

UNIT

1

MAIN SECTORS OF THE ETHIOPIAN ECONOMY

Unit Objectives

After completing this unit, you will be able to:

- realize the contributions of the main sectors to the Ethiopian economy;
- understand the structure and significance of various resource endowments; and
- evaluate the different economic systems implemented since the Imperial Regime.

Main Contents

- 1.1 AN OVERVIEW OF THE MAIN SECTORS**
- 1.2 RESOURCE BASE OF THE ETHIOPIAN ECONOMY**
- 1.3 A HISTORICAL REVIEW OF NATIONAL DEVELOPMENT OBJECTIVES AND STRATEGIES**

Unit Summary

Review Exercise



INTRODUCTION




In your economics course of **Grade 11**, you studied the nature and scope of economics as a subject. You also studied the fundamental laws and principles of economics, and the main tools used in economic analysis. The basic purpose of studying all of them is to be able to understand how the various economic systems work or how a particular economy functions and solves its problems. Now, in **Grade 12**, you will focus on our national economy. So, this unit presents an overview of the main sectors, the resource base, and the national development objectives and strategies as they have evolved over the years.

1.1 AN OVERVIEW OF MAIN SECTORS OF ETHIOPIAN ECONOMY

At the end of this section, you will be able to:

-  explain the characteristics of the Ethiopian economy.

Key Terms and Concepts

-  Ancillary services
-  Deregulation
-  Command economy
-  Diversification of agricultural products

Start-up Activity

How do you characterize the Economy of the:

- a** Imperial regime **b** Derg regime **c** Post 1991

Over about 100 years, the Ethiopian economy has experienced changes from market-oriented to centrally planned and back again to a market-oriented economy. Under the Monarchy (up to 1974), the economy was primarily agricultural. The economy was based on a feudal system under which land ownership was highly inequitable with major portions of farmland being in the hands of wealthy landlords of the very few industries, most were owned by foreigners.

During the Military Regime (1974 – 1991), the economy shifted to a command economy where socialist principles and ideologies ruled. Substantial land reforms were introduced in the agricultural, industrial and financial sectors. The government owned all the large-scale manufacturing industries, banks and insurance companies. In spite of all these measures, the regime failed to solve

Ethiopia's multifaceted problems. Finally, it ceased to rule in 1991 when the EPRDF marched into Addis Ababa on May 28th, 1991.

Since the assumption of power by EPRDF (1991), its government has followed a market-oriented economy. It has supported a process of economic reforms based on privatization of state enterprises, promotion of agricultural exports and deregulation (move towards free market) of the economy. This move has facilitated significant sectoral growth performances.

Table 1.1 Sectoral Growth Performance

Sectors	Fiscal year				
	1974/75	1991/92	1997/98	2003/04	2005/06
Agriculture and allied activities	0.6	2.9	4.3	16.9	10.9
Industry	3.6	6.7	7.4	11.6	10.2
Distributive sectors	2.5	6.4	7.0	6.4	14.2
Other services	4.7	7.5	7.2	6.1	12.5
GDP	2.0	4.8	5.8	11.7	11.6
Per-capita GDP	1.4	1.9	2.9	8.7	8.6

Source: Ministry of Finance and Economic Development, CSA (2005/06)

1.1.1 The Agricultural Sector

For decades, agriculture has been the backbone of the Ethiopian economy. Hence its performance determines the economic well-being of the people. Also, many other economic activities, including transportation and manufacturing, rely heavily on the agricultural sector.

Main Features of the Agricultural Sector

Agriculture contributes about 45% of the overall GDP of the country; generates more than 80% of export earnings; employs about 85% of the population; and supplies about 70% of raw materials to the secondary activities (Central Statistics Office, 2006). The agricultural sector produces both crops and livestock. The crops produced include food crops, cash crops, fruits, and vegetables. It constitutes the greatest share of the country's GDP and export earnings when compared to the livestock production.

The main crops are:

- *Cereals (teff, barley, maize, wheat, sorghum and millet)*

- *Pulses (horse beans, vetch, lentils, etc)*
- *Oil seeds (viger seed, flax, rape seed, sesame, castor beans and soyabeans)*
- *Cash and industrial crops (coffee, oil seeds, pulses, cotton, sisal tobacco, etc.)*

Recent developments:

- *Crop production and productivity in both volume of production and yield per hectare have shown consistent increases for almost all categories of main crops during the last few years.*
- *Diversification of agricultural production.*
- *Establishment of an agricultural marketing system.*
- *Development of research and extension services.*
- *Improvement in the supply of agricultural inputs.*
- *Expansion of small-and medium-scale irrigation.*
- *Better management of natural resources.*

Major problems of the sector:

- *Frequent drought.*
- *Soil degradation largely caused by overgrazing and overpopulation.*
- *Land fragmentation.*
- *Prevalence of backward agricultural practices.*
- *Poor marketing facilities due to poor road networks, etc.*
- *Rapidly increasing prices of agricultural inputs like fertilizers etc.*

1.1.2 Industrial Sector

The Ethiopian industrial sector has been small compared to the agricultural and service sectors. This could be due to the short history of industrialization in the country. Its growth was modest, not exceeding 6.7 percent for the last four decades except during the years from 1997/98 to 2009/2010.

The industrial sector is dominated by three sub-sectors: manufacturing (38%), construction (25%), and electric and water supply (18%). The remaining sub-sectors, electricity, mining and quarrying, etc., constitute the remaining 19%.

Main Features of the Industrial Sector

- ★ The sector contributes about 13% of GDP and 9.5% of employment.
- ★ There are about 130 state-owned and 7,000 private manufacturing industries of all sizes, mainly engaged in the production of consumer goods. Main products of these manufacturing industries include:
 - *textiles, foodstuffs, tobacco, beverages, cement, leather and leather products, wood, metallic and non-metallic products, paper, plastic, tiles, clothing/apparel, canned and frozen meat, sugar and molasses, oil cakes and petroleum products.*
- ★ The growth performance of the industrial sector saw an appreciable improvement in recent years, compared to the average growth rate of 6.7% over the 10 years 2001/02 - 2009/10.

Table 1.2 Growth Performance in the Industrial Sub-sectors

Sub-sector	Share in sector in percentage	Share in GDP in percentage 1999	Growth					
			1999/00	2001/02	2002/03	2003/04	2004/05	2005/06
Industry	100	13.1	6.7	9.2	6.5	11.6	9.4	10.2
Mining and quarrying	3.5	0.5	5.1	4.0	4.1	2.0	4.1	7.2
Large and medium-scale manufacturing	25.5	3.3	6.3	8.4	1.4	7.7	11.6	13.7
Small-scale and handcrafts manufacturing	14.1	1.9	4.1	6.4	0.4	4.5	15.0	4.9
Electricity and water	16.9	2.2	4.0	6.8	4.8	5.6	7.9	8.8
Construction	39.9	5.2	4.6	12.1	13.6	19.5	7.5	10.5

Source: Ministry of Finance and Economic Development, 2009

Looking at the growth performance of each sub-sector, the construction sector registered the highest growth rate between 2002 - 2010. It averaged about 13% per year in 2006 - 2010, compared to only 4.6% between 1991/92 and 2005/06. Large-and medium-scale industries recorded the second highest growth rates.

