731.5	543.9	550.9	1476.4	1750.1	3338.1	4093.6	4018.9	4581.3
	204	356.6	224.4	331.6	266.6	326.4	272.3	358.4	234.9	222.7	83.1	119.4	125.1	92.5	461.3	664.4	679.8	830
											117.4	112.5	426.7	325.4	271.3	484.5	387.6	680

Money & banking

Credit Disbursement By Sector

Table 3c

Million Birr

	1980/81	1981/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	1990/91	1991/92	92/93	93/94	94/95	95/96	96/97	97/98
SECTORS	798.4	1496.7	1293.4	1055.4	744.2	725.7	749	891.8	819.6	731.5	543.9	550.9	1476.4	1750.1	3338.1	4093.6	4018.9	4581.3
AGRICULTUE	294	356.6	224.4	331.6	266.6	326.4	272.3	358.4	234.9	222.7	83.1	119.4	125.1	92.5	461.3	664.4	679.8	830
INDUSTRY	81.8	89.5	89.4	95.8	105.9	82.7	80.3	82	176.8	145.3	117.4	112.5	426.7	325.4	271.3	484.5	387.6	680
DOM. TRADE	71.3	195.7	175	123.8	81.1	129.9	101.6	93.6	161.6	110.6	145.8	148.9	381.8	741.2	1249.7	1490.1	1274.4	1035
INTR. TRADE	230.5	695.7	678.8	336.6	158.3	92.9	154	132	129	83.3	67.1	38.4	273.4	111.5	255.6	614.6	673.9	1030
EXPORT	70.7	73.7	93.2	85.8	77.8	76.8	49.5	59.8	71.9	57.5	46.3	27.6	127.4	49.3	111.2	255.7	317	215
IMPORT	159.8	622	585.6	250.8	80.5	16.1	104.5	72.2	57.1	25.6	20.9	10.8	146	62.2	144.4	258.9	356.8	815
HOUSING & CON.	46.5	89.2	43	70.2	59.6	31.1	49.5	139	88.1	95.9	54.1	62.1	57.9	123.7	124.8	130.3	194.7	130
OTHERS	65.5	61.3	69.5	78.1	58.9	45.6	62.2	74.4	38.9	43.9	55.7	58.1	188.4	328.1	948	809.7	808.5	595

SOURCE: NBE

Population

Demographic Indicators of Ethiopia for the Years 1984 and 1994

Table 4a

No.		1984			1994 ¹		
		Country	Urban	Rural	Country	Urban	Rural
1	Population (million)	40.7	4.50	35.57	53.48	7.32	46.16
	- Females	19.91	2.39	17.52	28.57	3.79	22.78
	- Males	20.16	2.11	18.05	26.91	3.53	23.38
2	Per cent Population						
	- Aged < 5	20.5	14.9	21.3	16.3	11.2	17.1
	- Aged < 15	48.3	45.3	48.6	44.0	37.3	45.1
	- Aged 15-64	47.4	50.6	48.9	52.5	59.5	51.4
	- Women Aged 15-49	20.9	23.9	20.5	23.4	27.8	22.6
3	dependency Ratio						
	- Total	111.1	97.7	113.0	90.4	68.1	94.6
	- Aged 15-	101.9	89.5	103.6	83.8	62.7	87.9
	- Aged 65-	9.2	8.2	9.4	6.6	5.4	6.8
4	Fertility (Reported)						
	- CBR	37.89	28.36	39.44	28.3	21.7	29.3
	- GFR	184.03	116.01	196.50	124.3	79.3	133.2
	- TFR	6.20	4.23	6.57	4.3	2.8	4.6
5	Fertility (Adjusted)						
	- CBR	-	-	-	44.36	34.88	45.80
	- GFR	-	-	-	194.83	127.45	208.20
	- TFR	7.52	6.33	8.08	6.74	4.50	7.19
6	Mortality (Estimated)						
	6.1 IMR	110	94	112	116	96	121
	- M+F	117	103	118	125	109	130
	- Male (M)	103	85	104	108	87	112
	6.2 Under Five						
	- M+F	166	135	162	171	140	178
	- Male	154	144	167	178	153	186
	- Female	103	125	157	164	128	170
	6.3 Life Expectancy						
	- M+F	51.98	55.06	51.7	50.7	54.3	49.9
- Male	50.83	53.34	50.66	49.8	52.7	48.8	
- Female	53.10	56.83	52.75	51.8	56.0	51.0	
7	Crude Density (Persons/Km ²)	32.0			42.7		

Source: Office of the Population and Housing Census Commission (OPHCC), The 1984 Population and Housing Census of Ethiopia, Analytical Report at Country Level, December 1991.

1. OPHCC, the 1994 Population and Housing Census of Ethiopia, Results at Country Level, vol. I June 1998

Activity Rates

Table 5a

Age Group	T
All Ages	
10-14	
15-19	
20-24	
25-29	
30-34	
35-39	
40-44	
45-49	
50-54	
55-59	
60-64	
65+	

Source:

and 1994

Activity Rates of the Economically Active Population by Age Group and Sex

Table 5a

Age Group	1984			1994		
	Total	Male	Female	Total	Male	Female
All Ages	67.2	79.2	55.2	72.5	82.1	62.9
10-14	45.6	47.8	43.1	51.4	54.8	47.7
15-19	59.3	63.6	54.9	69.4	74.8	63.9
20-24	67.7	80.6	60.1	78.5	88.2	69.4
25-29	75.2	94.2	69.8	81.6	95.3	69.7
30-34	76.6	96.6	60.8	82.8	97.6	70.2
35-39	79.2	61.8	97.6	82.8	98.2	69.4
40-44	79.9	97.2	63.1	84.0	98.2	70.1
45-49	81.6	97.4	63.5	84.8	98.1	69.6
50-54	77.4	95.4	61.3	82.4	96.8	68.1
55-59	78.1	94.2	59.4	81.7	94.9	65.8
60-64	72.2	91.5	53.2	77.3	92.8	60.1
65+	58.6	76.6	37.8	64.3	80.0	43.6

Source: CSA.: 1984 and 1994 Population & Housing Census Reports

1994*	
Urban	Rural
7.32	46.16
3.79	22.78
3.53	23.38
11.2	17.1
37.3	45.1
59.5	51.4
27.8	22.6
68.1	94.6
62.7	37.8
5.4	6.8
21.7	29.3
79.3	133.2
2.8	4.6
34.88	45.80
127.45	208.20
4.50	7.19
98	121
109	130
87	112
140	178
153	186
128	170
54.3	49.9
52.7	48.8
56.0	51.0

Population and
Country Level, vo

Employment

**Distribution of Economically Active Population by Sex
and Status of Employment (%)**

Table 5b

Status of Employment	1984			1994		
	Total	Male	Female	Total	Male	Female
Employer	0.9	0.9	1.0	1.1	3.6	1.3
Self-employed	57.1	71.1	37.6	39.5	51.3	24.0
Government Employee	4.0	5.1	2.4	2.7	3.5	1.7
Private employee	2.2	1.8	2.7	3.0	3.5	2.2
Member of cooperatives	0.7	0.8	0.5	.1	.1	.1
Unpaid family workers	34.2	19.4	54.9	51.1	37.1	69.6
Others	0.8	0.8	0.8	1.0	1.0	-
Not stated	-	-	-	1.0	1.0	1.0
Total Economically Active Population (Million)	14.62	8.52	6.10	25.88	14.71	11.2

Source: CSA, 1984 and 1994 Population & Housing Census Reports

Note: Self-employed in the 1984 census is referred as owner-account worker.

