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REVIEW OF THE REFORM PORTION OF THE MULTI-YEAR (1992-1995) P.L. 480 TITLE III PROGRAM IN ETHIOPIA
A JOINT USAID GOVERNMENT OF ETHIOPIA ASSESSMENT

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DATE: January 25, 1996

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EXECUTIVE SUMMARY

When the Transitional Government of Ethiopia assumed power in May, 1991, it inherited an economy that was characterized by interventionist policies, state dominance and ownership in all economic sectors. Distortions resulting from government policy tended to tax agricultural production which stagnated over the 17 years of the previous government's rule; the cumulative results being poor overall economic growth and recurring food insecurity. Soon after its establishment, the TGE initiated several changes both in the policy environment and in the organizational structure of the economy. The general thrust of the reforms was the transition from a system of state-led economic management to a market oriented economy. In support of such policy reform, an assistance Program was initiated in 1992 between the TGE and the Government of the United States (USG). It provided US dollars 136 million in agricultural commodity assistance under a multi-year P.L. 480 Title III Program.

With an over-arching goal of enhancing food security in Ethiopia, the Program was to support economic and organizational changes to reduce public sector interventions in the food economy, provide incentives for agricultural production and promote private sector investment. It combined commodity assistance with conditionality associated with reforms under the following three Program components:

- developing a targeted food safety net approach (through liberalization of food markets and the development of a safety net program targeting vulnerable populations);
- increasing jobs, productivity and incomes through the recovery, restructuring and ultimate privatization of the agri-based industrial sector; and,
- promoting a greater role for the private sector in domestic trade.

The sixth amendment to the Program, agreed to in mid 1995, added another component related to increased government intensification efforts in high potential agricultural areas. It also supported the analysis of price stabilization mechanisms and the establishment of market information systems as a means of increasing the efficiency of food markets.

The end of the US fiscal year 1995 marked the completion of the Program and a review of the Program's policy related objectives was found to be necessary as a basis for determination of future areas of collaboration between the USG and the GOE under a similar mechanism. This report represents an assessment of the achievement of the Program's policy related objectives and an appraisal of the impact of the reforms it supported.

The objectives of the first component were to alter the prevailing food system that provided generalized subsidies to one in which subsidies would be targeted to the food insecure population who would be unlikely to enter the market. Over the four years of the Program, significant changes have occurred that lead to such a system. Notably, government intervention in grain markets has been greatly reduced as a result of which the distortions whereby producer prices were depressed and consumer prices were subsidized have been eliminated. Subsidies, to the extent that they have been provided, have been through safety net programs (operated both by the government and various NGOs) or through relief operations.

The Title III Food Security Program provided 261,600 MT of wheat and 137,200 MT of sorghum to the Food Security Reserve and the RRC/DPPC for relief operations. It has also leveraged resources for a one year Safety Net Program (SNP). Changes in the government's policies regarding relief operations have introduced a more developmental approach to the provision of food to communities faced by periodic production shortfalls. The establishment of a Food Security Reserve has enabled more timely allocation of resources for relief purposes. Although implementation problems still persist, it is believed that food aid is used in a more efficient manner.

Regarding the SNP, the government's program has been generally successful in augmenting beneficiaries' meager sources of livelihood in a cost efficient manner. Moreover, different kinds of support that may be more sustainable than simple hand-outs; i.e., revolving fund schemes, support for income generating activities, food-for-work activities and provision of agricultural inputs to poor farmers have been introduced. However, the program reached only a small portion of the food insecure population. Also, as a one year program, it has been unable to fully meet the needs of the chronically poor facing increases in the cost of food without a commensurate increase in wages or employment opportunities. Nor can the positive lessons learned from the program be put into practice under a similar program. Thus, the objective relating to the provision of targeted subsidies to vulnerable populations was only partially met.

In contrast, all indicators regarding effective liberalization of grain markets; i.e., general movement in prices, availability of food on the market, incidence of market segmentation, spatial integration of markets and changes in marketing margins indicate that market liberalization has taken root. Liberalization of grain markets was started before the Title III Food Security Program was implemented and were part of the TGE's overall reform agenda. It is therefore difficult to attribute achievements to the Program. The Program's support for a Safety Net Program and the provision of grain for relief operations did however contribute to food security of vulnerable communities. It can be assumed that by helping to shield such communities from higher prices arising from the elimination of government interventions in food markets, it allowed a smooth transition towards more liberalized food markets.

Some outstanding issues remain. While measures to reduce the scope of marketing parastatals, in particular the AMC/EGTE, have been introduced, *clear operational guidelines regarding the new role of this enterprise have not been provided. With liberalization, there has been large increases in price variability. Cyclical fluctuations in cereal prices are recognized as a problem and one of the EGTE's objectives is to stabilize grain markets. However, the stabilization of food prices is a complicated and costly endeavor and such a scheme must be based on a comprehensive assessment of the costs, benefits and distributional effects of alternative stabilization programs. Also the withdrawal of public enterprises from the market has not been accompanied by aggressive measures to promote the private sector. Small scale operators face many constraints and a few large trading houses with allegedly unfair advantages have entered the market. Promotion of private enterprise in Ethiopia requires investment in human resources* *and improvement in the physical infrastructure as well as the development of a regulatory framework. While this is a long term process, there is some concern that because much of the private sector remains weak, the market is not developing competitively.*

Under the second component over 25,000 MT of cotton was delivered to public textile factories to allow recovery in textile manufacturing that had sharply declined in 1992. *This input was expected to enable government owned textile factories (the major industrial employer) to regain normal levels of production and allow restructuring without a significant loss of employment* and to promote employment in downstream activities since textile factories produced intermediate products the availability of which influenced performance and therefore incomes in small scale enterprises such as weaving and tailoring. Although the Title III Food Security Program did not directly support productivity in the flour mills, it is to be noted that these enterprises also contribute to downstream employment because their production serves as an input to baking activities. The longer term objective of this component of the Program was to reduce government interference in the processed food and textiles sub-sectors, to allow greater incentives for private agribusiness production, and to increase investment from the private sector in these sub-sectors, so as to create jobs, reduce poverty and therefore ensure greater urban food security.

Delivery of cotton in 1992 and 1993 assisted the textile sub-sector to meet its raw material requirement and allowed recovery in textile production albeit at high cost and low productivity. *There is some evidence to suggest that the import of American cotton may have been substituted for the domestic product*[1]*; however, due to their precarious financial position, it is not clear that textile factories would have been able to purchase cotton domestically.* The provision of cotton was a short term measure complemented by policy and institutional reform that was expected to yield longer term results in improved public sector performance and a move toward privatization. The reforms introduced, however, have had mixed results. Reforms include both market liberalization measures and restructuring of public manufacturing enterprises. Market liberalization has been accompanied by higher prices and allowed some private sector investment in the textile and food processing sub-sectors. However, despite significant restructuring, there has not been sufficient improvements in productive efficiency of enterprises.

With increased prices, textile factories have consequently faced a loss in market shares and overall demand for their output. Production of textile by the public sector has to a large extent been substituted by imports. It is to be noted that the increase in imports of <u>fabrics</u> has been less than their domestic production and sales. It is therefore evident that domestic production of garment has been curtailed with a possible loss in employment opportunities. Performance in the flour milling sector is more positive. While prices have increased much of this increase has been absorbed by the baking activities. Moreover, both public and private sector production of flour has increased. Employment within the public sector has been maintained, new investments within the private sector have generated new employment opportunities and given higher levels

1 Cargill Technical Services, <u>Ethiopia Cotton Sector Assessment</u>, November, 1994.

of production, it may be assumed that dynamism in downstream activities has also increased.

Nevertheless, given present levels of production, public manufacturing of both textiles and flour and its products still employs too large a workforce. It is therefore likely that employment levels in the public sector my decline in the future with privatization and/or further restructuring. Yet, growth in private sector investment has not been high enough to ensure an overall increase in employment generation. It is evident that transformation of the manufacturing sector is a complex process and much still needs to be done particularly in terms of the promotion of private enterprise, if this sector is to fulfill its potential for employment and income generation. The Title III Program has contributed towards its recovery, sustainable changes remain for the future.

The objective of the third component of Title III Food Security Program was to promote the development of private domestic traders by eliminating state marketing monopolies phase by phase and providing positive encouragement of private sector. Although it had been expected that 15,000 MT edible oil would be provided over a two year period under this component, during the second call forward conditionality review, it was agreed to waive the entire component conditionality and transfer the resource allocated for the remaining two components. Nevertheless, promotion of the private sector was an integral part of the overall Program. Developments under all components indicate that there is a crucial need for support to private enterprise and that reforms aimed at market liberalization although necessary are not sufficient to encourage a greater role for the private sector. The limited capacity within the private sector has put some enterprises in a position to dominate the market. Moreover, because the rate of implementation of private investment projects is low, opportunities for productive employment outside the public sector are few. The government's role in promoting competition, strengthening private enterprise, dissemination of market information and possibly market stabilization is evident. It does not seem that the time has arrived to leave the private sector to cope for itself.

The review of past performance and achievements points to four areas of possible future institutional and economic reform.

1. Further Definition of Operational Guidelines for Public Enterprises

At the outset of the 1992-1995 P.L. 480 Title III Program for Ethiopia, public enterprises dominated both the marketing and processing of food and thus were able to influence the market generally depressing agricultural prices. Market liberalization measures although begun prior to the Program, continued to be implemented; public enterprises now freely compete with private agents and have reduced their presence in virtually every area. *Moreover, there has been a move towards privatization of those enterprises engaged in productive activities. Thus the role and objectives of public enterprises have been changed. Nevertheless, operational modalities in terms of the new role of those enterprises that are not to be privatized have not been fully defined. For example, while administrative measures that allowed public enterprises a monopoly have been eliminated, such enterprises still retain market power in part because of the physical assets invested in them while the private sector has limited access to capital, transport and storage* *assets. Even though public enterprises make facilities available to private businesses, there is a need to develop a clear and transparent strategy for doing so as the perception of inequitable access to public sector facilities impedes private investment and competition.*

Another area of ambiguity relates to the EGTE that has two objectives: a) market stabilization as stated in its establishment proclamation and b) operating as a profit making business firm as required by the Public Enterprises Proclamation No. 25/85. *While the EGTE may use its profits to cover the costs associated with stabilization, such costs put pressures on the enterprises financial position.* Moreover, the operational modalities for managing a stabilization scheme have not been developed *and the relative benefits of alternative schemes have not been adequately assessed.*

Thus one area of policy and institutional reform that could be considered under a future program could be the development of clearer guidelines for the operation of public sector organizations in market regulation and support to private enterprise. Under, the sixth Amendment to the Title III Program under review, the TGE agreed to take steps towards developing a strategic plan on grain pricing and market stabilization. This could be taken further in the context of the above.

2. Promotion of Private Sector

The response from the private sector both in peasant agriculture and in other sectors of the economy to market liberalization has been limited and therefore its impact modest. While the development of a competitive private sector is an important complement to the withdrawal of the public sector, this has been constrained by a variety of factors including differential access to capital, administrative procedures (e.g., a growing tendency to establish check points on inter-regional trade), poor access to market information, *a weak human resource base and supporting physical infrastructure, etc. While private sector development is a long-term process*, continuing impediments to private operations need to be studied further particularly in terms of concerns expressed regarding the emergence of 'private' regional monopolies.

A second policy area for consideration is therefore that the GOE a) consider barriers to entry *(at the implementation level)* into grain and/or merchandise trade and food processing, b) develop mechanisms to regulate and minimize these; and, c) provide support to enhance private sector operations with the aim of ensuring a level playing field for all market participants. *Promotion of the private sector is a central part of the upcoming three year structural adjustment program developed by the GOE and the IMF and World Bank. The future Title III Program policy reform agenda in this area would support the GOE's commitment under the SAP.*

Measures to strengthen the overall regulatory framework of the economy may be a significant complement. A rural credit policy is not yet in place, anti-trust and consumer protection legislation is lacking and the capacity of the judicial system to enforce legal requirements on business is low. Also, constraints in private sector development limit its responsiveness to government efforts at privatization. It is to be noted that differential access to resources could result in a few owners purchasing the bulk of public property thereby dominating the economy. It is therefore important that the privatization process incorporates a means for monitoring developments in the private sector. An evaluation of the privatization process could therefore also be included as part of this second area of policy reform.

3. Increasing Agricultural Productivity

Even though production of food has been increasing over the past four years, this has not been enough to bridge the food gap and per capita food availability remains low despite significant improvements in producer prices. Thus there appears to be a need to complement reforms in the market with supply side interventions. A commitment to focussed interventions for increasing grain productivity in high potential areas has already been made. This may be taken further in terms of institutionalizing intensification programs with a regular system for evaluation with adequate feedback introduced into the system. As such it would be possible to more closely integrate P.L. 480 Title III assistance with other assistance under USAID/E's sub-goal of enhancing food security in Ethiopia.

4. Continuation of Safety Net Programs

The prevalence of poverty and increases in prices together with the positive experience in implementation of an SNP in Ethiopia argues for a continuation of a Safety Net Program in the future. Those consumers who depend on the market for food purchases such as the landless and marginal farmers, pastoralists and the urban poor can be assumed to be worse off and very likely to have left the market with the increases in food prices witnessed over the past four years. A close look at the organization and implementation of the 1993/94 Safety Net Program, and the benefits each component provided to target beneficiaries in its short duration indicates that the program was managed relatively efficiently and that if resumed could increase benefits based on lessons learned from the initial year of implementation. Indeed, the low levels of impact stem from the very temporary nature of the program already implemented.

The 1992-1995 Title III Program was developed with relatively little input from the TGE and the government participated in the process at the stage of conditionality dialogue and commodity mix negotiations. The policy agenda would be more relevant and follow-up on implementation more effective if a closer partnership were developed. In particular, it has become evident that the Program attempted to address too many separate variables and its management had to deal with a variety of institutions. This may well have been as a result of the lack of full understanding of the existing institutional framework. Closer participation with the government at the design stage it is believed would have both improved the technical soundness of the Program and allowed a simpler approach.

I. INTRODUCTION

The end of the US fiscal year 1995 marked the completion of the fourth program year of PL 480 Title III assistance to Ethiopia. This program has provided an extremely flexible and significant source of food and other agricultural commodity assistance to Ethiopia during a period of continuing food insecurity. The Program was initiated in 1992 between the Transitional Government of Ethiopia (TGE) and the Government of the United States to enhance food security. Upon the TGE's compliance to agreed upon conditions aimed at improving key economic policy areas related to food security, it provided U.S. dollars 136 million in food grains and cotton the four years of its existence.

When the TGE assumed power in May, 1991, it inherited an economy in disarray that was characterized by a well-entrenched centralized structure of state dominance and ownership in all economic sectors. The systematic confiscation of privately owned industries and farms had disenfranchised the private sector and left them skeptical of government intentions. Parastatal enterprises, many with substantial unpaid debts, existed in every sector.[2] Administrative mechanisms that had fixed prices at both producer and consumer levels through the operation of public marketing organizations while somewhat relaxed under a reform program in the late 1980s, still exerted significant influence on the structure and operations of the food markets. An overvalued exchange rate, which had remained at 2.07 Birr to US$1.00 since 1973, discouraged the production of tradeable commodities and fostered the illegal sale of major exports. As a result, the Balance of Payments registered a substantial trade deficit. Distortions resulting from such policies tended to tax agricultural production which stagnated over the 17 years of the previous government's rule. The cumulative result of economic mismanagement led to poor overall economic growth over a period of almost two decades which left the country in a precarious economic condition at the time of the development of the Title III Food Security Program in 1991.

The TGE initiated several changes both in the policy environment and in the organizational structure of the economy soon after its establishment. The general thrust of the reform was the transition from a system of state-led economic management to a market oriented economy. The Title III Food Security Program was designed to support such policy reforms. With an over-arching goal of enhancing food security in Ethiopia, the Program was to support economic and organizational changes that reduce public sector interventions, provide incentives for agricultural production and promote private sector investment in the economy. At the macro-economic level, the it provided balance of payments (BOP) support acknowledging the chronic food gap and the need to import grain; and, recognizing that reforms to reduce distortions in the foreign exchange markets would not bridge the current account deficit in the short-run.

The Program was designed to address transitional challenges. For example, while ultimately the

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2 These enterprises, many of them state farms, had absorbed a significant portion of total investment expenditures in the economy between 1983/84 to 1988/89.

principal responsibility for buying and selling domestic produce and services must devolve to private business people, it was not clear how quickly the private sector could respond to the reforms and replace government parastatals. Moreover, the marketing parastatals were an important means of securing access to food for the urban poor. With radical changes in their activities, there was a real danger that a segment of the population would become susceptible to food insecurity.

The Program combined commodity assistance with conditionality associated with reforms under three Program components. 255,000 MT of grain, 60,000 MT of cotton and 45,000 MT of vegetable oil were to be provided as BOP support to help cover the food deficit, respond to emergency needs and to facilitate policy reform[3]. The three components of the program are:

- developing a targeted food safety net approach (through liberalization of food markets and the development of a safety net program targeting vulnerable populations);
- increasing jobs, productivity and incomes through the recovery, restructuring and ultimate privatization of the agri-based industrial sector; and,
- promoting a greater role for the private sector in domestic trade.

The sixth amendment to the Program, agreed to in mid 1995, added another component related to increased government intensification efforts in high potential agricultural areas. It also supported the analysis of price stabilization mechanisms and the establishment of market information systems as a means of increasing the efficiency of food markets.

This report represents an assessment of the achievement of the Program's policy related objectives. Given that the TGE undertook, through 1992 to 1995, widespread reform measures beyond the scope of the Title III Food Security Program and that economic variables tend to be inter-related, it is difficult to separate out what was achieved solely due to the Program. Therefore, the review has been limited to a general appraisal of the impact of the reforms the Program supported. It's purpose is to highlight lessons learned during the implementation of the Program and suggest possible areas for future collaboration between the USG and the Government of Ethiopia under a similar mechanism. The review was undertaken by four teams. Three teams, each comprised of representatives from the GOE and USAID, reviewed developments in relation to the different components of the Program. A fourth team undertook an assessment of changes in the overall food security situation in the country over the years that the Program was implemented. The methodology adopted for the review consists of desk research supplemented by interviews with officials from relevant government institutions and, given that the Program has a strong emphasis on economic liberalization, with members of the private sector. The findings are presented below. The paper starts with an overview of Ethiopia's food security situation. It then continues with discussions of the three Program components. In conclusion, lessons learned are gleaned and suggestions for future support to policy reform under a similar assistance program are provided.

3 These levels were subsequently adjusted in yearly amendments to the Program.

II. OVERVIEW OF ETHIOPIA'S FOOD SECURITY SITUATION

Food security, as defined by the PL 480 Title III Guidance, is access by all people at all times to sufficient food and nutrition for a healthy and productive life. At the time of the development of the Title III Program for Ethiopia, food insecurity in the country was evident. It was estimated that nearly 20% of the Ethiopian population were not able, even in years of relatively good domestic production to secure enough food through their own resources to lead a healthy and active life (Title III Program PAAD; 1991). On a national basis, the record was of a continuous deficit in per capita food availability. Table II.1 below provides the conservative estimate of the food deficit in 1991/92 provided in the PAAD; illustrating the perceived food insecurity of the country at the time the Program was initiated.[4]

Table II.1 Estimates of the 1991/92 Food Deficit in '000 MT

ITEM	measure
1991/92 production of cereals, pulses and other food less seed, feed and waste	7090
draw-down of food aid stocks	100
availability for consumption in 1992	7190
1992 consumption requirement (on the basis of an estimated population of 51.7 million)* cereals 123kg/capita; pulses 13kg/capita; other 21kg/capita	8120
import requirement	930
anticipated net commercial imports	50
food deficit (aid requirement in cereals)	880

* figures used are based on FOA's estimate of requirements that is significantly lower than the Ethiopian Medical Association's Estimate of a 225kg/capita/annum requirement and even OFDA's estimate of 171kg/capita/annum requirement
source: Title III Food Security Program, PAAD(Annex A)

Given that the actual deficit during 1991/92 was 1.9 million MT and that population growth is estimated to be around 3% a year, reversing the situation required that production or commercial imports of food grow by at least 15% a year during the life of the Program. It is to be noted that this would not necessarily guarantee consumption by all sections of the population at the minimum standard. Inadequate availability of food could persist in some areas despite adequate

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4 *This is based on forecasts of production at the time and are over-estimated. Actual production of cereals and pulses in 1991/92 were only 5610 thousand MT (availability from domestic sources therefore 4719 thousand MT). The actual deficit at 1.9 million MT was therefore much higher than indicated in Table II.1*

production at the national level due to localized production shortfalls, concentrations of displaced persons and the limited capability of vulnerable populations to purchase their food needs.

By 1992, the TGE had taken firm steps toward key policy and structural changes affecting food security. These included: a) commodity and service market reforms; b) revitalization of the state owned medium and large scale industrial sector engaged in processing of agricultural products (including food) with the intent of restructuring and possible privatization of public enterprises; and, c) reorientation of agricultural services toward individual farmers and voluntary farmers' associations.[5] Subsequent policy changes during the life of the Title III Program built upon these developments.

1. Economic Reform Program

In October, 1992, the TGE introduced macro-economic stabilization measures in the context of a Policy Framework Paper jointly prepared by the TGE, the World Bank and the IMF. Measures included currency adjustment, monetary reform and fiscal contraction and restructuring. n addition to such reforms, the government was able to make significant adjustments in those areas that directly impact on food security; i.e., agricultural production and grain marketing. Most measures were set in motion before the initiation of the Program. The TGE deepened relevant reforms during 1992 - 1995.

1.1 Liberalization of Markets

Reforms associated with market liberalization had proceeded furthest at the time of the initiation of the Title III Food Security Program. To diminish the influence of administrative mechanisms on the food markets, policies to abolish compulsory sales of cereals to the Agricultural Marketing Corporation (AMC) had been reaffirmed, initial steps to restructure government organizations directly involved in trade were introduced and the intention to move rapidly toward full liberalization of the transport sector was announced and subsequently carried through. During the four years of the Title III Program, the AMC's (restructured as the EGTE) role in the grain market was reduced significantly with major downsizing in staff, operating units and market share. In 1992/93, the year following its restructuring, the EGTE purchased, at open market prices, 71.2 thousand MT of grain or 23 percent of average annual purchase levels over a five year period before the reform.

Public manufacturing enterprises formed a key link in the government's interventions in the food and agricultural markets. Many were engaged in the processing of agricultural output and operated within a system of fixed prices. They purchased raw material according to government allocations, sold their output according to government directives, were supported by subsidies, and operated within administratively set processing margins. The New Economic Policy for the

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5 See PAAD for further elaboration on reforms undertaken prior to the implementation of the Program

Transitional Period indicated an intention that the state would withdraw from productive activities and that therefore the liberalization measures would not be limited to cereal markets. The TGE has subsequently eliminated government distribution of raw material to public manufacturing enterprises, ceased the determination of prices and abolished requirements that manufacturing enterprises sell to government institutions or marketing parastatals. Measures to reorganize the state owned industrial sector and restructure enterprises to give them more managerial autonomy, and rationalize their organizational structures have also been introduced. Finally, administrative restrictions on private sector investment in grain marketing and processing as well as merchandise trade were abolished. Privatization of state owned grain processing enterprises has also been recently begun.

The above reforms have had winners and losers in food security terms. At the farm level, surplus farmers are receiving more for their crop than ever before. It is, however, unclear whether net incomes have increased as prices of non-agricultural commodities have also been rising. Nevertheless, incentives for agricultural production seem to have improved. At the marketing level, established merchants have more competition and possibly reduced margins. There is some evidence that inter-regional grain flows have increased and that the differentials between framgate and consumer prices have declined. Finally, food supplies in deficit areas have increased and the quality of grain in urban markets has improved. However, price increases (resulting from the elimination of subsidies on food products as well as the elimination of the implicit tax on agriculture maintained through the former system of market interventions) have hurt those segments of the population that rely on the market for access to food; urban consumers, the rural poor, deficit farmers, pastoralist and cash-crop farmers.

Policy and organizational reforms relating to market liberalization impact directly on the goals and objectives of the Title III Food Security Program and are therefore discussed in more detail later in the paper.

1.2 Changes in Production Policy

In addition to market liberalization, the TGE took steps to change the organization of agricultural production. Producer and service cooperatives established during the previous regime were allowed to collapse and their preferential access to services, inputs, credit, etc. ceased. Moreover, the TGE indicated in the New Economic Policy for the Transitional Period that its agricultural strategy would emphasize revitalizing (individual) peasant production. Additionally, through the Emergency Rehabilitation and Reconstruction Program (ERRP), measures to enhance the distribution of fertilizer and thereby boost immediate production were also introduced. In 1991, the government, however, had not developed a coherent program for positive support to producers and analysts in many quarters have noted a host of constraints to increasing peasant output which remained to be addressed if the benefits of market liberalization are not to be eroded (or supplanted) by increased inflationary pressures (PAAD;1991).