Major problems in the sector:

- *Low industrial base*
- *Low productivity level*
- *Underutilization of capacity*
- *Shortages of foreign exchange, new investment, raw materials and spare parts*
- *Very low level of technology/high dependence on imported technology*
- *Low-level skills and management*

Recent developments:

- *Privatization of state enterprises*
- *Liberalization of investment regulations to attract foreign investment*
- *Tax incentives for potential investors*
- *Modernisation of the technological base through technology transfer agreements*
- *Establishment of industrial estates*
- *Implementation of training program for managers and technicians, both in the country and abroad*
- *Establishment of research and development (R & D) institutes*
- *Establishment of the National Network of Information System to ensure the flow of industrial information among different users*
- *Improvement of the National Standards Regulation System*
- *Development of infrastructure, including transportation and telecommunications.*

1.1.3 Service Sector

This sector is composed of various sub-sectors that range from wholesale and retail trade, to restaurants and to education and health service provision. More specifically, the service sector includes:

- *wholesale and retail trade,*
- *hotels and restaurants,*
- *transport and communication,*
- *banking and insurance,*
- *public administration and defence,*
- *education,*
- *health, domestic and other services.*

The Ethiopian service sector had the second highest share in GDP next to agriculture in the years preceding (2011); however, its contribution during the year 2008/09 was the highest.

Main Features of the Services Sector

- *The sector's share in GDP was 45.1% during 2008/09.*
- *A relatively small percentage of population (about 10%) has been engaged in the services sector.*

- *The large contribution of the sector to the GDP comes mostly from government employment.*
- *Significant achievements have been made in areas of health, trade, tourism, banking and insurance in the past few years.*
- *Growth Performance: The growth in the services sector has been significant following the reform carried out in the early 1990s. Consequently its growth rate and hence its share in GDP has progressively increased during the last two decades.*

Table 1.3 Service Sector Growth Performance

Sub-sectors	Share in GDP 1991/92	Growth Performance				
		1991/92	2002/03	2003/04	2004/05	2005/06
Services	36.7	7.5	8.3	6.3	12.8	13.4
Trade, Hotels and Restaurants	13.7	6.3	9.1	5.2	12.8	17.9
Transportation and Communication	5.0	7.2	11.1	9.5	19.2	5.7
Banking and Insurance	2.3	8.4	10.1	6.8	10.2	18.0
Public Administration and Defence	4.3	7.8	1.4	0.2	11.6	6.4
Education	2.4	6.7	10.7	11.6	12.6	8.6
Health	0.9	7.6	9.2	15.9	16.9	4.8
Other Services	2.1	4.2	5.5	4.4	7.4	8.8

Source: MOFED, 2007

From [Table 1.3](#) we can see that higher growth trends are observed in the sub-sectors of Trade, Hotels and Restaurants, Transportation and Communication as well as in Banking and Insurance.

Activity 1.1



- 1 Prepare a report on major agricultural and allied activities carried out in your local area.
- 2 Identify the various manufacturing units operating in your local area/region and make a list of the products manufactured by them.

Content Check 1.1



- 1 Referring to [Table 1.3](#), list the service sectors by rank, based on growth performance exhibited in the years between 2000/01 – 2004/05.
- 2 Which major economic activity has performed well since 1997/98?
- 3 Give a brief explanation of why the various economic sectors showed appreciable growth performance.



1.2 RESOURCE BASE OF ETHIOPIA


At the end of this section, you will be able to:

- identify and explain the resource base of the Ethiopian economy.

Key Terms and Concepts



-  Decennial
-  Working-age group

-  Kyoto-protocol

Start-up Activity

Can you identify the potential resources that Ethiopia has to utilize the existing level of technology?

In terms of its natural resource base, Ethiopia is potentially a rich country, with fertile soil and good rainfall over large areas of the country. Farmers produce a variety of grains, including wheat, teff, sorghum, corn, and millet. Coffee, a cash crop, grows well on southern slopes. Herders raise cattle, sheep and goats in nearly all parts of the country. Additionally, Ethiopia possesses several valuable minerals including gold and platinum. Ethiopia is also one of the few African countries with the potential to produce hydroelectric and geothermal power. Furthermore, it has regions where dense forests exist, and its many lakes, rivers, reservoirs and their coastlines are fertile fishing grounds. Another notable point in the wider context of the resource base of Ethiopia is that over 50% of its population is in the working-age group of 15 – 64 years.

1.2.1 Population

Population is an important resource of a country since it determines the quantity and quality of available labour and entrepreneurship – the two important factors

of production. As per the estimates of July 2009, the population of Ethiopia numbers 85.2 million. Since 1984, three approximately decennial Population Censuses (1984, 1994 and 2007) have been conducted by the Central Statistical Authority (CSA) which have given a more clear idea about Ethiopia's population and its structure.

The total number of persons enumerated in the third Population Census, aggregating the May and November data sets, was 73,918,505. Of these, 37,296,657 (50.5%) were males and 36,621,848 (49.5%) were females. The population of the country in the previous censuses of 1984 and 1994 were 39,868,572 and 53,477,265, respectively.

Table 1.4 Percentage distribution of population by sex and census year

Census Year	Sex	Population Size	
		Number	%
1984	Both Sexes	39,868,572	100.0
	Male	20,062,490	50.3
	Female	19,806,082	49.7
1994	Both Sexes	53,477,265	100.0
	Male	26,910,698	50.3
	Female	26,566,567	49.7
2007	Both Sexes	73,918,505	100.0
	Male	37,296,657	50.5
	Female	36,621,848	49.5

Source: CSA, 2008.

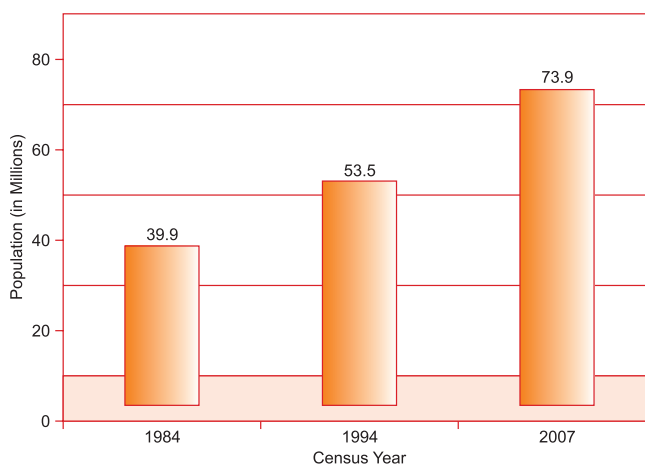


Figure 1.1

Counted population size of Ethiopia (in millions) 1984-2007

Each successive population census has demonstrated that national population size increased in steady increments of significant proportions. For instance, a comparison of the 2007 census results with those from 1994 shows that the population of the country had increased by more than 20 million over the 12 years. Similarly, in the previous decade (1984 to 1994), the population of the country increased by 13.6 million.