Table 5c

Level of Education
Grade 1-3
Grade 4-6
Grade 7-8
Grade 9-12
Grade 12 and above
Non - regular
Not stated
Total literate
Illiterate
Total population 15 years and above

Source:

Population Age 10 Years and Over by Literacy Status,
Highest Grade Completed and Sex

Table 5c

(000)

Level of Education	1984			1994		
	Total	Male	Female	Total	Male	Female
Grade 1-3	2601.1	1549.2	1051.9	2126.5	1328.2	798.4
Grade 4-6	1127.2	736.2	391.0	2290.8	1459.7	831.1
Grade 7-8	394.2	251.8	142.4	1121.3	984.6	436.7
Grade 9-12	469.9	305.4	164.6	1371.7	858.3	513.4
Grade 12 and above	107.3	78.7	28.7	234.5	172.7	61.8
Non - regular	1192.8	810.8	381.9	1408.2	964.9	443.2
Not stated	23.3	12.5	10.8	28.9	17.4	11.5
Total literate	5915.9	3744.6	2171.3	8581.4	5485.4	3096.0
Illiterate	16022.9	7090.8	8932.1	28045.0	12856.9	15128.1
Total population ages 10 years and above	21938.7	10835.4	11103.4	36626.4	18342.3	18284.1

Source: CSA, 1984 and 1994 Population & Housing Census Reports

Agriculture

Estimates of Area cultivated Under Major crops for private peasant Holdings
(Both seasons)

Table 6a

('000 Hect.)

CROP TYPE	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	1980/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98
CEREALS	4504.45	4362.31	4775.99	4421.73	4553.81	4666.8	4642.8	4915.40	383.14	4851.1	4199.0	4087.0	7740.5	6107.7	6448.5	7670.55	7436.97	6619.7
Teff	1339.76	1301.75	1369.99	1282.61	1301.59	1243.3	1271.8	0	31.45	1226.4	1283.2	1248.9	2096.8	1780.6	1899.0	2163.0	2238.7	1612.7
Barley	820.91	790.54	888.0	726.63	797.57	893.6	886.57	0	157.99	900.66	626.55	609.79	1523.9	1083.9	1136.0	1058.5	895.89	914.91
Wheat	441.71	573.8	611.33	538.53	573.47	666.31	598.71	0	123.06	556.94	499.34	485.98	894.72	755.45	801.99	932.4	818.98	838.06
Maize	681.19	590.39	752.38	747.49	869.28	775.15	951.13	0	41.69	1241.9	1075.1	1046.3	1894.0	1352.8	1418.3	1851.1	1688.7	1671.0
Sorghum	953.58	803.15	874.31	886.72	746.96	833.32	755.71	0	22.91	728.04	505.78	492.25	1020.1	865.46	918.04	1328.7	1440.0	1031.0
Millet	232.16	224.23	223.28	213.83	227.91	227.07	137.62	0	0.01	164.74	166.03	161.59	248.56	216.83	230.39	273.12	292.68	293.51
Oats	35.14	78.65	56.7	25.92	37.03	38.06	41.09	0	6.03	42.43	43.33	42.17	62.39	43.673	45.72	63.73	62.04	58.55
PULSES	724.94	767.0	780.06	737.15	738.98	668.24	599.24	729.0	37.88	627.96	701.9	683.15	1032.6	867.47	918.57	1005.67	1012.26	938.88
Horse beans	304.28	346.33	377.29	345.59	321.11	272.27	259.84	0	16.62	223.3	246.85	240.25	367.03	322.28	342.66	336.72	333.3	266.3
Chickpeas	147.53	134.34	132.52	151.4	172.54	121.93	95.32	0	0.5	121.44	127.14	123.74	195.80	168.51	178.89	150.4	157.45	175.4
Haricot beans	19.44	19.81	36.65	37.16	39.39	42.91	50.63	0	8.24	105.41	99.43	96.77	118.08	84.282	88.36	150.53	169.46	148.55
Field peas	164.41	171.28	146.44	132.21	128.28	123.31	108.06	0	6.65	87.46	120.49	117.27	182.94	153.37	162.96	203.71	168.96	143.13
Lentils	52.05	63.36	55.13	43.07	37.47	44.15	46.48	0	2.44	39.34	41.6	40.49	70.80	58.429	61.87	63.36	57.35	65.33
Vetch	37.23	32.06	32.03	27.7	40.19	63.67	40.86	0	1.23	50.19	66.41	64.63	97.90	80.597	85.33	75.95	105.74	142.17
Soya beans	0	0	0	0	0	0	0.01	0	0	0.82	0	0	0	0	0	0	0	0
OILSEED	180.56	211.9	245.77	231.86	264.37	275.36	268.45	185.10	17.02	220.84	244.0	237.47	373.33	322.12	342.03	394.38	484.51	416.0
Neug	120.01	147.78	167.06	149.76	171.13	158.68	132.32	0	0.58	132.49	150.13	154.87	210.75	185.43	197.12	224.74	250.52	196.63
Linseed/Flax	55.01	58.97	73.47	76.14	81.16	103.97	65.75	0	11.44	69.78	63.16	61.47	128.64	108.76	115.34	114.1	149.1	136.02
Fenugreek	4.39	4.18	3.31	4.02	10.5	11.73	7.38	0	3.52	9.89	10.03	9.76	18.06	13.96	14.74	13.9	22.93	29.71
Rapeseed	0.58	0.43	1.93	1.72	1.98	0.98	2.91	0	1.48	4.61	11.88	11.37	15.866	13.95	14.83	17.19	17.43	15.87
Sunflower	0.05	0.54	0	0	0	0	0	0	0	0.09	0	0	0	0	0	4.78	18.5	3.33
Ground nuts	0	0	0	0	0	0	0.001	0	0	1.93	0	0	0	0	0	13.28	5.17	11.02
Sesame	0.52	0	0	0	0	0	0.09	0	0	2.15	0	0	0	0	0	9.39	20.86	23.62
Total	5409.95	5341.21	5801.82	5390.54	5557.16	5610.4	5450.49	5529.5	438.04	5700	5144.9	5007.62	9146.43	7297.29	7710.1	9070.88	8933.74	7974.58

Source: Central Statistical Authority (CSA), Agricultural Sample Surveys (various Issues).

Agriculture

Estimates of Production of Major Crops By Private Peasant Holdings (Both Seasons)

('000 Quintals.)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	1980/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98
Total	5409.95	5341.21	5801.82	5390.54	5557.16	5610.4	5450.49	5529.5	438.04	5700	5144.9	5007.62	9146.43	7297.29	7710.1	9070.88	8933.74	7974.58

Agriculture

Estimates of Production of Major Crops By Private Peasant Holdings (Both Seasons)

Table 6b

('000 Quintals.)

