**COLLEGE: CSS**

**DEPARTMENT: CIVICS**

**COURSE: POLITICAL ECONOMIC DYNAMISM**

**AUTHOR:yeshiwas A.**

**STUDENTS: 2ND YEAR, 2ND SEM**

**CHAPTER FOUR**

**DEVELOPMENT ISSUES, POLICIES AND STRATEGIES IN POST-1991 ETHIOPIA**

**Unit introduction**

I hope that you have understood and analyzed the economic development policies, strategies and issues planed and implemented in pre-1991 Ethiopia. The overall development practices, achievements and failures of both imperial and military regimes were also addressed in detail. Therefore, in this chapter you will be introduced with the development issues, policies and strategies of Ethiopia in the post-1991 period.

 The theme of this chapter is about development policies, strategies and issues that are practiced and currently in progress under the leadership of FDRE government. Therefore, the chapter systematically presents the detailed analysis about the features of post-1991 development policies and strategies, ADLI; a strategy that sees agriculture as the engine of economic growth, industrial and urban development policies and strategies, and also survey of some selected development policies and strategies (SDPRP and PASDEP).

In this regard the chapter is organized in to two lessons. Lesson one is about features of post-1991 development policies and strategies, and ADLI. In the lesson the defining feature of the post-1991 development policies and strategies are addressed in a way that students can easily distinguish the past and the present development policies and strategies of Ethiopia. In addition, this lesson also presents ADLI’s features, industrial and urban development policies and strategies. In Lesson two the Sustainable Development and Poverty Reduction Program (SDPRP) which was implemented for three years and the first five-year plan of the FDRE government a Plan for Accelerated and Sustainable Development to End Poverty (PSDEP) are presented clearly.

**Lesson one: defining features of the post-1991 development policies and strategies of Ethiopia**

**Lesson description**

This lesson presents the basic defining features of the post-1991 development policies and strategies of Ethiopia. In this regard the development policy directions and economic sectors which have won priority are illuminated. ADLI and its basic features are also discussed. In addition, the lesson provides detailed discussion of industrial and urban development policy issues.

* 1. **Defining features of post-1991 development policies and strategies**

The Ethiopian economy has changed from a liberalized economy (till 1974) to a controlled one (1974-1990) and again back to a liberalized one (after 1991). The post-*Derg* period witnessed a major policy shift from its immediate predecessor. It started liberalization of the economy in 1992/93 and deepened through a series of reform programs. Partly because of these policies, the growth performance was much better than the previous two regimes. There are two important points about investment. First, since the 1970s there was a downward trend of gross capital formation. This downward trend has picked up in the post-*Derg* period. Second, in the post-*Derg* period there has been an institutional shift from public to private. This is the direct result of the reform that favors the latter. In fact, private investment took over the public’s share since 1995/96.

Growth during the Derg period (1974/75 –1989/90) averaged 2.3%. Various factors can be accounted as causes of this poor economic performance. Growth during the post-Derg period (1990/91-1999/2000) is quite impressive. Real total and per capita GDP on average grew by 3.7%. The main feature of growth, and hence macroeconomic performance in Ethiopia, is its dependence on the growth of the agricultural sector.

**In the post-1991 Ethiopia the development policy focuses on rural and agricultural development**

For some countries, economic growth is the primary policy goal, and poverty reduction is to be achieved through measures complementary to growth. This is not the approach of the Ethiopian government since 1991. Poverty reduction is the core objective of the Ethiopian government. Economic growth is the principal, but not the only, means to this objective.

The FDRE recognizes that in the absence of proactive development policies, it is impossible to create an enabling environment for accelerated development and attainment of improvements in the standards of living of the people.

Based on the practical experiences and lessons learnt over the past ten years, and an assessment of the development experiences of countries that have attained rapid economic development, the FDRE has formulated policies and strategies to guide over all development with focus on rural and agricultural development.

Most of the poor live in rural areas and predominantly depend on agriculture for their livelihood.

**Fundamental Development Objectives of the FDRE**

1. Ensuring rapid economic growth,
2. Enhancing the benefits of the people, and
3. Minimizing dependency on Foreign Aid.
	1. **ADLI and agricultural development issues and strategies**

Since 1993, the government has been implementing its strategy of ADLI that Sees agriculture as the engine of growth, the development strategy that aims to achieve initial industrialization through robust agricultural growth and close linkage between agriculture and industrial sector.

ADLI is seen as a long-term strategy, during the first stage, agriculture is to play a leading role in the growth of the economy. But the extremely small ratio of urbanization of the country could well raise market outlet as a critical issue owing in the main to inadequacy of domestic demand, thereby making exports a necessity. This implies that agriculture has to be made internationally competitive, and that part of its production has to be oriented towards exports.

As we can understand Ethiopia’s government goal is to alleviate poverty via fast economic growth. In this regard Agricultural Development Led Industrialization (ADLI) put forward by 1993, it is the government’s chosen growth strategy to realize its goal. The objective of ADLI is to strengthen the linkages between agriculture and industry by increasing the productivity of small scale farmers, expanding large scale private commercial farms, and by reconstructing the manufacturing sector in such a way that it can use the country’s human and material resources Agricultural Development Led Industrialization strategy of Ethiopia states that the growth in agriculture will induce overall economic growth, through structural transformation, by stimulating demand and supply. On the demand side, expansion in agricultural activities will increase demand for industrial products; both agricultural inputs and consumer goods, produced by domestic industries. On the supply side, the agriculture sector can supply food to domestic market, raw material to industries and export products. In the ADLI framework the key assertion is that the primary driver of demand for industrial output will be domestic, rather than foreign demand, based on first initiating growth in agriculture. This reflects the view that the process of industrialization should build on domestic inputs.

* 1. **The ADLI’s distinctive features:**
* Commercialization of smallholder agriculture through product diversification;
* Promotion export crops;
* Support for the development of large-scale commercial agriculture;
* Effective integration of farmers with domestic and external markets

For agriculture to continue serving as an engine of growth in the coming years, through the domestic economy and international trade, there has to be progress in terms of commercialization, with more intensive farming, increasing proportion of marketable output and correspondingly decreasing ratio of production for own consumption. Aside from deepening technological progress, it will mean greater market interaction on the part of the farmer. Thus, research and extension will be enhanced, application of inputs will be increased and diversified, new products will be introduced, irrigation will be expanded, service cooperatives will be encouraged, production of tools and equipment for agricultural use will be promoted, and rural roads will be constructed. At the same time commercial farming will receive more emphasis and support. Leasing of land held by the government will be encouraged by specifying the conditions of lease to facilitate the collateralization of land, and foster land use based on environmental protection. Besides, an agricultural products exchange market will be established and implemented.

Extension of credit to the small farmer will gain importance with commercialization of agriculture, and give impetus to the establishment of rural banks. The first step is to carry forward the transition from loans underwritten by the regional governments to loans extended by micro-financing institutions entirely on their own. In the foreseeable future, it is expected that micro-financing institutions will be the dominant source of credit supply to smallholder farmers, and that the existing make shift arrangement of loan underwriting by the regional governments will be substantially phased out from the four larger regions. It may, on the other hand, be started in the remaining regions. The second step consists of graduating from a micro-financing institution to a rural bank, the essential dividing line being growth of deposits, and minimization of the reliance on equity capital for the extension of credit as is presently the case. The private sector will have greater opportunities to involve them in establishing micro financing institutions and the government will create conducive policy environment for the establishment of such institutions.