The trend to rehabilitate and revitalize peasant agriculture continued in the government's Agricultural Led Industrial Growth Strategy developed in 1993. This strategy placed heavy emphasis on agricultural growth as the engine of economic recovery and the base for industrial expansion. Although focusing on growth, the strategy directed most of it efforts to the development of more marginal areas (where improved technologies were lacking) and to commercial farms. In the new Five Year Economic Growth Plan adopted, in may 1995, by the Ethiopian Peoples Revolutionary Democratic Front (EPRDF), the coalition government, The lack of emphasis on increasing productivity in high potential areas was rectified. The plan places equal emphasis on high and low potential agricultural areas with the former playing the lead role in narrowing the current food gap. Complementing this latter plan there has been the promulgation of a new Fertilizer Policy that encourages private sector investment in retail, wholesale and import operations and the sequenced deregulation of fertilizer prices; the adoption of a new Cooperative Policy that restructures rural cooperatives as private sector cooperations owned by their members; an ongoing review of the nation's rural banking policy with the possibility of new legislation in the near future; and, the development and implementation of a major government effort to intensify agricultural production in high potential areas.

There is little doubt in most observers minds that the GOE is moving in the right direction with its agricultural policies. However, given their recent evolution there has been little in the way of an agricultural supply response associated with the changes.[6] Additionally, constraints at different levels in the government may be short circuiting the transmission of these policies to the individual investor level. An institutional analysis carried out by USAID/E in the preparation of its new agricultural program found limited policy analysis capacity within key central agricultural related Ministries, weak linkages between these Ministries and between their colleagues at the regional and zonal authorities and limited and often clouded lines of authority and responsibility.

Although it is difficult to assess the impact of the institutional structure on the translation of new policies into practical actions, the commitment that the transitional government made to shifting financial and human resources in support of peasant agricultural is measurable. Here there are three overall measures that can be explored: the relative importance that the agricultural sector has played in national budget allocations, the shifts that have occurred within the agricultural budget and the degree to which resources have been shifted from the center to the region for their use. Each of these areas are examined briefly below.

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6 Production of major crops grew by 34% through 1991/92 to 1994/95 (picking up from the poor performances in 1991/92 at a rate that was lower than the period following the 1984 famine). Production is projected to increase substantially this year. An exceptionally good 1995 growing season due to adequate and well timed rainfall and increases in area under production rather than major increases in productivity account for such projections. Increases in productivity would imply substantial increases in fertilizer sales. However, peasant sector fertilizer sales increased only by 22% or from 183,400 MT to 223,000 MT from 1994 to 1995. This marginal increase would account for a maximum increase in production of 118,800 MT in additional production far below the 2.0 million MT increase in grain production projected for 1995/96.

Table II.2 Agriculture's Share of the National Budget (1991/92 and 1995/96)

Budget Item	199/92		1995/96		change over the period	
	amount	%age	amount	%age	amount	%age
Total Budget	4,651,759,000	100	9,667,350,100	100	5,015,591,100	107.8
Economic Development Budget	1,557,029,400	33.5	3,909,983,073	40.4	2,352,953,673	151.1
Agricultural Budget*	560,757,300		1,259,140,664		698,383,364	151.1
share of total budget		12.1		13.0		1.0
share of the economic development budget		36.0		32.2		-3.0
peasant agricultural budget**	146,425,700		545,068,000		398,642,300	272.2
share out of capital budget (econ. dev.)		11.4		25.4		14.0

notes: * includes Agriculture line item, a portion of Natural Resources invested in rural areas and all rural roads construction; 1995/96 figure also includes the budgeted fertilizer subsidy

** includes only that portion of the economic development capital budget committed to peasant agriculture. The economic development budget was used because of changes in the way the agricultural capital budget was defined between 1991/92 and 1995/96

source: FDRE Budget Statistics

Implicit in the government's Agricultural Led Industrial Growth Strategy, is strong government support of agricultural development programs. As Table II.2 suggests, the total agricultural budget has increased by 124 % over the period rising from 560.8 million Birr in 1991/92 to 1259.1 million in 1995/96. This increase has slightly out paced the overall budget increase and has meant that agriculture's share of the total national budget has increased over the period although by only 1%. The analysis suggests that when compared with budgetary allocations to all other development expenditures, agriculture has not fared as well. During the period, the economic development budget increased by 151% with the agricultural component increasing only 125%. For every new Birr invested in the Ethiopia's development budget in 1995/96, agriculture received 32 cents while other development activities received 68 cents. It is to be noted however that social sectors, such as education and health that have an important impact on labor productivity in the agricultural sector had been significantly under financed over the previous decade or more. Increases in the development budget tend to reflect additional allocations to these sectors. *Also, investments in such areas as energy and infrastructural development tend to be capital intensive while this is not so in the case of expenditures on improving productivity in peasant agriculture. Such factors may in part account for the pattern of budgetary allocations.*

Although as a whole agriculture was at a slight disadvantage competing for new economic development funds, within agriculture, the peasant sector has received significant budget increases. Table II.2 shows a clear restructuring in the agricultural capital budget with peasant agricultural capital financing increasing by 272% from 146.4 million Birr in 1991/92 to 545.1 million Birr in 1995/96.

And finally, it can be seen from Table II.3 that there has been a significant commitment to devolve program implementation to the regions, there has been significant movement over the period. At the beginning of the period there were no allocations to the regions per se. All funds were allocated to the central Ministries and administered from there. However, in 1995/96, over 42% of the total budget has been allocated to the regions. In the agricultural budget approximately 75% of the budget allocation goes to the regions with the central government retaining only 25%.

Table II.3 Central and Regional Budgets
1995/96

Birr and percent

Budget Item	Total	Central	%age	Regional	%age
Total Budget	9,667,350,100	5,551,849,300	57.4	4,115,500,800	42.6
Economic Dev. Budget	3,909,983,073	2,354,117,790	60.2	1,555,865,283	39.8
Agricultural Budget	1,259,140,664	315,357,400	25.0	943,783,264	75.0

source: FDRE, Budget Proclamation; EC 1987

The budget analysis above suggests a strong commitment by the GOE to the decentralized implementation of agricultural programs especially those affecting the peasant sector. However, this commitment seems to waiver when the question turns to new budget resources for direct agricultural development activities. There could be a number of explanations for this trend. For example, with decentralization, a significant portion of the Ministry's staff was transferred to the regions. This restructuring could still be limited by the absorptive capacity of the regional Agricultural Bureaus which are receiving a significant portion of the total budget. If this in fact is the case, prudent budgeting would dictate only modest increases in budget while the new system resolves its constraints.

2. Analysis of Food Production and Availability[7]

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[7] There is considerable debate over exactly how much land is under cultivation in Ethiopia and what the actual agricultural production levels are. The World Bank suggests that there may be 12.4 million hectares cropped and 3.1 million hectares fallow (the World Bank, 1987. Ethiopian Agriculture: A Strategy for Growth - A Sectoral Review. Report No. 6512-ET. Volume II, Annex 3, Table 1. Washington: Eastern and Southern Africa Projects Department, Northern Africa Division. p.1.) More recent internal government estimates differ by source. In 1993/94, the Ministry of Agriculture indicated that there were 9.6 million hectares under cultivation during the main growing season, while the Central Statistics Authority estimated 6.6 million hectares were cultivated (TGE/CSA, Report on Area, Production and Yield of Crops 1993/94 - Private Holdings

Despite the adjustments discussed above, changes in per capita food availabilities, imports and domestic production indicate a mixed situation. As Figure One suggests, net production of Ethiopian food grains (gross production minus storage and seed loses) over the past 12 years has not kept pace with even low level estimates of requirements and imports of food aid have been required to avoid a situation of severe hunger among various sections of the population.[8] Following the 1984 famine, domestic production of food, although showing a positive trend, has fluctuated severely and, in 1994/95, only reached levels achieved in 1982/83. Production is projected to increase significantly in 1995/96. However, because the expected increase in production is attributable, to a large extent, to weather conditions that are believed to be the most favorable for crop production in many years, this must be considered as an exceptional year. Similar production levels might therefore not be achieved in coming years.

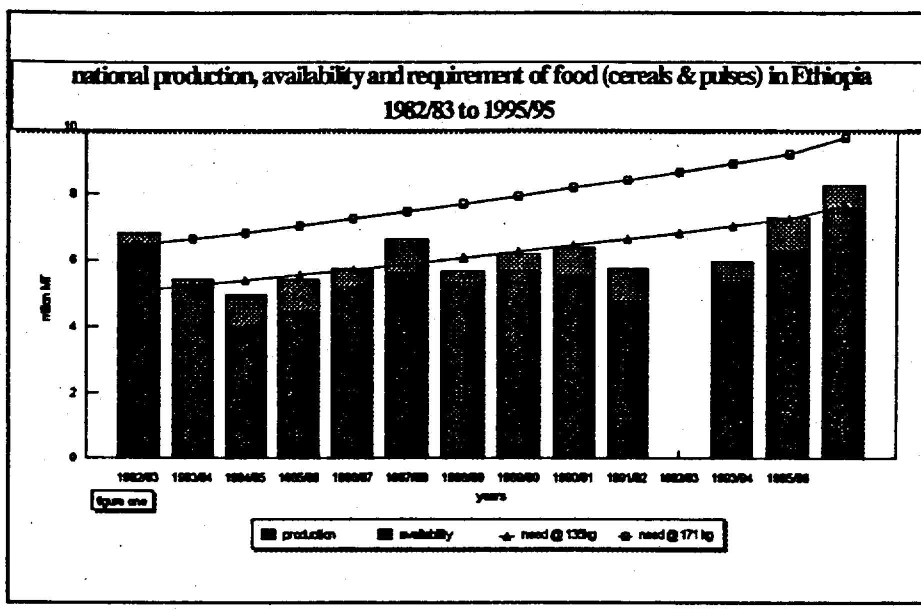


Figure One indicates that production of food dropped sharply in 1991/92; possibly due disruptions caused by escalating civil war during the change in government. Since 1991/92, there has been a steady annual increase in domestic food production at the rate of 16% to 20% in the latter two years. It appears therefore that there is some response to increases in farmgate

Crops 1993/94 - Private Holdings (Meher Season). Central Statistics Authority. Addis Abeba. pp. 6-7.)

9 Low level estimates, adopted by the FAO, assume consumption of 123 and 12 kg of cereals and pulses respectively. The base energy requirement used by the FAO for computing food needs has been kept exceptionally low at 1500 kcal. This compares with 1900 kcal recommended (for displaced persons in shelter) by OFDA's handbook on food needs and slightly over 2000 kcal recommended by the Ethiopian Medical Association.

Table II.4 **FOOD PRODUCTION, AVAILABILITY AND DEFICIT**

in '000 metric tons

year	production (net)	total availability	percapita availability total	percapita availability domestic	requirement @ kg/capita/annum 135 FAO	requirement @ kg/capita/annum 171 OFDA	requirement @ kg/capita/annum 191 EMA	deficit at different estimates of need: domestic production FAO	domestic production OFDA	domestic production EMA	total availability FAO	total availability OFDA	total availability EMA
1982/83*	6481	6809	181	172	5080	6435	7188	-1401	-46	706	-1729	-374	378
1983/84*	5252	5425	140	135	5237	6634	7410	-15	1382	2158	-187	1209	1985
1984/85	3989	4953	124	100	5399	6839	7639	1410	2850	3650	446	1886	2686
1985/86	4457	5444	132	108	5561	7044	7868	1104	2588	3411	118	1601	2425
1986/87	5201	5743	135	123	5728	7256	8104	528	2055	2904	-15	1513	2361
1987/88	5636	6647	152	129	5900	7473	8347	264	1838	2712	-747	826	1700
1988/89	5302	5692	126	118	6077	7698	8598	775	2395	3295	385	2006	2906
1989/90	5728	6196	134	124	6259	7929	8856	531	2200	3128	63	1732	2659
1990/91	5576	6363	133	117	6447	8166	9121	871	2590	3545	84	1804	2759
1991/92	4719	5752	117	96	6641	8411	9395	1922	3693	4677	889	2659	3643
1992/93**	na	na	na	na	6840	8664	9677	na	na	na	na	na	na
1993/94**	5461	5980	115	105	7045	8924	9967	1584	3463	4506	1065	2944	3987
1994/95***	6322	7302	136	118	7256	9191	10266	934	2869	3944	-46	1889	2964
1995/96**	7561	8246	146	133	7650	9691	10824	89	2130	3263	-596	1445	2578

source:

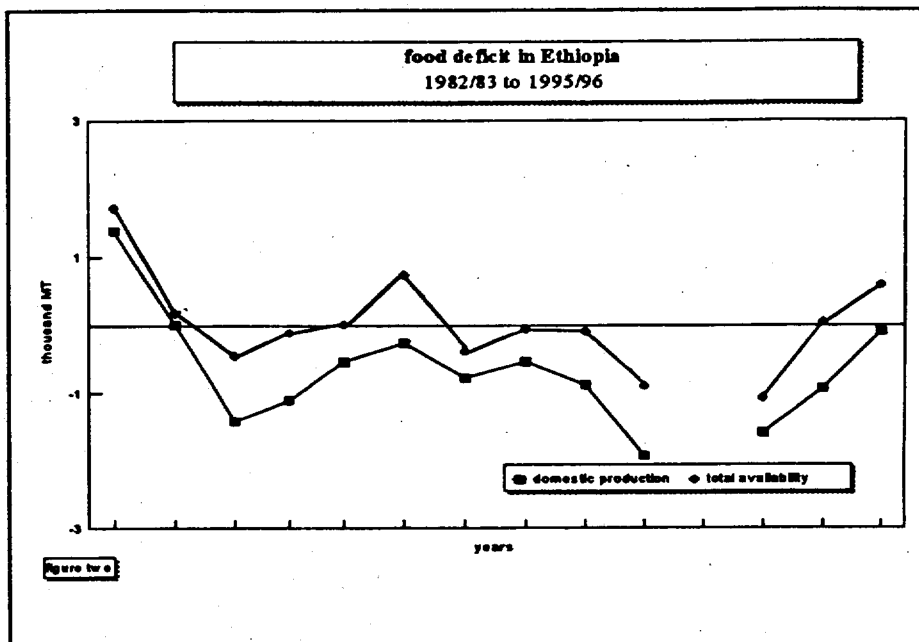
***population figures calculated from the 1984 figure backwards according to 3% growth rate**

**** import figures are for 1993, 1994 & 1994 g.c.; production figures do not include Belg crop**

***** an agricultural census was not undertaken - estimates by the MOA and CSA differ substantially and were therefore assumed to be unreliable**

p:\123data\titleII\table1.wk1

prices, (resulting from grain market liberalization) since the early 1990's[9]. Nevertheless, the growth in domestic production of food has been below the rate required to bridge the food gap (commercial imports have remained insignificant). Even with this years' favorable forecasts, domestic production of food remains slightly below the FAO's conservative estimates of national food requirements. Thus the trend does not yet indicate sustainable increases in per capita food availability in the country. It is believed that policies aimed at improved producer incentives need to be supplemented by measures to support production more directly. Productivity at 10Qtl per ha remains among the lowest in Africa; the use of fertilizer is below the average for the continent and input supply remains below demand; extension programs while well distributed across the country have yet to make a significant contribution to the national harvest; and, basic infrastructure (e.g., dams, canals, etc.) required to ensure production under adverse climatic conditions are virtually non-existent.



Relatively low levels of production and increasing population has meant a continued deficit and low per capita availability of food. Figure Two indicates that domestic food grain deficits (the difference between domestic need and domestic production) began accelerating after 1987/88 upto 1991/92. The trend has been reversed since 1991/92. Food production has increased at a rate above that of population growth and therefore the deficit has tended to decrease. However, the food gap is yet to be bridged. A significant deficit existed in 1994/95 and remains even with the expected bumper harvest of 1995/96.

[9] Prices paid to farmers since the reforms of 1991 suggest an increase in nominal terms of 320% (Birr 29.33 to 123.25) and in real terms an increase of 290% (Birr 28.47 to 111.03). Also the share of the final selling price received by farmers increased from 23 to 78% or 55%. Lirenso, Alemayehu. Grain Marketing Reform and Food Security in Ethiopia. Unpublished paper. Food Research Institute, Stanford University. June 1995.

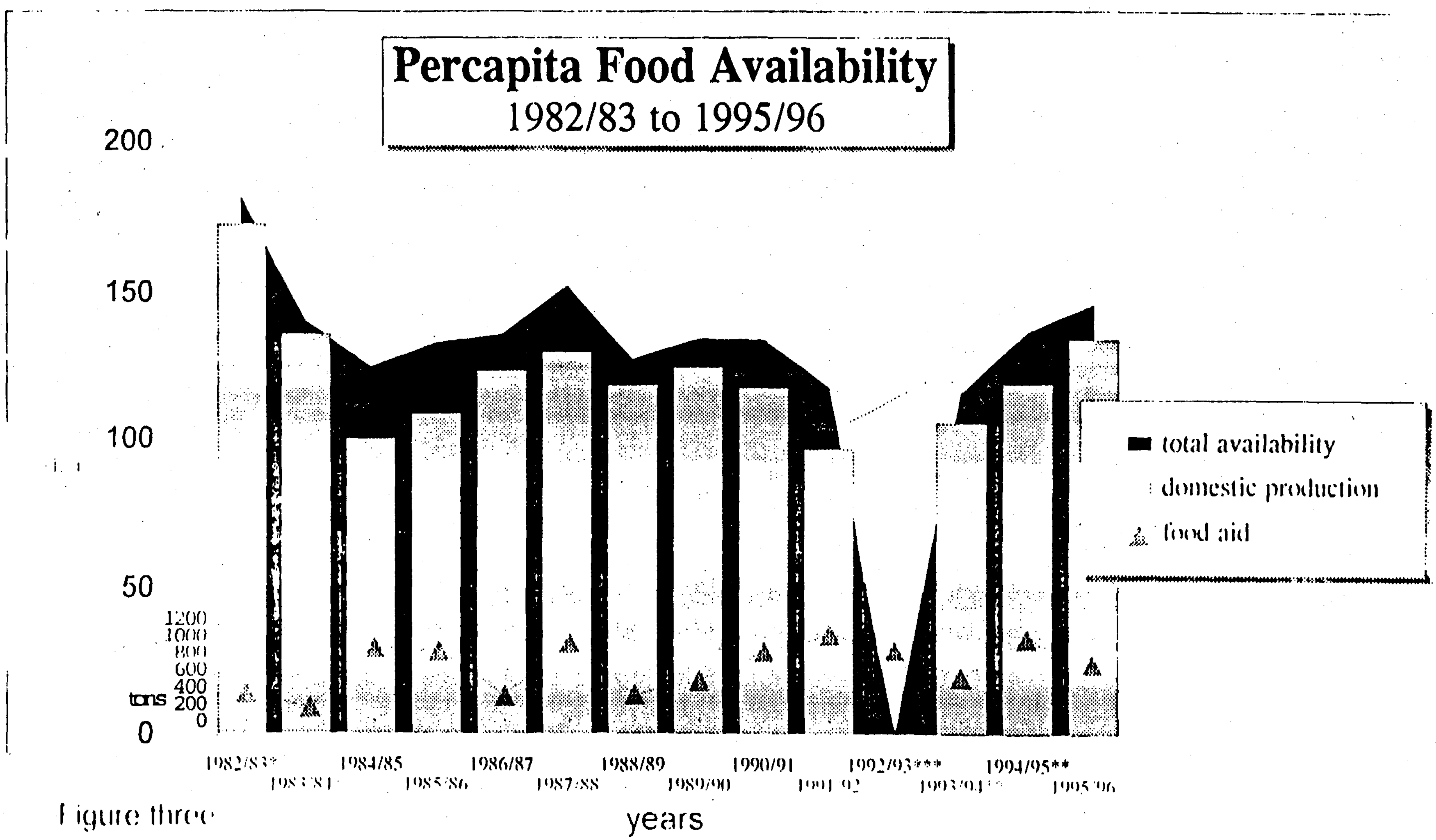


Figure three

Through most of the earlier period (upto, 1990/91) food aid imports have backed up limited domestic production and per capita availability of food has remained positive. The only exceptions were during the 1984 and 1988 famines. As can be seen from Figure Three however, per capita availability had started to decline after 1989/90 despite continued increases in food aid imports. Food aid started to taper off with increases in domestic food production after 1991/92. Nevertheless, domestic production did not allow supply of national food requirements and food aid remained crucial in avoiding situations of severe hunger in the country. It is in this context that the USG provided around 400,000 MT of grain under the Title III program; making up around 14% of total food aid imports over the period and covering more than 10% of the deficit.

Figure Three suggests that per capita consumption of cereals dropped drastically in the early 1990s reaching a low of 117 kg per person in 1991/92. The 1995 harvest may bring per capita availabilities up to 146 kg per person. It is to be noted, however, that in 1994/95 per capita food availability was not much higher than during the seven years after 1984. Also, even with the estimated increased production in 1995/96, food availability is significantly below levels in 1982 prior to the major famine that occurred in 1984. Food aid therefore seems to still have a role in alleviating food insecurity in Ethiopia.

While there is little hard evidence on the current nutrition levels and their implications, the trend in food availability is troubling given the low nutrition levels and results of long term malnutrition recorded in the early 1990's. For example, the prevalence of stunting amongst all children, the cumulative effect of inadequate diet, had reached 64 percent, the third highest prevalence rate in the world, slightly behind Bangladesh and Mauritania. Approximately, 47 per cent of children were underweight and 8 percent were wasted.[10] The highest level of both stunting and wasting was found in rural areas where agricultural production focuses mainly on cash crop production, such as coffee and chat.

Nutritional problems, however were not limited to children. Work done by the Ethiopian Nutrition Institute in 1990 found that a significant percentage of adult Ethiopians suffered from chronic energy deficiency. The study, conducted in 20 communities in four regions of Ethiopia, found that 36.8 and 27.9 per cent of men and women respectively suffered from mild to severe energy deficiency.[11] Although the study is limited in scope, it does provide some indication that the prevalence of undernutrition among adults in Ethiopia is extensive. The resulting inability of family members to work effectively impacts on household health, nutrition, productivity and its ability to earn an adequate income. Given the food availability situation, there is little reason to believe that the situation has improved over the past four years.

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10 Transitional Government of Ethiopia. 1993. Report on the National Rural Nutritional Survey, Core Module. Statistical Bulletin 113. National Nutritional Surveillance System. Addis Abeba. p. 28.

11 Sukin, Hope. 1992. "Nutritional Situation in Ethiopia". Paper prepared for the World Bank Poverty Alleviation Mission to Ethiopia, May 1992. Washington: The World Bank, Agriculture and Environmental Projects Office, East Africa Division, Africa Region. p.6.

The food availability situation is further reflected in the movement of grain prices. While initial prices increases (i.e., in 1990 and 1992) would be a result of market liberalization, price movements after 1992 reflect changes in food availability. Table II.5 provides wholesale prices over four years for three of the major grains (maize, white wheat and white teff) in Addis Abeba, the nation's major deficit market.

Table II.5 Grain Prices During Harvest and Lean Seasons

Birr/Qtl

	1992	1993		1994		1995*	
	amt.	amt.	%age	amt.	%age	amt.	%age
Maize: June-August	139.00	81.67	0.59	151.33	256.49	134.67	0.53
November- January	87.33	81.67	0.94	126.33	134.39	95.00	0.71
wheat: June-August	172.33	144.67	0.84	185.33	220.63	173.67	0.79
November-January	151.00	148.33	0.98	163.67	167.01	163.67	0.98
teff: June-August	223.00	186.33	0.84	251.00	298.81	257.67	0.86
November-January	208.67	189.00	0.91	236.33	259.70	252.00	0.97

note: *includes only October, 1995 data for the lean season
source: EGTE

Prices, particularly in the lean seasons, have generally increased over the four years of the life of the Title III Program for Ethiopia. The increase in prices for all three grains was greatest in 1994 and while they declined in 1995, they remain above the levels in 1992. In the case of maize, a decrease is apparent in October, 1995. Prices during the harvest season tend to fluctuate but are in general higher in 1994 and 1995 than they were in 1992. As in the previous analysis, consideration of price movements indicate that demand has surpassed supply of grain on the market; i.e., there is no significant improvement in per capita availability.