Crop Type	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	1980/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98
Cereals	55122	51994	65668	57152	38727	44278	62775	59570	57472	61383	57131	55603	70639	61912	65891	92654	93591	7434
Teff	13906	10735	13312	10703	8658	9226	10667	10212	12337	10884	18339	17848	14267	12662	13427	17926	20371	1347
Barley	10678	9620	10459	8674	8597	8986	14056	11222	10027	10830	8094	7878	10720	9150	9813	11228	9508	1036
Wheat	5205	5845	7833	5807	5676	6587	7185	7086	7431	7601	7167	6975	10994	9824	10397	11120	10425	1142
Maize	8929	10970	14570	14746	9931	9225	17241	17934	16565	19731	13712	13345	20519	17658	18894	31054	29277	2494
Sorghum	13903	11638	13167	11637	4214	8481	10288	9754	8835	10268	6936	6750	12033	10756	11383	18051	20378	1152
Millet	2046	2544	5808	5280	1368	1460	2911	2853	1870	1583	2245	2185	1626	1457	1541	2437	2964	261
Oats	455	643	519	305	283	313	427	509	407	485	640	622	481	405	436	838	667	59
Pulses	9017	8154	9563	7012	4838	4605	5741	5640	5953	6749	9968	9702	8425	7501	7947	8662	8609	732
Horse beans	4989	4741	6025	3852	2573	2244	2968	2545	2635	2822	3719	3620	3949	3546	3748	3607	3225	261
Chickik peas	1252	979	1158	1127	816	788	757	1135	972	1170	1636	1592	1317	1176	1245	1261	1296	140
Haricot beans	190	137	347	420	258	255	399	393	740	804	1380	1343	507	422	456	1091	1396	85
Field peas	1598	1594	1305	1087	827	674	878	724	784	973	1771	1724	1578	1400	1485	1493	1125	102
Lentils	676	510	404	293	159	253	367	262	309	320	638	621	402	358	379	403	360	38
Velch	313	193	324	234	206	392	372	576	504	658	824	802	671	599	634	807	1207	105
Soya beans	0	0	0	0	0	0	0	4	11	2								
Oilseeds	1262	865	1303	1040	1046	1153	1089	881	891	983	3141	3057	1240	1107	1172	1963	2168	181
Neug	791	540	783	602	607	592	462	428	419	454	2041	1986	467	419	443	866	835	74
Linseed/Flax	361	243	371	367	372	443	381	255	200	360	844	821	588	522	554	572	679	63
Fenugreek	25	23	33	19	47	1	25	59	63	64	117	114	67	60	63	74	102	16
Rapeseed	79	58	115	52	19	116	201	92	147	93	140	136	118	106	112	252	259	8
Sunflower	0	1	0	0	0	0	1	4	1	0	0	0	0	0	0	24	65	1
Ground nuts	4	0	0	0	0	0	0	22	53	9	0	0	0	0	0	142	125	7
Sesame	1	0	0	0	0	1	19	22	8	4	0	0	0	0	0	33	103	9
Total	65401	61013	76534	65204	44611	50036	69605	66091	64316	69115	70240	68362	80304	70520	75010	103279	104368	8348

Source: Central Statistical Authority (CSA), Various issues.

Percentage of Urban Water Supply Coverage By Region and Town

Table 7a

	Afar	Amhara	Benishangul/ Gumuz	Diredawa	Gambliä	Oromia	Somali	SNNPS	Tiggay	All Regions	No. of Towns
50000 & above	-	35.67	-	112.68	-	52.51	0.00	77.34	31.09	57.68	8.00
20000-49999	-	21.68	0.00	0.00	-	30.84	0.00	34.48	17.56	27.92	28.00
10000-19999	24.86	21.55	5.59	0.00	28.13	25.44	0.01	10.92	9.53	20.13	53.00
5000-9999	35.71	15.71	-	8.88	0.00	18.34	1.04	6.15	3.34	15.04	61.00
Less Than 5000	17.32	21.63	-	0.00	0.00	11.16	12.03	11.66	3.94	13.86	89.00
Total Population	25.42	24.80	5.59	107.66	28.13	30.35	4.07	31.79	18.20	31.33	-

Source: Data Base Compilation and Analysis Project: Preliminary Report, Ernst & Young, August 1997

Table 7b

Region
Amhara
Benishangul/Gumuz
Oromia
SNNPRS
Tigray
All Regions

Source: Data Base
Compilation and Analysis
Project: Preliminary Report,
Ernst & Young, August 1997
*The displacement
demand and supply

Percentage of Rural Water Supply Coverage By Region

Water

Table 7b

Region	Nº of Woredas	Coverage without Displacement Factor*			Estimated Population
		Minimum	Average	Maximum	
Amhara	27.00	0.46	6.29	53.00	4,317,179.00
Benishangul/Gumuz	6.00	2.45	4.61	6.50	138,977.00
Oromia	95.00	0.21	14.32	93.19	9,414,528.00
SNNPRS	32.00	0.40	12.45	56.28	4,839,325.00
Tigray	25.00	0.93	34.00	120.96	1,922,661.00
All Regions	185.00	-	15.17	-	20,632,670.00

Source: Data base Compilation and Analysis Project : Preliminary Report Ernst & Young, August 1997.

*The displacement factor is a ratio of the required number of schemes according to the water demand and estimated yield of the source and the total number of functional schemes.

Percentage Distribution of Settlements By Private, Public and Vendor Tariff Categories

Table 7c

Region	Private Connection Price (in birr)					Vendors Price			Public Tap Tariff (birr)			
	<0.5	0.5-1.0	1.0- 2.0	>2.0	No. Settlements	<1 0	>1 0	No.Settle- ments	<1. 0	1.0- 2.0	>2. 0	No.Settle- ments
Afar	0	10	80	10	10	50	50	6	11	89	0	9
Amhara	6	46	38	10	79	86	14	73	55	35	10	91
Benishangul/Gumuz	-	-	-	100	2	0	10	2	0	0	100	2
Gambela	0	100	0	0	1	50	50	2	50	0	50	2
Oromia	13	42	32	13	118	34	66	130	40	39	21	133
Somalia	0	13	50	37	8	5	95	41	28	36	36	39
Southern Nation, Nationalities and People's Regional state	0	54	32	14	37	41	59	41	28	36	36	39
Tigray	0	52	32	16	21	88	12	18	4	43	53	28
Harari	100	-	-	-	1	0	10	1	0	0	0	2
Dire Dawa	50	0	50	0	2	10	0	2	50	50	0	2
All Regions	8	39	39	14	279	50	50	295	39	35	26	318

Adopted from: Data base Compilation and Analysis Project: Preliminary Report, Ernst & Young, August 1997.

Water

Irrigation Projects and Potentials at Different Study Levels.

Table 7d

No.	Irrigation sites	Location	Irrigation potential (hectares)	Status
1	Angelele Bolhamo	Afar	11162	Feasibility study completed
2	Kesem	"	7000-11000	" " "
3	Koga	Amhara	6000	" " "
4	Birr	"	10000	" " "
5	Upper Beles	"	63200	Reconnaissance
6	Lower Beles	"	24350	"
7	Debohila	"	4200	"
8	Umberī Mariam	"	18450	"
9	Yiberikan Mariam	"	4015	"
10	Sawesa Mariam	"	21940	"
11	Hizena Fetam	"	8810	"
12	Megech	"	6940	"
13	North East Tana	"	5000	"
14	Megech (pumping project)	"	15890	Construction discontinued
15	Borkena	"	2000	Dam for 1000 hectares completed
16	Ribb and Gumera	"	12000	Feasibility study completed
17	Welkite kulit	Oromiya	11160	" " "
18	Welkite Darge	"	1220	" " "
19	Bale Gardvla	"	7000	" " "
20	Meki Ziway	"	3000	Land development underway
21	Dabus	"	10600	identification
22	Fincha	"	15000	Reconnaissance
23	Anger	"	30200	"
24	Arjo Dedisa	"	16800	"
25	Dabana	"	4000	"