Cooperatives play important roles in facilitating input and output marketing as well as in promoting the provision of rural finance. To this effect, the government has recently approved for the establishment of Cooperative Commission at federal level. While the process of setting up such a commission at federal level is currently well underway independent Cooperative Promotion Bureaus are being established in regions.

The problem of food security and agricultural growth in pastoral areas is being conceived in terms of the development of the pastoral economy in its entirety. Water, pasture, veterinary service and livestock marketing are central interventions.

**Lesson two: Survey of development policies and strategies**

* 1. **Survey of some selected development policies and strategies(2002/3-2009/10)**

Since the fall demise of the militaristic regime, the main development objective of the Ethiopian Government is poverty eradication. Hence,the country's development policies and strategies are geared towards this end. The body of this module presented below describes the development policy documents ofboth Sustainable development and Poverty Reduction (SDPRP) and Plan for Accelerated and Sustained Development to End Poverty (PASDEP), which had been served as the Ethiopia’s guiding strategic framework for the fiscal years 2002/3 to 2009/10.

* + 1. **Sustainable Development and Poverty Reduction Program (SDPRP) 2002-2004**

SDPRPis a development program which was prepared by the FDRE government aiming at reducing poverty in Ethiopia. SDPRP covers a 3-year period from 2002/3 to 2004/5 and intended to **“*create a free-market economic system which will enable rapid development, reduce food aid dependence and enable poor people to be the primary beneficiaries of growth*.”**

* + - 1. **Identified priority areas of the SDPRP:**
* Rural and agricultural development policies and strategies, with a special focus on food security. The strategy gave focus for agriculture as the sector is the source of livelihood of 85% of the population where the bulk of poor live. The government gave primacy for the welfare of rural populace. Agriculture also believed to be a potential source to generate primary surplus to fuel the growth of other sector of the economy (industry).
* Private sector development, including investments in necessary infrastructure. Strengthening the private sector growth especially in industry as a means of achieving off-farm employment and output growth.
* Promotion of value added agricultural and manufacturing exports (high quality skins/leather and textile garments.
* Undertaking investments in education, especially capacity building to overcome critical constraints to implementation of development programs
* Strengthening of decentralization processes to improve governance (responsiveness and service delivery)
* Agricultural research, water harvesting, and small scale irrigation
* Focus on increased water resource utilization to ensure food security
	+ - 1. **The Objective of SDPRP**

The overarching objective of the government’s poverty reduction strategy is to reduce poverty through enhancing rapid economic growth while at the same time maintaining macroeconomic stability. Poverty is projected to decline by about 10% by the end of the poverty reduction strategy program period (2004/05). Real GDP is targeted to grow by at least 7 percent on average during the program period.

* + - 1. **Progresses and achievements under SDPRP**

Regarding **macroeconomic performance** as indicated by the successive Annual Progress Reports (APRs) in the past three years 2002/03-2004/05, the Ethiopian economy had registered encouraging but mixed results, with negative real Gross Domestic Product (GDP) growth rate of 3.3% in 2002/03 as a result of drought, followed by strong positive performance of 11.9% and 10.6% during the subsequent two years, 2003/04 and 2004/05 respectively. Consequently, during 2002/03-2004/05, annual real GDP growth averaged 6.4%. All economic and social sectors have contributed to the growth achieved in overall GDP.

Although the growth of agriculture value added declined by 11.4% following the drought in 2002/03, due to the prevalence of favorable conditions including adequate rain and provision of adequate supply of agricultural inputs, agricultural production increased by 17.3% and 13.4% in the following years (2003/04 and 2004/05), respectively. During the same period, the industrial sector has also registered 10.0% and 8.1% growth rate, and distribution and service sectors registered 7.3 % and 8.4%, respectively. Inflation, which stood at 15.1 in 2002/03, declined to 6.8% by the end of 2004/05.

Fiscal development in the past three years supported the overall macroeconomic stability. Appropriate policy measures were introduced to encourage taxpayers through facilitating the tax collection system and its revenue generation. Measures taken include: strengthening tax administration, overhauling/fixing the income tax law and regulations, introducing a broad-based Value Added Tax (VAT) and tax identification numbers, and rationalizing tariff rates. As a result, tax revenue is estimated to have increased to 13.7% of GDP in 2004/05 from nearly 12% of GDP in fiscal year 2002/03. Following from the registered trend, in subsequent years, revenue from income taxes is expected to increase.

During the SDPRP period, government resource allocation and implementation was geared towards investments on development and pro-poor sectors (agriculture and food security,education, health, Immune Deficiency Syndrome(HIV/AIDS) and provision of clean water supply) as well as on infrastructure development, particularly in road construction. In general, from the total government expenditure, spendingon poverty-oriented sectors has increased to 56.5% in 2004/05 from 43% in 2001/02.

* + - 1. **Performance of Economic and Social Sectors**

During SDPRP, implementation of programs under the major economic and social sectors was encouraging. During the SDPRP period, increased efforts have been made to provide the public with improved services in poverty-oriented sectors (education, health, provision of clean water supply, and HIV/AIDS), infrastructure (roads, telecommunication, and power), and in agricultural development and food security. The most notable successes during this period in the implementation of economic and social sector programs and strategies are outlined below:

1. **Agriculture and Rural Development**

The Agricultural Development Led Industrialization (ADLI) Strategy is among the pillars of SDPRP. In order to accelerate and expand industrial development and increase overall economic growth, it is essential to develop the agricultural sector which is crucial to ensure the provision of inputs for industries as well as to fulfill food requirements. Furthermore, the sector is the subdivision of the economy where the major human power required for development is engaged in addition to being the foundation for major growth in value added registered/achieved in the last three years and the source of foreign exchange earned during this period. Moreover, program achievements under SDPRP include:

* At the end of 2004/05, a total of 23,378 Development Agents (DAs) were trained through the agricultural Technical Vocational Education and Training (TVET) initiative which is designed to train DAs and farmers in leadership skills. 5,493 Farmers Training Centers (FTCs) have been completed and are ready to begin service as well. Assisted by DAs, several farmers were trained and encouraged to shift to small-scale modern farming practices;
* Improved extension package services were implemented in accordance with the existing environmental and market conditions and were geared towards addressing problems of production and productivity as well as to respond better to farmers' needs;
* The launch of the National Food Security Program that seeks to attain food security for five million chronically food insecure people; and another 10 million who are badly affected by food shortages in drought years. This is referred to as Productive Safety Net (PSN). The major components involve:
1. Grants to the regions to be used for:
* Enhanced agricultural production packages (seeds and extension) in food insecure areas,
* Small-scale irrigation and water harvesting; and,
* Voluntary resettlement out of food insecure areas.
1. A productive safety net program that includes:
* A public works program to employ the poor in building roads and other infrastructure during difficult times; and,
* Free distributions to orphans, the elderly, the disabled, and others who cannot work.
* The size of irrigated land and the number of farmers using irrigation have increased significantly. In this regard, currently over 200,000 farmers practice water harvesting;
* A new land proclamation system and program of issuing over 4 million certificates in the four regions (Amhara, Oromia, Southern Nations Nationalities and People's Region (SNNPR), and Tigray) of the country put in place to increase security of tenure among farmers;
* Special programs designed to support the pastoral areas in Afar, Somali, Oromia and SNNPR. The program include provision of clean water supply, livestock development, and provision of marketing through improvements in infrastructure and social services;
* Improving grain marketing and introducing the warehouse receipt and inventory control system to address problems of high seasonal price variability, poor storage and infrastructure. This is believed to contribute to stabilization of current grain prices fluctuation;
* Restructuring and strengthening cooperatives in urban and rural areas. In this regard, it is planned to increase the beneficiaries from such services from 30% in 2004/05 to 70% by the end of the PASDEP period;
* Support to Micro Finance Institutions (MFIs) as well as to intensify and improve financial services in rural areas;
* Development of livestock through improved breeds, forage development, and veterinary service;
* Facilitating in terms of producing export-oriented agricultural products that takes into consideration improved quality and recent market information; and,
* Implementation of the national environmental program that initiated the establishment of regional environmental agencies and institutions by developing the necessary guidelines and laws that promotes proper land use and soil conservation, water resource management, forest resource management as well as wild life and biodiversity utilization and conservation.

1. **Education**

With regard to education, during SDPRP, efforts were made to increase primary school coverage in line with the Second Education Sector Development Program (ESDP II). During this period, the number of children in primary school increased from 8.1 million in 2001/02 to 11.4 million in 2004/05 taking the gross enrolment ratio (GER) from 61.6% to 79.8% (70.9 female and 87.3 male). GER for females has increased from 52.2 % to 71.4 %. As for primary school GER for those children aged 7-14, the rate has increased from 51.2% to 67.8% (female 62.9% and male 72.5%). Both the gross and the age based enrolment ratios do not include those attending informal education.

Among the factors that contributed to the accelerated progress achieved in this period is the significant increase in the number of primary schools from 11,780 in 2000/01 to 16,513 in2004/05. The progress is supplemented by the fact that 80% of the constructed schools are located in rural areas and by the increased awareness of the community towards girls' education. Whereas enrollment ratios show overall increasing trend, it is necessary to note that there is disparity among regions. In particular, the enrolment ratio of Afar and Somalia regions are found to be low. Hence, special programs were initiated to respond to the needs of rural and pastoral areas where it is more difficult for children to go to school in the abovementioned regions and in South-Omo, Oromia and Benshnguil-Gumuz regional states. For example, the Government has started the implementation of mobile education system in line with the formal one in Afar region.

**Secondary School Education**

Significant progress has also been achieved in secondary school education (9–10). Accordingly, the number of students in secondary school increased from 512,327 in 2001/02to 860,645 in 2004/05, the GER in 2004/05 being 29.2 (female 21.6 and male 36.6). The number of secondary schools has increased from 455 to 707 as well. With these successes have come challenges in both primary and secondary education, most notably overcrowding of classrooms and rising student-teacher ratios, with consequent strains on the quality of education. The focus in the coming period will be on consolidating these gains, making adjustments to improve quality, and continuing expansion to capture those who are still outside of the system, and reduce dropout rates.

**Preparatory Secondary School Education (11 – 12)**

This education level is for students who have completed grade 10 and passed the National School Leaving Examination to attend the preparatory education to join higher education in situations. Since the beginning of this program in 2001/02, the number of students has increased from 79,155 to 94,660, and the number of preparatory secondary schools to 371.

**Technical Vocational Education and Training (TVET)**

This program was initiated in 2000/01 to cater for those students who have completed grade 10theducation, but did not score the required grades to attend preparatory secondary education but have the necessary aptitude for TVET in various fields. The TVET initiative structured as 10+1, 10+2 and 10+3 levels offers trainings in 25 fields in government run institutions and in 16 fields in private institutions.

It is believed that this line of education will fulfill the country’s requirement for mid-level trained human resources. The number of training institutions has increased from 141 in 2001/02 to 200 in 2004/05, while the number of trainees has increased from 38,176 to 105,850 during the same period. Out of the total figure, 51% of the trainees were women.

Challenges in the next phase include ensuring the supply of teachers and reducing turn over, finding ways of reducing the unit cost, and ensuring the relevance and effectiveness of TVET courses. The TVET expansion is complemented by, and forms part of, the Engineering Capacity-Building Program, which integrates training, demand, and employment concerns in an outcome-based and demand-driven system with strong stakeholder participation. The private sector has shown substantial interest, with an estimated 250 local and foreign investors now involved in TVET programs. In addition, a National TVET Council has been established to ensure participation of private sector, Non-Governmental Organizations(NGOs), and other relevant stakeholders in advising the Government on TVET strategy.

**Higher Education**

Similar to primary and secondary education, emphasis was given to higher education as a major source for meeting the country's needs for highly trained human resources. In this regard, the number of universities that were only 2 has increased to 8, increasing the intake capacity from 18,946 in 2001/02 to 36,405 in 2004/05. During the same period, the number of students increased from 87,413 to 172,111. Participation of women has reached 24% as well. Even though the figure has increased, participation in higher education has not exceeded 1.5%. The ratio found to be 125 to150 higher education students per 100,000 people. The participation of private universities has continued to increase at a higher rate. In 2003/04, university level education was offered in 71 private universities/colleges at a diploma level, and in 34 universities/colleges at a degree level. The total number of students in these institutions became 39,125 constituting 23% of the total number of students in higher education institutions.

The focus to move forward will be on continuing to strengthen the management and financing of universities and expanding them, but at a slower pace than during the preceding years. Measures include accreditation of 10 new private institutions, conversion of two public colleges to full-fledged universities, and strengthening the cost-sharing arrangement under which students repay some of the costs of their education once they are employed.

1. **Health**

Recognizing the low level of health development in Ethiopia and to improve the services in this sector, the Government's health strategy has targeted the most common poverty-related diseases including malaria, Tuberculosis (TB), childhood illnesses, and HIV/AIDS. It has also been shifting services to improve the health needs of rural people, who make up 85% of the population. In line with this, the Government launched the Health Extension Worker Program (HEWP), to move services out from facilities to the household and village level. So far, 3,000 women workers have been trained to deliver basic sanitation, immunization, and other health services. Besides, over 7,000 additional health workers are being trained to be deployed to expand the service of the program nationwide. New health centers and institutions have been established as well.