There are a number of tentative conclusions that can be drawn from the above brief analysis. While more concrete inferences must await further detailed analysis, some of which appears under different sections of this report, the following general conclusions are suggested:

- Although there has been significant liberalization in agricultural related policies there is as yet little evidence of an adequate supply response. Prices paid to farmers have doubled, per capita grain availabilities however have just regained the levels in 1983/84 achieved just before the 1984 famine. If the production estimates can be believed, this year's harvest will allow for per capita food availability from domestic production that are higher than at any time after 1984 but still below levels prior to the famine. This would suggest that policy change is not sufficient in itself to bring about the transformation in grain production that Ethiopia requires. The main thrust of the Title III Food Security Program was market liberalization. The above discussion suggests that such measures need complementary action in direct support to increased agricultural productivity.

- The GOE's commitment to the financial support to peasant agriculture is encouraging. Budget savings from the withdrawal from the state farm sector have in all likelihood enabled increased allocations in support of small farmers and the Ministry of Agriculture has taken the lead in budget allocation terms in supporting the GOE's efforts to decentralize government. Of some concern, however, is the fact that agriculture still receives only 13.0% of the total budget while producing 50% of Gross Domestic Product and employing approximately 85% of the nations' work force. Only a preliminary budget analysis was undertaken as part of this review and firm conclusions are therefore not drawn. The above concern may, however, warrant further analysis of processes for allocation of financial resources among sectors.

- Finally, all of the evidence suggests that per capita food grain availabilities have not improved over the period. However, higher prices suggest that those consumers who depend in part on the market for food purchases are negatively affected. The rural landless, marginal farmers, pastoralist and the urban poor may now be in a more vulnerable situation. Given the continued food deficit, measures to safeguard vulnerable sections of the population both in terms of emergency assistance and support for those who may fall out of the market seems expedient. The Title III Food Security Program to date has considered and directly contributed to both. Availability of food may well have been significantly reduced without the Program. Moreover, through its policy agenda, it supported the maintenance of employment in the manufacturing sector and the development of a safety net program. Even with significant growth in production at the national level, some sections of the population have remained vulnerable to food shortages due to localized production failures and income levels that do not allow the purchase of adequate food on the market. Food aid has been important in addressing the food needs of such communities targeting vulnerable households through relief operations, food-for-work programs and rehabilitation type of activities.

III. ASSESSMENT OF THE TITLE III PROGRAMMATIC COMPONENTS

In the context of the Title III Food Security Program, sustainable food security is further defined as:

> "a level of productivity in the Ethiopian economy [permitting] Ethiopia, as a country, to either produce or import with its own earnings adequate food supplies for all of its population to lead active, healthy lives on a continued basis and a level of productive employment high enough to ensure that most Ethiopian families, on their own, can either produce or purchase adequate food supplies to ensure their members active, healthy lives". (quoted from the Program Agreement)

According to the above definition, the two key variables that influence food security in Ethiopia are food production and entitlement (access). Regarding production, a central premise of the Program was that production and productivity will only increase as incentives, at the time distorted by the government's interventionist policies, are improved. Thus policies to promote more efficient food markets were supported. Efficient markets would also ensure agricultural incomes and reasonable prices for consumers. However, because of poverty levels that have reduced effective demand below levels of adequate food entitlement, the market may not be sufficient to ensure food security and therefore safety net measures and targeted subsidies were also considered as areas of institutional support by the Program.

Ensuring urban food security depends on the generation of employment opportunities. The public manufacturing is a major source of employment and the private sector will require some time before it can generate significant employment opportunities. Therefore the withdrawal of government from productive activities, although essential in the new policy environment, must necessarily be a phased undertaking if urban employment and incomes are not to be reduced drastically with consequent instability in the urban food security situation. The second area of the Program's focus was therefore the rehabilitation and restructuring of public manufacturing enterprises.

Finally, an overall theme of the Program is that private sector involvement in the economy is both a means of mobilizing additional resources and increasing competition among the different agents in the market. Thus the Program has three components dealing with the liberalization of food markets and the establishment of a targeted food safety net , promotion of private sector trade and restructuring of public manufacturing enterprises to increase productivity, incomes and employment in the manufacturing sector. The Program did not attempt to address issues of food utilization; i.e. nutritional practices that may also have an impact on food security.

A. COMPONENT #1: DEVELOPING A TARGETED FOOD SAFETY NET APPROACH

The first component of the Title III Food Security Program sought to support a rational food system in Ethiopia.

At the time of the development of the Program, the system for food distribution and sale in Ethiopia included three separate elements.

- a subsidized state-controlled procurement, processing, and sales operation broadly designed to serve the whole population's needs (although in reality it had served primarily the needs of urban consumers) with low consumer prices;

- a private market, operating at so-called parallel market prices in a quasi-legal status; and,

- a relief operation, in which food was either given away without cost or earned through food-for-work operations.

The three sub-systems were not completely separate as food earned in relief operations or procured at subsidized prices often found its way into the private market. Although a clear understanding of what proportion of consumption in various households was derived through which system was lacking, case studies, indicated that many households had contacts with all three sub-systems and most had contact with two.

Title III assistance to Ethiopia required the elimination of government intervention in cereal markets through the redefinition of the role of the AMC, the elimination of subsidies and the removal of restrictions on private sector grain marketing. It was therefore expected that two elements of the food distribution system would be merged. Because government interventions were used to assure adequate supplies of domestically procured food for subsidized consumption, it was also recognized that policy reform in this area was likely to result in lower access to food by poor urban and, to a lesser degree, rural consumers. Therefore the Program also supported the establishment of a targeted food safety net program as a separate element of the food system. Thus the prevailing food system that provided generalized subsidies would be altered to one in which subsidies would be targeted to various segments of the food insecure population who would be unlikely to enter the market.

Policy and institutional reform under this component was complemented by the provision of 261,000 tons of wheat and 138,200 tons of sorghum provided over the life of the Program. The grain provided was used mainly in relief operations and for the establishment of a food security reserve that would allow timely distribution of grain in the case of emergency needs and for developmental programs in food insecure/vulnerable communities. Thus the Program also directly supported the third element of the food system.

1. LIBERALIZATION OF FOOD GRAIN MARKETS

1.1 Summary of Prior Situation

a. The role of the AMC

Unlike other sectors of the economy where policy and institutional reform began following the declaration, in 1991, of the Economic Policy for the Transitional Period, the turning point in the country's grain marketing liberalization was March, 1990 when the former government made an attempt to reduce government intervention in cereal markets. Mandatory delivery of grains by farmers and private merchants to marketing parastatals were abolished and the AMC (the major government actor in grain markets) was required to compete in a free market environment.

The Ethiopian grain markets prior to March 1990 were characterized by the domination of the AMC in the wholesale trading of cereals with very little participation of the private sector that operated mainly at the assembly and retailing levels. In fact, in two of the three major surplus producing regions of the country, the operation of private wholesalers was totally banned until the beginning of 1988.[12] In the mid 1980s, the Ministry of Domestic Trade brought out a Wholesale Marketing Model which sought to socialize the wholesale agricultural and industrial markets. The Model completely altered the theme of agricultural marketing in the country. For the first time, total monopoly (with the purpose of socialization of the economy) was introduced and superimposed on the markets. In effect, private wholesale traders started being pushed out and in some parts of the country (Gojam and Arsi administrative regions) they were completely banned from domestic wholesale trading activities.

The AMC, on the other hand, expanded its operations. Its regional offices were organized into 8 zones and 27 branch offices, and 105 commercial centers along with 2,000 grain collecting points. Up to March 1990, the AMC covered 205 of the 235 awrajas of the country. Its manpower also increased from 949 in 1984 to 4291 in March 1990. The parastatal's storage capacity increased from about 150,000 tons of storage capacity in 18 towns in 1976 to 895,700 tons located in 102 awrajas by March, 1990. Its fleet of trucks increased from 105 in 1984 to 258 by 1990 (AMC/EGTE Annual Reports, 1984-94).

In 1988, the ban on licensing of private wholesalers was lifted. But, to move grain between regions, they had to meet certain conditions such as surrendering part of their purchases to AMC at fixed government prices. When in early 1990, further market liberalization measures were introduced, no significant movement towards producing a detailed plan of operation to enable the AMC to compete in a free market environment was made because the government was not ready to change the corporation's decade and half long practice of centralized marketing management.

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12 Arsi, Gojam and Shoa administrative regions provided 75% of AMC's purchase of cereals and, it was only in Shoa where private wholesalers were allowed to operate.

It had, however, attempted (between 1990-92) to adapt to the new market situation on an ad hoc basis. Changes in the organizational structure of the enterprise began in mid-1992.

b. Structure of Grain Markets

The grain marketing operation until the March 1990 reforms was characterized by a strict centralized system which came into force with the establishment of the AMC in 1976. The three major features of the centralized grain marketing operation were: pan-territorial prices, fixed quota deliveries to the AMC by producers and grain merchants, and strict control over regional movement of grain.

Pricing of grain during the centralized management system underwent four different phases. The first phase was in 1976/77 when wholesale and retail prices for eight major markets were fixed by the then Ethiopian Grain Board (later Grain Agency). The last phase lasted from 1980/81 to March, 1990 when pan territorial and pan seasonal prices proposed by the Office of the National Committee for Central Planning (ONCCP) and approved by the Council of Ministers were enforced.[13] In between were two additional phases, one in 1977/78 when no effective pricing was exercised mainly as a result of the Ethio-Somali war, and the other from 1979/80 to 1980/81 when the authority for fixing prices in every administrative region was given to teams operating under the title of a Grain Procurement Task Force.

Prices were maintained through compulsory delivery of grain to the AMC (usually known as the quota system) enforced since in 1978/79. Farmers were organized under Peasant Associations which in turned formed service cooperatives that acted as marketing intermediaries for both agricultural output and inputs. At the outset, a minimum of 100 quintals of grain were required in sales to the AMC from each service cooperative and private grain merchants, where they were able to operate, were also required to surrender 30% of their purchased quantity at fixed prices. This was later raised to 150 quintals and 50% respectively. Producers' cooperatives and state farms were compelled to supply 100% of their marketable surplus to marketing parastatals.

Direct control over the movement of grain was practiced. There were check points (locally known as 'kellas') at the borders of every district and in some cases every peasant association, (particularly in surplus producing areas) whereby grain procurement task forces represented by AMC staff, checked that anyone trying to move grain had fulfilled quota obligations. Farmers and grain merchants were given certificates by their local grain procurement task force (in most cases AMC staff) to be able to move their surplus. The AMC moved grain from surplus areas to major urban centers and rural-rural trade was neglected.

The AMC lost its monopoly rights in grain marketing as a result of the March 1990 reforms. Initially, the AMC registered a large drop in its operation. Nevertheless it retained a significant

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13 This institution has changed its official name several times since its establishment in 1978 and is currently the Ministry of Economic Development and Cooperation (MEDAC)

presence in subsequent years. However, quota requirements were discontinued, prices were determined on an open market, restrictions on inter-regional grain flowed were eliminated and check points abolished.

1.2 Restructuring of the AMC

a. <u>Title III Conditionality</u>

In relation to this component of the Title III Food Security Program, the following conditionalities were agreed upon:

1. That the AMC would no longer be mandated to: (i) procure for sale domestically produced agricultural produce at prices fixed below the market, with the exception of procurement from the state farm sector; and (ii) sell such products at prices fixed below the price of acquisition;

2. AMC's budget would not provide for losses incurred in the subsidized sales of locally produced agricultural products (except for transactions involving the state farm sector);

3. Private traders in agricultural produce (with the exception of sugar and flour) are not required to obtain prior price approval for the sale of commodities from the government; and,

4. The scope of AMC would be reduced both in terms of staff size and volumes of commodities managed.

b. <u>Reforms Implemented</u>

Considerable effort was made to restructure grain parastatals in view of the new economic environment. The former AMC was dissolved and replaced by the Ethiopian Grain Trade Enterprise (EGTE) and its role in grain markets was reduced to competitive grain marketing, stabilization of producer and consumer prices, maintenance of buffer stocks and export trade. Established under Regulation No. 104/1992, the EGTE was given the following explicit objectives:

- to stabilize markets to encourage farmers to increase their output and to protect consumers from unfair grain price increases;
- when possible, to export grains to the world market to generate foreign exchange;
- to maintain grain buffer stock for market stabilization;
- to engage in any other related activity for the attainment of its objectives.

Although not explicitly mentioned in any of the above stated objectives, because of the fact that the enterprise is established on the basis of the Public Enterprises Proclamation No. 25/84, profit making is also considered as one of its objectives. The Transitional Economic Policy indicated that the state marketing agency would not be given any favoring support from the government. The wheat subsidy annually paid to the EGTE was thus cancelled marking the end to bread price subsidies to urban consumers.

In order to make EGTE's operations compatible with the new market arrangement and its reduced role, steps were taken to slash the huge structure it inherited from the AMC. EGTE's operational outlets were sharply reduced, and some of them were completely closed. All grain collection points (which previously numbers about 2000) were closed, and commercial centers were reduced from 104 to 65. The 27 branches throughout the country were reduced to 17 and remaining branches are subject to future re-evaluation of their social and/or commercial merit. Regional offices which used to be apex bodies of branches and were links between the Head Office and the field offices (branches, commercial centers and collection points) were totally taken out of the structural hierarchy.

The number of employees was reduced from 4059 in 1990 to 2926 in September 1995. This was largely due to voluntary separation of employees driven by perceptions of the future of the enterprise. Except for the transfer of some required skills from ministries and other line parastatals, no additional manpower was hired after 1990. In addition, quite a substantial number of employees are expected to be laid off in the near future. Although the exact figure could not be ascertained, it was revealed through interviews that a substantial number of employees have been notified that they would be laid off during the last week of November, 1995.

Table III.1
Ethiopian Grain Trade Enterprise
Manpower 1989/90 to 1993/94

Year	Number of Manpower	% Increase (Decrease)
1989/90	4059	-
1990/91	3731	(8)
1991/92	3390	(9)
1992/93	3268	(4)
1993/94	3095	(5)
Sep. 1995	2926	-

Source: EGTE Annual Reports

Table III.2 indicates that the enterprise's purchases have been dwindling since 1989/90 when its had been 343.7 thousand tons. This amount was cut by more than 56% in the following year. In 1993/94, the EGTE's purchases were 42.8 thousand tons which is merely 12% of 1989/90's volume of transactions. The abolition of restrictions on private grain trade has resulted in the rise of direct competitors to the parastatal. Even though individual grain merchants often act as sources of supply to the EGTE, much of the grain trade which had otherwise been handled by the EGTE has been diverted to private grain trading companies and its market share which used to be more than 40% in the era of AMC dropped to 3.6% during the 1993/94 budget year.

Table III.2 Ethiopian Grain Trade Enterprise
Total Grain Purchase & Sales by EGTE 1989/90 to 1993/94

Year	Purchase		Sales	
Quantity	Quantity MT	%increase (decrease)	Quantity MT	%increase (decrease)
1989/90	343795	-	540374	-
1990/91	149105	(57)	345817	(36)
1991/92	138354	(7)	164114	(53)
1992/93	170787	23	145253	(12)
1993/94	42855	(75)	120986	(17)

Source: EGTE Annual Reports

c. <u>Issues Associated with Restructuring of AMC</u>

The EGTE has two roles. The provisions for its establishment clearly lay out the enterprise's objectives to be the management of cyclical fluctuation of the supply of grain and therefore the variability in prices. This may well require support from the government; i.e., to cover the costs associated with maintaining buffer stocks to inject grain into the market at the time of shortfalls in the supply of food grains and to cream off excess supply at bumper harvests. However, acting upon liberalization principles, and in accordance with Title III conditionality, the government has discontinued all support and subsidies to the parastatal. The EGTE has therefore been left to rely on its own resources. It is also expected to function as a profit making enterprise and pays 95% of its profit in the form of income tax and state dividend. Financial pressures emanating from the need to intervene in markets for stabilization purposes and the continuing payment of dividend to the government have made it difficult for the EGTE to realize its business objectives.

The issue of who bears the cost of market stabilization and the modes of operation are not clarified in the establishment proclamation of the enterprise, nor in any of the its operational guidelines. Neither have the costs and benefits of such schemes been properly assessed. The EGTE, nonetheless, continues to try to manage both its marketing and stabilization functions and make the best out of this conflicting situation. In the sixth Amendment to the Title III Food Security Program, a program element has been introduced to promote greater understanding of the implications of stabilization policies and the analysis of alternative modalities for establishing a stabilization scheme. USAID/E, under a separate assistance program is financing studies to this effect.

1.3. Private Sector Response to Liberalization Measures

The on-going reform program has clearly supported more private market participation in the grain trade. The number of private grain merchants that was estimated at 30,000 in a 1973 survey by the Ministry of Agriculture, had declined to about 12,000 by the end of 1989. By the end of 1993, the number reached about 25,000 (KUAWAB, 1994)[14]. This does not include unlicensed assemblers who are believed to have flooded the market. It is difficult to estimate the number of active assemblers in the grain markets but it appears that they are increasingly becoming the main sources for wholesalers, retailers and consumers in the nearest market towns.

Before the March, 1990 reforms, the general market share of the private sector is believed to have been about 60% nationally but was officially almost nil in the major surplus producing areas of Gojam and Arsi. In these regions, whatever grain was handled by private traders was in parallel markets and was considered to be illegal and subject to confiscation. In the 1993/94 production year, the market share of private traders reached about 96% in the overall market. Their role in inter-regional trade is now significant. A recent survey of 19 markets (11 in surplus and 8 in deficit regions) revealed that during the four months between January 1 and April 30, 1994, as much as 176,000 tons, 64,000 tons and 41,000 tons of grain was moved by private traders to Addis Abeba,Dire Dawa and Mekelle respectively from the various surplus markets. Similarly about 92,000 tons of grain was moved out of Addis Abeba to other deficit areas.[15] Moreover, according to a Rapid Rural Appraisal conducted by KUAWAB on behalf of USAID/E in 1994, even though the majority of private traders are still small scale and only interested in high turn over, there are encouraging signs that traders in the South and East (specially in Shashemene and Nazreth) are moving beyond inter-seasonal storage to long term inter-temporal arbitrage.

Nevertheless, private grain merchants, with a few exceptions, tend to be rather small enterprises and face constraints impeding their active participation. Marketing know-how, financial and business management competence and capital strength is lacking. They face problems related to capacity building and investment and lack of capital often constrains development. Because they often cannot come up with sufficient collateral, they have limited access to formal credit from commercial banks and must rely on informal credit arrangements at high interest rates. Government credit-financing facilities have improved; however, most private merchants still depend on informal credit financing.

The storage and transport facilities of private traders are way behind the required level. Most

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14 KUAWAB, <u>Structure of the Ethiopian Grain Market - A Rapid Appraisal</u>, Addis Abeba, 1994

15 Alemayehu Lirenso, <u>Grain Market Reform and Food Security in Ethiopia</u>, (draft), 1995

The storage and transport facilities of private traders are way behind the required level. Most private merchants use the traditional form of shuttling goods from the point of production/collection to the point of market outlets; pack animals and human transportation being still dominant. Warehouses are small in size, unhygienic in almost all cases and unsuitable for storage. More often than not, the stores are either verandas in the front yard of the home of the merchants or within the living area and usually susceptible to fire hazards. The capacity of the stores is, on the average, between 10 to 15 tons. Although some of the excess storage capacity of EGTE is occupied by private companies engaged in grain trade, most of it, particularly in Addis Abeba, is rented out to traders dealing with commodities other than grain. Merchants operating at a small scale lack the financial ability to acquire 2,500 - 5,000 ton capacity stores on rent from EGTE.

The efficiency of private operators is also impeded by high uncertainty about prices and trends in various markets resulting from the lack of timely and reliable market information. USAID/E is supporting studies conducted collaboratively between the GOE and Michigan State University (under the Food Security Research Project) that have recommended the developing a public market information system (MIS) preceded first by a pilot MIS with a reduced geographical coverage, operating for not more than one year.

There are new developments that indicate a tendency towards monopolistic and/or monopsonistic influences on the market at the wholesale level with the rise of a small number of large trading enterprises. New entrants to the grain wholesale market such as the ODA Enterprise, Ethiopian Marketing and Distribution Company, Ethiopia Amalgamated Ltd., etc. although still at an early stage of operation, handle volumes of grain that run into thousands of tons. They are mostly location and grain specific; their concentration being on maize and wheat, and their area of operation mostly in the southern part of the country (Arsi, Shashemene,and Hossaena areas).

Interviews with grain merchants revealed concerns about the lack of a level playing ground for their operations as a result of favors enjoyed by large private companies that tend to be regionally affiliated. One of the forms these favors take is taxes levied by regional governments for moving grain from and through regions, from which some traders are exempted They also enjoy easy access to the EGTE's and other government storage and office facilities. This complaint could not be substantiated by field observation or other sources during this review; but, if true, signals the replacement of the national public monopoly of the former AMC by regional monopolies. This evidently is a set back in the efforts to liberalize food markets.

One may question whether there is a concentration of wholesale activities into a limited number of enterprises that are regionally oriented and therefore do not compete with each other. It is difficult to classify traders into wholesale, assembly and retail businesses. In the urban areas wholesalers are actively engaged in both wholesale and retail trades. Farmers also actively participate in selling directly to consumers, retailers and wholesalers. Therefore, it is very difficult to classify private traders in one or other groups.

From another perspective, even though the grain market is heading for freer trade, there are still some implementation problems. Check points that disappeared at the early period of the liberalization process, have cropped up again in great numbers and are hindering the easy flow of grain. There are probably twice as many check points now as there were before the liberalization in almost every region. The purpose of establishing check points is collection of taxes by local authorities. With the stoppage time and the amount of payment involved, this also means a set back in the efficiency of marketing as a result of increasing marketing costs. Administrative constraints are not limited to the proliferation of check points. The limited capacity of regional governments to adequately register and license grain merchants also have an implication on the development of the market with many small merchants avoiding licensing altogether. Unlicensed traders have advantages over the licensed ones because they not recognized by tax authorities and therefore operate at lower costs. This is the more so since a lack of a well designed taxing system by the Inland Revenue Authority, has often resulted in arbitrarily tax levies on traders.

There is currently no active and efficient organization that represents private traders and can speak for their interest. The various city chambers under the Ethiopian Chamber of Commerce, are an existing institution that could have fulfilled this responsibility particularly at periods of transition when the private sector requires assistance of many kinds. But the Chamber of Commerce does not seem to have assured its own existence, leave alone extending required assistance to the private sector.

In sum, the private sector is not yet strong enough to fully fulfill its role in the grain market. Most private merchants, do not have sufficient capital or infrastructure facilities such as storage and trucks. They also lack adequate market information to take advantage of a free market operation. Thus a close follow up of the market is necessary. The government's role in promoting competition, strengthening private enterprise, dissemination of market information and possibly market stabilization is evident. The time has not arrived to leave the private sector which had been systematically and deliberately discouraged during more than fifteen years to cope for itself.

1.4. Impact of Changes on Grain Prices

Analysis of the movement in prices provides an indication of the impact of the reforms on the market; i.e., in terms of price distortions, segmentation of markets, spatial integration and levels of marketing margins. Before the implementation of reforms, grain markets in Ethiopia were segmented and prices in both the official and parallel markets were distorted. Official market prices were administratively suppressed and did not reflect real supply and demand situations. Prices in the open market were also uncharacteristically inflated by additional marketing costs associated with check points, risk of confiscation and other artificial bottlenecks. Franzel et. al. showed that parallel local market prices in 10 rural markets between 1985 and 1987 were on

Table III.4

Grain Prices Changes - Addis Ababa

1987 to 1994

Grain	1987 to 1990				1991 to 1994			
	Average Price (Birr)	Price Range Limits (Birr)	Price Range Range (Birr)	Price Variation (sd)	Average Price (Birr)	Price Range Limits (Birr)	Price Range Range (Birr)	Price Variation (sd)
Maize	51.49	37 - 74	37.00	8.51	108.01	70 - 164	94.00	25.46
Wheat	86.83	62 - 122	62.00	17.51	159.77	111 - 213	102.00	21.72
Teff	134.31	106 - 164	54.00	13.43	208.90	146 - 267	121.00	26.67

Source: EGTE Price Data

Note: Variance is the degree that the monthly retail price varies from the the average price during the period.

Increases in prices were also accompanied by increases in price variability. For example, during 1987 to 1990, the prices of maize, wheat and teff ranged from Birr 37 to 74, Birr 62 to 122 and Birr 106 to 164 respectively. These ranges widened during 1991 to 1994: Birr 37 to 94 for maize, Birr 62 to 102 for wheat and Birr 54 to 121 for teff. With the increase in price ranges, the volatility of prices also increased. The variance in maize prices (the degree that monthly retail prices vary from the average price) trebled, teff prices almost doubled and wheat prices increased by one/fifth.