Tourism

International Tourist Arrivals By Countries of origin

Table 8a

Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	*1997
Africa	35005	36938	34635	35718	36463	40859	37168	38441	35607	37402
Ethiopian Residing Abroad	13120	11254	10,562	10,941	11,173	12,473	9,219	7,846	7,949	8,147
Djibouti	2121	2128	2755	2859	2905	3257	3433	5004	4247	6197
Kenya	1156	1295	2955	2344	2425	2698	2844	6893	5336	6769
Sudan	3147	3963	3310	3394	3470	3910	3137	5035	3485	2408
Other Africa	15461	18298	15713	16180	16490	18521	18535	13663	14590	13881
Europe	22057	20437	21069	21582	21993	24570	31804	35652	39198	40905
France	1430	1509	1673	1708	1728	1861	3235	3266	4029	4818
Germany	2254	1878	2513	2569	2604	2979	4217	4753	5554	6081
Italy	4562	4680	3792	3885	3981	4376	5787	6820	7621	7458
Netherlands	676	890	1336	1351	1339	1489	2060	2274	2504	2983
Switzerland	458	451	1215	1235	1280	1395	1961	3245	3159	3443
U.K.	3261	3353	3084	3159	3275	3723	4609	5994	6424	6769
Russian Federation	3397	2240	2966	3046	3078	3536	3756	3513	3702	2869
Other Europe	6019	5436	4490	4629	4708	5211	6179	5787	6205	6484
Americas	5470	4943	8144	8352	8513	9495	11740	13743	14917	15957
Canada	1220	735	1143	1173	1188	1304	1863	3306	3811	4703
U.S.A	3258	3437	4290	4400	4487	4933	5883	7545	8819	9762
Other America	992	771	2711	2779	2838	3258	3964	2892	2287	1492
Middle East	5523	5335	7504	7746	7916	8842	6964	9300	12739	13538
Saudi Arabia	966	1221	2204	2261	2287	2701	1472	3484	4246	5277
Yemen	1283	1117	1617	1659	1680	1860	1274	2923	3920	4475
Other M. East	3274	2997	3683	3826	3949	4281	4218	2893	4573	3786
Asia	7638	8661	7394	7590	7696	8562	9610	6097	6315	6771
India	2340	2260	2088	2136	2181	2419	1961	2172	2069	2066
Japan	625	593	639	664	658	651	1666	2168	2830	2868
Other Asia	4673	5808	4667	4790	4857	5492	5983	1751	1416	1837
Region Not Specified	757	530	600	593	632	744	784	103	109	159
All Regions	76,450	76,844	79,346	81,581	83,213	93,072	98,070	103,336	108,885	114,732

Source: Ethiopian Tourism Commission. Tourism statistics.

* Provisional Data

Tourism

International Tourist Nights by Purpose of Visit

Table 8b

Purpose/Year	1982-85	1986-88	1989	1990	1991	1992	1993	1994	1995	1996	1997*
Business	17794	18057	14727	19552	20042	20436	22896	27010	30538	28360	30494
Vacation	15825	12953	14593	15185	15666	15974	17870	19522	19984	21446	23511
Transit	12034	13377	22815	12761	13166	13435	14984	10957	11610	15599	14952
Conference	NA	3134	5163	7446	7611	7768	8656	10264	12436	12127	13526
Visiting Relatives	NA	3110	6531	5512	5677	5789	6515	8690	9109	11866	12710
Not Stated	15,816	18743	13015	18890	19419	19811	22151	21627	19659	19487	19539
Total	61469	69374	76844	79346	81581	83213	93072	98070	103336	108885	114732

Source: Tourism Statistics Ethiopian Tourism Commission.

* Provisional Data

*Tourism***International Tourist Nights By purpose of Visit in Government
Hotels***Table 8c*

Purpose/Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Business	13823	27017	22280	19281	10564	18593	14866	45390	38487	41888
Vacation	12636	21159	17572	11415	4771	13510	21639	26211	11115	25438
Visiting Relations	282	579	236	231	275	321	333	112	88	219
Transit	6452	15090	23743	25814	15961	17412	26559	19839	18997	17179
Conference	2556	2198	2971	1631	1958	2263	3608	14106	19821	16322
Others	1746	3142	2884	2531	3597	2780	4961	4015	1866	2221
Total	37495	69185	69686	60903	37126	54879	71966	109673	90374	103267

Source: *Ethiopian tourism Commission*

Tourism

International Tourist Nights by Length of Stay in Hotels

Table 8d

Length of Stay (In Nights)	Guests per NIGHT									
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
1	9246	19140	29269	32071	16369	24202	41430	24645	18660	26117
2	4252	6579	6637	4745	3365	4994	6076	6030	4385	8720
3	3396	5276	4861	3105	2077	2073	3273	2808	1594	3991
4	1856	2849	3340	2358	1493	2195	2059	1756	798	1799
5	1734	2967	2277	1760	874	1317	1624	1501	620	1415
6	1414	8912	1814	1470	866	1262	1402	1488	348	1025
7	1592	3350	3337	1797	1457	2141	2589	2310	1179	1431
8	1158	1640	1411	1972	867	1262	1043	1114	489	585
9	790	1087	1121	894	620	933	1128	1268	285	547
10	1034	1878	1421	894	606	878	1107	1280	287	552
11-15	2768	4060	3773	3048	2409	3567	2915	4060	763	2479
16-20	2419	4095	3274	2477	2169	3238	2416	4075	619	2509
21-30	5109	7453	7151	4311	3951	5817	4904	7968	1202	7001
Total	36748	69286	69686	60903	37126	54879	71966	60303	31229	58168

Source: - The Administration Hotel Enterprise

* Excludes Hilton and Private Hotels

Tourism

Occupancy Rate of Public Hotel Enterprises

Table 8e

	Employees			Room Occupancy			Beds Occupancy in %			Average Length of Stay in Nights			Employee/Room		
	1993	1994	1995	1993	1994	1995	1993	1994	1995	1993	1994	1995	1993	1994	1995
A.A Hilton Hotel Enterprise	409	395	396	44.3	43.0	47.9	29.2	26.8	29.6	4.0	4.1	2.8	1.0	1.0	1.0
Ghion Hotel Ent.	1412	515	335	42.6	58.7	45.1	37.7	46.1	41.0	3.6	3.2	3.3	1.9	0.8	0.4
Ethiopia Hotel Ent.	797	791	292	47.1	70.3	68.1	49.6	62.7	66.3	2.4	1.7	2.1	1.9	1.9	0.8
Ras Hotel Ent.	1286	1114	1053	42.5	77.4	67.3	36.9	69.5	63.3	2.4	1.7	2.1	1.9	1.9	0.8
Wabi Shebele Hot. Ent	258	623	-	16.8	46.7	-	12.0	61.8	-	1.2	1.4	-	2.5	1.6	-
FII Weha Hotel Ent.	NA	472	275	NA	59.6	85.8	NA	53.3	85.8	na	1.0	1.0	NA	4.7	5.2
Total	4162	3910	2351	42.5	62.5	58.5	36.9	53.6	51.8	3.1	2.8	2.7	6.0	1.5	0.9

Source: Tourism Commission, *Tourism Statistics*
* for Foreign Guests Only.