The steps taken and results achieved during SDPRP period include the following:

* Training of over 10,500 new nurses, technicians, and front-line health workers;
* Increased health budget from 12 Birr per person in 2001/02 to about 19 Birr per person today (by the end of 2004/05);
* Built over 1,900 new health posts and centers, increasing the share of the population living within a radius of 10 km from 51% to 64%;
* Developed and put into effect a Multi-sectorial HIV/AIDS Plan, along with a Social Mobilization Strategy against HIV/AIDS which is a policy for supplying Anti-Retroviral Treatment (ART) to advanced AIDS cases in addition to expanded service delivery facilities and better tracking, measurement, and prevention programs;
* Immunized over 3 million additional children;
* Introduced a new system of health care financing, where the private sector and donors are encouraged to participate in generating additional income in the form of drug donation; and,
* Meet all targets set for malaria control, child immunization, and family planning programs as well as establishment of health centers.
1. **Water Resources Development**

In order to make a good use of water resources in the country, the Government has launched a long-term plan focused on provision of clean water supply, development of irrigation systems and electric power generation. Notable results include:

* Provision of access to clean water supply has increased from 23% to 35% in rural areas and from 74% to 80% in urban areas during the period 2001/02 to 2004/05;
* With regard to expansion of rural drinking water supply schemes, construction of 553 deep wells, 1,581 shallow wells, and 150,904 hand-dug wells, 3,977 spring development were undertaken;
* In respect to urban drinking water supply, pre-design studies for 266 projects, construction of 44 projects and rehabilitation of 46 projects have been undertaken;
* Small, medium, and large-scale irrigation projects have been completed according to the plan. Available data indicates that by the end of 2004/05, the total size of land developed through irrigation has reached 62,057 hectares. Pre-design studies have been initiated to irrigate 8,293 hectares through small-scale and 9,220 hectares through medium and large-scale irrigation; and,
* Water supply systems were built or rehabilitated in 83 towns, benefiting some estimated 1.6 million people, studies or design work are underway for another 47 towns**.**

The challenges in the water sector include keeping rural systems operational and maintained, and financing the large up-front investment costs of city and town schemes. To address this, the Government is moving towards a system of organizing communities to take responsibility for village water supplies, and for commercialization of urban water supply systems.

1. **Roads and Telecommunications Development**

During the SDPRP period, priority has been given to new road construction and major rehabilitation/upgrading/maintenance work. Accordingly, out of the targeted 5,637 km road development, 5,561 km were completed; of which 1,276 km were new rural roads. Road density has increased from 32.3 km/1,000 km2 in 2001/02 to 33.6 km/ 1000 km2 by the end of the program period (2004/05).

The main challenges are raising adequate financing for the major investments required, ensuring continued maintenance, and the limited domestic construction capacity. A major effort is now being undertaken to develop the domestic construction industry**.**

Regarding success in the development of Telecommunication infrastructure, Telecommunication services were poorly developed and excluded the needs of the rural community until the situation has started to reverse in the recent years due to opportunities created by the information and communication technology, and the steps taken by the Government to focus on network expansion as well as service improvement and expansion packages.

1. **Capacity Building and Good Governance**

The Government has formulated the National Capacity Building Strategy/Program, which is considered to be critical for broad based and sustainable growth. Implementation of the Program is being undertaken step by step to strengthen the democratization process in the country. Developments in the various aspects of the Program: Civil Service Reform, Justice System Reform, Improved Democratic Governance, and Decentralization are outlined below:

* 1. **Civil Service Reform Program**

The main objective of the Civil Service Reform program is to help effectively implement and efficiently enforce government policies, programs and strategies in a transparent and accountable manner.

In the reform program BPR was introduced. As a result of the introduction of Business Processing Re-engineering (BPR), some institutions undertook a reform on their service delivery system and hence certain procedures were cut from weeks to a matter of days or hours.

* 1. **Justice System Reform Program**

The Justice System Reform Program is designed with the objective of improving the legal system that should serve as a basis to speed up the on-going democratization process. Necessary efforts were exerted for implementation through reform programs designed for various legal bodies. Accordingly, during SDPRP, a final consolidated Baseline Study Report covering all pertinent institutions of the justice system including federal and regional lawmaking bodies, courts and police prosecution services, higher education institutions providing legal training, and civil society organizations, etc. has been produced. In addition, the National Court Administration Reform Program has been already implemented at the Federal Supreme Court Level. Study on justice system and working manual of law enforcement organs conducted and justice sector capacity building program prepared as well. Moreover, the judicial training center has been established, equipment and facilities procured and the center has started training federal and regional judges and prosecutors.

* 1. **Improved Democratic Governance**

Progresses achieved in this area include:

* Study for enhancing the public consultation mechanism through TV and radio in order to reach out the wider public has been completed and report produced. The training for improved administration and operation of law enforcement organs is underway;
* A human rights Commission and Ombudsmen’s office have been established, Commissioner and Ombudsmen appointed as well. Efforts will continue to strengthen the institutions with the establishment of working systems and procedures;
* National and regional elections have been held in 2005. Over 25 million citizens participated in the election;
* Names and qualifications of approved judges have been publicly announced for reasons of transparency and judicial independence;
* The Government consulted with different groups in society and held public debates over policies to an extent which had not taken place in Ethiopia before; and,
* The National Action Plan (NAP) on gender has been formulated. The Government has The National Action Plan (NAP) on gender has been formulated. The Government has also taken steps to improve the condition of women, including passing laws to protect women's rights.
	1. **Decentralization**

Progress has been made on a number of important areas, most notable ones being:

* The commencement of a study on human resource plan and training needs assessment and preparation of human resource development guidelines at the *woreda* level;
* Efforts have been wedged to expand the participation of the rural population in development, in building democratic system as well as to function within an organized administration, a manual has been prepared and put into effect to encourage and secure adequate participation of the public in all activities;
* Efforts have been wedged to enhance the capacity of officials at *woreda* level and to strengthen the organizational structure of the *woreda* administration, an assessment study was conducted in selected *woredas* and *kebeles*; and,
* With support from development partners, studies were conducted on good governance, structure of formulae governing region-*woreda* financial transfers, *woreda* revenue collection, and patent right as well as on special subsidies to *woredas*.
1. **Industrial Development and Small-Scale Employment Generation**

Industrial development is the driving force for the overall development of the economy. The sector has shown encouraging progress as a result of the investment policy and strategy designed by the Government. Among the steps taken to create a conducive environment to encourage private and foreign investment, streamlining bureaucratic procedures such as customs clearance within hours, and removing institutional bottlenecks, increasing the supply of affordable and, strengthening finance and banking services, quality management and improving the market for businesses are notable ones.

The results have been significant growth in services, trade, industry, and construction during the SDPRP period, and some real success stories in new businesses. For instance, there has been investment of 2.6 billion Birr (over US$300 million) in new horticulture businesses that supply the European market, which has created many new jobs for the rural poor, especially for women as well as generating new export earnings valued at over US$8 million during2004/05.

The annual growth of value added for private medium and large-scale manufacturing industries averaged about 21% while that of the public sector averaged 7%. The share of the private sector in the value added of medium and large-scale manufacturing has increased from 27.4% in 2002/03 to 29.9% in 2003/04. Although a higher growth rate is registered in public manufacturing industries, the average growth rate of privately owned ones outweigh those under the public in the time frame considered.