The lifting of the ban on grain movements between regions in March, 1990 has enabled the revitalization of inter-regional grain transfers. Connections between markets of surplus producing areas and those of deficit areas have increased and the pattern of grain flows provides some evidence that private merchants balance grain supply and demand between regions. A cursory analysis of prices in Table III.5 (limited to major market towns) indicates that price differences in markets within grain surplus regions and two major consumption areas (Addis Abeba and Dire Dawa) have started to decline. The data do not show the situation at the farm gate. Also because prices in only one month are compared, market response to short-term (seasonal) shifts in supply and demand cannot be observed. However, Lirenso provides some evidence that private traders to respond to local grain shortages.

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Table III.5 Regional Price Differences
(between four markets in surplus regions and Addis Abeba (A.A.) and Dire Dawa (D.D.))

Birr/Qtl

	1989		1990		1991		1992		1993		1994	
	A.A.	D.D.	A.A.	D.D.	A.A.	D.D.	A.A.	D.D.	A.A.	D.D.	A.A.	D.D.
Bahir Dar	57	81	41	55	64	55	4	59	7	12	35	60
Gonder	26	40	16	50	54	95	31	86	14	25	4	29
Nekemtie	16	30	16	50	44	85	29	84	17	28	35	60
Hossaena	54	68	44	78	34	75	18	73	28	39	31	46

source: computed from EGTE data

The objective of the Title III Food Security Program under this sub-component was to promote food security through increased incentives for agricultural production, increased agricultural incomes and reasonable food prices for consumers. The means of achieving this is effective market liberalization. The indicators used in the above analysis; i.e., general movement in prices, availability of food on the market, incidence of market segmentation, spatial integration of markets and changes in marketing margins all indicate that market liberalization has taken root and that the objectives of this sub-component have been more or less fulfilled.

However, some outstanding issues remain. *Measures to reduce the scope of the EGTE have been introduced and a new role for the enterprise has been defined. However, clear operational guidelines regarding its new role; particularly its stabilization objectives, are lacking. With increases in price variability, the EGTE has attempted to intervene in the market with the intent of stabilizing prices to promote food production incentives and to avoid transitory food insecurity. It has done so in a more or less ad hoc manner. Stabilization of food prices is, however, a complicated and costly endeavor and such a scheme must be based on a comprehensive assessment of the costs, benefits and distributional effects of alternative stabilization programs.*

Another important issue is that the withdrawal of public marketing enterprises from the market has not been accompanied by aggressive measures to promote the private sector. Small scale operators face many constraints and a few large trading houses with allegedly unfair advantages have entered the market. It is therefore unclear that the market is developing competitively.

Developments in the area of market liberalization were started before the Program was implemented and were part of the TGE's general reform agenda. It is therefore difficult to attribute achievements to the Program. As indicated under the following sections to this review, the Program was able to leverage resources for a Safety Net Program and contributed directly to relief operations. It was therefore able to help to some extent shield food insecure communities from higher prices arising from the elimination of government interventions in food markets and it can be assumed allowed a smooth transition towards more liberalized food markets.

2. THE SAFETY NET PROGRAM

The above discussion indicates that prices of food have risen significantly and access to subsidized grain has been reduced with the merging of official and parallel markets. Yet, poverty levels, unstable production and generally low levels of per capita food availability in Ethiopia suggest that segments of the non-food producing population may fall out of the market and are therefore more vulnerable to food insecurity as prices rise. The Title III Food Security Program has supported two types of interventions dealing with the needs of such communities. It has provided resources to relief operations (that target those segments of the population that face production failures); and has supported the establishment of a Safety Net Program.

The Program Agreement stipulated that the TGE would begin laying the ground work for a targeted urban food safety net during the first year of the program; and during the second year, to lay both the analytical and the organizational ground work for transforming the broad-gauged system of food subsidies to one which is conceptualized as safety net rather than an entitlement. The government was then to further the targeted safety net concept by pilot testing selected options for a targeted subsidy program for the urban food-insecure. Regarding the rural poor, the government was supposed to study the rural safety net needs and options in the second year of the program, to discuss the findings with donors and to authorize pilot implementation of the measures deemed appropriate for a food safety net in rural areas. The results of both the pilot tests were expected to be converted into a full-scale safety net program meeting the needs of both urban and rural food insecure populations. Accordingly, the Safety Net Program (SNP) was designed and implemented to address the plight of the poor affected by market oriented reform measures.

Although Title III assistance was to provide about 60,000 tons of grain a year in support of subsidized food distribution to vulnerable groups pending the government's own safety net program, given a situation of severe food shortages during the years 1993/94 and 1994/95 most of the assistance was transferred to emergency food assistance and the food security reserve. Nevertheless, the government undertook a pilot study/program in 1992/93 and carried out a full scale SNP in 1993/94 and 1994/95.

2.1 Contents of the Safety Net Program

The government's safety net program was first discussed in 1991/92 during the first years of the transition to a free market regime launched by the TGE. At the time, the economy was characterized by widespread and worsening poverty both in urban and rural areas due to natural and man-made events. Moreover, the country was faced with the challenge of having to resettle a large number of people who had been displaced by long-ranging civil wars. At the same time the government instituted wide ranging economic reforms which imposed further hardships, on many people, but particularly on the poorer segments of the population. It was therefore considered that measures to mitigate the effects of the transitional economic policies particularly on the poor, were essential.

The safety net programs were meant primarily to protect people against three kinds of risks: (1) chronic poverty of the kind with little chance to be swept away in the foreseeable future in the course of even the most optimistic development scenario, (2) an increase in poverty and hunger that might result from essential economic reforms and (3) an increase in poverty and hunger as a result of political upheavals. Some people might be subjected to only one kind of risk while others may be subjected to two or even all three. Given the large incidence of poverty, many of the components of the SNP implemented in Ethiopia in 1993/94 satisfied poverty centered perception. In addition, there was a sub-program planned to address the adverse consequences for people who might loose their jobs in the public sector under the proposed restructuring of the economy.

The SNP implemented consisted of a set of activities selected from a larger set of alternatives identified in numerous studies undertaken by the government and widely discussed in 1992 and 1993 both within the TGE and between the TGE and foreign donors. In May 1993, the TGE issued general guidelines and allocated Birr 253 million for about half a million beneficiaries targeted under six different components. This was very small compared to the recommendations of the earlier studies both in terms of target population size and level of budget allocation.

The implementation guidelines identified eight categories of socio-economic groups as eligible to be covered by the SNP. These were retrenched workers, people displaced due to conflict and other situations, returning refugees, demobilized soldiers, poor farmers, female headed households, unemployed people, the elderly, handicapped and orphaned children without regular source of income. Although female headed households were identified as a specific target group in the guidelines, the program formulation did not actually cover them as a specific group during its implementation. A list of the programs and their respective share of the SNP budget was as indicated in the Table III.7

The Prime Minister's Office took overall responsibility for the Program and a national coordinating committee comprised of the relevant central ministries and government agencies had oversight. Of the six programs, two were managed by the central government and four by regional governments. A key feature of the organizational structuring of the SNP was the participatory nature of the process in which the selection of the beneficiaries was implemented with the cooperation of the members of the kebelles or peasant associations and their leaders.

The components of the 1993/94 safety net program echo very closely the poverty centered definition of the Food Safety Net envisaged by the Title III Food Security Program which advocated interventions to protect the vulnerable while the economy is getting into gear and measures to reduce, to the extent possible, distortions in the food markets are implemented. Although the largest share was allocated to the retrenched workers sub-component, most SNP beneficiaries do not seem to have been direct victims of the economic reform measures undertaken prior to the implementation of the SNP. In fact, most of the targeted people under the SNP had a poor state of life due to the political transition processes and the poor state of the economy. Nevertheless, such populations are the greatest risk of facing food insecurity as measures to liberalize food markets are implemented.

Table III.7 Contents of the Safety Net Program

in million birr

Program Type	Beneficiaries	management responsibility	Budget	percent share
severance payments revolving fund	Retrenched workers	Center	95.0	37
credit for income generating activities	Demobilized Soldiers	Center	20.0	8
credit (revolving fund) for income generating activities; consumption assistance	Displaced & Returnees	Regions	63.0	25
credit and grants for consumption	Orphans, aged, handicapped	Regions	15.0	6
provision of agricultural inputs	Poor Farmers	Regions	30.0	12
food for work programs	Urban Poor	Regions	30.0	12
TOTAL			253.0	100

Source: Compiled from Safety Net Documentation

Regarding regional distribution, Oromiya, Somali, Tigrai Amhara and the Southern Nations Nationalities and Peoples Region (SNNPR) had the largest share of the budget constituting 29.4 per cent, 14.4 per cent, 14.2 per cent, 11.6 per cent and 10.4 per cent of the total budget, respectively. It was not possible to identify the criteria used to distribute the budget across the sub-programs and regions, but presumably, the size of population within the target groups was used as a primary factor in distributing the budget among the sub-programs and among the regions.

2.2 Implementation and Results of the Safety Net Program [17]

The SNP was implemented during the last four months of 1993/94 with some components (those including a revolving fund scheme) continuing into 1994/95. The initial plan was to benefit about 559,376 target beneficiaries via the six components of the program indicated above. The program as implemented was able to reach only 50 percent of the targeted beneficiaries and utilized around 49 percent of the budget: Birr 124.7 million, (see Table III.8). To the extent that they

[17] An evaluation of the government's safety net program was undertaken by independent consultants on behalf of USAID/E in November-December, 1995. Much of the discussion under this section is drawn from this evaluation. Reutlinger et. al., Assessment of Impact of Ethiopia's Safety Net Program, December, 1995

Table III.8

Ethiopian Safety Net Program, Planned Budget and Beneficiaries By Region and by Components (1986 E.F.Y.)

Region	Poor Peasants, Input Support Scheme		Rehabilitation of Returnees & the Displaced		Rehabilitation of Demob. Soldiers		Consumption to the Aged capped and	Ass. theHandi Orphans	UrbanPublic Works Scheme	
	Budget (in'000 Birr)	No. of Benefi-ciaries	Budget (in '000 Birr)	No. of Benefi-ciaries	Budget (in '000 Birr)	No of Benefi-ciaries	Budget (in '000 Birr	No of Benefi-ciaries	Budget (in '000 Birr)	No of Benefi-ciaries)
Tigrai	6000.0	32000	8300.0	58110	1500.0	750	2100.0	3500	4500.0	3000
Afar	1800.0	9600	-	-	-	-	900	1500	-	-
Amhara	6000.0	32000	1600.0	10299	4200.0	2100.0	2100.0	3500	4500.0	3000
Oromiya	4500.0	24000	28700.0	77582	6700.0	3350	2100.0	3500	4500.0	3000
Somali	2400.0	12800	19400.0	129102	-	-	900	1500	-	-
Benshang	2400.0	12800	-	-	500	250	900	1500	-	-
SNNPR	2400.0	24000	3100.0	22483	2600.0	1300	1800	3500	4500.0	3000
Gambella	4500.0	12800	-	-	500	250	900	1500	-	-
Harari	-	-	-	-	400	200	900	1000	1500.0	1000
Addis Abeba	-	-	1900.0	12800	3000.0	-	600	3500	9000.0	6000
Dire Dawa	-	-	-	-	600	300	2100.0	1000	1500.0	1000
							600			
Total	30000.0	160000	63000.0	310376	20000.0	8500	15000.0	25500.0	30000.0	20000

Source: Ethiopian Safety Net Program, 1986 E.F.Y. Implementation Report; MOPED, October 1987 E.F.Y., Addis Ababa

Table III.9
Ethiopian Safety Net Program, Actual Budget Utilization and Beneficiary Coverage, by Region and by Components (1986 E.F.Y.)

expenditure in '000 Birr

Region	Poor Peasants, Input Support Scheme		Rehabilitation of Returnees & the Displaced		Rehabilitation of Demob. Soldiers		Consumption Ass. to the Aged the Handi-capped and Orphans		Urban Public Works Scheme	
	Expenditure	No. of Benefi--ciaries	Exp.	No. of Benefi-ciaries	Exp.	No. of Benefi-ciaries	Exp.	No of Benefi-ciaries	Exp.	No. of Benefi-ciaries
Tigrai	5919.1	25825	6500	25245	513.0	793	1975.8	1850	4497.1	3000
Afar	1796.2	8800	-	-	-	-	900.0	3000	-	-
Amhara	5815.0	5187	-	-	2226.1	971	2100.0	3133	3963.4	10814
Oromiya	4325.1	38373	22034	30768	5249.5	2260	2100.0	9500	2874.2	10933
Somali	Not	Reported	5241.3	-	-	-	-	-	-	-
Benshangul	2394.0	12600	-	-	233.7	124	300.0	1500	-	-
SNNPR	4482.3	24471	848.7	7021	2491.9	1134	1800.0	-	2300	9242
Gambella	1789.7	12800	-	-	-	-	900.0	2866	-	-
Harari	-	-	-	-	283.3	122	192.2	849	440.5	265
AddisA	-	-	-	-	-	-	1001.1	4012	375.3	1650
Dire Dawa	-	-	-		190.8	213	250.0	1000	1421.2	1394
Total	26521.4	128056	34624.2	64034	11183.3	5617	11519.1	27710	15871.7	37298

Source: Ethiopian Safety Net Program ,1986 E.F.Y Implementation Report, MOPED, October 1987 E.F.Y. Addis Ababa
Note:Of Birr 95 million allocated for retrenched workers in 1993/94 only Birr 25 million materialized. For the same year, planned number of target beneficiaries was 35,000. However, there was no report regarding actual coverage.

were implemented, most of the sub-programs appear to be targeted on the poorest in both the rural and urban areas. Overhead costs were kept at a minimum. While in most safety net programs the distribution costs are so high that for every dollar spent less than a dollar's worth of benefits reach the target group, in this safety net program the converse is probably true, due to the low administrative cost and the productive inputs associated with the transfer.

Performance differs among the sub-programs and they are therefore considered separately below.

a. Agricultural Input Support To Poor Farmers

The SNP budget allocated to this component was Birr 30 million, with the aim of assisting about 160 thousand peasant households in eight regions with a one-shot cash transfer amounting to Birr 187.50 per household, equivalent to the price of a quintal of fertilizer at the time. The type and amount of input composition was allowed to vary from region to region upon the discretion of the regional administration and depending on the underlying situations of a given region.

There were large variations among regions in the manner in which the sub-program was implemented. In Amhara, Tigrai, and to some extent, Oromiya, the input packages were provided through a revolving loan fund scheme involving repayment periods of upto 5 years. The value of the assistance package ranged from Birr 112 and 183 in regions 4, 12 and SNNPR, while in other regions decisions were made to increase the value of the average package. For example, in the Amhara Region, the value of the input package provided to eligible beneficiaries was far higher resulting in a lower coverage of beneficiaries. The total number of households reached under the SNP in this region was 5,139 while the planned level had been to assist more than 30,000 households. The estimated average value of the SN package provided was Birr 1,426.87 including fertilizer, oxen and seeds (as opposed to the originally planned amount of Birr 187.5 per beneficiary). It provided a more balanced package to allow greater impact per household and improve the sustainability of the assistance but it greatly reduced the number of people reached only covering 17% of the target population.

This component was probably the most efficient sub-program of the SNP. The cost of program administration was very low, because the identification of the target group and the distribution of inputs was carried out through existing institutions and voluntary mobilization of the community. While it is too early to clearly determine the impact and sustainability of the interventions, it is not at all difficult to conclude from anecdotal information that the lucky few who were targeted by the program were able to 1)improve the quality of land preparation; 2) prepare their plots on time; 3) increase production; 4) build confidence; and, managed some "surplus" production to re-enter the market. This was particularly true in regions which modified the center's guideline to come up with high value packages. This approach was a good jump-start for poor farmers to commence sustainable production leading to self sufficiency and dependable income, most likely eliminating dependency and increasing market participation.

b. Rehabilitation of Returnees and the Displaced Persons

As the name indicates, this sub-program targeted returnees and displaced people: victims of war and ethnic strife. The broad objective of the SNP for these group was to mitigate the indirect negative consequence of the economic reform program on victims of man-made problems. It was planned to benefit 307,791 households in six pre-determined regions including, Tigrai, Amhara, Oromiya, SNNPR, Addis Abeba and Somali. At the design stage, this component was intended to provide basic consumption goods for a definite period and credit (in cash or in kind) up to a maximum of Birr 2,000, for financing income-generating activities. As practices in Tigrai and Oromiya attest, however, there were cases whereby full emphasis was put on the provision of credit through a revolving loan fund scheme; actual loans exceeded the ceiling set by the designers of the SNP implying lower ratios of beneficiary coverage; and projects other than income-generating activities (e.g. clinics) were undertaken.

This particular component performed very poorly in 1993/94 of both budget utilization and coverage of target beneficiaries (budget utilization and coverage of beneficiaries in the six regions where this component was implemented were only 54 percent and 20 percent respectively of the planned targets). Given that revolving loan fund schemes have been effected as a way of rehabilitating returning refugees and displaced people, it follows that this component might have continued well into 1994/95. However, there has been no report in this respect. It is also to be noted that more has been done under programs other than the SNP; i.e., through the RRC, towards reintegration of displaced persons.

Major problems that are believed to have caused low rate of implementation during 1993/94 include:

- delay in disbursement of funds
- lack of transport to distribute inputs among beneficiaries
- undervaluation of planned input prices
- shortages of livestock in the market
- lengthy process involved in the selection of the most needy.

c. Rehabilitation of Demobilized Soldiers.[18]

The objective of this program was to integrate more than half a million demobilized ex-combatants who served in several armed forces within the territory of Ethiopia. Of the Birr 253 million Safety Net budget, Birr 20 million, or about 8 percent, was allocated for use in the on-going efforts of the TGE to facilitate the transition of demobilized soldiers to productive civilian life. This was managed by a centrally established Commission. A special Revolving Credit Fund

[18] Other activities for re-integrating demobilized soldiers also existed. USAID/E alone provided US$ 5 million in grants to the Demobilization Commission towards this.

was established in the Agricultural and Industrial Development Bank (AIDB) to make concessional loans to cooperatives of ex-soldiers for the purpose of assisting them in entrepreneurial endeavors. The lending periods were for varying lengths of time, depending on the nature of the enterprise, but the interest rate was set at 10 percent below prevailing commercial terms. As of mid-1995 the default rate on payments due on the 263 active loans was estimated to be in the range of 30-40 percent.

Even though implementation of this component in 1993/94 was scheduled to take place in nine regions, it became operational in only seven regions, namely, Tigrai, Amhara, Oromia, Benshangul, SNNPR, Harari and Dire Dawa. The program was not operational in Gambella on the ground that target beneficiaries were able to secure employment in governmental and non-governmental organizations. The reasons for why this component was not implemented in Addis Abeba during 1993/94 were not reported. However, in 1994/95 all regions except Gambella implemented this component. According to a report by the Development Bank of Ethiopia, as of July 1995, out of the total budget of Birr 20 million, about Birr 16 million has been lent out through a revolving fund scheme. The same report shows that 7,490 demobilized soldiers (86% of target) have benefited from the scheme. Magnitude of loans ranged between Birr 569 for Tigrai and Birr 1,983 for Addis Abeba.

Table III.10 Rehabilitation of Demobilized Soldiers under the SNP
Summary of Credit Operation, as of Sene 30, 1987 E.F.Y. (July, 1995)

Name of Region	#projects	No. of Beneficiaries	Loan Amount Requested	Loan Amount Approved	Loan Amount Disbursed	Balance in Commitment	Amount Collected
1. Tigrai	25	766	540520	528090.15	43614.30	92475.85	21943.69
2. Amhara	65	1251	2823942	3010896	2153254.88	857641.12	79186.47
3. Oromiya	147	3036	7995120.24	7380408.14	5983178.82	1397415.98	302034.33
4.Benshgl.	7	154	270584	234151	234151	-	23156.10
5. SNNPR	61	1097	2125290	2317581	1977940.84	339640.16	104154.19
6.Gamblla	-	-	-	-	-	-	-
7. Harari	1	72	107986	107237	94224	13013	41930.02
8.DDawa	2	312	954536	490451	477395.91	13055.09	-
9.AAbeba	37	802	2110923.55	1992872.75	1590147.64	402725.11	8069.65

Source: Development Bank of Ethiopia

In Addis Abeba approximately Birr 3 million of the Birr 20 million supervised by the Commission has been used to finance the following 71 projects: 15 small businesses, 13 grain milling operations, 12 cement and stone quarry enterprises, 9 metal working shops, 5 bakeries, 4 cattle fattening lots, 2 shoe makers, 5 edible oil makers, 5 cinemas or musical groups and 1 tailor shop.

The long-term sustainability of these ventures and their profitability remains to be seen in the future. However, the SNP component for ex-soldiers seems to have been utilized according to the guidelines. Birr 20 million was loaned to cooperatives or associations of ex-soldiers during 1993/94 and 1994/95. Repayment has been slow, but the Commission believes that it will pick in later years as most of these small businesses were relatively slow to get started.

d. Assistance to the Aged, the Disabled and Orphans

The objective of this component of the SNP was to transfer modest levels of benefits to households in those groups least likely to be able to cope with the consequences of economic reform programs: the aged, orphans, disabled, etc. In general, the idea was simply to provide small amounts of cash (about Birr 50) presumably on a monthly basis for 12 months, directly to households that were identified by their kebelles or PAs as being among the most needy. Some regions (e.g. Tigrai) pursued an approach whereby instead of paying monthly lump sum stipends, funds were used to establish a revolving loan scheme to help beneficiaries start income-generating projects. In Tigrai, individual loans amounted to Birr 500.

Implementation of this component took place in all regions of the country. Owing to delays in budget disbursements and to the short time for implementing the program, many regions made the predetermined payment either at one go or in few months, rather than making it in 12-month installments. Such a rush in implementation coupled with the inflexibility of program guidelines, certainly restricted implementation options. In Oromiya, shortages of transportation lengthened the process of identification, as zones couldn't easily communicate number, name and location of selected beneficiaries to the Regional bureau. Some needy beneficiaries were apparently left out of the program.

As a result implementation was somewhat below target. Since the beneficiaries targeted under this component may be defined as chronically poor who will continue to be affected by price rises arising from market liberalization, it is unlikely that a one year program can significantly address their food security needs.

e. Public Works for the Urban Poor

It is believed that the urban poor sub-program probably positive returns for the beneficiaries but less so than the poor farmer program. The assets created through the public works were for the most part somewhat positive, but generally, lack of time to plan and design the public works to adequate standards limited the construction of lasting and productive assets.

The objective of this component was to alleviate poverty among the poorest of the poor in urban areas, including the unemployed, very poor female-headed households and other households where income from all sources was so low that even minimal food and nutrition could not be achieved. Low-income urban dwellers are particularly vulnerable (at least in the short-term) to price rises stemming from the elimination of subsidies, price liberalization and other reforms. Therefore, a labor intensive public works program was introduced which aimed at maximizing the use of unskilled labor in urban public works activities developed by municipalities having the greatest number of urban poor.

The urban poor program was implemented in 1993/94, in seven regions of the country, (Tigrai, Afar, Amhara, SNNPR Harari, Addis Abeba and Dire Dawa). Of the Birr 30 million allocated to this component, only 52 percent was utilized (Birr 15.9 million) benefitting 37,298 people.

The program reached 86 percent more beneficiaries than planned; implying that payment per person was lower than initially anticipated.

A 'self-targeting' employment mechanism was utilized whereby the daily wage rates were to be set 15 percent below the prevailing daily laborer wage rate for unskilled workers and, for semi-skilled workers, 20 percent below the prevailing wage rate. Thus, only those unable to get work at the regular rates would apply. In addition, to ensure that the program was as labor-intensive as possible, the government emphasized in its directives that 75 percent of the individual project budgets should be spent directly for labor and only 25 percent for the purchase of materials and minimal operating costs.

Benefits to the target population were of two types: first, the increased income derived by the participating poor urban households and second, the value of the asset(s) created by the works programs -- school rooms, health posts, drainage, public latrines, housing, market improvement, road rehabilitation and other projects. The former were obviously given priority consideration. Given the short-term and temporary nature of the SNP, projects could extend to no more than several weeks or months. At an average employment time of 80 - 100 working days, the benefit to individual households could be expected to amount to a one time income increase of between Birr 320 and Birr 800.

f. Retrenched Workers

The retrenched workers program was designed to provide a 'safety net' for workers who were made redundant from the public sector due to economic reform measures. At the time of the SNP design, the welfare of these workers was one of the important concerns in Ethiopia. Out of Birr 95 million allocated to this component, 50 million Birr was for revolving loan fund scheme and the remaining 45 million Birr was for compensation payment.