Communication
Selected Indicators On Communication

Table 9a

No	Items		1991/92	1992/93	1993/94	1994/95	1995/96
1	Population	Thousand	50,300	51,900	53,800	54,600	56,400
2	Main Telephone Lines	No	127,041	132,478	137,731	142,452	148,739
3	Telephone Density (No. Lines/100 pop.)	-	0.26	0.26	0.27	0.27	0.26
4	Telephone Stations	No	466	475	486	0.27	536/3.6
5	Area in sq. km.	km2	1,104,300	1,104,300	1,104,300	1,104,300	1,104,300
6	No of Tele. Station per 1000 sq. km	-	0.42	0.43	0.44	0.46	0.49/3.9
7	Full-time tele staff	No.	5,492	5,296	5,222	5,496	5,463
8	Telecom. Staff/1000 ML	-	43	40	38	39	37
9	Television Receivers	No.	130,000	15,000	175,000	230,000	230,000
10	Television/100 inhabitants	-	0.27	0.30	0.34	0.43	0.42
11	Rado Receivers	Million	8.0	8.2	8.3	8.4	8.5
12	Radio/100 inhabitants	-	16.4	16.3	16.0	15.7	15.5
13	Total Number of Post Offices	No	556	561	568	570	584
14	Average No. of inhab /Post Office	No	87,876	89,731	91,301	93,746	94,243
15	Average area covered/Post Office.	km2	1,986	1,968	1,944	1,937	1,891
16	Full time Post Staff	No.	1,078	1,038	991	952	925
17	Total Mail Services	Mill.	26.3	27.1	29.0	29.4	32.5
18	Post Staff/100,000 Mail Serv.	-	4	4	3	3	3
19	No. of Post Office/100 sq. km	-	0.50	0.51	0.51	0.52	0.53
20	Waiting list for telephone	Thous.	122.1	141.0	160.9	179.0	193.5
21	Total Demand	"	249.1	273.5	298.7	321.4	342.2
22	Main Lines	"	127.0	132.5	137.7	142.5	148.7
23	Satisfied DD	%	51.0	48.4	46.1	44.3	43.5

Source: ETC: Annual Statistical Bulletin (1995/96)
ITU African Telecommunication Indicators, 1996 G.C
UPU: Postal Statistics, 1994 G.C

Communication

Comparison of Basic Telecommunication Indicators Among Selected African Countries

Table 9b

Countries	Telephone Density (L/100)				Telecom. Revenue as % GDP				Tele Staff/100 M/Lines				Television/100 inhab.			
	1991/92	92/93	93/94	94/95	1991/92	92/93	93/94	94/95	1991/92	92/93	93/94	94/95	1991/92	92/93	93/94	94/95
Ethiopia	0.26	0.26	0.27	0.27	0.92	0.95	1.03	1.3	43.2	40.0	37.9	38.6	0.27	0.30	0.34	0.43
Uganda	0.17	0.17	0.12	0.19	1.2	1.2	0.8	0.9	43	42	60	35	1.09	1.71	1.94	2.15
Kenya	0.83	0.84	0.85	0.88	2.7	3.3	4.4	3.7	65	63	78	62	1.62	1.66	1.72	1.77
Tanzania	0.29	0.30	0.30	0.31	1.9	2.4	3.1	-	62	60	57	53	0.16	0.55	0.97	1.56
Djibouti	1.18	1.26	1.32	1.33	4.5	4.7	4.6	-	76	67	65	64	4.54	4.63	5.39	6.36
Egypt	3.35	3.66	3.96	4.27	1.5	1.3	1.4	1.4	31	26	24	21	11.43	11.75	-	-
Mali	0.14	0.14	0.15	0.16	1.5	1.3	1.6	1.6	118	111	102	89	0.98	1.00	1.08	1.15
Mozambique	0.37	0.38	0.36	0.3	4.8	4.9	4.2	4.5	49	47	45	42	0.29	0.29	0.29	0.31
Zambia	0.80	0.82	0.88	0.87	2.6	3.0	3.6	2.9	57	48	43	40	3.07	3.01	3.47	3.41
Nigeria	0.30	0.31	0.33	0.34	1.0	1.2	1.4	1.0	55	49	44	39	3.68	3.73	-	-

Source:- ITU, African Telecommunication Indicators, 1996 G.C

Communication

Comparison of Basic Postal Service Indicators Among Selected Countries

Table 9c

No.	Countries	Average No. of Inhabitants Served by a Post Office				Average Area Covered by a Post Office (km ²)			
		1991/92	1992/93	1993/94	1994/95	1991/92	1992/93	1993/94	1994/95
1	Ethiopia	87,876	89,731	91,301	93,746	1,986	1,968	1,944	1,937
2	Kenya	24,351	23,664	25,508	27,322	545	534	526	541
3	Nigeria	27,944	28,527	29,085	29,938	260	258	255	254
4	Egypt	7,650	7,800	7,949	8,144	142	141	140	139
5	Togo	84,651	85,454	90,232	77,068	1,320	1,290	1,320	1,113
6	Canada	1,543	1,524	1,515	1,571	547	535	522	536
7	U.S.A	6,318	6,379	5,156	5,203	234	234	187	187
8	Great Britain	2,867	2,906	2,941	2,978	12	12	12	12
9	Greece	8,133	8,281	8,201	8,304	105	106	104	105
10	China	22,700	23,022	22,586	18,746	186	186	181	148
11	Russia	2,965	3,033	3,132	3,181	340	348	360	367

Source: UPU Postal Statistics, 1994 G.C.
EPS: Annual Report, 1996 G.C

**Circulation Of Newspapers By Administrative Region
(As per the Previous Administrative Set up)**

Table 9e

Administrative Region	1990/91			1991/92			1992/93			1993/94		
	Amharic	Others	Total	Amharic	Others	Total	Amharic	Others	Total	Amharic	Others	Total
ARUSSI	170,800	6,105	176,905	188,165	9,849	198,014	161,243	8,479	169,722	63,263	12,126	75,389
BALE	206,022	10,709	216,731	163,805	13,535	177,340	169,403	14,435	183,838	51,247	9,863	61,110
GAMOGOFA	99,105	9,159	108,264	99,930	9,325	109,255	90,670	8,271	98,941	75,142	5,600	78,742
GONDAR	165,469	12,393	177,662	183,230	13,528	196,758	179,466	12,926	192,392	157,401	24,760	182,161
GOJJAM	343,128	27,921	371,049	336,337	22,575	356,912	421,254	19,456	440,710	192,811	31,399	224,210
HARARGHE	767,926	98,866	866,792	771,957	82,136	854,093	793,249	61,483	854,792	251,882	54,146	297,028
ILLUBABOR	221,963	23,419	245,382	252,040	31,362	283,402	189,136	27,417	216,553	104,710	16,292	121,002
KEFFA	317,371	27,856	345,227	217,562	22,261	239,823	198,221	17,642	215,863	132,025	17,352	149,377
SHEWA	1,448,585	74,482	1,523,067	1,496,310	75,017	1,571,327	1,732,860	74,176	1,807,036	1,548,321	84,824	633,145
ADDIS ABABA	4,796,886	1,658,264	6,455,150	5,428,065	1,626,754	7,054,819	4,097,731	1,493,907	5,591,638	4,098,131	1,497,876	5,596,007
SIDAMO	489,014	39,530	528,544	426,262	20,297	446,559	510,174	23,933	534,107	290,531	22,252	312,783
TIGRAY	-	-	-	154,395	10,402	164,797	133,468	9,350	142,818	285,860	32,116	317,976
WELLEGA	206,763	28,155	234,918	233,790	12,692	246,482	352,654	18,397	371,051	97,516	20,712	118,228
WOLLO	316,944	19,605	336,549	218,152	12,367	230,519	209,367	116,972	221,059	194,877	25,129	220,006
Total	9,549,976	2,036,464	11,586,440	10,170,000	1,962,100	12,132,100	9,238,896	1,801,564	11,040,460	6,541,717	1,845,447	8,387,164