1. **Urban Development**

Prominent successes during the SDPRP period with regard to urban development include the following:

* With regard to nationwide urban development planning and regulations, the Government has formulated and put in place urban development policy in 2004/05. Regarding urban land lease administration, Proclamation No. 272/2000/01 was revised and reproduced. In the area of compensation for land allocated for public use, a new Proclamation No. 455/2004/05 was promulgated to ensure the provision of adequate compensation to the property owners;
* With regard to capacity building for the 9 regional states and the 2 city administrations -Addis Ababa and Dire Dawa- relevant training has been provided to 3,771 members of municipalities and *kebele* councils as well as to 1,440 professional staff between 2001/02 to 2004/05;
* The design and administration of capacity building and support programs in urban management that has been supported by development partners;
* Studies, reports and assessments were undertaken regarding urban land and property markets settlement and development plans, financial status of municipalities, housing ,and expansion of urban infrastructure;
* Establishment of legal and institutional framework in support of reform measures and good governance in Amhara, Oromia, SNNPR, and Tigray. Likewise, Addis Ababa and Dire Dawa city administrations become administrative cities governed by the charter; and,
* The Addis Ababa Provisional Administration has executed its functions in an effective and coordinated manner by adopting a decentralized and structured reform in undertaking housing developments (upgrading, maintenance and renovation), employment generation, financial management, land administration, environmental conservation as well as in supporting micro-enterprises.
1. **Gender and Development**

Since the SDPRP pursued by the Government has placed a strong emphasis on the participation of women in the development process, polices and strategies have been formulated to integrate and mainstream the gender dimensions in economic, social, and political decisions. Hence, the Government has taken strong measures in placing gender responsive goals and targets to reduce the workload of women so as to enable them to participate in political and socio-economic decision-making. Furthermore, progress has been made in the adoption of a new Penal Code, which contains strong measures in support of women's rights. Protective legislations have been passed in terms of women's access to land, credit facilities, and productive resources as well.

Encouraging results have been achieved in conducting awareness creation workshops to introduce gender dimensions in budgetary processes and resource allocation as well as in building the capacity to implement strategies. Table 1.3 below describes SDPRP pro-poor sectors and corresponding indicative targets and outcomes against the set targets.

* + 1. **Plan for Accelerated Sustainable Development to End Poverty PASDEP (2005/2006-2009/2010)**
			1. The Basis and Rationale of the Development Plan

The development policies and strategies pursued during SDPRP are the basis for the five-year development plan (2005/06-2009/10). In the coming 20 to 30 years, Ethiopia's vision is to reach the level of middle-income countries where democracy and good governance are maintained through people's participation and where good will and social justice are secured. This Plan is the first 5-year phase to attain the goals and targets set in the MDGs at a minimum. In order to realize the objectives and ensure that the country's vision and dream come true, a coordinated and concerted effort at national level is critical in addition to the need to aspire beyond what is required by the MDGs.

The country's vision specifically on the economic sector has set the following goals:

* To build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy;
* To sustain economic development and secure social justice; and,
* Increase per capita income of citizens so that it reaches at the level of those in middle- income countries.

In general, the Five-Year Development Plan mainly intended to lay out the directions for accelerated, sustained, and people-centered economic development as well as to pave the groundwork for the attainment of the MDGs by 2015.

* + - 1. **Pillar Strategies of PASDEP**

During the PASDEP period, Ethiopia will build on the development strategies pursued under SDPRP (expanding education, strengthening health service provision, fighting HIV/AIDS, Food Security Program, capacity-building as well as decentralization). It will also continue to pursue on the ADLI strategy, but with important enhancements to capture the private initiative of farmers and support the shifts to diversification and commercialization of agriculture. But there is now a consensus that growth is of the essence, and an accelerated growth strategy is at the core of the PASDEP.

Ethiopia’s strategy for the next five years therefore consists of the following **eight pillars**:

* Building all-inclusive implementation capacity;
* A massive push to accelerate growth;
* Creating the balance between economic development and population growth;
* Unleashing the potentials of Ethiopia's women;
* Strengthening the infrastructure backbone of the country;
* Strengthening human resource development;
* Managing risk and volatility; and,
* Creating employment opportunities.
	+ - 1. **Progress and Challenges under PASDEP**
1. **Progress**

The development policies and strategies pursued during Sustainable Development and Poverty Reduction Program (SDPRP), and the country’s vision and achievements registered under SDPRP were the basis for the PASDEP. The Plan for Accelerated and Sustained Development to End Poverty (PASDEP) is the **First Five Year Phase** to attain the goals and targets set in the MDGs at a minimum. The main objective of the PASDEP is to lay out the directions for accelerated, sustained, and people-centered economic development as well as to pave the groundwork for the attainment of the MDGs by 2015.

To realize the objective of PASDEP by employing the above pillar strategies, the Government had established two alternative growth scenarios under PASDEP. The first scenario (the base case) was established in line with the requirements of MDGs, while the second scenario (the high case) which is equivalent to the 'MDGs Plus' scenario was based on the requirements of the country's vision. In the base case scenario, 7 % annual average real GDP growth was targeted while the target in the higher case scenario was set at an average real GDP growth of 10 %. In both scenarios the performance achieved in the past five years of PASDEP implementation was remarkable. **In the First Five Year development phase** the GDP grew at average rate of 11.0%. In the period the agriculture, industry and service sectors recorded average growth rate of 8%, 10% and 14.6% respectively.

1. **Challenges**

The major challenges encountered in the past five years of PASDEP implementation were:-

* High inflationary pressure which partly induced by external factors was a serious challenge to the macroeconomic stability. However, this inflationary challenge had been effectively managed by the Government to a single digit through fiscal and monetary policy and administrative measures.
* Inadequate capacity for domestic revenue collection was another challenge encountered during the period of PASDEP implementation. This challenge has significantly improved through reform and administrative measures of the government towards the end of the planning period.
* Low level of domestic savings to support the huge demand of the country’s investment for accelerating growth and development in the process of eradicating poverty.

In some areas of the country, delayed entrance of rainy seasons, early withdrawal and mal- distribution of rain were challenges from which great lessons have been drawn to seriously look into expansion of small, medium and large scale irrigation in perspective.

**Chapter Five**

Current Development Discourse

 **Unit introduction**

I hope that in the preceding chapter four you have understood and analyzed the economic development programs of SDPRP and PASDEP respectively. The overall development practices, achievements and failures of both programs under the current regime were addressed in detail. Therefore, in this chapter you will be introduced with the current development discourse; GTP-I and GTP-II respectively, and the developmental state approach prospects and challenges.

The theme of this chapter is about the current development discourse, and the developmental state approach prospects and challenges. Therefore, the chapter systematically presents the detailed analysis about the features of current development discourse in Ethiopia.

In this regard the chapter is organized in to two lessons. Lesson one is about the current development discourse in Ethiopia. Therefore, a clear discussion is made on the two consecutive development programs such as Growth and Transformation One and Growth and Transformation Two. In the lesson the major pillar strategies, objectives and progresses of both transformation programs are presented in the way that you can easily distinguish the pillar strategies and analyze the programs. In Lesson two the developmental state approach prospects and challenges are also presented well.

* + 1. **Growth and Transformation Plan one (GTP-I)**
			1. **Bases of Growth and Transformation Plan**

The country’s long term vision, achievements of PASDEP and lessons drawn from its implementation are the bases for conceiving the next five-year Growth and Transformation Plan. The plan has also been prepared considering growth constraining factors that emerged in the course of implementation and external shocks.