Population Growth

The 2007 population census results show that the population of Ethiopia grew at an average annual rate of 2.6 percent between 1997 and 2007 – a decrease of 0.2% from the annual growth rate during the previous period (1984 – 1994). The highest annual growth rate for the period 1994 – 2007 was observed for Gambella Region (4.1%), followed by Benishangul-Gumuz (3.0%), SNNP and Oromia (2.9%).

Population Composition by Sex (gender)

Sex composition is one of the basic characteristics of a population. Sex composition is very important for any analysis, as data on sex provides useful information about reproductive potential, human resources, level of school attendance by each sex, and so on.

As shown in [Table 1.5](#), male population is slightly higher (50.5%) than female population (49.5%) at the national level. Sex composition of the population by region shows variation: in Afar, Somali and Gambella, the number of males exceeds that of females (no change from 1994 census results), while in Addis Ababa the number of females is considerably higher than the number of males.

Table 1.5 Population Size of Regions by Sex (2007)

Region	Sex					
	Both Sexes		Male		Female	
	Number	%	Number	%	Number	%
Country - Total	73,918,505	100.0	37,296,657	50.5	36,621,848	49.5
Tigray	4,314,456	100.0	2,124,853	49.2	2,289,603	44.3
Afar	1,411,092	100.0	786,338	55.7	624,754	44.3
Amhara	17,214,092	100.0	8,636,875	50.2	8,577,181	49.8
Oromiya	27,158,471	100.0	13,676,159	50.4	13,482,312	49.6
Somali	4,439,147	100.0	2,468,784	55.6	1,970,363	44.4
Benshangul-Gumuz	670,847	100.0	340,378	50.7	330,469	49.3
SNNP	15,042,531	100.0	7,482,051	49.7	7,560,480	50.3
Gambella	306,916	100.0	159,679	52.0	147,237	48.0
Harari	183,344	100.0	92,258	50.3	91,086	49.7
Addis Ababa	2,738,248	100.0	1,304,518	47.6	1,433,730	52.4
Dire Dawa	342,827	100.0	171,930	50.2	170,897	49.8
Special Enumeration	96,570	100.0	52,834	54.7	43,736	45.3

Source: CSA, 2008

Population Composition by Age

Age composition is the other basic demographic characteristic of population. Age data are useful for demographic analysis, for various types of socio-economic development planning, and for analysis of labour market and unemployment level of any country. The age-sex structure of the a population is usually depicted graphically by a population pyramid. It is determined by the effects of past fertility, mortality and migration.

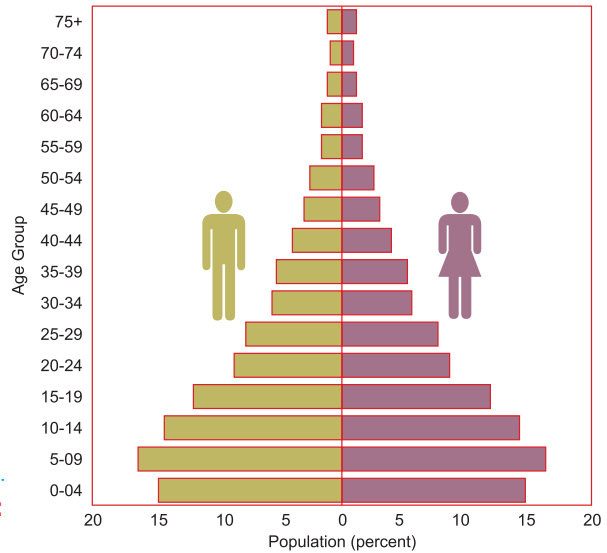


Figure 1.2

**Population pyramid of Ethiopia:
2007 (Source: CSA, 2008)**

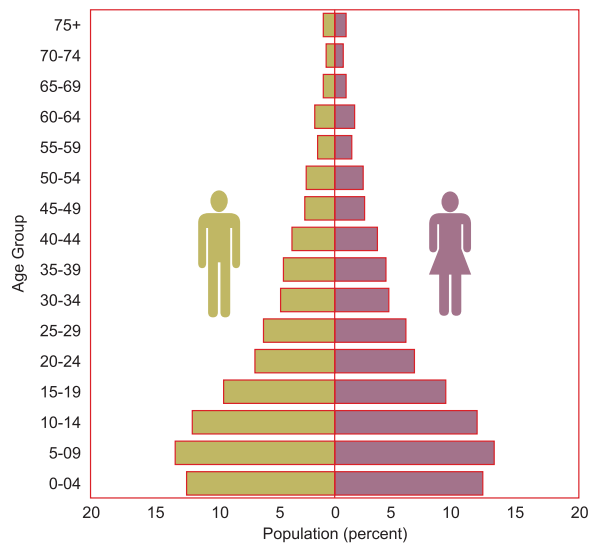


Figure 1.3

**Population pyramid of Ethiopia:
1994 (Source: CSA, 2008)**

The broad base of the population pyramids depicted above shows that a significant proportion of the national population is below age 15, a pattern also observed in the 1994 census.

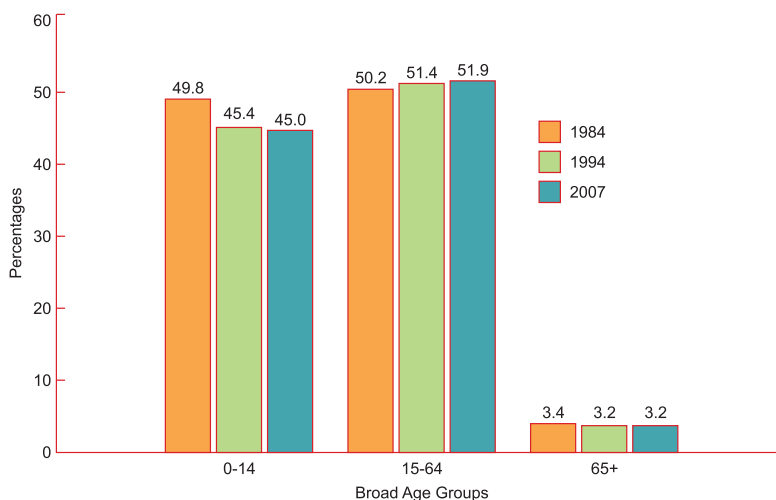


Figure 1.4

Source: CSA 2008

Percentage distribution of the population of Ethiopia by broad age groups: 1984, 1994 and 2007

The distribution of the national population by broad age groups depicted in the above figure shows that the proportion of young population under age 15 declined from 49.8 percent in 1984 to 45.0 percent in 2007. Conversely, the proportion of population in the working-age group (15-64) increased from 50.2 percent in 1984 to 51.9 percent in 2007. The proportion of population aged 65 years and over was 3.4 percent in 1984 and remained constant at 3.2 percent, according to both the 1994 and the 2007 census. In general, there was no significant change percentage-wise in the population of elderly persons between 1984, 1994, and 2007.