KILLIL	
1	
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6	
Southern E	
12	
13	
14	
15	
TOTAL	

Circulation Of Newspapers By Killil
(As per the New Administrative Setup)

Table 9f

KILLIL	1994/95			1995/96		
	Amharic	Others	Total	Amharic	Others	Total
1	104,176	14,270	118,446	257,820	38,064	295,884
2	13,275	8,000	21,275	46,348	7,800	54,148
3	585,897	78,176	664,064	526,875	151,324	678,199
4	1,126,174	209,322	1,335,496	933,160	242,831	1,175,991
5	32,738	13,899	46,637	106,720	52,499	159,219
6	11,156	5,396	16,552	58,080	6,080	64,160
Southern Eth.	216,243	111,876	328,118	596,240	125,911	722,151
12	4,462	6,921	11,383	16,200	9,048	25,248
13	110,533	28,731	139,264	92,240	31,334	123,574
14	3,267,485	1,509,827	4,777,312	4,367,532	1,781,066	6,148,598
15	135,656	37,650	173,306	213,400	34,098	247,498
TOTAL	5,607,794	2,024,059	7,631,853	7,214,615	2,480,055	9,688,670

Source:- MPA

Mass Media Investment (1984/85-1995/96)

Table 9g

(Million Birr)

No.		1984/85- 1985/86	1986/87	87/88	88/89	89/90	1990/91	91/92	92/93	93/94	94/95	95/96	1984/85- 1990/91	1991/92- 1995/96
1	Plan	7.2	8.0	9.2	11.5	5.9	5.3	5.6	12.4	94.0	60.9	30.4	47.1	203
2	Actual	3.3	1.8	8.0	8.3	2.5	0.9	3.6	0.8	83.2	47.8	18.7	24.8	153.3
	Implementation Rate (%)	45	27	87	72	42	17	64	6	88	79	62	53	75

Source:- MEDaC: Plan Documents (1984/85-1995/96)
 EPS Plan Documents (1984/85-1995/96)

Number of Teachers & Students in Technical and Vocational Schools , (1992/93 - 1995/96)

Table 10a

Students

Number of Teachers & Students in Technical and Vocational Schools , (1992/93 - 1995/96)

Table 10a

Schools	Teachers			Students					
				1992/93		1994/95		1995/96	
	1992/93	1994/95	1995/96	Both	Female	Both	Female	Both	Female
Entoto Technical & Vocational	40	54	183	403	134	351	129	375	153
Addis Ababa Technical	52	47	48	408	43	414	43	453	39
General Winget Construction	36	51	48	401	78	476	105	485	136
Bure Agro-Technical	17	25	23	95	9	56	5	82	9
Arbanmich Technical	18	16	27	112	10	115	3	112	1
Mendida Technical	8	12	12	45	12 NA	NA		58	3
Waliso Agro-Technical	24	34	29	131	12	119	13	122	13
Mersa Agro-Technical	9	19	16	30	1	51	2	41	3
Awasa Technical	16	26	20	99	8	116	6	106	3
W/o Sehen Technical & Vocational	27	34	26	282	112	217	76	199	60
Nazerth Technical	25	26	82	201	9	190	18	183	15
Dire Dawa Technical	11	27	27	87	4	136		123	4
Asebe Teferi Agro Teach.	8	14	17	42	11	49	7	40	8
Dabena Technical	7	12	15	53	5	41	8	35	7
Dor-Bosco Technical	11	12	16	64		116		119	
Mekele Technical	15	24	23	97	16	157	8	148	15
Dila Agro Technical	14	21	23	39	5	30	2	57	5
Total	298	454	635	2589	469	2634	425	2738	474

Source: Ministry of Education, Education Statistics, Annual Abstract, EMIS

Technical And Vocational Schools Graduates By Sex

Table 10b

Schools	1992/93			1994/95			1995/96		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Entoto Technical & Vocational	84	51	135	100	43	143	100	39	139
Addis Ababa Technical	127	12	139	99	16	115	103	14	117
General Winget Construction	91	31	122	88	29	117	86	41	127
Bure Agro-Technical	34	4	38	26	3	29	13	4	17
Arbanmich Technical	25	5	30	32	1	33	17	-	17
Mendida Technical	7	5	12	6	1	7	14	-	14
Waliso Agro-Technical	39	1	40	31	6	37	20	2	22
Mersa Agro-Technical	-	-	-	-	-	-	38	-	38
Awasa Technical	24	1	25	29	3	32	31	4	35
W/o Sehen Technical & Vocational	55	30	85	44	25	69	29	13	42
Nazerth Technical	67	2	69	62	1	63	31	3	34
Dire Dawa Technical	23	2	25	30	-	30	29	-	29
Asebe Teferi Agro Teach.	11	5	16	10	4	14	10	2	12
Dabena Technical	-	-	-	16	-	16	8	2	10
Dor-Bosco Technical	11	-	11	25	-	25	43	2	45
Mekele Technical	-	-	-	64	3	67	62	4	66
Dila Agro Technical	11	1	12	17	4	21	20	1	21
Total	609	150	759	679	139	818	654	131	785

Source: Ministry of Education, Education Statistics, Annual Abstract, EMIS

No.	
1	Addis f
1.1	Facu
1.2	Insti
1.3	Colle
1.4	Facu
1.5	Facu
1.6	Schc
1.7	Facu
1.8	Facu
1.9	Facu
1.10	Facu
1.11	Insti
1.12	Libr
1.13	Sch
2	Gond
3	Bahr
4	Awasa
5	Alemi
6	Ambc
7	Addis
8	Jimr
9	Bahli
10	Kotei
11	Won
12	Arba
13	Mek
14	Ehik
15	Jimr
16	Naz
17	Mek

Source: N

Table 1

Education

Number of Higher Education Institutions by Name & Region (1995/96)

Table 10c

No.	Name of Institution	Location (Reg.)	Year established (E.C.)	Year reorganized (E.C.)
1	Addis Ababa University	Addis Ababa	1950	-
1.1	Faculty of Science	" "	1951	-
1.2	Institute of Language Studies	" "	1971	-
1.3	College of Social Science	" "	1971	1983
1.4	Faculty of Business & Economics	" "	1956	1983
1.5	Faculty of technology	" "	1945	1951, 1954, 1961
1.6	School of Pharmacy	" "	1954	1971
1.7	Faculty of Education	" "	1962	-
1.8	Faculty of Law	" "	1956	-
1.9	Faculty of Veterinary Medicine	Oromiya	1972	1982
1.10	Faculty of Medicine	Addis Ababa	1964	-
1.11	Institute of Dev't. Research	" "	?	-
1.12	Library Science Department	" "	1967	-
1.13	School of Graduate Studies	" "	1971	-
2	Gonder College of Medical Sc.	Amhara	1947	1961 & 1976
3	Bahir Dar Teacher's College	"	1965	-
4	Awassa College of agriculture	SNNPR	1969	1987
5	Alemaya University of agriculture	Oromiya	1943	1977
6	Ambo College of Agriculture	"	1939	1960
7	Addis Ababa College of Commerce	Addis Ababa	1935	1949, 1971 & 1984
8	Jimma College of agriculture	Oromiya	1945	1960, 1970 & 1980
9	Bahir Dar Polytechnic Institute	Amhara	1956	1957, 1962, 1977 & 1989
10	Kotebe College of Teacher Education	Addis Ababa	1962	1982
11	Wondo Genet College of Forestry	SNNP	1970	-
12	Arba Minch Water Technology Institute	SNNP	1979	-
13	Mekelle Business College	Tigray	1984	-
14	Ethiopia Civil Service College	Addis Ababa	1987	-
15	Jimma Institute of Health Science Insti.	Oromiya	1975	-
16	Nazareth Technical College	"	1986	-
17	Mekelle University College	Tigray	1986	-