Ethiopia’s long-term vision is

***“To become a country where democratic rule, good-governance and social justice reigns, upon the involvement and free will of its peoples; and once extricating itself from poverty and becomes a middle-income economy.”***

Its vision in the economic sector is

***“to build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy; to sustain economic development and secure social justice; and, increase per capita income of citizens so that it reaches at the level of those in middle-income countries.”***

Since 2003/04, the economy has shifted to a higher growth trajectory and the growth momentum has been sustained during the PASDEP period (2005/06-2009/10). Infrastructure development and social services has expanded. Involvement of private investors and the community in general has reached its encouraging level. Domestic resource mobilization effort has increased the capacity of the country to finance development projects. The process of laying-out foundation for democracy and good governance has been given emphasis through several reform programs.

The Growth and Transformation Plan(GTP) is directed towards achieving Ethiopia’s long term vision and sustaining the rapid and broad based economic growth anchored on the experiences that has been drawn from implementing development policies and strategies and undertaking policy measures for the challenges that has been surfaced in the course of implementation. The overriding development agenda of GTP is to sustain rapid and broad-based growth path witnessed during the past several years and eventually end poverty.

* + - 1. **Objective of the Plan**

The Growth and Transformation Plan has the following major objectives.

1. Maintain at least an average real GDP growth rate of 11% and meet the Millennium Development goals,
2. Expand and ensure the qualities of education and health services thereby achieving the MDGs in the social sectors,
3. Establish favorable conditions for sustainable state building through the creation of stable democratic and developmental state
4. Ensure growth sustainability by realizing all the above objectives within stable macroeconomic framework.
	* + 1. **Pillar strategies**

Ethiopia’s strategy for sustaining the rapid and broad-based growth path hinges on the following pillars:

1. Sustaining faster and equitable economic growth
2. Maintaining agriculture as a major source of economic growth
3. Creating favorable conditions for the industry to play key role in the economy
4. Enhancing expansion and quality of infrastructure development
5. Enhancing expansion and quality of social development
6. Building capacity and deepen good governance
7. Promote women and youth empowerment and equitable benefit
8. **Sustaining Faster and Equitable Economic Growth**

In order to achieve the vision of Ethiopia and eventually eradicate poverty and to improve people's livelihood, it is imperative to sustain higher economic growth during the coming five years and beyond. Accordingly, investments on growth enhancing sectors such as infrastructure and social sectors will be continued. Growth is central to Ethiopia’s transformation and growing employment opportunities.

The agricultural sector continues to be the major source of economic growth. Industrial growth will be given particular focus. Industrial expansion will be promoted based on both export oriented and import substituting industries. It is expected to grow at a faster rate than other sectors. Thus, the Government’s endeavor of poverty eradication and employment expansion will pursue by sustaining rapid and broad based economic growth in a more coordinated and structured manner.

1. **Maintaining Agriculture as a Major Source of Economic Growth**

The existing agricultural strategy will be further informed by the Agriculture Growth Program and lessons drawn from implementation of the past development plans. The agricultural strategy will direct on placing major effort to support the intensification of marketable farm products -both for domestic and export markets, and by small and large farmers. Fundamentals of the strategy include the shift to produce high value crops, a special focus on high-potential areas, facilitating the commercialization of agriculture, supporting the development of large-scale commercial agriculture where it is feasible. The commercialization of smallholder farming will continue to be the major source of agricultural growth. To complement this concerted support will be given to increase private investment in large commercial farms. A range of public investments will also be continued to scale-up the successes registered in the past. Transparent and efficient agricultural marketing system will be strengthened. Investment in marketing infrastructure will also be increased.

During the plan period, agriculture will be transformed to high growth path in order to ensure the food security challenge of the country and to curb inflationary pressure as well as broadening the export base of the country. The sector also serves as a spring board to bring about structural transformation in the long run through contribution to industrial growth.

To promote multiple cropping and better cope with climate variability and insure food security, GTP will enhance the uses of country’s water resources. Expansion of small scale irrigation will be given priority while due attention will be given to medium and large scale irrigation to the extent possible. Concerted efforts will be made to expand water shade management and to carry out effective water and moisture retaining works. These will help also to better cope with the challenges of climate change.

1. **Creating Favorable Conditions for the Industry to Play Key Role in the Economy**

The narrow base of the industrial sector is a challenge with significant implication on the country’s capacity to generate foreign exchange and create job opportunities for its growing labor force.

In the plan period, the industry sector will receive utmost emphasis by way of encouraging export based and import substituting industries. Vertical and horizontal linkages between agriculture and industrial sector will be promoted. The Government’s program will also further focus on strengthening the small-scale manufacturing enterprises, as they are the foundation for the establishment and intensification of medium and large scale industries besides creating employment opportunities and accelerating urbanization, it will play supportive role for the development of the agricultural sector. The government also encourages medium and large scale industry expansion.

As clearly stated in the Country’s Industrial Development Strategy, value adding private sector is considered the engine of the sectors’ growth. Over the years the business environment has become friendlier and trade and investment environment have improved rapidly; thus, attracting growing domestic and foreign private investment. As such, the Government will continue to make all the necessary facilitation and support to realize the GTPs industry growth objectives.

1. **Enhancing Expansion and Quality of Infrastructure Development**

Expansion and maintenance of infrastructure such as road, power and water supply need to be seen from the stand point of enhancing and sustaining pro-poor growth by way of job creation, initiating domestic industrial development thereby contribute for poverty eradication effort of the country. During the past several years, huge investment has been effected for the development of the sector. However, the country’s infrastructure base has not yet reached its advanced level. Limited human capacity at local level, huge investment requirement and high demand for foreign currency have challenged the sector not to grow at a rate required.

In the upcoming plan period, infrastructure development will be further intensified with due focus on the quality of services. Infrastructure development will create the opportunity for diversified industrial growth and reduce dependence on foreign currency through substituting imports of materials and services by domestic suppliers. This is an important strategic direction that GTP will also promote. Telecommunication, railway, road, energy and irrigation development will receive sustained support during the plan period.

1. **Enhancing expansion and quality of social development**

Expanding human capital and improving human development outcomes is still a central pillar strategy of Growth and Transformation Plan. The Government has been taking measures to improve the human resource development as healthy, productive, and trained human resource is essential for the implementation of government policies, strategies and programs. The main ingredients of this pillar are higher education and adult education, better primary health care, better and closer access to safe water and sanitation facilities, halting the spread of HIV/AIDS and other infectious diseases, better food security and nutrition, and housing conditions.

1. **Building Capacity and Deepen Good Governance**

Implementation capacity is a key instrument to steer the development process. Besides, the prevailing structural and institutional problem, the economy has been faced with implementation capacity challenges. In line with the development strategies, the Government has designed national programs, policies, and strategies to strengthen and sustain the country's implementation capacity, which is a key to build on the on-going democratization process. Accordingly, the implementation of Civil Service Reform Program and Good Governance packages will be further enhanced ensuring efficiency, effectiveness, transparency and accountability at all level. In this regard, enhancing capability of the civil servant will be further strengthened. Concerted efforts on information and communication technology development will be made to provide effective support to the overall socioeconomic transformation process.