Population Composition by Sex on Urban /Rural Bases

Table 1.6 Population Size by Sex on urban-rural bases (2007)

Sex	Urban + Rural		Urban		Rural	
	No.	%	No.	%	No.	%
Both Sexes	73,918,505	100.00	11,956,170	100.00	61,962,335	100.00
Male	37,296,657	50.46	5,942,170	49.70	31,354,487	50.60
Female	36,621,848	49.54	6,014,000	50.30	30,607,848	49.40

Source: CSA, 2008.

Some Other Factors Affecting the Size and Growth of Population

Fertility, mortality, international migration, etc., are some of the important factors that affect the size and growth of the population of a country. Relevant figures are listed below to indicate the population growth, considering the 1984 and 1994 censuses.

Table 1.7 Birth rate, death rate and life expectancy in Ethiopia

Year	1984	1994	2009 Estimates
Crude Birth Rate (CBR)/1000	46.6	44.4	43.66
Infant Mortality Rate (IMR)/1000	110	116	80.8
Under 5 Mortality Rate (U5MR)/1000	166	171	112.0
Crude Death Rate (CDR)/1000	17.1	14.9	11.55
Total Fertility Rate (TFR)	7.5	6.7	6.12
Life Expectancy at Birth (LfaB)	52	50.7	55.41

Source: CSA, 1984 and 1994 Population Surveys.

When we observe the basic features of the population of Ethiopia – size, growth, composition, etc., the country has a relatively high growth rate, high infant mortality rate, low life expectancy and high dependency rate. In order to sustain the process of economic development, it has to restrain population growth. In this context, the government recently included a population component in its overall development program. Also, a national population policy has been formulated which aims at narrowing the gap between high population growth and low economic growth and at the reduction of maternal, infant and child morbidity and mortality rates.

Dependency ratio is the ratio or proportion of economically inactive age-group to the economically active age-group.

$$\text{Dependency ratio} = \frac{\text{Economically inactive age group (children + old aged)}}{\text{Economically active age group (Adult)}} \times 100$$

$$\begin{aligned} \text{DR} &= \frac{45\% + 3.2\%}{51.9\%} \times 100 \\ &= \frac{48.2\%}{51.9\%} \times 100 = 93\% \end{aligned}$$

The age dependency ratio of Ethiopia in 2007 is calculated to be 93%. This means that for every 100 persons in the working age group, there are about 93% dependants. In other words, every person in the working age group has nearly one dependent.

1.2.2 Land

For a country like Ethiopia, where agriculture is the backbone of the economy, land is a very important resource base. In the context of agriculture, *land* here refers not only to areal extent, but to its productivity of food crops and other crops. It is known that Ethiopia has a total area of 1,104,300 square kilometers of which 35 percent is considered suitable for agriculture. The availability of this much land for agricultural purposes is directly or indirectly the result of good soil and suitable climates for the performance of agriculture.

As far as the types of soil is concerned, most of the highlands have two main soil types that are generally believed to be suitable for agriculture. These soil types are:

- **Red-to-reddish brown soils:** *These soil types are well endowed with needed minerals for crops and they are found in areas of relatively good drainage. Further, these soil types are friable – easy for ploughing .*
- **Brownish-to-grey and black soils with high clay content.** *With proper drainage and conditioning, these soils have excellent agricultural potentials.*

Regarding the climatic aspect, the formation of different agro-ecological zones due to altitude has multiplied the resource potential of the land of Ethiopia. The presence of different agro-climate zones results in the growth of different crops that increases Ethiopia's exportable items for earning foreign currency.

1.2.3 Livestock

Ethiopia has the largest livestock population in Africa. The livestock sub-sector is estimated to account for 10% of the GDP and provides employment to over 30% of the agricultural labour force. The activity in the sector has grown since the government ended its monopoly on livestock trading in 1999, thereby encouraging local and foreign private investments in ranches, meat processing, and abattoirs. Livestock and livestock by products generate income in foreign currency in addition to serving local consumption. However, despite some improvement in recent years, especially in terms of an encouraging policy and strategy for the export of livestock and livestock products, the sector still remains under exploited.

Livestock Population

The official estimate by the CSA shows that there were about 43 million cattle

in 2006/07. As 99.4 percent of the total cattle in the country are local breeds, the proportion of hybrid and exotic breeds is small. The predominant cattle breed found in Ethiopia is Zebu. The main cattle breeds identified and characterized so far include the Borena, Fogera, Horo, Sheko (Gimira), Abigar (Nuer), and the Afar. These main cattle breeds are indigenous to the respective regions of Ethiopia.

Ethiopia also has a large number of sheep and goats. There are 41 million head of cattle, 25 million sheep, 23 million goats, 41 million chickens, 5.7 million equines and 2.3 million camels distributed in all the administrative regions. With respect to the type of breed, almost all of the sheep and goats are indigenous. So far, some seven and about twelve breeds/populations of sheep and goats, respectively, have been identified in Ethiopia.

Data on poultry population indicate that the country has about 41 million poultry of different varieties. About 95 percent of the poultry are known to be indigenous, while the remaining are hybrid and exotic.

Livestock Products

- *It was estimated that 2.63 million liters of cow's milk and 114.18 liters of camel's milk were produced from rural sedentary and resettlement areas of the country in 2006/07.*
- *Annual egg production in 2006/07 was estimated to be 81.7 million.*
- *Estimates also show that 51 million kilograms of honey were produced in 2006/07 from 4.9 million beehives.*

Despite the huge livestock resource and the important role expected of livestock, the livestock sub-sector of the country is characterized by low productivity and production.

To conclude, we may say Ethiopia has a large number of livestock with considerable potential to contribute to the national economy if adequate attention is given to developing the subsector.

Livestock Development

The constraints that hindered livestock development can be broadly categorized as:

- ***Environmental** – the presence of diseases like, Tsetsefly, etc. that kill thousands of cattle every year.*

- **Technical** – shortage of trained personnel to guide and use dairy farms as well as to fatten the cattle.
- **Infrastructural** – lack of water supply and road networks to transport the cattle to the required destinations in a timely way with less exhaustion of the livestock.
- **Institutional** – shortage of veterinary and other services for the rearing of better quality livestock.