Redundant workers are given the following options:

1. If they are older than 45 years and have more than 45 years and have more than 20 years of service they must retire and get their mandated pension.

2. If they do not qualify under 1) they are offered employment elsewhere in the public sector:

3. alternatively they join the Safety Net, in which case they have the following options:

   a) to leave for good, and receive a one time compensation

   b) or to remain in the SN, to participate in a revolving fund scheme that provides seed capital to establish a share company.

Nothing has been paid out in compensation to date and only 82 people have chosen to leave the safety net under option 3(a). As for the revolving loan fund scheme, it has operated into 1995/96. The average size of loan for the revolving credit package was Birr 20,000 with 5% interest rate and a repayment period of 5 years. To date, 5,155 retrenched workers have been organized under four share companies; 1200 retrenched workers under a transport company owning 80 trucks; 1800, under another transport company with 120 trucks; 1500, under merchandising; and 655, under passenger transport company.

Since the companies either have only recently started operations or are only about to begin operation, it is too early to evaluate the results achieved. However, most target beneficiaries, specially those who joined the share companies, were able to secure dependable income through employment in the companies. Nevertheless, sustainability of the ventures needs further scrutiny.

Of all the SNP components, the retrenched workers program was the only program which has been operational continuously since 1993/94 with yearly budget, though declining, and managed by a separate unit under the Prime Ministers Office.

Table III.11 Actual and Planned Levels of Budget Expenditure and Beneficiary Coverage in percent

REGION	Poor Farmers Input Support Scheme		Rehabilitation of Returnees & Displaced persons		Rehabilitation of Demobilized Soldiers		Consumption Ass. Aged, Orphans & Handicapped		Urban Public Works Scheme	
	budget actual /plan	benf. actual /plan	budget actual /plan	benf. actual /plan	budget actual /plan	benf. actual /plan	budget actual /plan	benf. actual /plan	budget actual /plan	benf. actual /plan
Tigrai	98	80	78	43	34	105	94	52	99	100
Afar	99	91	-	-	-	-	100	200	-	-
Amhara	96	16	-	-	53	46	100	89	88	240
Oromiya	96	159	76	39	78	-	100	271	63	364
Somali	Not	reported	27	-	-	-	-	-	-	-
Benshang	99	98	-	31	46	67	30	100	-	-
SNNPR	186	101	27	-	95	87	100	-	51	308
Gambella	39	100	-	-	-	-	100	191	-	-
Harari	-	-	-	-	70	61	32	84	29	26
A.A	-	-	-	-	-	-	47	114	4	27
DDawa	-	-	-		31	66	41	100	142	139
Total	88	80	54	20	55	66	76	108	52	186

For the most part, the organizational structure for implementing the SNP worked well. The objectives of the Program and the guidelines centrally designed were quickly passed down to the appropriate level of implementation and a participatory approach was adopted. Through by-passing normal channels a sense of urgency and purposefullness was conveyed than if existing bureaucratic channels had been used. However, with the exception of the poor farmers support and assistance to the aged, orphans and handicapped, implementation levels were low. Moreover, there are some features of the methods of implementing of the SNP that require further scrutinizing before they can be recommended for wide replication. Was there enough technical guidance and supervision in the implementation of the program for the application of productive technology in agriculture and development of properly designed infrastructure? Are the cited gains from introducing a new and separate organizational structure for the implementation of the SNP; i.e., rapid execution of programs and a participatory approach, offset by the loss of gains that can be had from organizational continuity and wider technical expertise?

Except for those components of the Safety Net Program which have involved a revolving credit scheme, (retrenched workers, demobilized soldiers, returnees and the displaced, and poor peasants) and which are still in effect, the other components phased out at the end of 1993/94. While a temporary program (with defined phase out mechanism are appropriate for beneficiaries that face temporary hardships, a one year program cannot address the problems of the chronically poor who by virtue of the loss of their access to subsidized food may fall into a food insecure situation. The SNP was a good start with important contributions for alleviating short-term food insecurity among a targeted segment of the population. Its strength lay in its flexibility and lessons learned suggest that sustainable approaches may be introduced. There has been some experimentation; particularly in Tigrai and Amhara with assistance through revolving funds, with the provision of productive inputs, and/or income generating activities which could be further explored.

3. RELIEF OPERATIONS

The third component of the Ethiopian food sale/distribution system, is food distributed for relief operations among food producers who periodically face food insecurity due to unstable production. A review of the Commission for Disaster Prevention and Preparedness (DPPC) most recent appeals reveal that the numbers of people identified to be requiring food assistance has remained consistently high. Figures for 1993 and 1994 include populations effected by man-made problems as well as by natural disasters whereas in 1995, the number indicates natural disaster victims solely.

Table III.12 Relief Assistance Requirements

year	AFFECTED POPULATION	FOOD REQUIREMENT
1993	4,974,500	739,300
1994	4,453,450	577,600
1995	399,400	492,500

source: Early Warning System Reports of RRC from 1995, 1994 and 1993

The Title III Program had no policy objective in this area. It did, however, contribute almost 400,000 tons of grain to relief operations *(either directly to the Relief and Rehabilitation Commission now DPPC or the Emergency Food Security Reserve)*. Moreover, because this is one element of the overall food system that the Program was developed to influence, developments in this area are considered below.

The TGE has undertaken a complete reshaping of its relief and disaster policies. The National Policy on Disaster Prevention and Management (NPDPM), adopted two years ago has established various strategies to prepare for - and to reduce - the effects of recurrent disasters. This policy has played a major role in the creation of an environment that attempts to eliminate dependence on food aid .

The centerpiece strategy of the NPDPM is the development and implementation of Employment Generation Schemes (EGS). These schemes are intended to be "local initiatives for disaster prevention/mitigation which are supported through community-based, labor intensive projects." The goal is to make EGS a part of annual relief programs in all regions of the country - not as separate from on-going development activities, but rather as a mechanism for helping disaster victims by providing them with an opportunity to earn an income, either in cash or in food (but mostly in food).

Constraints that have been identified in the promotion and implementation of EGS are:

- a lack of a clear understanding of the concept of EGS at the grass roots levels.

- In some regions, it has been reported that there is inadequate capacity at the woreda level, to plan and implement EGS. As these projects need to be planned, supervised and monitored locally, there is a certain assumption that the woreda administration is overseeing all the phases of the project. In many cases this is unrealistic.

- Many planned projects have been faced with the lack of resources. Food aid alone is not enough to make the programs work and needs to be combined with other inputs, which are sometimes unavailable. It is estimated that non food inputs account for only 20 % of the total EGS project inputs. There are also cases where provision of food input has been problematic. The quantity and delivery time of food payments can cause difficulties and lessen the overall positive impact of the activity.

Complementing the EGS concept is the full operationalization of the Emergency Food Security Reserve. Established in 1982, the Reserve was designed to provide a readily available supply of food for use during initial emergency food shortages. The Reserve was to serve as a food bank where government and NGO's could withdrawal food for emergency feeding with repayments made when additional shipments were imported.

Although sanctioned, the Reserve was *not properly set up and functioning, as per its envisaged objectives until after 1992.* It operates within the context of the National Disaster Prevention and Preparedness Strategy, as an autonomous administration with its own Ministerial Board (EFSRB) and Donors advisory Technical Committee (TC). Reserve operation since 1991 are presented below. As of November, 1995 the reserve held stocks of 62,832 MT with an additional 140,683 *MT given on loan to the DPPC, NGOs and the former AMC and which is expected to be paid back when food aid pledges from their donors start to arrive.*

As the data suggest, reserve operations are increasing with NGO draw down expanding substantially in 1994 and 1995. *Nevertheless, the reserve stock remains* substantially below project requirement levels of 210,000 MT in the immediate term and 310,000 MT in the long term. *Of some concern is the use of the reserve as a source of grant not loan repayment by government agencies. The lack of repayment of loans by the EGTE and the free draw down by the RRC/DPPC has meant that in effect both these agencies have used the reserve as a source of grants.*[19]

Table III.13 Reserve Operations - 1991-1995

Borrowing agency	Amount in MT/years				
	1991	1992	1993	1994	1995 Jan. to Nov.
EGTE/AMC	16,015*	-	-	-	-
WFP	6,011	-	-	29,340	35,332
RRC	10,000**	-	3,200	52,000**	25,000
NGO's	-	-	201	47,255	57,150
Total Operations	32,026	-	3,401	128,595	117,472

* loans not repaid by borrowers; **free draw downs
source: Ethiopian Food Security Reserve Administration

In sum, the GOE's efforts to reform the nation's emergency relief and rehabilitation programs have at the policy level repositioned the program to move along a continuum from relief to development. Sustained movement along this continuum is still constrained by a number of implementation problems emanating from the need to better coordinate different components, to improve targeting target and monitor performances.

The objectives of the Title III Food Security Program in relation to the first component were to alter the prevailing food system that provided generalized subsidies to one in which subsidies would be targeted to the food insecure population who would be unlikely to enter the market. Over the four years of the Program, significant changes have occurred that lead to such a system. Notably, government intervention in grain markets has been greatly reduced as a result of which the gross distortions whereby producer prices were depressed and consumer price were subsidized have been eliminated. Subsidies, to the extent that they have been provided, have been through safety net programs (operated both by the government and various NGOs) or through relief operations.

19 Grants to the DPPC are sanctioned by the EFSR upon the recommendation and consent of the TC and as per the directive establishing the EFSR which allowed the use of the reserve both as loans and a free draw down (grant) basis: the latter through the government relief agency

The Title III Food Security Program has provided resources to the RRC/DPPC for relief operations and to the Food Security Reserve. It has also been able to leverage additional resources for a one-year Safety Net Program. Changes in the government's policies regarding relief operations have introduced a more developmental approach to the provision of food to communities faced by periodic production shortfalls. Moreover, the establishment of a Food Security Reserve has enabled more timely allocation of resources for relief purposes. Although implementation problems still persist, it is believed that food aid is used in a more efficient manner.

Regarding the SNP, it is believed that the government's program has been generally successful in augmenting beneficiaries' meager sources of livelihood in a cost efficient manner. Moreover, different kinds of support that may be more sustainable than simple hand-outs; i.e., revolving fund schemes, support for income generating activities and provision of agricultural inputs to poor farmers have been introduced. However, the program reached only a small portion of the food insecure population. Also, as a one year program, it is unable to fully meet the needs of the chronically poor that face increases in the cost of food without a commensurate increase in wages or employment opportunities. Nor is there a possibility of applying the positive lessons learned from the program into practice under a similar program. Thus, while much has been achieved under this component particularly in relation to the liberalization of grain markets, the objective relating to the provision of targeted subsidies to vulnerable populations is only partially met.

B. COMPONENT # 2: INCREASING PRODUCTIVITY, INCOMES AND EMPLOYMENT

The objective of the second component of the Title III Program is to reduce government interference in the processed food and textiles sub-sectors to allow greater incentives for private agribusiness production, and to increase investment from the private sector in these sub-sectors, so as to create jobs, reduce poverty and therefore ensure greater urban food security.

Accordingly, the reform measures associated with this component are:

1. concrete plans for possible deparastatalization of medium and large scale state-owned manufacturing would be developed and put into practice --- this included divestiture (including restructuring and eventual privatization) and/or rehabilitation to increase the competitiveness of the manufacturing sector, reduce budgetary losses and increase value added;

2. private entry into grain milling, food processing and textile production would be promoted through elimination of restrictions to entry and easing of business licensing (especially for small and medium enterprises in textiles and food processing);

3. the EDDC's role in control and monopoly of wholesale trade (particularly textile product) would be reduced effectively --- EDDC presence in the market reduced or eliminated;

4. elimination of subsidies on wheat [and therefore also on flour and wheat products] and de facto liberalization of textile prices.

As private sector investment in agri-business was not expected to materialize in the short-term, support to increased productivity in the public manufacturing sector was also provided. Thus the textile sector, which is the largest industrial employer in the country, was provided with cotton under the Program to enhance short term expansion in capacity utilization within the public textile factories in order to increase labor productivity in the textile industry itself and address the urgent issue of increasing productive employment in down stream activities (weaving, tailoring etc). over 25,000 MT of cotton were provided under the Program in the first/second call forward. Imports of cotton through the Program were however discontinued in 1993/94 because the parties agreed that given a situation of cereal production shortfalls, it was more appropriate to provide food grains rather than cotton.

The provision of cotton was believed to contribute to improved capacity utilization and short-term productivity in the textiles sub-sector while in the long-run, reform measures mandated by the Program would result in more efficient operations allowing for growth of the food processing and textiles sub-sectors. Many of the reforms considered here as they relate to the flour milling sub-sector are indirectly supported by wheat provided through the Program as such assistance facilitates the government's efforts to reorient its involvement in food markets by providing resources that allow the establishment of food reserves and safety net programs.

The Program focuses on textile and food enterprises because these employ the largest portion of the parastatal labor force (45% and 19% respectively). Moreover, both flour milling and textile production are agri-businesses and provide backward and forward linkages within the economy. Long-term development in agriculture will inevitably be hampered if the processing and marketing of agricultural products remains constrained by the existence and/or dominance of inefficient public enterprises. Similarly growth in activities that rely on large/medium enterprises for their inputs are limited if this reliance is based on inefficient or uncompetitive production.

1. Summary of the Prior Situation

1.1 Structure of the Food Processing and Textile Manufacturing Sub-sectors

The wheat and textile sub-sectors were almost entirely managed by five parastatals from production and/or marketing of raw material, to processing and sales. Raw materials were purchased from the AMC in the case of wheat and state farms in the case of cotton. To a large extent, output was sold through the Ethiopian Domestic Distribution Corporation (EDDC), the parastatal wholesaler, the Ethiopian Retail Trade Corporation (ERTC) the parastatal responsible for retailing or directly by the corporations themselves. The private sector was involved to a limited extent in final production (of wheat into bread and textile/yarn into fabrics and clothing) and some retailing of textile products.

State-owned food processing enterprises were managed by the Ethiopian Food Corporation (EFC) and textile manufactures by the National Textile Corporation (NTC) with oversight from the Ministry of Industry. Decision making, information flows, responsibility and accountability was concentrated outside the plants with the corporations, the Ministry of Industry, and the Office of the National Committee for Central Planning (ONCCP) involved in different aspects of plant management. Although this provided significant support to the enterprises and economies of scale were achieved, it also meant that many decisions were not commercially determined. Moreover, public manufacturing enterprises operated in a system with pervasive government intervention. For the most part such interventions were favorable to government-owned enterprises. However, inefficiencies were able to develop. New investments tended towards integrated plants (with technologically inflexible units, particularly in the textiles factories); production was standardized with little regard to consumer tastes; and, management did not develop entrepreneurial experience. Thus, as they were, public manufacturing enterprises were poorly adaptable to a market led environment and performance deteriorated as measures were taken to liberalize the economy.

1.2 Major Constraints Faced by the Sector

The public manufacturing sector faced two major constraints. As suggested above, decision making lay to a large extent outside the purview of the enterprise and therefore commercial practices were not necessarily followed and management did not develop skills required to operate within a competitive environment. Decisions on investment, manpower management, marketing and pricing were undertaken by the corporations (e.g., EFC or NTC), the Ministry of Industry, the ONCCP or special high level committees.

Secondly, manufacturing enterprises operated in an environment where prices were fixed; raw material availability was determined by government quotas; marketing and market promotion was non-existent as sales of output was determined according to government distribution priorities; and, where flexibility in the determination of production mixes was minimal.[19] The enterprises had little input in decision making regarding either purchases of raw material or on sales of output which was managed at the corporation level. Thus did not able to operate competitively. Moreover, there was little effort to respond to consumer demand and to rationalize costs.

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[19] The flour mills were restricted in their purchases of wheat to the AMC and textile factories bought cotton directly from state farms. Purchases were according to quota allocations that were determined on the basis of availability; i.e., state farm production levels and AMC purchases. Allocation between factories was determined jointly by the EFC or NTC and the Ministries of Trade or State Farm Development based on the capacity of plants and the output produced. Prices of raw materials were fixed by the Council of Ministers upon recommendations from the ONCCP. Sale of produce was made either directly through NTC and EFC to the export market (textiles), government institutions and ministries (e.g., hospitals, Ministry of Defence) and private producers (e.g., bakeries) as well as through the EDDC and/or ERTC and private retailers (textiles) to consumers. The EDDC, the Ministry of Industry, ONCCP and the Ministry of Trade regulated different aspects of distribution and pricing of textile and flour and mark-up was established by legal notice.

Because they operated in a distorted market, their performance depended on the government's ability to manage market distortions. For example, due to the maintenance of an over-valued exchange rate, access to foreign currency was limited and imported inputs though relatively cheap were made available according to government priorities. By 1992, such limitations had resulted in declining production, low utilization of existing capacity and low profitability (or actual losses) reflecting an unsustainable situation within public manufacturing.

In 1991 and 1992, textile factories and flour mills faced serious shortages of raw material as a result of which production fell sharply during this two years (see Table III.14). Such shortages were due to both disruption in agricultural production prior to the change in government as well as the loss of public enterprises' access to subsidized inputs as the economy was being liberalized. Due to changes in grain marketing policies in which compulsory sales to government were eliminated and due to decreased production in state farms, the AMC was unable to meet the flour mills' demand for wheat. Similarly, the cotton made available to the textile mills was reduced drastically with the decline in state farm production of cotton. Shortages in raw materials could not be alleviated through imports as imports of raw material and other inputs remained constrained due to the limited access to foreign currency which was strictly rationed.

Rates of capacity utilization thus dropped to their lowest levels in 1991/92. Attainable capacity in the flour milling industry is believed to be around 263,000 tons. While in 1988/89 production of flour had been around 89% of capacity, it dropped to 28% in 1991/92. Similarly, while attainable capacity for fabrics production is believed to be around 122,000,000m^2 and 62% of attainable capacity was produced in 1988/89, it dropped to 33% in 1991/92.[20] While production levels dropped, production costs remained high because public manufacturing enterprises carried a dual burden of a) a poor technological base and obsolescence of machinery in many though not all plants; and, b) over-employment. The overall result was that, with the exception of a few flour mills and garment producers, profits declined and in many cases losses were registered both in 1990/91 and 1991/92. In general profits in the flour milling sub-sector were low even before the decline in 1990/91.[21] On the other hand, textile factories were generally profitable except for the case of those enterprises which produced for export. However, as will be made more evident in later discussions, profits were made possible by maintaining a processing margin fixed by government regulation. Analysis of domestic resource costs relative to the value added at international prices indicates that eventhough textile mills producing for the domestic market were able to register profits, this was only as a result of distortions in the market. In the case of the Akaki Textile Factory the distortion factor was found to be 980%.[22]

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20 MOPED/PUA, Survey of Current Economic Conditions in Ethiopia, Vol.II. No.1, February 1994

21 Note that baking was however profitable for both public and private enterprises the private baking enterprises making a profit even while sacrificing an 8 Birr/Qtl margin in the parallel market. Ibid.

22 MOPED, The Structure of Protection in Manufacturing Industry in Ethiopia. Addis Abeba, January, 1995 (unpublished report)

Table III. 14
Production and Profitability
in selected public enterprises (1986/87-1991/92)

a. flour mills

year	Misrak Flour & Oil Factory	DebreZeit Flour Factory	National Flour Mill Factory	Adwa Flour Factory	Nazereth Flour Factory	Yerer Flour Mill	Awassa Flour Factory	Anbessa Macaroni & Flour Factory	Kokeb Flour & Pasta Factory	Kality Food Factory
flour production in tons										
1986/87	13350	13206	42646	15314	11790	17242	5432	19523	2844	12606
1987/88	13265	7896	29881	13724	10893	16645	18064	19579	24759	11570
1988/89	13305	11159	36129	14867	10710	17375	25030	18426	24195	13487
1989/90	13512	14334	37324	14651	10992	17545	27165	19557	23413	13807
1990/91	11980	8221	35042	13468	10966	16833	25929	18295	23414	11468
1991/92	7439	1799	14172	7461	7952	9238	na	9892	13170	8696
profits after taxes in '000 Birr										
1986/87	358	(147)	1535	(70)	154	387	na	600	na	177
1987/88	355	176	586	104	10	297	na	316	(833)	(65)
1988/89	90	67	107	189	(59)	(122)	24	718	951	79
1990/91	(683)	(103)	906	102	53	266	691	(34)	(195)	98
1991/92	(794)	(385)	(130)	320	221	210	(808)	(393)	105	na

source: MEDAC (output figures; Trade and Tourism Depatment---profit figures; Finance and Budget Department); Public Enterprises Supervisng Authority, (profits, (1991/92, output, 1993/94)
note: profit fugures for Anbessa Macaroni and Flour Factory, Kokeb Flour and Pasta Factory and Kality Food Factory are on flour production for 1986/87-1990/91; 1991/92 figures are for the enterprises as a whole. *Anbessar and Kokeb carried consistant losses on macaroni and pasta production Kality made increasing profits on baking over the period.*

..... Table III.14 (continued)

b. textile factories

enterprise	Akaki Textile	Dire Dawa Textile	Bahir Dar Textile	Combolcha Textile	Awassa* Textile	Addis Garment	Akaki Garment	Gulele Garment
a. output	fabrics production in'000 m²					garments in '000 shirt equivalent		
1986/87	27672	29576	17062	4319	---	777	2037	538
1987/88	27045	29449	18580	8685	---	453	2143	945
1988/89	21744	23829	7941	7842	---	535	2129	756
1989/90	22361	25626	11684	6298	4792	547	2727	834
1990/91	11253	5655	6353	5192	7686	530	1542	553
1991/92	11507	3935	9397		7551	264	831	391
b. profits after taxes in '000 Birr								
1986/87	3373	5588	(117)	(4590)	---	323	1538	(664)
1987/88	2561	2450	70	(25884)	---	80	915	(227)
1988/89	(411)	(3612)	(6599)	(8510)	---	(135)	2261	(236)
1990/91	(6244)	(15722)	(12197)	(14738)	(1055)	(1967)	2715	351
1991/92	(11258)	(9956)	(5909)	(19667)	(240)	513		(2295)

source: MEDAC (output figures; Trade and Tourism Department---profit figures; Finance and Budget Department); Public Enterprises Supervising Authority, (profits, (1991/92; output, 1993/94; all figures for Awassa Textile)

1.2. Distortions and Segmentation of Markets

Public manufacturing enterprises were an important link in the government controlled market for agricultural products enabling the government to dominate such markets and maintain significant price distortions. In the case of the price at which wheat was sold to the flour mills, this was at a level significantly below both the market price and AMC purchase prices. In 1992, the EFC paid Birr 34/Qtl of wheat compared to 250/Qtl price on the free market; and, Birr 107/Qtl or 80/Qtl AMC purchase price from state farms and imports respectively. The AMC, in 1990, received Birr 60 million in subsidy against wheat deliveries to the EFC mills.

Figures for cotton price comparisons are not available but since support was provided to state farms in the form of credit and inputs, one may assume that an implicit subsidy was provided to the sector. Moreover, the relative constancy of prices of the previous 16 years indicate that textile mills received cotton at a price well below market levels. A further indication of depressed cotton prices is provided by a comparison of the textile mills' purchase price with that of international prices in which it is found that domestic prices of cotton were around one third of the import parity price and on average 45% relative to FOB prices of comparable products.

Table III.15 Import Parity Prices for Cotton in 1992

	FOB price/kg in Birr*	CIF Addis Abeba price/kg in Birr for lint cotton	Regulated price Birr/kg	percentage of price received by Ethiopian growers relative to international prices
Sudan Barakat x4B	9.25			36%
Central Asian MID 1 1/32	6.30			53%
Memphis MID 1 1/32	7.25			46%
Texas MID 1 1/32	7.50			46%
North Sea Price; June, 1992	7.00	10.18	3.42	34%

**average of 59 weeks quotations in 1991/92
source: Kuma Tirfie, Assessment of Ethiopia's Cotton Sector, December, 1992

Investment by the private sector in manufacturing was restricted to small scale undertakings of Birr 500,000 or less. Therefore, private enterprises operated at the margin either in a parallel market or picking up an element such as baking (private bakeries were supplied flour under a strict quota system, had to remain within the government pricing structure and to limit the type of product) or retailing of textile products. As a result, the market became segmented. In the case of flour products, the changes in grain marketing introduced early in 1990 meant that the AMC decreased its purchase quotas and restrictions on marketing by private grain merchants were relaxed.[23] In response farmers have been selling an increased amount of grain on a free market at a price significantly higher than AMC's purchase price. This provided private trading organizations (such as Ethiopian Amalgamated Ltd and Seid Mohammed) an opportunity to purchase grain, contract for its milling and sell flour to private bakeries. Thus Ethiopian Amalgamated had grain milled by EFC's Adwa mill and Seid Mohammed by the Debre Zeit mill and supplied flour to private bakeries at a price of 210 Birr/Qtl (as opposed to 58 Birr/Qtl from the government flour mills). Private bakeries therefore began selling bread at a dual price of 0.10 Birr/125g through the public distribution system and at 0.20/100g in the free/parallel market. It was also often the case that rationed produce purchased from the public sector often entered the parallel market at about double the government's price.[24] Thus as restrictions on the market were being relaxed in 1990-1992, both public flour mills and private bakeries were able to use some excess capacity to supply demand that was not met in the official market.