Source: Ministry of Education, Education Statistics, Annual Abstract, EMIS

Education

First Year Undergraduate Enrollment in Higher Education By Fields of Study

Table 10d

Courses	1993/94		1994/95		1995/96	
	Total	Female	Total	Female	Total	Female
Business Education	61	10	58	10	74	2
Educational Administration	113	1	135	2	121	1
Auto motive Technology	17		27		39	1
Drafting	16	3	26	2	53	
Electricity	18		30	2	37	1
Metal Technology			9		18	
Wood			10		16	
Building Engineering	81		72		83	
Library Science	87	32	70	16	60	7
Animal Science	88	6	73		102	3
Basic Science	273	43	279	31	282	8
Adult Education	47	8	43	10	65	3
Amharic	52	14	47	15	41	12
Biology	63	2	52		74	6
Chemistry	57	1	34		76	
English	68	11	70		89	3
Geography	75	3	70	1	66	3
History	51	1	70	3	79	4
Mathematics	37	1	55		132	
Physics	34		24		47	
Comprehensive Nursing	110	89	94	89	126	44
Sanitary Science	54	6	37	3	37	3
Laboratory Science	29	10	32	1	32	10
General Agriculture	104	18	93	6	109	5
Freshman Programme	2840	376	2737	461	2752	360
Accounting	276	35	292	11	483	55
Banking & Finance	83	8	143	8	148	5
Marketing Management	38	5	47	5	47	7
Personnel Management	39	11	53	3	44	1
Purchasing & Supply Mgt.	120	18	85		100	3
Secretarial Science & Off. Mg.	162	125	157	149	138	119
Health & Physical Education	64	4	77	3	45	2
Home Economics	45	33	35	16	36	16
Pharmacy Technology	44	8	31	8	34	7
Environmental health	39	7	67	7	48	1
Forestry	88	10	88	3	71	2
Industrial Education	119	9	60	1	158	5
Construction Technology	19	4	19		30	1
Manufacturing Technology	18		18		26	
Surveying	17		22		25	1
Municipal Engineering	86	12			65	5
Medicine	185	12	172	15	132	31

Source: Ministry of Education, Education Statistics, Annual Abstract, EMIS

Table 10d

Veterinary	Mer
Pedagogical	S
Social Science	
Medical Lab.	
Health Center	
Economics	
Law	
Ethiopian Lan	
Life Science	
Total	

Source: Minis

Education

Table 10d continued

Courses	1993/94		1994/95		1995/96	
	Total	Female	Total	Female	Total	Female
Veterinary Medicine	47	2	42	8	45	2
Pedagogical Science	64	26	73	7	68	1
Social Science	197	106	177	34	135	8
Medical Lab.	43	7	36	1	45	3
Health officer						3
Economics						8
Law					184	7
Ethiopian Languages			42	22	39	6
Life Science	31	5	29	1	57	1
Total	6199	1082	6012	954	6813	776

Source: Ministry of Education, Education Statistics Annual Abstracts, EMIS.

1995/96	
Total	Female
74	2
121	1
39	1
53	
37	1
18	
16	
83	
60	7
102	3
282	8
65	3
41	12
74	6
76	
89	3
66	3
79	4
132	
47	
126	44
37	3
32	10
109	5
2752	360
483	55
148	5
47	7
44	1
100	3
138	119
45	2
36	16
34	7
48	1
71	2
158	5
30	1
26	
25	1
65	5
132	31

Distribution of Health Personnel by Region (1995/96)

Table 11a

Region	Physicians	Health Officers	Pharmacists	Nurses	Sanitarians	Technicians			Health Ass.
						Lab	X-ray	Pharm	
Tigray	82	0	10	387	42	57	16	52	1311
Afar	12	0	1	37	9	10	1	6	161
Amhara	252	1	26	499	143	92	31	50	2181
Oromia	290	6	37	0	141	124	38	58	7098
Somalie	44	0	4	127	28	45	6	17	324
Benishangul	29	1	4	79	14	14	4	7	223
Snnprg	226	3	22	479	112	87	15	60	2432
Gambella	16	0	5	56	14	7	1	5	133
Hareri	34	0	4	63	3	15	6	5	144
Addis Ababa	210	0	0	562	0	75	41	34	637
Dire Dawa	35	0	0	71	0	14	3	6	105
Central	125	2	14	392	6	60	31	12	495
Total	1355	13	127	2752	512	600	193	312	15244

Source: MoH

Note: Health Personnel out side the Ministry of Health & in the Head Quarter are not included.

Table 11

Life exp

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Basic Indicators on the Status of Health in Ethiopia

Table 11b

Indicator	Magnitude	Reference year	Data Source
Life expectancy at Birth			
male	51.81	1990	CSA
Female	54.10	"	
Crude Birth rate	46-52/000	1996	World Bank
Crude Death rate	15.2/000	1994	CSA
Natural rate of Increase	3.1%	1994	CSA
Infant Mortality rate			
Male	112/000	1993	CSA
Female	98.3/000	"	CSA
Under 5 Mortality rate			
Male	165.7/000	1984	CSA
Female	154.1/000		
Both	159.0/000		
maternal Mortality rate	5.6/000	1995	MOH
Birth weight Lessthan 2.5kg	17%	1988	Ethiopian Health and Nutrition Research Institute (EHNRI)
percapita calorie intake	1750 Kcal	1995	WHO
Percentage of male nutrition			Ethiopian Health and Nutrition Research Institute (EHNRI)
Stunting	64%	1993	"
underweight	47%	1993	"
wasting	7%	1994	"
Antenatal care	20.7%	1995	MOH
Delivery Institutional	7%	1995	"
Potential Health care Service	45%	1995	"
Immunization Coverage	28-44	1994	PHRD
Population per Hospital Bed	5185	1996	MOH
Population per Health center	139,397	1996	MOH
Population per Health station	10,503	1996	MOH
Contraceptive Prevalence	7%	1995	MOH
Accessability to safe water			
Rural	19%	1994	MOH
Urban	80%		
Sanitation (use of Latrine)			
Rural	1%	1994	MOH
Urban	60%		
Total	8%		

Trends in Reurrent and Capital Expenditure on Health

Table 11c

In million Birr

Fiscal Year	Recurrent Expenditure	Capital Expenditure	Share of recurrent Exp. In Health in the Total	Share of Capital Exp. In Health in the Total	Share of Health Exp. In GDP (%)		Share of Total Exp. In Health In GDP (%)	GDP at Current Market Price
					Current	Capital		
1990/91 Actual	128.4	32.1	3.5	2.6	0.67	0.17	0.75	19195.3
1991/92 Actual	151.5	37.4	4.6	3.9	0.73	0.18	0.87	20782.0
1992/93 Actual	189.2	66.6	5.5	3.8	0.71	0.24	0.94	26671.4
1993/94 Actual	280.7	68.6	6.4	2.5	1.0	0.24	1.24	28328.9
1994/95 Actual	310.2	119.9	6.0	3.0	0.9	0.35	0.90	33885
1995/96 Pre Actual	327.2	142.0	6.0	4.0	0.9	0.37	0.90	37937.6
1996/97 Pre estimate	343.6	255.3	6.0	6.2	0.8	0.62	0.80	41465.1
1997/98 Budget	397.8	354.2	6.0	6.8	0.9	0.78	0.90	45204.2
Annual Average Growth Rates (%)	17.5	41.0						13.0