1.2.4 Fishery

Ethiopia's lakes, rivers, and reservoirs are fertile fishing grounds. The ten-year perspective plan in 1983/84 estimated that the country had the potential to produce more than 92,000 tons of fish. But actual production in 1983/84 was estimated at 600 to 1,200 tons. Furthermore, a study reported that only 15,389 tons were actually caught in 2001. The fishery sub-sector of the economy is estimated to contribute only about 1% of the gross domestic product.

In the post-1974 period, government encouraged the establishment of fishery associations and cooperatives along the Red Sea coast and in the Great Rift Valley lakes area. In 1978 the government established the Fish Production and Marketing Corporation (FPMC) to help improve the Ethiopian fish industry. Under the current government, with financial aid from the United Nations Development, the second Five-Year Agricultural Development Plan (2001-2005) also laid down a number of targets to improve the yield of Ethiopia's fisheries, but still a number of problems remain to be overcome. The absence of laws regarding commercial fishing until 2002/2003 led to localized overfishing. Some commercially important species are already suffering from over-exploitation.

1.2.5 Forestry

In the late nineteenth century, about 30% of Ethiopia was covered with forests. The clearing of land for agricultural use and the cutting of trees for fuel gradually changed the scene, and today forest areas have dwindled to about 3% of country's total land. An estimated 3.5 million hectares of natural forest presently remains in 58 areas designated as National Forest Priority Areas (NFPA). Of these, 13 are managed under integrated forest management systems, with about 80,000 hectares of industrial forest having been established for limited sustainable exploitation.

Economic Significance of Forestry

Lumber from the coniferous forests is important to the construction industry. The broad-leaved evergreen forests furnish timber that is used in construction and in the production of plywood. The woodlands are major sources of firewood and charcoal. Certain trees – *boswellia* and species of *commiphora* – are of special economic significance. Both grow in the arid lowlands and produce gums that are the bases for frankincense and myrrh. A species of acacia found in several parts of the country is a source of gum arabic used in the manufacturing of adhesives, pharmaceutical products, and confectionery. The eucalyptus, an exotic tree introduced in the late nineteenth century and grown mainly near urban areas, is a valuable source of telephone and telegraph poles, tool handles, furniture, and firewood. It is also a major source of the material from which fiber-board and particleboard are made.

Forest Conservation Efforts by the Government

Before 1974 about half of the forestland was privately owned or claimed to be owned, and roughly half was held by the government. There was little government control on forestry. The 1975 land reform nationalized forestland and sawmills, which existed mostly in the south. The government controlled harvesting of forestland. But this measure encouraged illegal logging and accelerated the destruction of Ethiopia's remaining forests.

To ensure that conservation activity conformed with government policy and directives on land use, reforestation programmes were organized through the Ministry of Agriculture and Rural Development or district offices that planned, coordinated, and monitored all work. Reforestation programs resulted in the planting of millions of seedlings in community forests throughout the country. A variety of non-government organizations, which had to organize their activities through local peasant associations, supplemented government efforts to rehabilitate the country's forests. Later on, the Ethiopian Forestry Action Plan (EFAP) was launched to improve woodland conservation, increase public participation in reforestation projects, and prevent further depletion of existing forest resources.

1.2.6 Energy

The Ethiopian energy sector can be classified into two sub-sectors:

- i traditional and
- ii modern

The major traditional energy resources consist of fuel wood, crop residues, animal dung, and charcoal. These energy resources satisfy most of the energy needs of the country, and they are readily available and can be produced using traditional methods. However, except for the crop residues and animal energy, whose share is low, the main energy resources, i.e., wood and its by product, charcoal, are derived from forest resources which are continuously diminishing. As a result, the state of traditional fuel is on the road to destruction rather than development.

The main modern energy source upon which Ethiopia depends is hydroelectric power. According to the available data, the country has a natural potential to generate about 30,000 megawatts of hydroelectric power annually. However, what has been developed amounted to only 2000 megawatts, in 2011, which was about less than 10% of the total potential. Of the total electric-power generating capacity of 706 MW in 2004, 94% or 663 MW were from water, while the remaining 43 MW were largely from diesel and, to a limited extent, from geothermal resources. In addition to this, because Ethiopia is geographically situated in the tropics, it gets a lot of annual sunshine and long days of sunlight, and thus is blessed with a great deal of solar energy. But unfortunately this energy resource has not yet been developed much.

Another potential of Ethiopian commercial energy resources are oil and bio-gas. As of 2011, all the oil that the country consumed was imported. The demand for it has also increased over time. The amount of oil products imported in 1992/93 was 555 thousand tons. This import had reached 1.1 million-tons by the year 2002.

Although petroleum explorations undertaken so far have not yet shown concrete results, it is believed that the country has other source of fossil fuel resources; Ethiopia has a proven deposit of about 100 billion cubic meters of natural gas and over 200 million tons of coal. Although efforts have been made over the past few years to develop these energy resources, and attempts are still underway, no concrete results have been achieved as yet.

1.2.7 Minerals

A wide variety of minerals including metals, non-metals (the most important currently being gold), as well as industrial and energy minerals, are extracted by various types of quarrying activities in the country. However, the exploitation and development of these minerals is at its infant stage. Mining contributes only

about 1% to Ethiopia's GDP. Gold, marble, limestone and tantalum are the major minerals mined in Ethiopia. Meanwhile, additional explorations have confirmed the presence of deposits of platinum, tantalite, soda ash and phosphate rock. The capital intensity of the production process and technical problems have been the major constraints to the exploitation of the country's mineral resources.

Recent changes in the government's foreign investment policy and new tax-incentive plans are expected to give positive results in the development of the mining sector in Ethiopia.

Table 1.8 gives an idea about the production of two major minerals – gold and tantalum, over the period 1998 – 2007.

Table 1.8

Gold (kg)	Tantalum (ton)	Year
3,291	50	1998/99
3,206	66	1999/00
4,641	46	2000/01
4,916	136	2001/02
4,453	58	2002/03
3,458	71	2003/04
3,813	93	2004/05
3,456	109	2005/06
3,342	117	2006/07

Source: CSA, 2008.

1.2.8 Environment

Land degradation, which is accelerated by soil erosion and loss of soil fertility, deforestation and overgrazing, with their concomitant impacts on the loss of biodiversity, and water resource degradation are challenging environmental problems of Ethiopia. Water pollution, especially in urban and suburban areas, has also become a growing environmental problem. In recent years, the government has taken several measures to curb the environmental problems of the country. Some of these are as follows:

The Environmental Policy of Ethiopia

The Environmental Policy of Ethiopia states: "The overall goal is to improve and enhance the health and quality of life of all Ethiopians and to promote sustainable social and economic development through the sound management

and use of natural, human-made and cultural resources and the environment as a whole so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs.”