Similarly, not all textile products passed through the public system as private retailers maintained a role in this sector selling some products at a price significantly higher than the public sector while taking losses on textile products that had little demand. While retailers purchased from the EDDC at prices fixed by government, they were able to sell their produce more or less freely on the open market. However, they often had little choice in the products they were able to buy from wholesalers and would handle products that were in demand and also those for which there was little market. A study undertaken by Kuma Tirfie in 1992 on the cotton sector, shows that retailers' margins on sales in Addis Abeba ranged from a negative of just over 50% upto a positive margin of as high as 400% (albeit only in one product). If retailers' were to transact in all of a sample of 79 textile products chosen for the study, average retail margins would be 63.65 percent. This compares with an 8 percent markup allowed for retailers by government regulation.[25]

Government intervention in textile and food processing (both in terms of its own pricing policies and restrictions on private investment in manufacturing) resulted in distortions which significantly depressed prices for wheat and cotton while benefitting consumers because of artificially low output prices; small scale processors as they had access to subsidized inputs; i.e., flour and fabrics and/or yarn; and, some retailers who were able to buy products from the official market at depressed prices and sell at higher prices in the open market. As a result, agricultural production incentives were very weak. Moreover, the structure of the domestic market allowed inefficiency in manufacturing. Processing margins in the two sub-sectors of relevance to the Title III Food Security Program were maintained at high levels. Margins accruing to the flour mills, (in terms of both milling charges, flour price and price of bread relative to price of wheat)

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23 Grain market liberalization was begun in the last years of the previous regime and intensified by the TGE. This is discussed in greater detail in section III(a) of this review.

24 See Triveni P. Shukla, Op. Cit.

25 Kuma Tirfie. Assessment of Ethiopia's Cotton Sector. December. 1992, Addis Abeba (unpublished report)

were significantly higher than international standards.[26]

Labor productivity was low, an assessment of wheat milling in Ethiopia undertaken for USAID in 1992 found that the labor force should be curtailed by around 30% for reasonable levels of labor productivity.[27] An analysis carried out by Cargill Technical Services Inc. on the textile industry compares levels of output per employee in three of the textile plants against "acceptable" or "competitive" levels in developing countries assuming machinery that is more than 10 years old. The standard the study uses is 720 m^2 per person/month. At full capacity, Dire Dawa, Bahir Dar and Awassa Textile Factories produce only 420m^2, 460m^2, and 700m^2, per person/month respectively. In all cases, labor productivity is found to be significantly lower than international standards.[28] The study concluded that excess employment even if plants produced at full capacity was 2,580 for the Dire Dawa Textile Factory, 1,040 for the Bahir Dar Textile Factory and 98 for the Awassa Textile Factory. Thus eventhough government owned textile factories were major employers, they did not generate real employment opportunities given the low level of labor productivities maintained.

Because public manufacturing was inefficient, employment both within the government owned plant and in downstream production which depended on subsidized intermediate products from such plants was not sustainable. Thus long-term food security was compromised because a) the pricing structure was such that agricultural prices were low; therefore, rural incomes were depressed and incentives for increasing productivity in the food sector were minimal; and, b) while the public industrial sector was able to generate urban employment, it did so at the expense of private enterprise and in an unsustainable manner.

2. Reforms Implemented

As a continuation of its economic reform program, the TGE introduced a wide range of policies beginning late 1992 to rationalize the economy. Such measures included inter alia a) restructuring of the public manufacturing sector; b) elimination of public monopolies in food and merchandize marketing; c) elimination of subsidies and price control for food and textile production; d) elimination of restrictions on private sector involvement in manufacturing and marketing; e) devaluation of the currency and the institution of an auction through which access to foreign exchange could be freely gained; and f) adjustment of the tariff structure. While the first four relate directly to Title III conditionality, additional reforms have been added for consideration because these have an impact on the performance of the manufacturing sector.

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26 Sukla, Op. Cit.

27 Ibid, p.18

28 Cargill Technical Services, Op. Cit., Even though the study was undertaken in 1994, because both employment levels and the capacity of enterprises hadn't changed since 1992, the analysis was found to be relevant and therefore used to reflect the situation in 1991/92.

2.1 Restructuring of Public Manufacturing Enterprises

Since 1992, the TGE has expanded on measures to liberalize grain markets, restructured (and scaled back) state farms and eliminated all direct and many implicit subsidies within the food and cotton sectors. As a result of such reforms, flour and textile enterprises face a more exacting economic environment.[29] This is the more so since reforms in merchandize marketing and elimination of restrictions on the private sector in production, trading and imports of flour and especially textile products have meant that public manufacturing enterprises now face increasing competition in marketing their output. While subsidies were introduced to protect consumers, they have often also covered the inefficiencies of the processing enterprises. With liberalization, while access to raw material has improved, production and marketing inefficiencies and/or constraints become binding. Public manufacturing enterprises need to improve their productive capacities and invest in marketing to remain operational as they compete with the private sector both from within the economy and from abroad; i.e., imports.

Several measures to first rehabilitate and then restructure public manufacturing enterprises to improve productive efficiencies have been introduced. The most significant measures taken by the TGE to restructure public manufacturing enterprises are believed to be a) the elimination of restrictions on marketing output together with the discontinuation of price setting practices; b) reorganization of public manufacturing plants as independent enterprises with increased decision making at the enterprise level; and, c) moves toward privatization.

In 1992 the ten product based corporations under the Ministry of Industry including the EFC and the NTC were dissolved and the various enterprises that they managed were reorganized as independent enterprises governed by a board of directors. The board of directors of these enterprises is accountable to the Prime Minister's Office. A Public Enterprises Supervising Authority under the Prime Minister was established in August, 1992 as an overseeing agency for all public enterprises by proclamation No. 25/1992.

Achievement of managerial autonomy as well as the degree of managerial capability and therefore the extent to which business practices have been adopted at the enterprise level is mixed. *Legally, the role of the Board of Directors is similar to any in the private sector Moreover, t*he dissolution of the corporations means that the management of each enterprise functions separately. Relaxations of restrictions on purchases and sales (discussed further below) necessarily bring functions related to marketing and purchasing to the enterprise level.[30] Also, at the time of their establishment as individual enterprises, each enterprise was recapitalized and took up operations as a financially independent firm. The Commercial Bank (CBE) rather than the Ministry of Finance is now responsible for budgetary shortfalls and financial decisions also

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29 Analyses of the structure of subsidies under the previous system indicate that their source is at the raw material marketing or production levels.

30 It is to be noted, however, while decision making on input purchases has been decentralized, it has been accompanied by some loss of economies of scale in enterprise operations. Purchases of inputs were undertaken in bulk by corporations and their dissolution has canceled advantage associated with bulk purchasing.

fall within the realm of enterprise management. For example, eventhough some firms are losing money, such losses are now covered through overdraft or other loan arrangements with the CBE. Presumably, this would lead to a process of liquidation if no turnaround in performance seems likely. However, to date, the CBE has not pushed towards liquidation.

On the other hand, the board of directors and the Public Enterprises Supervising Authority retain an important influence on enterprise management. The Supervising Authority elects membership to the board of directors of which enterprise representation makes up but a third and in which the general manager is not a member. Marketing and pricing of output, changes to the enterprises' organizational structure, alterations to salary/wage scales, training plans, yearly budgets and operational targets must all be approved and decided upon by the board of directors. Moreover, many issues are referred onward to the Supervising Authority.

An area where the government retains significant control over enterprise decision making is investment. In many cases renovation is undertaken by the enterprises' own resources or from bank loans. However, decision on types and levels of investment are made by the Supervising Authority. Enterprises prepare an investment plan be it for expansion or renovation which is reviewed, adjusted and approved by the Supervising Authority. The government has proceeded to privatize flour mills and plans to sell all its food processing enterprises within two years. Thus it is relying on the private sector for investments necessary to change the technological base of such enterprises and thus increase productive efficiency. Although it is too early in the process of privatization to assess its impact, one may expect that some of the constraints on productive efficiencies may well be eased providing that the private sector develops competitively. From earlier discussions of constraints, we conclude that public manufacturing enterprises require additional resources in the sub-sector to upgrade the technological base; need to adopt improved marketing practices and flexibility in adjusting to changing markets as well as to reduce [or make better use of] their labor force. It is expected that these issues will be addressed with private ownership in a competitive environment.

The government does not have any immediate plans to privatize textile factories (although it is expected that cotton farms and cotton garment producing enterprises would be sold in the coming years). However, restructuring of the public manufacturing sector is an ongoing process and the government has proposed to further study the textiles sub-sector and to act upon a better understanding of the prevailing conditions. USAID/E through its "Development of Competitive Markets" Project is providing assistance towards this end.

Changes in the labor code and the establishment of a fund for compensation of retrenched workers seems to have eased the process of privatization and has allowed those manufacturing enterprises remaining under state ownership to reassess their organizational structures and to slowly change their employment levels and structure. For example, the Akaki Textile Factory has introduced a new organizational structure releasing about 12% of its workforce. Training, recruitment of new staff and upgrading/transfer of existing staff will be carried out as a second phase in the near future. Such restructuring is believed to improve both production efficiency (if output levels are maintained) due to a better labor output ratio; and, the ability to respond to market conditions as operations related to market development and quality control have now been included within the enterprises organizational structure.

A new labor law that gives significantly more leverage to management was introduced in January, 1993. The law abolishes the requirement that all hiring take place through the labor exchange of the Ministry of Labor & Social Affairs, and the ministry now offers labor matching service on a voluntary basis. It gives more power to the employer to hire and fire workers. Dispute resolutions take place either in the courts, or under a tri-partite commission. Remuneration and benefits are more flexible than they were in the past and although the standard work time is described as 8 hours per day and six days per-week, actual work schedules can be flexible. Generally speaking, the new labor code is considered reasonable by private employers, except perhaps that the probationary period provided for by law regarding new workers, three months, is too short to determine a workers suitability for permanent employment. Leave provisions are also considered inappropriate and some employers find them too costly.

As in the case of the other areas of decision making, the degree of delegation of authority on labor management decisions to the enterprises is mixed. The board of directors retains an influence on the overall structure of employment as it has final decision on the organizational structure of its enterprise as well as the wage/salary and incentive systems that may be adopted. With regard to training, the enterprises develop their own plans for local training and the Supervising Authority complements this by organizing training courses for management. Training abroad, however, must be approved by the Supervising Authority eventhough it is the enterprise that identifies training requirements.

2.2 Change in the Linked Relationships Between Public Enterprises and the Liberalization of Markets

As discussed in greater detail in sections III(A) and III(C) of this review, government marketing enterprises have been restructured so that the EDDC (now MEWIT) and the AMC (now EGTE) no longer have any monopoly in the marketing of output of manufacturing enterprises and as a source of their raw materials. Thus flour mills are, in principle, allowed to purchase wheat from private grain merchants as well as the EGTE. Purchasing raw material from private grain merchants has now become a real alternative for the public flour mills. Most public flour mills continue to purchase their raw material from the EGTE because this enterprise enables bulk purchasing and provides both storage and credit facilities; however, purchases are at market prices and private flour milling enterprises have equal access to EGTE sales. It is to be noted that the EGTE's price is often higher than that of the free market reflecting the value of additional services.

The EGTE retains a certain public sector responsibility for price stabilization and may on exceptional basis intervene at prices other than those established by the market for purposes of stabilization. While flour mills have not received any wheat on the basis of a stabilization program, this could cause some distortion if, in releasing wheat for such purposes, the EGTE differentiates among flour mills. It is therefore important that any stabilization measure be undertaken with due regard for transparency.

As in the case of the flour mills, textile factories are no longer obliged to purchase all their raw material requirements from state farms. In principle, they can buy cotton from private cotton farmers and, given the drastic decline in domestic production may import cotton if this is profitable.[32] High transportation and handling costs and a 20% tariff rate, however, have not made imported cotton competitive within Ethiopia despite the existence of unused capacity within the textile factories. In addition to the above, restrictions on state farms' cotton sales are no longer implemented. The eight state owned textile mills still constitute the bulk of domestic demand for cotton; however, with devaluation and a rise of international cotton prices, exports of cotton have also become a profitable sales option. As a result, the price of cotton is now close to the import parity price rising from Birr 3.5/kg in 1992 to Birr 6.5/kg in 1993 and 1994, to over Birr 10/kg in 1995.

Marketing of manufactured products was liberalized a little more gradually and in 1993, MEWIT lost its monopoly over the distribution of all domestically produced merchandise. Presently, both flour mills and textile factories realize sales through auctions and MEWIT, different government ministries and the private sector all compete with each other. Initially, a limit on the profit margin allowed to manufacturers was administered to avoid monopolistic practices given that public manufacturing enterprises dominated production. This, however, was maintained for a period of only about one year and prices are now determined by market conditions. The process of liberalization obviously works both ways and MEWIT is not required to purchase all of the output from public enterprises. Manufacturing enterprises are now primarily responsible for the sales of their output. Textile factories in particular are engaged in the production of products that do not necessarily have a ready demand. They are now faced with the necessity for exploring new markets, promoting products and adjusting prices, product mixes, and regional distribution of sales in accordance with market conditions.

In October, 1992, the TGE introduced a wide range of macro-economic reforms one element of which was devaluation and some adjustment to tariffs. Although trade policy is not directly related to Title III conditionality is affects the performance of manufacturing enterprises and therefore a brief exposition of developments is provided. Devaluation increases the price of imported commodities in domestic currency. However, the adjustment to the exchange rate was accompanied by a relaxation of administrative measures restricting import activity and better access to foreign exchange through the auction. With increased access to foreign exchange, there is an inevitable shift in from the parallel to the official market. Agents previously importing with foreign exchange obtained from the parallel market now import at a lower C.I.F. price. However, the rate of tariffs paid is greater because it is valued at a higher official

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[32] State farms have been the major domestic suppliers of cotton and various reforms have been introduced that have had implications for state cotton production. In some cases, cotton farms have been broken up and operations put into private hands or local people have moved back onto the land for livestock grazing or production of non-cotton crops. Remaining state farms have been made into autonomous "Agricultural Development Enterprises" and no longer have access to state funding to cover operation and maintenance costs and consequently been forced to cut back production activities. Future direction in the area of state farm production is likely to be divestiture and the Ethiopian Privatization Agency established for this purpose expects to be begin selling state cotton farms to private investors in the coming year; therefore, it is unlikely that state owned farms will be the major supplier of cotton to textile factories.

exchange rates. Thus given positive tariffs, while producers of textiles and flour remain protected from international competition, the degree of protection has changed. As tariff rates in both flour and textile production are high ranging from 20% to 65% and are structured so that raw material and intermediate inputs face relatively low tariffs while tariffs on finished products are high, it is likely that the protection rates have increased with devaluation.

2.3 Promotion of Private Sector Participation in the Textile and Food Processing Sub-sectors

Whereas the public sector's participation in all levels of the food and textile sub-sectors; i.e., raw material production and marketing, food and textile processing and distribution of finished products remains, the reforms introduced have resulted in the reduction of its dominant position. Moreover, the new investment code: Proclamation No. 15/1992, has removed capital ceilings, area restrictions and the one man one license principle previously in operation. It thus allows private entrepreneurs to own multiple businesses and has opened up many areas for private investment including food and textile processing. Other measures to promote private sector investments have been introduced while constraints also remain. This however is the topic of a different section to this review. Suffice to say that legal restrictions on private sector investment in food and textile manufacturing have been eliminated.

3. Impact of the Reforms

3.1 Performance of Public Enterprises

The most direct (first level) impact of the reforms discussed above are on public enterprise performances; i.e., a) production and rate of capacity utilization; b) employment generation and labor productivity; and, c) profitability.

a. <u>Production and Capacity Utilization</u>

Reforms introduced allowed access to inputs either from domestic producers or imports but at higher prices reflecting real market values. Increases in the prices of inputs put pressure on the manufacturing enterprises to increase selling prices and/or reduce costs. With liberalization of the market for their output, higher selling prices have been introduced. This, however, has resulted in a loss of competitiveness; particularly in the case of the textiles sub-sector, a loss in market shares and a consequent cut back in production (to levels significantly below capacity) and/or accumulation of stocks of finished products.

For example, the Akaki Textile Factory increased its rate of capacity utilization from 30% to 52% in the first year of the reform to around 70% during 1994 due to improved access to cotton through foreign assistance (mainly through the Title III Program). It is presently at around 60% as the enterprise has cut back production due to problems in marketing its output. This compares

Table III.16 Production, Employment and Labor Productivity

	Misrak Flour & Oil Factory	National Flour Mill Factory	Nazereth Flour Factory	Yerer Flour Mill	Kokeb Flour & Pasta Factory	Kality Food Factory
flour production in tons						
1988/89	13305	36129	10710	17675	24195	13487
1992/93	5038	4745	8229	4175	5523	9309
1993/94	4316	6801	5288	4525	14479	13511
total employment in flour mills						
1988/89	na	448	142	134	297	420
1992/93	502	563	137	143	300	571
1993/94	423	539	128	140	289	670
labor productivity						
19988/89		80.65	75.42	131.90	81.46	32.11
1992/93	10.04	8.43	60.07	29.20	18.41	16.30
1993/94	10.20	12.62	41.31	32.32	50.10	20.17

	Akaki Textile	Dire Dawa Textile	Bahir Dar Textile	Combolcha Textile	Addis Garment	Gulele Garment
output	**fabrics production in'000 m^2**				**garments in '000 shirt equivalent**	
1988/89	21744	23829	7941 (11580 in 1988/87)	7842	535	756
1992/93	13905	8120	8882	5009	242	252
1993/94	18411	13705	10992	10295	187	77
employment in textile factories						
1988/89	6049	6153	5390	1832	480	102
1992/93	5705	5075	2967	2849	449	737
1993/94	6087	5757	2527	2216	448	688
labor productivity (in relation to the enterprises' main products)						
1988/89	3.59	3.87	1.47	4.28	1.11	7.41
1992/93	2.44	1.60	2.99	1.76	0.54	0.34
1993/94	3.02	2.38	4.35	4.65	0.42	0.11

source: MEDAC (1988/89 and 1992/3); Public Enterprises Supervising Authority (1993/94) to production at about full capacity under the previous regime. Although still producing at levels below capacity, Akaki Textiles has increased production in the face of serious problems in marketing in recent years. It has therefore accumulated stocks of finished produce which were worth around 18 million birr in 1993/94. The enterprise has been able to somewhat reduce its stocks since then both by cutting back on production and adjusting prices even to below costs.

A similar situation is apparent in other enterprises. It can be observed from Table III. 16 that in the two years following the introduction of the reforms production while increasing remained at levels significantly below average performances under the previous system. All of the textile factories have insufficient marketing skills, and a poor understanding of conditions in the market which has not allowed the development of effective marketing strategies. The enterprises are therefore unable to respond adequately to changing market conditions; either through adjustment in production mixes; improvement in quality and designs; setting of realistic prices; and/or, promotion of output. Moreover, there has been little investment in marketing expertise, reputation, distribution networks (factories tend to be dependent on MEWIT and one private wholesaler for most regional sales), market information and market contract.

Neither are significant improvements in productive efficiency apparent both in terms of raw material use and improvements in quality. The technical make-up of the plants does not allow flexibility in changing the raw material component of output; i.e. use of synthetics is limited. Thus while cotton is a relatively expensive input, it remains the predominant raw material used for textile production in Ethiopia. Given that they are based on a relatively high quality input, Ethiopian textiles should be geared at higher niche in the domestic market or at exports. However, the overall quality of textiles is low. Output is therefore directed towards low income groups and forced to compete with imported synthetic textiles (fabrics and clothing) that are produced at much lower costs. The final result is that production has dropped significantly from the levels that predominated prior to 1991.

Developments in the wheat milling sub-sector may be more positive. There was little improvement in production levels in the first two years of the reform as the new enterprises were being reorganized and new operational relationships were being established. Although data on recent production levels is not readily available, it is believed that production in subsequent years has improved significantly. Interviews with the management of the Kality Food Factory have indicated that raw material availability is no longer a problem and the enterprise has bought wheat both from the EGTE and from private sector suppliers. With liberalization the price of wheat to the enterprise rose from Birr 34/Qtl and seems to have stabilized at around Birr 135/Qtl. Accordingly, the enterprise has increased selling prices to Birr 270/Qtl but does not seem to have lost its market share. Production is not at full capacity due to technical reasons rather than difficulties arising from reforms introduced.

It is to be noted that as in the case of public sector textile producers, while flour mills have made adjustments in prices in response to changes in the market of inputs and in production levels in response to conditions in output markets, little adjustment to improve productive efficiency is evident. Costs in general have remained high. At the Kokeb Flour Pasta and Macaroni Factory, the unit production cost is Birr 213.1/Qtl for flour of which Birr 107.5/Qtl covered the cost of wheat. This represents a processing markup of about 100% on the cost of the raw material. Similarly, the kality Food Products Factory has a mark up of 100% as in 1995, wheat was bought at Birr 135/Qtl and flour sold at around Birr 270/Qtl. Compared to international standards, this is fairly high reflecting continuing production inefficiency. [32]

The significance of output levels by the public manufacturing sector lies both in the availability of consumer products at reasonable prices and the availability of inputs for downstream activities. Production by public enterprises influence the availability of inputs for downstream activities only to the extent that any decreases are not covered by the private sector; either through domestic production or imports. Previous discussions indicate that public sector production of flour has been able to recover to levels existing before 1991. Also, public sector production is being supplemented by private flour mills producing about 16,000 tons of flour. Supply of flour to the domestic market has therefore increased. In contrast, public sector production of textiles remains low and there are very few investment projects for the production of either yarn or fabrics. Imports of fabrics have been increasing; rising from 2,784,000m^2 in 1988/89 to 11,345,000m^2 in 1993/94.[33] As the level of total annual public sector production of fabrics has declined by more than 11,000,000m^2 relative to production levels in 1989/90, it is clear that the increase in imports has not been sufficient to offset decreases in domestic production. Production of yarn has increased slightly from 1988/89 to 1992/93 by about 700 tons. This represents a 16% increase in production. Domestic availability has increased a slightly higher percentage as around 77 tons of yarn that used to be exported are no longer supplied to the world market.

The pricing of output influences downstream production to the extent that manufacturers can influence the markets. While the reform measures have significantly reduced the scope for the public sector to influence markets, public manufacturing enterprises remain dominant and prices are somewhat distorted as productive inefficiencies have been maintained both as a result of protection from imports and because the private sector has yet to be fully engaged in productive activities. Domestic production of both flour, fabrics and yarn is protected although to different degrees. Tariffs on imports of flour are 40% ad valorem; 65% on fabrics and 20% on yarn. Thus given that competition by the private sector is still minimal, the domestic price of these products can be maintained at levels sufficiently high enough to cover productive inefficiencies the evidence of which has been already discussed. One may assume that the artificially high prices of both flour and fabrics must influence downstream production. This is illustrated in the case of fabrics where demand for the domestic product has declined to a greater extent than the increase in imports. Sales of fabrics by public enterprises dropped by 48% from 63,480,000m^2 in 1988/89 to 30,459,000m^2 in 1992/93 while imports only increased by about 7 million m^2. It seems therefore that either because of high prices or poor market linkages, producers of garments have been forced to curtail their activities.