Establishing a stable democratic and developmental state and thereby creating a suitable environment for successive development endeavors; Strengthening the civil service and civic societies so as to strengthen democratic institutions; establishing a system for citizens’ access to information; Strengthening the effectiveness of the justice system in terms of its ability to discover the truth through legal procedures; amending laws to ensure that implementation and interpretation of the laws is done in conformity with the constitution; Ensuring independence, transparency and accountability of courts and the judicial system; Strengthening law enforcement institutions by human resource, knowledge, skill and equipment; Carrying out integrated activities to enhance the public’s understanding and awareness of constitutional issues; and augmenting the custom and tradition of peaceful resolution of disputes will be given special emphasis over the coming five years.

1. **Promote Gender and Youth Empowerment and Equitable Benefits**

The objectives of the development plan can be achieved only when the multidimensional problems faced by women and youth are concurrently addressed and resolved. Hence, the Government will scale up its efforts to implement the Women’s and youth Policy, which is necessary to release the untapped potential of Ethiopian of these population segments, in a holistic and integrated manner.

Accordingly, during the plan period, the development packages of women and youth will be implemented ensuring socio-economic and political participation, and benefit women and youths. Unleashing the power of girls and women will have profound effect on the speed, equity and sustainability of Ethiopia growth and development.

Over the last several years’ major efforts were made to increase girls enrollments in school, expand female health extension worker coverage, and increase extension service to the women farmers in rural areas including legislative and institutional reforms to protect the right of women and open opportunities. Though, Progress has been made there are still challenges as it relates to changes in attitudes and cultural values which take time to evolve. The government is committed to speeding up these changes both through education and by increasing the role of women in public life and also strengthens their membership based organization.

* + - 1. **Macroeconomic Objectives**

Macroeconomic policy objectives of the next five years entails maintaining macroeconomic stability thereby encouraging savings and investment through adopting appropriate policies that are designed to promote rapid and broad based growth. Fiscal and monetary policies will be managed in a manner consistent with macroeconomic objectives.

**Macroeconomic policies and Goals**

Macroeconomic goals of the Growth and Transformation Plan is set with the overall policy objectives of maintaining the growth momentum witnessed during the period of the PASDEP and considering Ethiopia’s long term vision of becoming middle income country and meeting the MDGs at a minimum.

* + - 1. **Economic Sectors Development Plan**
				1. **Agriculture and rural Development**

**Strategic Direction**

Fundamental policy directions that agriculture and rural development sector focuses on are scaling up productivity of labor and land; use different strategies for different agro ecological zones, focus on specialization and diversification and strengthening agricultural marketing system. On this basis Agricultural Development–led Industrialization Strategy focuses that small holder farmers/pastoralists need to efficiently use modern agricultural technologies and increase production and productivity. Moreover, the private sector is encouraged to increase its share of investment in agriculture. The impressive growth that has been registered during the last five years will be further strengthened in the upcoming GTP period: agriculture will still be playing the leading role. This broad based growth will be focusing in producing enough food for domestic supply and high value crops for export.

Based on lessons drawn from the past the major focus of the sector will be scaling up best results of smallholder farmers to the majorities. Smallholder agriculture will continue to be the source of growth and the private sector will be actively supported in large scale commercial farms and it is expected to show a major jump in the size of investment. The basic sectorial direction includes:

* Enhance the capacity and extensive use of labor,
* Proper utilization of agricultural land,
* Taking different agro-ecological zones into account,
* Linking specialization with diversification,
* Integrating crop, livestock, marketing, natural resources development as well as agricultural research, extension etc. Undertakings,
* Efficient agricultural marketing system,
	+ - * 1. **Trade and Industry**

By ensuring faster and enhanced development of the industrial sector so that it turns out to be the foundation and leading sector of the country’s development activities, special emphasis will be given particularly to two major sub-sectors. Concerted efforts will be exerted to vastly develop the micro and small enterprises sector, which is the most important sub-sector towards employment generation. Due attention will also be given to the development of medium and large scale industries as well.

**Strategic Directions**

The underlying objective of the strategy is to increase the share and the benefits earned (gained) from the global economic integration with an ultimate goal of becoming an industrialized country. In this regard, the industrial development strategy formulated by the government clearly articulates the fundamental principles and directions in order to ensure accelerated and sustained industrial development in the country. Accordingly, the sector’s development strategy focuses mainly on industries that:-

* Are Labor intensive and having wide market;
* Use agricultural products as input;
* Export-oriented and import substituting;
* Contribute for faster technology transfer.

In line with the aforementioned directions, the following industries and sub-sectors will receive special support in the years to come. These includes: -

1. Small and Micro Enterprises development;
2. Medium and Large Industries Development: -
* Textile and Apparel Industry;
* Leather and Leather Products Industry;
* Sugar and Sugar Related Industries;
* Cement Industry;
* Metal and Engineering Industry;
* Chemical Industry;
* Pharmaceutical Industry;
* Agro-Processing Industry;
	+ - * 1. **Mining**

**Strategic Directions**

In the Mining sector, the government main attention is to create conducive environment for private investors to participate in exploring and developing the mineral resources by gathering, compiling and interpreting basic geo-science information to deliver to the customers. Furthermore, it also designs policies, laws and new regulations that creates conductive environment for the development of the sector’s economy. Besides, the expansion of private investment will enhance the mineral exploration and exploitation of high value minerals and hence increases the opportunities of finding additional deposits and increase the foreign currency earning of the country. Accordingly, by formulating enabling and competitive mining policies and laws that are taking into account the international situation and national interests within the development plan period has a paramount importance.

* + - * 1. **Infrastructure Development**

Availability of affordable and quality infrastructural development such as transportation, communication and power supply and their contribution to economic growth, employment creation, accumulating domestically producing for the sectors’ development and thereby expanding the industrial sector development is vital/ crucial. During the last five year a huge capital investment has been made on this sector to expand the delivery of service. However, great challenge has been hampering the sectorial development. Beside the high investment requirement to develop the sector, the sector stipulate foreign exchange which has hindered the expansion of the sector to the extent needed. Inadequate human capacity in the sector has led to dependency on foreign resources which has hampered in achieving the desired development of the sector.

By solving the major challenges encountered during the implementation of the infrastructure development in the past bigger investment will be performed to foster the expansion of the sector. To do so, improving the domestic saving and substituting imported product by enhancing the capacity to produce domestically will be given due emphasis during the plan period. Therefore, using the experience gained so far funding the sector from Official Development Assistance. Growth and Transformation Plan envisages huge investment in infrastructure to strengthen the foundation for long-term sustained growth and development. Road, Railway, Energy, Telecommunication, Water, Construction and Urban Development were major Sectoral Plans in GTP-I. Among these Road, Railway and Telecommunication plans are briefly described as follows.