Establishment of the Environmental Protection Authority (EPA)

The Environmental Protection Authority (EPA) is an autonomous government agency responsible for harmonizing environmental protection and economic activities so that both economic and environmental improvements become sustainable.

Establishment of the Regional Environmental Coordinating Committees

These regional committees oversee environmental protection in their respective regions and draft laws on overall environmental regulation, environmental impact assessment (EIA), and pollution control. Procedural and sectoral guidelines for EIA have also been developed.

Establishment of Regional Environmental Agencies

To oversee environmental affairs of their respective regions, Oromia, Amhara, and the Addis Ababa City Administration have established respective environmental agencies. Some of the regions have also issued environmental proclamations and formulated standards.

Establishment of Environmental Laboratories

The Environmental Protection Bureau of the Addis Ababa City Administration has established an environmental laboratory and research center.

In general, the government has marked certain priority areas of action in environment, which include:

- *Strengthening and expanding ongoing efforts to address the critical problem of land degradation and other allied problems of deforestation, overgrazing, soil erosion, etc.*
- *Strengthening regulatory and institutional capacity, and*
- *Strengthening measures taken for the preservation, development, management and sustainable use of biodiversity resources.*

However, it is necessary to point out here that since the nature of environmental issues and problems is multidimensional, a collective effort by the government, the private sector, non-governmental organizations (NGOs), and the local communities is the only approach which can produce environmental protection and conservation.

Note

Ethiopia has accepted the following international agreements on environment:

Biodiversity, Climate Change, Climate-Change-Kyoto Protocol, Desertification, Endangered Species, Hazardous Wastes, Ozone Layer Protection.

Activity 1.2



- 1 If possible, collect the available information about the population of your village/town/city. Compile the information systematically and make an analysis to find out the average annual growth rate and the population composition by sex.
- 2 Prepare a report on the natural resources of your local area/region.
- 3 What are the various environmental problems that your village/town/city is facing? Give your suggestions for solving these problems and for the protection of your local environment. Also indicate if these suggestions will be useful in solving the environmental problems of Ethiopia at the national level.
- 4 What policy measures are taken by your local authorities to protect the environment in your locality?

Content Check 1.2



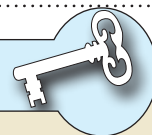
- 1 Why does rapid population growth rate become a burden instead of being a resource?
- 2 What are the possible advantages to the Ethiopian economy of possessing diverse agro-climatic zones?
- 3 List down the factors that are responsible for the rapid growth of population in Ethiopia.

1.3 NATIONAL DEVELOPMENT OBJECTIVES AND STRATEGIES — A HISTORICAL REVIEW

At the end of this section, you will be able to:

- identify national development plan objectives and strategies; and
- analyse (compare and contrast) the national development plans of the Monarchy, Military and EPRDF Governments.

Key Terms and Concepts



- Agro-industrial
- Nationalization

- Poverty alleviation

Start-up Activity

- 1 When did Ethiopia begin to launch national development plan? Was it successful?
- 2 What were the battle – necks for its success?

Ethiopia is the oldest independent country in Africa and one of the oldest in the world.

The ancient Monarchy maintained its freedom from colonial rule with the exception of a short-lived Italian occupation from 1936 – 41. In 1974, a military junta, the ‘Derg’, deposed Emperor Haile Selassie I (who had ruled since 1930) and established a socialist state. Torn by bloody coups, uprisings, wide-scale drought, and massive emigration problems, the regime was finally toppled in 1991 by a coalition of rebel forces, the Ethiopian People’s Revolutionary Democratic Front (EPRDF). A constitution was adopted in 1994, and Ethiopia’s first multiparty election was held in 1995.

1.3.1 National Development Plan during the Monarchy

When their occupation of Ethiopia ended in 1941, the Italians left behind a country whose economic structure was much as it had been for centuries, although there had been some improvements in communications, particularly in the area of road building, and attempts had been made to establish a few small industries and to introduce commercial farming.

During the late 1940s and the 1950s, much of the economy remained unchanged. The government focused its development efforts on expansion of the bureaucratic structure and ancillary services. By the early 1950s, Emperor Haile Selassie I had renewed calls for a transition from a subsistence economy to an agro-industrial economy. A key element of the emperor’s new economic policy was the adoption of centrally administered development plans. Between 1945 and 1957, several technical missionaries, including one each from the United States, the Food and Agriculture Organization of the United Nations (FAO), and Yugoslavia,

prepared a series of development plans. However, these plans failed to achieve any meaningful results, largely because basic statistical data were scarce and the government's administrative and technical capabilities were minimal. In 1954/55 the government created the National Economic Council which helped to prepare Ethiopia's first and second five-year plans.

The First Five-Year Plan (1957 – 61)

Main Objectives

- *Development of a strong infrastructure, particularly in transportation, construction, and communications, to link isolated regions.*
- *Establishment of a cadre of skilled and semiskilled personnel to work in processing industries to help reduce Ethiopia's dependence on imports.*
- *Acceleration of agricultural development by promoting commercial agricultural ventures. During the plan period, the gross national product (GNP) increased at a 3.2 percent annual rate, as opposed to the projected figure of 3.7 percent, and growth in economic sectors such as agriculture, manufacturing, and mining failed to meet the national plan's targets. Exports increased at a 3.5 percent annual rate, whereas imports grew at a rate of 6.4 percent per annum, thus failing to correct the negative balance of trade that had existed since 1951.*

The Second Five-Year Plan (1962 – 67) and the Third Five-Year Plan (1968 – 73)

Main Objectives of the Plans

The second plan's objectives:

- *To change Ethiopia's predominantly agricultural economy to an agro-industrial one.*
- *Diversification of production, introduction of modern processing methods, and expansion of the economy's productive capacity to increase the country's growth rate.*

The third plan's objectives:

- *Raising manufacturing and agro-industrial performance.*
- *Expansion of educational opportunities.*
- *Improvement in peasant agriculture.*

The Second Five-Year Plan and the Third Five-Year Plan anticipated that the economy would grow at an annual rate of 4.3 percent and 6.0 percent, respectively.

But the Planning Commission never assessed the performance of these two plans, largely because of a shortage of qualified personnel.

However, according to data from the Central Statistical Authority, from 1960/61 to 1973/74 the economy achieved sustained economic growth. Between 1960 and 1970, for example, Ethiopia enjoyed an annual average growth rate of 4% in per-capita gross domestic product. The manufacturing sector's growth rate more than doubled (from 1.9 percent in 1960/61 to 4.4 % in 1973/74), and the growth rate for the wholesale, retail trade, transportation, and communication sectors increased from 9.3 percent to 15.6 percent. By the early 1970s, Ethiopia's economy not only had started to grow but also had begun to diversify into areas such as manufacturing and services. However, these changes failed to improve the lives of most Ethiopians.