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32 According to Shukla, a processing margin of 80% of raw material cost on top of by-product credit is adequate. Op Cit. p.19

33 GOE Inter-ministerial task force, Study on the Marketing Problems of Public Textile Manufacturers, 1995 (in Amharic)

b. <u>Employment and Labor Productivity</u>

The impact of the reforms on employment and labor productivity within government owned textile factories and flour mills is important as these enterprises were and remain major contributors to employment in the formal sector. Given that public manufacturing enterprises are in most part characterized by over-employment, measures to increase labor productivity through restructuring of enterprises under government ownership, through privatization and possibly with the introduction of more sophisticated technology, are likely and in fact have already resulted in labor layoffs. Limitations in time and availability of data have not allowed a comprehensive assessment of the implications of the measures taken on labor productivity. Table III. 16 indicates that up to 1994, the enterprises have maintained their labor force at the existing levels. There is, however, some recent evidence of a reduction in labor force as in the case of the Akaki and Textile Factory that released about 1,100 people in September of this year and in the case of newly privatized flour mills where a small proportion of the labor force opted for compensation and retrenchment benefits rather than continue under new ownership. To a large extent, layoffs were accompanied by a decline in production; therefore, there is no clear evidence of increases in labor productivity. It is rather an indication of a contraction in public sector activities.

In general, the direct effects on employment are negative. The full impact, however, cannot be assessed without an understanding of changes in employment levels within the private sector. Elimination of restrictions on private enterprise, introduction of reforms to liberalize markets and restructuring the public manufacturing sector so that public enterprises lose their dominant position in the market, should allow greater participation of private enterprise in the food and textile sub-sectors. This would in turn mean a) a greater flow of resources into the sub-sectors with investments resulting in growth and the creation of sustainable employment opportunities; and, b) increased competition resulting in greater efficiencies of operations and increased labor productivity.

There are two ways the private sector participates in the sector. Direct investment and importation of similar products. Direct investment has an obvious impact on employment generation within the sector while imports either compete with domestic production and therefore employment or contribute positively to employment through the promotion of downstream activities as has been discussed above. Eighty-eight investment projects have been approved since July, 1992, for grain (mostly wheat) milling, baking and/or pasta(macaroni) production with an anticipated employment of 3,805 people. Out of these, only five have started operation and seven are in some stage of implementation. 208 jobs have been actually created and as those projects under implementation start operations a total of 409 jobs will be generated by private enterprise in this sector. Although employment generation by the private sector is still negligible, if every entrepreneur that has shown sufficient interest to obtain an investment license is able to start operations, employment generation by private enterprise will exceed present employment levels in the public manufacturing sector. Moreover, as an increasing number of enterprises are established competition will increase efficiency and labor productivity.

Twenty private sector textile projects, mainly involved in the production of garments, have also been approved over the period July, 1992 to September 1995. Out of these three have begun operation and six are in the implementation stage. Employment generation is negligible. Compared to the public sector, most enterprises are small and total employment anticipated is 4041 persons more than half of which can be attributed to just two firms. The actual employment created is less than 300 positions compared to 24,534 in state-owned enterprises in 1992/93. Thus although significant reforms have been introduced to reduce the dominant position of the public sector in food and textile manufacturing, the private sector has yet to pick up on losses to employment opportunities as public manufacturing enterprises have been forced to reduce their labor force. Moreover, measures to restructure the public enterprises have not resulted in significant increases in labor productivity and, given present levels of production, still retain too large a labor force and may well need to release some workers in the future with privatization (in the case of flour mills) and further restructuring (in the case of textile factories). Those employees that have already been laid off have been supported by safety net programs providing compensation and credit schemes for retrenched workers.

c. Profitability

Finally, a brief consideration of the cost of public sector production (and employment) to the economy is provided. The analysis of overall profit levels and margins in public manufacturing enterprises will give an indication of direct costs as well as the viability of the public sector as a market oriented system is being developed in Ethiopia.

It can be observed from Table III. 17 that profits in the flour milling industry, with the exception of the Debre Zeit Mill, are positive and increasing. Discussions with the management of the Kality Food Product Factory also indicated consistently increasing profits (from Birr 1.7 million before taxes in 1992 to 2.6 million in 1993 to 11.5 million in 1995 which compares with an average of Birr 6.1 million profit before taxes in the five years prior to 1990). While profits have increased, so has the processing mark-up. Thus while the difference between the unit price of wheat and flour was Birr 24/Qtl in 1992 this has risen to around Birr 135/Qtl. While flour was sold for Birr 58/Qtl, it is now sold at around Birr 270/Qtl. Note that while the cost of wheat increased by around 400% (increasing from Birr 34/Qtl to Birr 135/Qtl) the price of flour rose by more than 450%. Available data does not allow the assessment of the increases in other costs and therefore a clear indication of increases in the profit margin is not provided. The increase in output prices does however suggest that the enterprise has not cut costs and that profits have been maintained through price changes rather than increased efficiency.

Given the high rise in output prices, profits must have been gained either at the expense of the consumer or through the reduction in profit margins for baking. The rise in prices of bread are not as stark; 250%. When production of flour dropped in the early 1990s, bakeries resorted to the purchase of flour on the parallel market at significantly higher prices and managed to operate at a profit despite the fact that the increase in the price of bread was not commensurate with the consequently higher prices of flour. As the two markets merged with liberalization, costs associated with baking may well have declined as prices of wheat on the free market dropped

Table III.17
Profits after taxes in '000 Birr
in selected public enterprises (1991/92-1994/95)

year\enterprise	Misrak Flour & Oil Factory	DebreZeit Flour Factory	National Flour Mill Factory	Adwa Flour Factory	Nazareth Flour Factory	Yerer Flour Mill
flour mills						
1991/92	(794)	(385)	(130)	320	221	210
1992/93	624	(873)	2332	1663	815	1844
1993/94	781	(973)	2345	2635	1427	2126
1994/95	1954	315	5167	3922	1565	3868

enterprise--->	Akaki Textile	Dire Dawa Textile	Bahir Dar Textile	Combolcha Textile	Awassa Textile	Arba Minch Textile	Addis Garment	Akaki Garment	Nazereth Gament	Gulele Garment
textile factories										
1991/92	(11258)	(9956)	(5909)	(19667)	(240)	---	513	--	---	(2295)
1992/93	(1598)	(7096)	(12209)	(7536)	(43)	(7532)	112	---	(688)	(1166)
1993/94	(462)	2939	(12180)	(9771)	(4108)	(9113)	(1141)	129	(1086)	(1374)
1994/95	(8582)	(11237)	-	(11282)	--	(10163)	70	(1113)	-----	(851)

source: Public Enterprises Supervisory Authority

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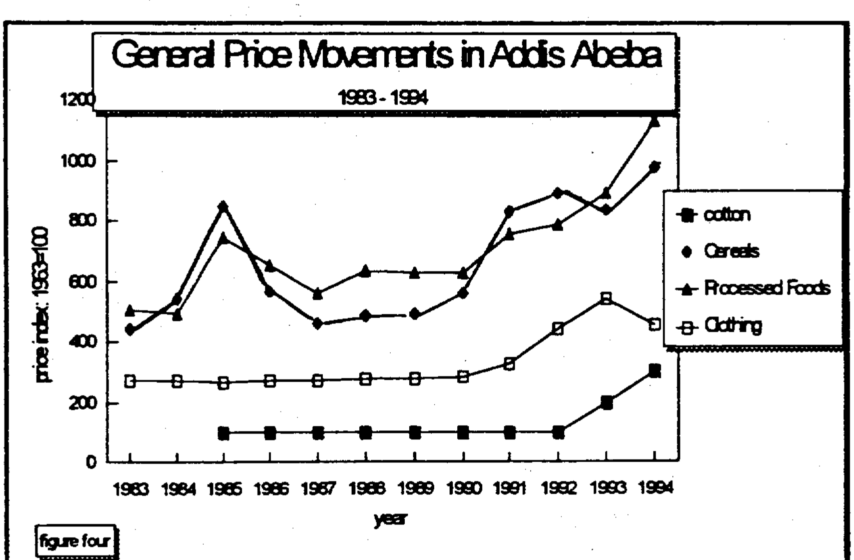
from Birr 250/Qtl in 1992 to Birr 135/Qtl 1994/95. But relative to the general situation prior to liberalization, when bakeries received almost all of their flour inputs from government owned flour mills at fixed prices, the processing margin in the baking industry must have now been reduced.

Textile factories on the other hand have registered significant losses in the last four years while, with the exception of those factories producing for exports, they generally made a profit in the years prior to 1991. Structural anomalies and technical limitations have led to low productivity, high costs and poor quality of output.. This together with inadequate investment in marketing has resulted in an inability to sell products. Enterprises have accumulated large stocks of finished products and are consequently working on large bank overdrafts and loans. Moreover, the need to finance increasing levels of bank overdrafts have put the enterprises in a tenuous financial position. Particularly, in terms of securing working capital to purchase cotton either from domestic sources or to access foreign exchange required to import lint cotton or to finance increased expenditures for marketing purposes. Thus the viability of textile plants is now in question. Most have decreased their production levels and are operating significantly under capacity and some have resorted to reducing their labor force.

As has been indicated earlier, manufacturing enterprises operate in a situation of extensive protection. Thus while textile factories are operating at a loss and eventhough flour mills register a profit there is significant protection from imports, real economic gains are lower (or losses greater) the difference being carried in the form of increased prices to consumers and/or to producers of downstream activities.

3.2 Price Trends and Economic Linkages



Movement in prices provide an indication of the overall impact of liberalization measures in the food and textile sub-sectors of which the restructuring of public manufacturing enterprises is one element. The Addis Abeba consumer price index is considered here for an assessment of price changes in cereals, processed foods (excluding meat, spices and dairy products) and clothing. Although this review deals only with wheat and cotton

Table III. 18
Addis Abeba Consumer Price Index 1963=100

product\year	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Food	471.0	522.8	654.7	554.9	521.3	562.4	599.0	631.1	890.6	996.2	1010.4	1113.7
%age increase		11.0	25.2	-15.2	-6.1	7.9	6.5	5.4	41.1	11.9	1.4	10.2
%age increase relative to 1990										57.9	60.1	76.5
Cereals	445.1	544.5	850.7	566.0	464.8	487.2	491.6	564.2	830.3	893.4	836.0	979.0
%age increase		22.3	56.2	-33.5	-17.9	4.8	0.9	14.8	47.2	7.6	-6.4	17.1
%age increase relative to 1990										58.3	48.2	73.5
Processed Foods	507.6	491.5	743.7	656.4	562.4	634.4	631.1	630.2	758.7	790.5	892.8	1136.5
%age increase		-3.2	51.3	-11.7	-14.3	12.8	-0.5	-0.1	20.4	4.2	12.9	27.3
%age increase relative to 1990										25.4	41.7	80.3
Clothing	273.5	272.8	268.2	273.2	271.5	275.1	278.4	285.2	324.5	442.3	541.7	458.8
%age increase		-0.3	-1.7	1.9	-0.6	1.3	1.2	2.4	13.8	36.3	22.5	-15.3
%age increase relative to 1990										55.1	89.9	60.9
Cotton 1985=100*			100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	200.0	300.0
%age increase												
%age increase relative to 1990												

*rough estimates based on changes in the prices at which textile mills have been purchasing cotton
source: Central Statistics Authority

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products, because one can assume substitution between different cereals and food products and between different types of clothing; and, because the reforms introduced; i.e., liberalization of grain markets, reform in state farm production, restructuring of public manufacturing and partial liberalization of the foreign trade regime are inter-related only the overall situation is considered and aggregate figures used.

In all cases, liberalization of the market and the rationalization of the role of public manufacturing enterprises in the markets for food and textiles has resulted in a rise in prices. Urban consumers are as a consequence paying more for food and clothing (see also Table III. 18). It is to be noted also that although there was an initial rise in the price of cereals in 1991, increases in the prices of processed foods are at a faster rate than that of cereals. This indicates that some of the increases in prices are accruing to the food processing sector. In the case of bread baking, however, as discussed earlier, the price of bread has increased at a rate significantly lower than that of wheat. Increase in the price of wheat has been absorbed by the baking industry which presumably has been able to operate more efficiently. This however, is not a universal condition of the food industry and processing enterprises have been able to transfer an increasing share of the cereal price rises onto the consumer. In the case of textiles, the price of cotton has been rising sharply since 1993 both as a direct result of liberalization and because domestic cotton production has declined drastically. Although initially the prices of clothing also rose at a similar rate, a decline is apparent in 1994 indicating that domestic producers of textile and garments are absorbing the increase in the price of inputs as they compete with imported products. The discussion in an earlier sub-section suggests that this is not through improved productive efficiency in public manufacturing but through cut backs in production and the fact that such enterprises are carrying losses.

It has been argued at the outset of this review that both textile and food processing enterprises have strong backward linkages to agricultural production. Increasing prices for cereals and cotton are a manifestation of the rising demand for such products (except when the rise in prices is due to decreased production). Domestic demand for cotton is declining as prices rise and manufacturers are cutting back production; therefore, backward linkages are weakening. The increase in cotton prices being a manifestation of declining cotton production rather than improved backward linkages. Although weakening, backward linkages from domestic textile production remain significant. Textile mills produce at around 50% - 60% of their capacity which generates a demand of about 17,000 tons of cotton each year producing at half their capacity. Present cotton production is at around 14,000 tons a year excluding peasant production.[34] In the case of flour processing, increased wheat prices have been accompanied by production at levels approaching full capacity in the public manufacturing sector and new investments in flour milling by the private sector. Thus backward linkages are stronger both because grain prices have increased and because apparent dynamism in processing of wheat means greater demand even at increased prices.

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[34] Cargill Services Inc. Op. Cit.

The impact of reforms on forward linkages have been already discussed in connection with the assessment of changes in production by public manufacturing enterprises and will not be dealt with here.

PL 480 assistance in the form of cotton deliveries to public textile factories was provided to allow recovery in textile manufacturing that had sharply declined in 1992. The objective was to increase labor productivity in government owned textile factories (the major industrial employer) and allow restructuring without a significant loss in employment as well as to promote employment in downstream activities since textile factories produced intermediate products the availability of which influenced performance and therefore incomes in small scale enterprises such as weaving and tailoring. As such they contributed to urban food security both by maintaining existing employment levels in public manufacturing and by promoting employment opportunities and incomes in downstream activities. Although the Title III Food Security Program did not directly support productivity in the flour mills, it is to be noted that these enterprises also contribute to down stream employment because their production serves as an input to baking activities.

Delivery of cotton in 1992 and 1993 assisted the textile sub-sector to meet its raw material requirement and allowed recovery in textile production albeit at high cost and low productivity. *There is some evidence to suggest that the import of American cotton may have been substituted for the domestic product; however, due to their precarious financial position, it is not clear that the textile factories would have been able to purchase cotton domestically.* The provision of cotton was a short term measure complemented by policy and institutional reform that was expected to yield longer term results in improved public sector performance and a move toward privatization. The reforms introduced, however, have had mixed results. Reforms include both market liberalization measures and restructuring of public manufacturing enterprises. Market liberalization has been accompanied by higher prices *and allowed some private investment particularly in the food processing sub-sector.* However, despite significant restructuring, there has not been sufficient improvements in productive efficiency of enterprises.

Textile factories have consequently faced a loss in market shares and overall demand for their output. Production of textile by the public sector has to a large extent been substituted by imports. It is to be noted that the increase in imports of fabrics has been less than their domestic production and sales. It is therefore evident that domestic production of garment has been curtailed with a possible loss in employment opportunities. Performance in the flour milling sector is more positive. While prices have increased much of this increase has been absorbed by the baking activities. Moreover, both public and private sector production of flour has increased. Employment within the public sector has been maintained, new investments within the private sector have generated new employment opportunities and given higher levels of production, it may be assumed that dynamism in downstream activities has also increased.

Measures to restructure public manufacturing enterprises have not resulted in significant increases in labor productivity. Production efficiency has not improved and to the extent that there has been a reduction in the labor force, this has been accompanied by a decline in production; indicating contraction in public sector activities rather than increases in labor productivity. Given present levels of production, public textile and flour processing enterprises still retain too large a workforce. It is therefore likely that employment levels in the public sector my decline in the future with privatization and/or further restructuring. Yet, growth in private sector investment has not been high enough to ensure an overall increase in employment generation. It is evident that transformation of the manufacturing sector is a complex process and much still needs to be done particularly in terms of the promotion of private enterprise if this sector is to fulfill its potential for employment and income generation. The Title III Program has contributed towards its recovery, sustainable changes remain a consideration for the future.

C. COMPONENT #3 PROMOTION OF A GREATER ROLE FOR THE PRIVATE SECTOR IN DOMESTIC TRADE

The objective of the third element to Title III conditionality was to promote the development of private domestic traders by eliminating state marketing monopolies phase by phase and providing positive encouragement of private sector.

Accordingly, the conditionalities associated with this component were:

1. the elimination and authorization of the EDDC to monopolize the wholesaling of processed food commodities;

2. reduction of the scope of EDDC both in terms staff size and volume;

3. initiations of studies and plans for the reform and/or restructuring of the state marketing corporations' charged with export of edible oil; and,

4. increasing of the rural trade volumes of agricultural commodities with greater price integration in agricultural and food markets.

To strengthen its progress towards the objective, the TGE was also expected to assure that adequate financing be available at the Commercial Bank of Ethiopia (CBE) to permit the CBE to increase its private sector client base. Although it had been expected that 15,000 MT edible oil would be provided over a two year period under this component, during the second call forward conditionality review, it was agreed to waive the entire component conditionality and transfer the resource allocated for the remaining two components (food safety net - particularly relation to liberalization of grain marketing and increasing jobs productivity and income - particularly to textile factories).

This means the government was not expected or tied by the conditionalities mentioned above. However, promotion of the private sector was an integral part of the overall Program and a number of measures have been effected in this regard as part of the TGE's broad policy reform agenda.

1. Summary of the Prior Situation

At the time of the development of the Title III Food Security Program, the private sector although active in domestic marketing; particularly at the retail level, was extremely small. Seventeen years of a command economy, which replaced a feudal base, did not provide a basis for modern, sustainable free market development. A survey in 1988/89 estimated there were only 155 private enterprises employing ten or more people and using power driven machines with over three-quarters of these in Addis Abeba. At that time, 96% of the value added in manufacturing was by state enterprises. Moreover, a large percentage of private enterprise operated outside the official market as government controls restricted private operations and distortions resulting from the government's interventionist policies allowed profits in a parallel market.

Hence, there has not been a long history of a competitive private sector in Ethiopia. Under the Emperor there were many state enterprises and enterprises that were granted monopoly powers by government. This was an economy with strong interference by the state and little reliance on the price system. The previous government nationalized nearly all but the smallest enterprises and forbade ownership by one person of more than one business. This included all financial institutions, larger factories, agro-businesses, domestic and international transportation, and foreign trade. The government also nationalized all urban and rural land. Although private individuals retained access to land, most buildings, were also nationalized and rented out in a highly distorted market. Domestic and international trading became state monopolies and extensive price controls (which led to excessively high prices for some goods and others that were below the cost of production) were implemented.

Small businesses could continue to exist but each person could conduct one business only and the fixed assets had to be under birr 500,000 ($240,000 at the legal rate or $70,000 at the parallel rate). No new share companies were permitted. Enterprises operated under pervasive controls; e.g., there were extensive restrictions on labor practices; and, three quarters of domestic industrial output and nearly all imported goods were subject to price controls at the retail, wholesale and ex-factory level. Added to this, the exchange rate was heavily overvalued introducing additional distortions.

In its last years, the previous government moved toward a mixed economy. This was carried further by the TGE after its ascension to power in 1991. In its "New Economic Policy for the Transitional Period", the TGE indicated its commitment to pursue a liberal economic policy with a substantially reduced role of government. At the same time it also embarked on developing some democratic institutions and devolving substantial powers to regional governments. Nevertheless, given that the entire structure of the earlier government's interactions with business were predicated on mistrust and the need to control private enterprise, confidence within the private sector remained low and business capacity and/or capabilities limited.

2. Reforms Implemented

Various reforms with an impact on private sector development have been implemented in Ethiopia over the past four years. Among these new investment and labor codes that removed investment ceilings, permitted individual ownership of more than one enterprise, liberalized hiring and firing, eliminated most controlled wage rates and permitted independent labor unions were enacted. Licensing and registration have been simplified, tax incentives for private investment provided, most price controls have been removed, foreign exchange liberalized and nominal tariff rates have been lowered. In the macro-economic area government has reduced inflation through limits on monetary growth, removed most subsidies and constrained government spending (although its deficit remains above target levels). Real interest rates have been adjusted and are now positive; The balance of payments situation has improved, government has prioritized its spending and reallocated the government employees where they are needed.

In what follows, developments in three areas highlighted in the Title III Agreement: a) restructuring of the EDDC; b) improvements in banking; and c) privatization are given specific attention. Additional areas believed to be important in the promotion of the private sector in economic activities are also considered.

a. Restructuring of the EDDC

The EDDC had the monopoly for the domestic wholesaling of many commodities, especially those produced by state factories. These included: processed food (spaghetti, sugar), stationary (exercise books, pencils), building supplies (corrugated roofing sheets, nails), general consumer goods (soap, batteries), salt, tires, and textiles. While they did some sales directly to large customers, they performed mainly a wholesale function. Over four-fifths of their sales were of goods produced in Ethiopia by state enterprises, the balance were imported.

As has been indicated earlier, restructuring EDDC was not mandatory to be fulfilled as part of the Title III Program conditionality. It was, however, an important element of the government's move towards ending state monopolies. In December 1992, the EDDC was merged with the Ethiopian Import Export Corporation (ETMEX) and reorganized into the Merchandise Wholesale and Import Trade Enterprise (MEWIT). As part of its reorganization, the EDDC's monopoly in most its areas of activity was removed. Private competitors were allowed to purchase directly from state manufacturing enterprises and distribute the commodities anywhere in the country. Although the EDDC was merged with ETMEX, which used to import consumer goods, ETMEX's preferential access to foreign exchange was eliminated with macro-economic policy reform. Similarly, preferential loans are no longer available and government subsidies are not provided. Its general monopoly over the wholesale distribution of textile products was ended in August 1993. State enterprises now often offer their output on tender to be purchased by the highest bidder. MEWIT does not receive any preferences and is no longer in a position to control the price for any commodity.

The number of goods MEWIT handles, their volume and value, its staff, investment, and number of branches have all been reduced significantly. MEWIT's sales are a quarter of what they were in 1987; its imports around 1% ETMEX's transactions in 1991/91 In 1986/87 ED EDDC sold birr 1.1 billion worth of commodities, by 1993/94 this was down to birr 847 million and to birr 301 million in 1994/95. Its imports had been birr 271 million in 1993/94, but only birr 3 million in 1994/95. Most of its purchases are from state enterprises. About 2% of sales were goods it took on consignment from private producers or importers where MEWIT uses its distribution channels. The main product being sold in this way is laundry soap. Textiles had accounted for over 50% of its business in the middle 1980s, but low quality, unattractive designs and greater managerial autonomy over purchases, has reduced this sector to under 10% of MEWIT's present business.

The EDDC operated with 89 branches, nineteen of which have already been closed with plans to close another 15-20 and retain 42-50 branches. Excess space is being rented to private traders. The number of employees has fallen from 3,519 in 1988[35] to 3,340 in 1991 and 2,725 in 1995. Investment has fallen from birr 30 million in 1988, to birr 7 million in 1991 and birr 2 million in 1994/95. Current investment is limited to completing projects previously begun.

MEWIT's plans for the next few years reflect a further reduction of its presence in the market. While it is still expected that the enterprise will be active in all areas, consideration is being given to concentrating on fewer commodities and emphasizing the importation of goods where their scale of operation would give them an advantage over private traders. One idea is to import reinforcement bars (rebars) for construction purposes. Current levels of investment are expected to decline further, maybe by 50% and the number of people employed will also fall by 150 per year due to retirement and attrition and no new staff is expected to be hired.[36] It was understood from discussions with MEWIT management that in accordance with its reduced role, the enterprise is looking for ways to make more efficient use of its physical facilities particularly their transportation fleet, storage facilities and excess office space. It is important that in doing so, particular attention to providing access to the private sector to such facilities be given due attention so that a more competitive market may develop.

The liberalization of trade licensing has allowed new firms to enter both the wholesale and retail market. More goods seem to be available on the market although prices have risen considerably. It is not clear that the rise in prices is a result of the elimination of EDDC's central role in merchandize distribution, rather it is at least partly be due to the ending of subsidies and freeing of previously controlled prices. Allowing private firms to compete with MEWIT in being a

[35] This figure includes people working for EDDC as well as the government export/import company.