Source: - Ethiopia: Current and Capital Budgetary Allocation for FYs 1993/94- 1997/98 and Outturn for FYs 1993/94-1996/97 MOF Sept 2, 1997, A.A

Current and Capital Budget Allocation and Expenditure Performance (Health)

Table 11d

In million birr

Fiscal Year	Current		Capital		Expenditure Performance	
	Amount	Share of Total	Amount	Share of Total	Current Expenditure	Capital Expenditure

Health

Current and Capital Budget Allocation and Expenditure Performance (Health)

Table 11d

In million birr

Fiscal Year	Current				Capital				Expenditure Performance			
	Center	Regions	Total	Share of Regions (%)	Center	Regions	Total	Share of Regions (%)	Current		Capital	
									Total	Expenditure as (%) of Total	Total	Expenditure (%)
1993/94 Actual	49.7	253.3	302.7	83.6	24.0	173.9	179.9	87.9	280.7	92.7	68.6	34.7
1994/95 Pre Actual	59.5	286.3	345.8	82.8	10.9	223.2	234.1	95.3	310.2	89.7	119.9	57.2
1995/96 PreActual	56.8	304.6	361.4	84.3	28.2	209.7	237.9	88.1	327.2	90.5	142.0	59.7
1996/97 Pre estimate	61.0	302.1	363.1	83.2	12.4	299.5	311.9	96.2	343.6	94.6	255.3	81.2
1997/98 Budget	62.1	335.7	397.8	84.4	5.7	348.4	354.2	98.4	397.8	100	354.2	100

Source: - Ethiopia: Current and Capital Budgetary Allocation for FYs 1993/94- 1997/98 and Outturn for FYs 1993/94-1996/97 MOF Sept 2, 1997 A.A

Number of Health Facilities (NGOs Versus Private)

Table 11e

Sector	Clinic	Hospital	Pharmacy	Rural Drug Vender shop	Drug Stor
NGO	197	8	-	-	-
Private	182	1	88	1,121	94
Total	379	9	88	1,121	94

Source:- Table 4, Ethiopia Social Sector Study Report PHRD Sept,1996

Comparison of BOD Across Regions

Table 11f

STATES	TRAGETED DISEASES
--------	-------------------

Comparison of BOD Across Regions

Table 11f

STATES		TRAGETED DISEASES										
		AIDS	ARI	CV	DDs	Injury	Malaria	PM	Measles	NDD	TB	All other
Tigry	% Deaths	5.4	15.0	0.8	7.6	1.4	4.8	16.1	2.8	9.1	5.2	31.8
	% DLYs	5.4	17.7	0.7	9.0	1.3	4.9	18.4	3.3	10.7	5.3	22.9
Amhara	% Deaths	6.5	17.1	0.9	7.9	0.5	10.5	16.4	3.5	8.4	6.9	21.2
	% DLYs	6.4	19.5	0.6	9.0	0.5	10.3	18.3	4.0	9.6	6.7	14.8
Oromia	% Deaths	5.0	14.9	0.9	8.2	0.7	9.0	16.4	3.3	7.8	4.8	29.0
	% DLYs	5.0	17.2	1.0	9.5	0.7	9.6	18.6	3.8	9.0	4.9	20.5
Benishang ul	% Deaths	7.7	14.9	0.9	9.3	1.1	10.8	16.4	4.8	7.8	12.9	14.5
	% DLYs	7.3	16.5	0.7	10.2	1.0	11.0	17.9	5.4	8.6	12.2	9.1
Snnprg	% Deaths	2.6	17.0	0.9	8.2	0.5	8.8	16.4	3.6	8.4	3.5	30.0
	% DLYs	2.6	19.7	0.6	9.5	0.6	9.6	18.6	4.2	9.8	3.4	21.2
Gambella	% Deaths	5.8	13.7	0.9	8.2	1.7	9.5	16.1	4.0	7.8	6.9	25.1
	% DLYs	5.7	15.8	0.6	9.5	1.9	10.3	18.4	4.5	8.9	6.5	17.6
Hareri	% Deaths	8.3	8.4	0.9	9.9	14.0	2.8	16.6	3.1	8.3	5.2	22.6
	% DLYs	8.3	9.4	0.8	11.2	14.0	2.9	18.4	3.5	9.4	5.2	17.2
Addis A.	% Deaths	15.4	7.0	0.9	2.8	4.4	-	15.0	2.5	7.8	1.7	41.4
	% DLYs	17.7	9.4	0.8	3.8	5.3	-	19.9	3.3	10.5	2.0	25.7
Dire Dawa	% Deaths	7.3	4.5	0.8	8.8	7.9	3.6	12.9	0.6	8.0	4.6	41.0
	% DLYs	8.0	5.6	0.8	10.9	8.6	3.5	15.7	0.7	9.9	4.7	31.6
National	% Deaths	7.7	14.4	0.9	7.6	0.9	10.0	16.7	3.5	7.8	4.8	26.0
	% DLYs	7.7	16.4	0.9	8.7	0.8	10.5	18.3	4.0	8.9	4.6	19.2

Appendix 2: The Working Team in the Preparation of the "Survey of the Ethiopian Economy"

The Secretariat under the Macroeconomic Planning and Policy Analysis Department responsible for the overall coordination and finalization of the Survey Report is comprised of the following members of the Department:

1. Ato Jemal Mohammed, Head of Macro Planning and Economic Policy Analysis Department.
2. Ato Getachew Adem, Head of Economic Policy Analysis Team
3. Ato Admassu Shiferaw, Expert in Economic Policy Analysis Team
4. W/o Askale Gebeyehu, Secretary
5. W/t Asrat Sebehatu, Secretary

Ato Mulu Woldeyes, W/t Mihret Alemu, Ato Amin Abdella, Ato Dawit W/yesu and Ato Tadele Ferede all from the Macroeconomic Planning and Policy Analysis Department have greatly assisted the Secretariat in the course of finalizing the Report.

Professionals of the technical departments of MEDaC that have participated in the preparation of the draft for the " Survey of the Ethiopian Economy" along with the Survey Topics which they have been responsible for is presented in the Table below. Those professionals whose Reports have not been included in this volume, as indicated corresponding to Serial Nos. "19", "20" and "21", are also included in the accompanying Table. These Survey Reports are to be published subsequently as separate volumes.

List of Prof

S.N	Survey Top
1	Aggregate C Inflation
2	External Ser Balance of P
3	Public Finan
4	Money and
5	Populatio
6	Employmer
7	Agriculture
8	Manufactu
9	Mining
10	Energy
11	Water
12	Roads Co and Harbar
13	Domestic
14	Transport
15	Education
16	Health
17	Social Se
18	Social W
19	Regional
20	Social Di Adaptive
21	Private S

Documents Prepr
published sep:

**List of Professionals Who Participated in the Preparation of the Draft on the
"Survey of the Ethiopian Economy"**

S.N	Survey Topic (Chapter)	Professional (s) Involved in the preparation of the Zero Draft	Department
1	Aggregate Output and Inflation	<ul style="list-style-type: none"> • Getachew Adem • Admassu Shiferaw 	Macro Planning and Economic Policy Analysis
2	External Sector and the Balance of Payments	Mulu Woldeyes	Macro Planning and Economic Policy Analysis
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