This failure could be attributed to the feudal land tenure system that deprived millions of rural peasants from the right to appropriate land and other resources. This deprivation resulted in the decline of production and outbreaks of riots against the system.

1.3.2 National Development Plan under the Derg

The 1974 revolution by the Derg resulted in the establishment of a socialist state which aimed at the nationalization and restructuring of the Ethiopian economy. Economic planning and development in the post-revolution period had four distinct phases.

- i **1974-78:** During this period there was little economic growth. Instead, the government's nationalization measures and the highly unstable political climate caused economic dislocation in sectors such as agriculture and manufacturing. Additionally, the military budget consumed a substantial portion of the nation's resources. As a result of these problems, gross domestic product increased at only an average annual rate of 0.4%.
- ii **1978-80:** During this period, the economy began to recover as the government consolidated power and implemented institutional reforms. The government's new Development Through Cooperation Campaign (commonly referred to as *zemecha*) also contributed to the economy's improvement. Consequently, gross domestic product grew at an average annual rate of 5.7 percent. Benefiting from good weather, agricultural production increased at an average annual rate of 3.6 percent, and manufacturing increased at an average annual rate of 18.9 percent.

- iii **1980-85:** Various annual development campaign programmes were implemented during this period, but still the economy experienced a setback – gross domestic product declined, manufacturing took a downturn, and agriculture reached a crisis stage. This happened because of four reasons:
- *widespread drought all over the country,*
 - *manufacturing sector stagnated as agricultural inputs declined,*
 - *lack of foreign exchange and declining investment, and*
 - *high rise in defence expenditure.*
- iv **1985-90:** The government prepared a ten-year perspective plan for the period 1984-94, which aimed at the development of agriculture, enhancement of exports, and improvement in the quality of livestock. To achieve this, strategies of *cooperativisation* and establishment of state farms, etc., were adopted. As a result, the agricultural decline was reversed and the manufacturing sector also grew. Gross domestic product increased at an average annual rate of 5 percent. However, the lingering effects of the 1984-85 drought undercut these achievements and contributed to the economy's overall stagnation during this period.

1.3.3 National Development Plan in EPRDF (1992 – 1996)

The EPRDF government initiated the Five-Year Development Program known as *Peace, Democracy and Development Program* which emphasized the interrelationships between peace, democracy and development. Major goals and objectives of the programme were as follows:

- *Poverty alleviation through rapid economic growth.*
- *Ensuring peace and security by strengthening a political system that promotes people's equality and fraternity guaranteeing administrative justice and peaceful coexistence with neighbouring countries.*
- *People's participation in the democratic governance of the country.*
- *Implementation of an efficient educational system and improvement in the quality of education.*
- *Development of a governance system that ensures social justice.*
- *Implementation of a prevention-oriented health care system based on cooperation and participation of the private sector.*

Some Recent Development Programs of EPRDF

Sustainable Development and Poverty Reduction Programme (SDPRP)

The program was launched in 2002 following wide-ranging public consultations in 2001 and covered a period of three years 2002/03 – 2004/05. It was built on the following goals and concepts:

- *Agricultural Development-Led Industrialization – ADLI*
- *Food security*
- *Decentralization and empowerment*
- *Capacity building in the public and private sector, and*
- *Reforms in both the justice system and the civil service.*

The first year of the programme was marked by a drought which led to an 11.6% fall in agricultural productivity, contributing to a 3.6% fall in gross domestic product. It was because of this that the average growth for the three-year period was 5.5%. However the country experienced 11.3% and 8.8% growth during the second and third years, respectively.

Plan for Accelerated and Sustained Development to End Poverty (PASDEP)

The programme covered a period of five years — 2005/06 – 2009/10. It was built on the directions pursued under SDPRP and aimed at private-sector development and at the scaling up of resources to achieve the MDGs (Millennium Development Goals).

Overall Objectives of PASDEP

The main objective of PASDEP was to lay out the directions for accelerated, sustained, and people-oriented development and to pave the groundwork for the attainment of the MDGs by 2015.

The purpose of achieving this PASDEP objective was to contribute to the attainment of Ethiopia's vision of becoming a middle-income country.

The country's vision, specifically for the economic sector, set the following goals:

- *To build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy;*

- *To sustain economic development and secure social justice; and*
- *To increase per-capita income of citizens so that it reaches at the level of those in middle-income countries in the coming 20 years.*

The term of the programme was completed in June 2010, and its performance has yet to be evaluated. However, the general observations were that it achieved good results in the road construction and energy sectors, although the performance of the agriculture and export sectors was less than expected. Note that the five-year period of PASDEP was affected by multiple problems, including less donor support than expected, poor rainfall, and the global financial crisis of 2008-09.

Growth Targets for PASDEP

- *Annual average real GDP growth rate of 7% per annum during the PASDEP period 2005/06 to 2009/10;*
- *Annual average agricultural value added growth of 6.2% per annum;*
- *Annual average industrial value added growth rate of 11.5% per annum;*
- *Annual average services sector value added growth rate of 7.1% per annum.*

National Development Policy Framework of Ethiopia

- Fight and eradicate poverty through achieving broad-based and pro-poor growth;
- Medium-term plans/programs such as the previous Sustainable Development and Poverty Reduction Programme (SDPRP) and the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) were primary vehicles for overall socio-economic transformation and for achieving the Millennium Development Goals (MDGs);
- The SDPRP, which spanned the three-year period (2002/03-2004/05) and was launched in 2002 following wide-ranging public consultations in 2001, was built on agriculture, rural development and food security (Agriculture Development Led Industrialization-ADLI), decentralization and empowerment, capacity building in the public and private sector, and reforms in both the justice system and the civil service;
- The Plan for Accelerated and Sustained Development to end Poverty (PASDEP) was a five-year (2005/06-2009/10) strategic framework to build on the directions pursued under the SDPRP. The PASDEP deepened the fundamentals of the SDPRP, private sector development, and the scaling up of resources to achieve the MDGs.

Source: Ministry of Finance and Economic Development.

Note

The next five-year plan, the Growth and Transformation Program (GTP) replaced the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and was effective as of fiscal year 2010-11. According to the Ministry of Finance and Economic Development, this plan emphasizes roads, telecommunication, energy and water sectors.

Activity 1.3

You have studied the national development plans of the country and also the goals and objectives of these plans and the strategies adopted to achieve the objectives. Suppose you were given the responsibility to formulate a national development plan for Ethiopia, what would be the objectives of your plan? Indicate the approaches and strategies you would implement to obtain those objectives.