[36] Future investments must come out of retained profits or from bank loans as Government is not expected to provide any investment capital.

wholesaler has allowed a few to grow rapidly. Available data indicates an expansion in the number of smaller traders at the retail level. Interviews with a small number of such traders indicated that they now face a better situation with increased wholesaler provision of credit or transportation services for their goods. On the other hand concerns have been expressed regarding an un-level playing field particularly at the wholesale level. It is widely believed that politically connected firms are given unfair advantage both in terms of access to public sector facilities and in terms of administrative restrictions. Even if this were a misperception, it nevertheless has a negative implication for investor confidence and should be an area of further consideration for the government.

b. Banking

Banking in Ethiopia remains dominated by the public sector of which there is a commercial bank (the Commercial Bank of Ethiopia--an amalgamation of previously private Ethiopian-owned; government-owned and Italian-owned banks), a development bank (the Development Bank of Ethiopia) which makes mainly agricultural loans to cooperatives; and, a Housing Savings Bank (restructured into the Construction and Business Bank) which makes loans to public enterprises, housing cooperatives and public sector employees). Additionally, there are savings and loan associations for some public sector and state enterprise employees.

The savings rate in formal institutions is very low, however, given the amount of money that has been found for recent privatizations, there are extensive resources available through informal channels. The banks are also cautiously moving toward expanding banking activities, products and services and increasing the number of customers served in their respective markets.

Under a new financial law, promulgated in 1994 the government has permitted private banks to be licensed. One has opened and has six branches; another expects to open five branches in Addis Abeba in December 1995, and seven branches in other towns in January 1996. Seven private insurance companies have been established. The new bank is offering faster service, faster loan approvals, more convenient hours and reduced collateral requirements (including waiving collateral for special customers). Some customers are offered automatic overdraft facilities to further simplify borrowing. There are examples of improvement in customer service at the state-owned Commercial Bank that occurred shortly after similar steps were taken at the private Awash Bank.

The government still sets the maximum and minimum interest rates for borrowing and saving. This is an improvement over the earlier situation where government set rates on many different types of loans with implicit cross-subsidies. The reduction in inflation means that real savings rates are positive. However, continued National Bank control over maximum lending and minimum savings rates means that interest rates do not reflect market conditions.

The changes in banking and insurance are too recent for conclusions on the process to be made. The private banks are exceptionally small (less than 0.001% of the assets of the state banks), but growing rapidly. It appears that the private banks are emerging as the dynamic force in banking.

and that the state banks are following in their footsteps. For example, they are simplifying all banking procedures, staying open more hours, reducing collateral requirements. Additionally, they are seeking ways to approve loans quicker, reduce the need for collateral and be more responsive to customer needs. The state banks have been reacting to the changes. The lack of experience in modern banking, and the lack of support for innovation by the National Bank, however acts as a brake.

c. Privatization

Because of the dominance of the public sector in the economy, privatization of public enterprises is an important element of private sector development in Ethiopia. The world-wide lessons on privatization led the Transitional Government to agree to privatize all small retail shops and most other enterprises. For the present they have ruled out privatization of Ethiopian Airways, larger public utilities and the textile factories.

As a precursor to privatization, government undertook measures to eliminate the preferential status of public enterprises. Nevertheless, within the public sector, there is lack of performance-related remuneration for management or profit sharing for workers. Moreover, because investment comes from retained earnings on which management does not have at risk commercialization of these enterprises is only partial. They are is still in a position to be pressured to behave differently from a private enterprise. Therefore they are not fully competitors to the private sector.

Given the short period in which this review was undertaken, it was possible to interview only a limited number of private sector participants, government officials and donor agencies. Based on such interviews however it was found that the there has not been adequate public debate as to the modalities or alternative forms of privatization. Neither has the government engaged in an extensive public relations campaign to explain what is being done and why it is necessary. There are complaints that the process is not transparent. The process of selecting winning bids permits considerable discretion. This leads some to conclude, often unjustly, that firms are being sold at too low a price, or to politically influential people.

Government has plans to privatize:

140 small retail shops (83 have been sold),
29 small hotels and restaurants (13 have been sold),
16 factories (6 sold but not yet turned over to the new owners),
5 state farms (none sold yet),
6 agro-industries (none sold yet) and
2 large hotels (offered for sale but bids rejected as considered too low).

The retail shops employ around 5 people each, with the largest employing 200 people. There are 3,000 employees in the shops already privatized. The six factories include a flour mill, cooking oil mill, office furniture and equipment, printing company and a soft drink bottling plant.

In 1996 the Privatization Agency expects to sell the remaining retail shops, more factories and state farms and agro-enterprises. Some of the enterprises being considered for sale include flour mills, cooking oil, garments, meat processing, vegetable canning, dairy, poultry, and pig farms. The state farms being considered for privatization are those that wheat, barley and maize. Additional factories may be added to the list of firms to be privatized.

The Privatization did not sell all of the enterprises advertized due to bids being below its minimum threshold. This illustrates a problem with the process. So long as there are competitive bids received, the true estimate of the value of an enterprise is the price it fetches in a competitive market. It is possible that the valuation process is flawed, relying too much on historical value of equipment, not its current value or not taking into consideration the risks involved. The Privatization Agency may revisit the issue of valuation later.

Government is selling the assets of the enterprises but, as the land is owned by the state, it is not providing clear title. Further, the Privatization Agency cannot guarantee any specific lease-hold terms. These have to be negotiated separately, although sixty year transferrable lease-holds are expected. As the head of the leasing authority sits on the Board of the Privatization Agency, it is hoped that there will not be problems.

Expected problems with labor and labor unions, many of which oppose privatization, has led government to offer workers a choice of going with the new owners, employment at another government enterprise, or receiving compensation. As the privatizations that have been completed are just months old, and the factories have not yet been turned over to the new owners, it is not possible to measure the impact. It has surprised some that there is sufficient money from business people in Ethiopia and from Ethiopians living abroad to purchase some of the companies. The lack of a stock market and a banking system able and willing to lend money to the new enterprises will make it difficult to sell all enterprises. This is part of the reason government is not moving faster. This issue is presently being studied by the government.

c. Other Relevant Policies

i. Foreign Exchange and Trade

Limited access to foreign exchange has been a significant deterrent to private sector participation in various economic activities in the past. The combination of an overvalued currency and a protective trade regime made Ethiopian exports too expensive and hampered the country's ability to earn foreign exchange. The official exchange rate was less than a third of the parallel market rate. A shortage of foreign exchange led to government-determined foreign exchange allocations from which the private sector was more or less excluded.. On the other hand, protection allowed state enterprises (which accounted for over 95% of the value of manufacturing production) to be inefficient producers.

The Transitional Government instituted a foreign exchange auction that moved the external value of the birr from 2.07 to the US dollar to 6.3 to the dollar, it lost 67% of its external value. A parallel market for foreign exchange continues to exist, and its value has not changed substantially. It was around 7.0 to the dollar and now vacillates between a range of 7.5 to 8.0. The premium paid in using the parallel market has fallen, but the absolute level has increased. It reflects the costs associated with the legal rate where one must pay the full cost of imports at the time the auction bid is accepted, even if formal payment to the foreign supplier is delayed six months or more. Further, the requirement of two invoices increases the cost of purchasing using the auction. With parallel market imports it is more likely that goods will be undervalued thus reducing customs duties. The parallel market provides foreign exchange faster, without questions being asked.

The TGE has simplified the foreign trade licensing system; however, additional simplifications with fewer approvals, less paper and less bureaucracy are needed. A recent improvement in the foreign exchange regime allows small enterprises access to foreign exchange from commercial banks at the auction rate. This liberalization also applies to personal needs and travel or marketing requirements for foreign exchange. The net result is that access to foreign exchange has improved.

With devaluation, the government eliminated many import quotas, and reduced the maximum import duty from 230% to 80%. Nevertheless, given that goods are valued at a higher rate, the absolute value of duty to be paid has increased significantly. The government also reduced the number of items that were not subject to any duty, reduced the number of different import duty bands, and placed the same sales and excise taxes on imports as on domestic producers. Duties are still very high and customs procedures remain cumbersome thus encouraging illegal imports and corruption among customs agents. Although less than earlier, this does introduce scope for both inefficiency and differentiation among agents and may impact on competition within the private sector.

Foreign exchange auctions in many countries are an interim measure until fuller and freer convertibility is possible. Ethiopia retains a dual exchange rate thus allowing some distortion. For a more efficient system, it is necessary to fully eliminate the negative list, make its operation simpler, and begin to move toward open general licenses (OGL) where foreign exchange is provided as needed for those items under OGL. As OGL is expanded, and banks allowed to buy and sell foreign exchange in an inter-bank market, a market determined exchange rate will emerge at the same time that the auction system is becoming less important as more goods can be imported by securing foreign exchange directly from banks.

The combination of simpler access to foreign exchange for smaller traders, elimination of government trading monopolies has benefited small traders, and smaller manufacturers have a wider range of suppliers of goods at more realistic prices. As the new system appears to be less dependent on who you know than the previous system, it benefits the less politically powerful. Nevertheless, as has been discussed there is still room for further action.

ii. Incentives for Private Sector Investment

Government has developed an incentive system to encourage new investment, but there has been little publicity about this so few have been able to take advantage of it. These incentives apply for new investment in agricultural production, agro-processing, manufacturing, construction, water works, rural transportation and the development of natural resources. Some activities are excluded from the incentive system (e.g., bakeries). The rationale for this is not clear except that perhaps it is felt that there are sufficient enterprises of the type. This reflects a misunderstanding of the role of markets and prices in determining when there are enough enterprises. Further, incentives for domestic investors start with firms investing over Birr 250,000. Less than 1% of domestic industries have a fixed capital this large.

The incentives provide for exemption from import duties and taxes on capital goods and equipment with tax holidays for investments in specific geographic areas or in specified fields. There is tax free remittance of foreign investment profits and dividends. Tax deductions have been provided for spending on research and training. The duty drawback system is viewed as too cumbersome and slow, and thus is not effective. To receive the incentives, government officials must view the investment plan and decide whether the investment is "sound". Additional problems with the system are the lack of implementing rules and regulations, the lack of publicity and questions as to how the regional governments will interpret the incentives. There remains considerable discretion in the granting of incentives, thus introducing a risk element.

iii. Access to Land

All land is owned by the state and the new government is not considering providing private title to the land. Government is willing to provide long-term leases with extensive usufruct rights. These would be transferrable with fixed lease terms. While the rules appear clear, there are misinterpretations among business people and banks. This partly reflects earlier changes and the lack of an effort to publicize the changes. The rules for lease-hold have been issued, rescinded and have been revised. Procedures are complex as government wants to preclude large profits being made off land. Conflicting signals have reduced investment, even temporarily stopping new construction.

The Addis Abeba municipality has begun auctioning off lease-hold land with the accepted bids very high. There is confusion as to the rights to this land, whether it can be used as collateral and how easily the lease can be transferred when the building is sold. The central Government has provided the rules and regulations regarding new lease-holds, but each of the regional governments will also have to provide their interpretations. The additional controls inherent in a lease-hold as opposed to clear title to land will act as a disincentive to development of the land.

iv. Regulatory and Administrative Framework

The licensing and registration system has been simplified, with less information required. In many cases the process can be completed in weeks. Trade licenses no longer require that one live in the area where the business will be, but approval from local officials is still required to certify that the business is in conformance with master plans. Government expects to drop the requirement that the tax offices approve the license before it is issued. The process is not as simple and straightforward as it could be. For example, importers must still show two pro-forma invoices, investors have to also show catalogs listing the prices of required capital equipment. Economic liberalization combined with the devolution of power to the regions, has led to a situation where regional governments have to provide their own rules on the role of the state in influencing business decisions.

The civil and commercial code are old, they were developed for a different era. New laws are needed relating to business contracts, intellectual property, bankruptcy, consumer, health and environmental protection, limiting monopoly power. etc. There is a need for quick and assured but unbiased and transparent enforcement of rules.

New taxes reduced business income taxes and simplified sales and excise regimes. However, rates remain high. Assessment problems caused by a lack of accounting standards and mistrust of business has led Inland Revenue to reject audited accounts and use its own estimates.

v. Public Awareness

Although the TGE has made many changes liberalizing the economy, it has somewhat hampered the process by not adequately publicizing the changes and making them transparent. There has been very little new foreign investment in the country, partially because restrictions persist (e.g., foreign investors must invest about $500,000 with a fourth deposited as earnest money for the application to be processed), but also because the incentives are not clear, and not well publicized.

3. Impact

The major impact of the changes has been a large increase in the number of new trade and manufacturing firms registered and licensed. While the number of new manufacturing enterprises that have begun is small, around 100, it is still large compared to the number of private manufacturing firms in the country under the previous government Simplified trade licenses has led to many new small traders who can now buy from many different sources and without price controls. Agricultural inputs and consumer goods are more available than before, albeit at higher prices. As an entirely new system of distribution has to be developed for purchasing, transporting and marketing products, there have been difficulties. Anecdotal evidence, supported by incomplete data, shows large increases in the numbers of small and micro-enterprises which employ ten or fewer people. Many of these are in service and small-scale production.

Nevertheless, the private sector faces a variety of problems that have not allowed it to respond effectively to the above changes. It is not as if there is a single obstacle or a few obstacles to private sector led development, there are obstacles in every area. For example,

- business skills like management and marketing are lacking,
- knowledge of export markets, and sources of imports is lacking,
- the export base is narrow,
- equipment is old, often obsolete, there is little knowledge of new technologies,
- access to industrial and services land is difficult,
- access to long term capital is limited,
- banking is underdeveloped; financial intermediation nearly non-existent,
- infrastructure is poor (electricity, transportation, telephone),
- business support services are limited,
- business advocacy groups have limited effectiveness.

Further, while policy liberalization is necessary to private sector development, it is not sufficient. USAID's own studies have emphasized the need for direct interventions to assist private sector development: training, incubators, credit.

Moreover, there are new developments that also act as constraints:

a) Domestic distribution has been made more difficult by regional governments establishing checkpoints where taxes/fees are collected. There is confusion as to whether local governments can restrict the movement of goods.

b) Long term lease-hold will not encourage a dynamic economy to allocate land efficiently. The auction system with 60 year lease-rights will tend to lock-in use. Government does not have a satisfactory way to establish annual rentals on non-auctioned lands that will reflect the economic value of the land, or its opportunity cost.

IV. LESSONS LEARNED AND FUTURE DIRECTION

Significant developments in relation to all three components of the Title III Food Security Program have been witnessed over the life of Program. In four years, the economy has moved from a situation of widespread government controls, market distortions and restrictions on private enterprise to one where the market plays a central role. While this is encouraging, due to the complexity of issues involved in enhancing food security in a chronically food deficient country, most measures supported through the Program require additional and complementary actions, if their full potential is to be realized. It cannot be enough to liberalize markets and improve producer incentives if the agricultural sector does not have the wherewithal for a supply response. Nor is it prudent for public enterprises to withdraw from the market if the private sector is not in a position to take over. The experience with the Program teaches us that the real impact of basic economic reform measures such as undertaken in Ethiopia are long term. The Program's strength lay in its ability to address some of the short term issues that arose as a consequence of reform. It is also clear, however, that there is a need to move further with complementary additional measures

In accordance with Title III conditionality, markets have been liberalized and a safety net program effectively implemented. While food production has increased in response to market liberalization, per capita availability of food remains below estimates of minimum calorie requirements. The need for complementing liberalization measures with support to increased agricultural productivity is therefore apparent. The SNP was introduced as a one-off measure eventhough it targeted populations that are chronically as well as temporarily vulnerable to food insecurity. It is believed that the major benefits of the SNP arose from its impact in enabling the chronically poor to move back into the market. The temporary nature of the program and the low coverage have limited its impact. Nevertheless, it was implemented in such a manner as to enable experimentation with various forms of assistance beyond hand outs. It was effective in the sense that it highlighted both the ability of the government to reach vulnerable groups in a participatory and timely manner and at low cost and the potential for designing interventions that have more long term benefits.

Given that food prices are rising and, given a large number of people living at levels of absolute poverty, the continuation of an SNP beyond one year seems justified. The cost of an extensive safety net program is obviously an important constraint. Moreover, it is to be noted that the country's fragile economic situation means that resources for vulnerable groups are often devoted to short term emergency uses. The experience with the implementation of Title III conditionality does, however, indicate that potential benefits of a SNP are high.

A safety net program is but one form of intervention to pick up on market failures as the economy places greater reliance on market forces. With liberalization, several developments have emerged which indicate such failures; among these are: a) that grain prices have not only risen but have also become volatile; and, b) that private sector response in both agriculture and other sectors complementing agricultural production is limited. While seasonal and cyclical price variations reflect the costs of storage, they also indicate the inability of the market to effectively cope with production shocks. Experience with implementation of the Title III Food Security Program shows that *with the withdrawal of public enterprises from the market, there is a need to work out operational modalities if such enterprises are to assume new roles in support of private enterprise and regulate the market*. It also points to the fact that the reforms aimed at market liberalization although necessary are not sufficient to encourage a greater role for the private sector. The limited capacity within the private sector has put some enterprises in a position to dominate the market. Moreover, because the rate of implementation of private investment projects is low, opportunities for productive employment outside the public sector are few. Results achieved in the policy areas under all components of the Program while manifold indicate that there is a crucial need for support to private enterprise.

The resources made available under the Program were used to support relief operations or, in the case of cotton, to rehabilitate production in the manufacturing sector. As such the contributions of the Program to sustainable development are indirect. The experience has been that there is a need to balance developmental objectives with emergency needs and it seems that PL 480 Title III assistance is amenable for doing so. The USAID guidelines for programming of Title III resources offers considerable flexibility in their use. It is useful to note in the consideration of a possible future program that resources can be programmed in the form of project, sector or non-project assistance; monetized to use proceeds for specific economic development activities, for sector support or to support policy reform; distributed in direct feeding programs; used to establish emergency food reserves; or, any combination of these.

Generally, Title III Programs are a means by which the USG provides agricultural commodity assistance conditional upon the government of the recipient country fulfilling agreed upon economic and/or institutional reforms that contribute to the following objectives: a) enhancement of food security; b) the privatization of food and agricultural distribution systems; and, c) nutritional improvement. Accordingly USAID/E's has used this resource to meet its strategic objectives of improving availability of food through increased domestic production. PL 480 mandates that USAID make available Title III assistance on a multi-year basis and that USAID/E integrates food with other forms of assistance committed towards the same Strategic Objective. It will also offer greater opportunities and sufficient time to engage in meaningful policy reform measures. Therefore in considering future directions a possible multi-year program is envisaged. Keeping in mind that the first call forward would have to be made within months of a new agreement, the design will need to consider policy reforms that may be implemented in a short period in the first year while building toward the future. It is expected that, at least in the coming year resource available for assistance will be vegetable oil and wheat. An issue that remains is whether Title III (i.e., the provision of these commodities) is an effective mechanism for effecting policy change.

The above points to four areas of possible future institutional and economic reform.

1. *Development of Clearer Guidelines for the Operation of Public Enterprises*

At the outset of the 1992-1995 PL 480 Title III Program for Ethiopia, public enterprises dominated both the marketing and processing of food and thus were able to influence the market generally depressing agricultural prices. *At present, however, public enterprises freely compete with private agents and have reduced their presence in virtually every area. Moreover, there has been a move towards privatization of those enterprises engaged in productive activities. Thus the public sector has assumed a new role. In the case of the EGTE, this is reflected in its mandate to stabilize grain markets. Nevertheless, operational modalities still need to be fully defined. For example, while administrative measures that allowed public enterprises a monopoly have been eliminated such enterprises still retain market power in part because the private sector has limited access to capital, transport and storage assets invested in public enterprises. Even though public enterprises make facilities available to private business, there is a need to develop a clear and transparent strategy for doing so as the perception of inequitable access to public sector facilities impedes private investment and competition.*

Another area of ambiguity relates to the EGTE that has two objectives: a) market stabilization as stated in its establishment proclamation and b) operating as a profit making business firm as required by the Public Enterprises Proclamation No. 25/85. *While the EGTE may use its profits to cover the costs associated with stabilization, such costs put pressures on the enterprise's financial position.* Moreover, the operational modalities for managing a stabilization scheme have not been developed *and the relative benefits of alternative schemes have not been adequately assessed.*

Thus one area of policy and institutional reform that could be considered under a future program could be *the development and implementation of clearer guidelines for the operation* of public sector organizations. Under, the sixth Amendment to the Title III Program under review, the TGE agreed to take steps towards developing a strategic plan on grain pricing and market stabilization. This could be taken further in the context of the above.

It is expected that public manufacturing enterprises would eventually be privatized. There is a short-term need however to turn textile factories into viable firms if financial bankruptcy and collapse is to be avoided and employment levels are not to drop drastically. Given the generally poor financial situation of textile industries, sources of finance for investment for both technical improvements and marketing are limited. Yet changing these enterprises into viable operations will undoubtedly require significant investments to eliminate structural rigidities. Further measures to improve their competitiveness and to carry them financially during the period of restructuring are crucial. There are several factors that indicate the possibility of revitalizing the sector. Some textile plants have technologies of a standard to enable the industry to compete in international markets; a potential for increased cotton production exists as historically the country has a proven record in cotton production and export of both cotton and textile products; and, the sector commands an experienced labor force at costs that are low by international comparison. The GOE needs to consider how to handle the current debt burden carried by textile mills; undertake gradual reduction in activity and eventual closure of obsolete plants; reorganize existing undertake gradual reduction in activity and eventual closure of obsolete plants; reorganize existing integrated plants so that services may be shared among enterprises; undertake investments for plant renovation and rehabilitation where necessary and advisable; and, assist in market promotion for the products. The government as contracted to undertake in depth analysis in this regard with USAID/E support. There is therefore little more to be done under a new PL 480 Title III Program.

2. Promotion of Private Sector

The response from the private sector both in peasant agriculture and in other sectors of the economy to market liberalization has been limited and therefore its impact modest. While the development of a competitive private sector is an important complement to the withdrawal of the public sector, this has been constrained by a variety of factors including differential access to capital, administrative procedures (e.g., a growing tendency to establish check points on inter-regional trade), poor access to market information, *a weak human resource base and supporting physical infrastructure, etc. While private sector development is a long-term process,* continuing impediments to private sector operations need to be studied further particularly in terms of concerns expressed regarding the emergence of 'private' regional monopolies.

A second policy area for consideration is therefore that the GOE consider barriers to entry into grain and merchandize trade as well as food processing and develop mechanisms to regulate and minimize these, as well as to provide support to enhance private sector operations with the aim of ensuring a level playing field for all market participants. *Promotion of the private sector is a central part of the upcoming three year structural adjustment program developed by the GOE with the IMP and World Bank. The future Title III Program policy reform agenda in this area would support the GOE's commitment under the SAP.*

Measures to strengthen the overall regulatory framework of the economy may be a significant complement. A rural credit policy is not yet in place, anti-trust and consumer protection legislation is lacking and the capacity of the judicial system to enforce legal requirements on business is low. Also, constraints in private sector development also limit its responsiveness to government efforts at privatization. It is to be noted that differential access to resources could result in a few enterprises owners purchasing the bulk of public property thereby dominating the economy. It is therefore important that the privatization process incorporates a means for monitoring developments in the private sector. An evaluation of the privatization process could therefore also be included as part of this second area of policy reform.

3. Increasing Agricultural Productivity

Per capita food availability which, in Ethiopia, is based on levels of domestic food production remains low despite significant improvements in producer prices. Thus there appears to be a need to complement reforms in the market with supply side interventions. As part of the sixth Amendment to the previous Title III Program, a commitment to focussed interventions for increasing grain productivity in high potential areas was made. This may be taken further in terms of institutionalizing intensification programs with a regular system for evaluation with adequate feedback introduced into the system. As such it would be possible to more closely integrate P.L. 480 Title III assistance with the other assistance under USAID/E's sub-goal of enhancing food security in Ethiopia.

4. Continuation of Safety Net Programs

The prevalence of abject poverty, the availability of vast needy people, the unfinished business in the area of economic reform (privatization, restructuring ..) and continued rise in food prices justify a Safety Net Program in the future. Those consumers who depend on the market for food purchases such as the landless and marginal farmers, pastoralists and the urban poor can be assumed to be worse off and very likely to have left the market with the increases in food prices witnessed over the past four years. A close look at the organization and implementation of the 1993/94 Safety Net Program, and the benefits each component provided to target beneficiaries in its short duration indicates how the program was managed relatively efficiently and that if resumed could increase benefits (particularly its sustainability) based on lessons learned from the initial year of implementation. Indeed, the low impact levels stem from the very temporary nature of the program already implemented.

The 1992-1995 Title III Program was developed with relatively little input from the TGE and the government participated in the process only at the stage of conditionality dialogue and commodity mix negotiations. The policy agenda would be more relevant if such a partnership were developed and follow-up on implementation more effective. In particular, it has become evident that the Program attempted to address too many separate variables and its management had to deal with a variety of institutions. This may well have been as a result of the lack of full understanding of the existing institutional framework. Closer participation with the government at the design stage it is believed would have both improved the technical soundness of the Program and allowed a simpler approach.