Content Check 1.3

- 1 What is the overall objective of setting national development plans in Ethiopia?
- 2 What were the targets achieved by the Ethiopian government in its first Five-year plan (1957 – 61)?
- 3 Present your opinions as to why the GDP increased at an average annual growth rate of less than 1%.
- 4 Identify the challenges faced by EPRDF's development plan adopted for 2002/03 – 2004/05.

UNIT REVIEW

UNIT SUMMARY

- ❑ The Ethiopian economy is predominantly agrarian with over 85% of its population living in rural areas and engaged in agricultural and allied activities.
- ❑ Agriculture contributes over 40% to the GDP of the country and generates over 80% of total export earnings.
- ❑ The agricultural sector suffers from problems such as periodic drought, soil degradation, high population density, and lack of agricultural technology.
- ❑ The main crops grown are: teff, barley, maize, wheat, horse beans, sesame, soyabeans, coffee, tobacco and sugarcane.
- ❑ The industrial sector of Ethiopian economy is smaller than the agriculture and service sectors.
- ❑ The industrial sector contributes about 13% to the GDP and 9.5% to employment.
- ❑ The main manufactured products are: textiles, foodstuffs, beverages, cement, leather products, paper, tiles, clothing, sugar, and oil cakes.
- ❑ The industrial sector suffers from problems such as low level of technology, resource underutilisation, low productivity, low levels of skills and management, and shortages of raw materials and spare parts.
- ❑ As of 2011, the service sector of the Ethiopian economy had contributed its the highest share to the GDP during the years 2008 and 2009. Earlier its share was second highest.
- ❑ A relatively small percentage of population (about 10%) is engaged in the service sector.
- ❑ The most important segment of the services sector is government employment.
- ❑ As per the estimates of July 2009, the population of Ethiopia numbers 85.2 million.
- ❑ The number of males in the population is approximately equal to the number of females.
- ❑ The annual average population growth rate was 2.6% between 1994 and 2007.
- ❑ A significant proportion of the national population is below 15 years of age.
- ❑ Total land area of Ethiopia is 1,104,300 sq. km.
- ❑ Soil erosion has been one of the country's major problems over the centuries.
- ❑ Ethiopia has the largest livestock population in Africa.
- ❑ The livestock subsector is estimated to account for 10% of the GDP.

- ❑ The country has about 43 million cattle, 25.5 million sheep, 23.4 million goats, and 2.3 million camels.
- ❑ The fishery sector is estimated to contribute only about 1% to the GDP.
- ❑ An estimated 3.5 million hectares of natural forests presently remain in Ethiopia.
- ❑ The country derives about 90% of its electricity needs from hydropower.
- ❑ Traditional energy resources include fuelwood, crop residues, animal dung, and charcoal.
- ❑ The minerals mainly mined in Ethiopia are: gold, marble, limestone and tantalum.
- ❑ The mining sector contributes about 1% to Ethiopia's GDP.
- ❑ Land degradation, deforestation, overgrazing, and water-resource degradation are challenging environmental problems of Ethiopia.
- ❑ Under the Monarchy, three Five-Year National Development Plans were implemented: 1957-61, 1962-67, and 1968-73.
- ❑ The National Development Plans formulated under the Derg aimed at the establishment of a socialist state through nationalisation of private enterprises and through restructuring the economy.
- ❑ The EPRDF government initiated the Five-Year Development Programme known as Peace, Democracy and Development Programme.
- ❑ Among the recent development programmes of EPRDF are:
 - ⇒ Sustainable Development and Poverty Reduction Programme (SDPRP), 2002/03-2004/05.
 - ⇒ Plan for Accelerated and Sustained Development to End Poverty (PASDEP), 2005/06-2009/10.
 - ⇒ Growth and Transformation Plan, 2010/11 – 2014/15



REVIEW EXERCISE FOR UNIT 1

1 Write 'True' or 'False' each of the following.

- 1 Agriculture generates over 80% of Ethiopia's export earnings.
- 2 Coffee is a major cash crop of Ethiopia.
- 3 Ethiopia has the smallest livestock population in Africa.

- 4 The contribution of the industrial sector to the GDP of Ethiopia is greater than that of the agricultural sector.
- 5 Ethiopia has a very high industrial base.
- 6 Ethiopia has a relatively high population growth rate.
- 7 Soil erosion has been one of Ethiopia's major environmental problems.
- 8 Ethiopia is a party to Climate Change-Kyoto Protocol.
- 9 Droughts are not common in Ethiopia.
- 10 SDPRP was initiated during the Derg regime.

II Choose the best answer from the given alternatives.

- 11 The contribution of the agricultural sector to Ethiopia's GDP is more than:
 A 40% B 50% C 60% D 70%
- 12 The contribution of the industrial sector to Ethiopia's GDP is:
 A less than 10% C more than 10%
 B equal to 10% D none of these
- 13 Which of the following is not a major manufactured product of Ethiopia?
 A textiles C leather products
 B motor cars D sugar
- 14 The current estimate of Ethiopia's population is:
 A over 80 million C over 120 million
 B over 100 million D none of these
- 15 The Military government ruled the country:
 A during 1940s C after 1991
 B between 1957 and 1962 D between 1974-1991

III Write the full form of the following.

- | | | | | | |
|----|-------|----|------|----|--------|
| 16 | GDP | 20 | CBR | 24 | SDPRP |
| 17 | ADLI | 21 | TFR | 25 | PASDEP |
| 18 | EPRDF | 22 | IMR | | |
| 19 | CSA | 23 | MDGs | | |

IV *Answer the following briefly.*

- 26 Describe how the Ethiopian economy has changed over the years, from the time of the Monarchy to the present time.
- 27 Describe the main features and problems of Ethiopia's agricultural sector.
- 28 Point out the major changes and developments in the industrial sector of the Ethiopian economy, since 1991.
- 29 Of what sub-sectors is the service sector of the Ethiopian economy composed? Also describe the main features of the sector.
- 30 Discuss in detail the structure and composition of the population of Ethiopia.
- 31 What are the major issues and problems related to land and environment in Ethiopia?
- 32 Describe minerals function as an important but less exploited resource of the Ethiopian economy.
- 33 Discuss the status of fishery and forestry in the Ethiopian economy.
- 34 "Ethiopia has a huge livestock resource with considerable potential to contribute to the national economy." Justify the statement.
- 35 Discuss the development of the energy sector in the Ethiopian economy.
- 36 Outline the major steps undertaken by the government in recent years to curb the environmental problems of Ethiopia.
- 37 List the objectives and strategies of the Five-Year National Development Plans during the Monarchy (1960-1973).
- 38 Summarize the economic planning and development that existed during the Derg (1974-1991).
- 39 Discuss the goals and objectives of the Peace, Democracy and Development Programme of the EPRDF government.
- 40 Describe the main features of the National Development Policy Framework of Ethiopia.