1. **Road**

**Strategic direction**

Roads are built to facilitate socio-economic development of the country. In other words roads support development of agriculture, industry, mining, tourism and service sectors such as education and health. Planning of road development needs to take into account the needs of these sectors. It is true that the success of development strategies heavily depends on the efficiency of the transport sector in general and road sub-sector in particular. Thus, due emphasis should be given to the road development sector so as to translate the national development plan in to practice. Recognizing the importance of the road transport in development of the national economic and social activities, the Government of Ethiopia has attached a high priority to improving the road infrastructure, which was reflected in the Road Sector Development Programs (RSDP) launched since 1997.

Among which is the road sector development program (2005/06-2009/10) which was prepared as integral part of first Plan for Sustained and Accelerated Development to End Poverty (PASDEP ). The objectives of the plan were to improve access to road particularly to rural population, build institutional capacity of implementing agencies and the capacity of local contractors. Progress has been made towards achieving these objectives. As a follow of the plan, the Second Road sector Development Program (2010/11-2014/15) as part of the second overall national Growth and Transformation Plan has been prepared giving more emphasis on access.

**Lesson two: The developmental state approach prospects and challenges**

* + 1. **Developmental state approach: prospects and challenges**
			1. **Defining developmental state**

A developmental state may be defined as “a state that puts economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal.

Over the ages, developmental states have evolved, and they characterized the growth of the Netherlands in the 16th century, England in the 16th to the 19th century, and Germany in the mid-19th to the early 20th century.

A developmental state can be defined as one that has the capacity to deploy its authority, credibility and legitimacy in a binding manner to design and implement development policies and programs for promoting transformation and growth, as well as for expanding human capabilities. Such a state takes as its overall socio-economic goals the long-term growth and structural transformation of the economy, with equity.

In the developmental state approach it is the state that promotes macroeconomic stability and that establishes an institutional framework that provides law and order, effective administration of justice and peaceful resolution of conflicts. The state should also ensure property rights and invest in infrastructure and human development.

Although the notion of the developmental state is often associated with the first and second generation of the newly industrialized economies (NIEs) of East Asia, the idea of the developmental state in practice was born long before it was so labeled. Over the ages, developmental states have evolved, and they characterized the growth of the Netherlands in the 16th century, England in the 16th to the 19th century, and Germany in the mid-19th to the early 20th century. Some African countries in the immediate post-independence era are also seen as forms of developmental states.

* + - 1. **Evolution of Developmental State**

The emergence of Developmental states dates back to the period of Mercantilism and the first phases of European explorations of the old and new continents in14th century. There is a general consensus among many researchers of developmental state that many of the civilized nations of today in their early take off periods, the role of government went beyond ordinary tasks of protecting peace and order, taxation and enforcement of contracts than the contemporary neo-liberalists wrongly render advice to third world countries to adopt free-market system.

During their early days, the contemporary developed countries' governments’ role was completely contrary to the existing ill-advice. Dutch in 15th Century, England and France in 16th century, Germany in 18th and USA in the last period of 17th century ,the role of government was immense where it conditioned agricultural transformation to industrialization through provision of selective and holistic interventions. In almost all classical developmental states, the government provided direct incentives for industrialists who engaged in development activities; tax exemptions for export induced industries, provision of initial working capital for those selected and production-driven industries etc.

Most of Latin American states after they were freed from the yoke of Spanish and Portuguese colonial masters in early 18th century pursued developmental state political paradigm. Their respective governments directly involved in provision of basic services, promoting export oriented industries, protection of local industries, delivery of tax holidays, and various incentive regimes to induce growth and development. Moreover, high tariff on imported goods and services imposed to discourage foreign traders and encourage local infant industries. Some states like UK and USA went to the extent of aggressive protection of their local cotton and ship industries from stiff competition of alien industries with the heavy iron hand of respective governments.

Nevertheless, the classical and contemporary advocates of neoliberal ideology prescribe non-state intervention and the sovereignty of market principles in the economy of third world states contrary to the historical experiences of today's leading market economies provided otherwise.

The term developmental state originally meant to describe the unique development role of governments in Latin American states. However, the concept of the Developmental State ideology in modern times is by and large credited to post World War II Japan. Japan after three centuries of close door began to open up its borders to foreigners. The accession of the monarch in to power as what commonly known as the Majji Restoration in 1868 was a turning point for the emergence of developmental state in the country. In addition, two great wars believed to ignite the Japanese nationalism that were fought with Russia to control the northern most wealthy region of China-Manchuria, and the national disgrace that ended the militaristic adventure of Japan after it was defeated with humiliation by the allied powers in 1945.

Surprisingly, Japan with less than fifty year time had able to join the group of most wealthy nation of the earth and became the second industrialized nation after the war(now third). The fundamental reason for such unprecedented and miraculous development success was not brought from scratch. Right after the restoration of Majji, the role of the government widened in scope and depth which was for long period of time led by military junta. The government engaged in aggressive interventions in almost all courses of social and political spheres. It also went to the extent that to cultivate local industrialists with huge financial, technical, material and moral supports.

Similarly, most development thinkers of the modern world are stunned by the miraculous economic growth achieved by the former colonies of Japan; i.e., Korea, Taiwan, Singapore, Hong Kong which later on labelled as Asian Tigers. South Korea particularly after the Korean war of 1960s, entered into a new development wave through adopting the Japanese model to bring about the intended sustainable growth, development and industrialization. The abolition of Feudalism and the ensuing land distribution program conducted partly by former colonial masters and the North Korean invader was a key feature for South Korean developmental state history. The serious communist threat for the survival of the state was another pushing factor that necessitated the sustained and high economic growth as a deterrent factor to keep away the monster next door. General Park's political determination and development-oriented ideology was also another key leadership element for Korean success story.

Taiwan is also another successful developmental state in realizing sustainable growth, development and industrialization within less than thirty years’ time. The fleeing Taiwanese leadership from its former base in mainland China had similarly encountered indomitable foe from neighbourhood. Hence, abolishing feudalism which is by nature a reactionary to industrialization and modernization and the subsequent redistribution of the land for the poor peasants were crucial ideological steps taken by the dictatorship to create enabling environment for industrialization.

The underlying secret for the successful sustainable development record stories of Japan, South Korea, Taiwan, Singapore, Hong Kong and lately China is nothing but there are certain core reasons among which development-oriented political leadership had paramount importance. Simultaneously, they all preferred a different path of development paradigm that depart itself from prescriptions and conditionality of the dominant neoliberal ideology which advocates the minimal role of state in the economy. In fact, there are some peculiar features' of developmental state that differentiate one from the other emanating from their own national and objective peculiar realities. However, all versions of developmental state ideologies have one common feature that is; they virtually renounced the perspectives of market fundamentalism and minimalist state approach in the economy.

* + - 1. **Concept and features of a developmental state**

In its contemporary usage, the concept of the developmental state came from Chalmers Johnson (1982) who used it to describe the phenomenal growth of the Japanese economy and its rapid industrialization after the Second World War. He argues that central to Japan’s “economic miracle” was a “planned rational state”—a developmental state that was able to stimulate, as well as proactively support and promote, economic development. This interventionist state, through a planned process, established clear economic and social objectives and influenced the direction and pace of economic development in the country.

It established institutions such as Japan’s Ministry of International Trade and Industry (MITI) and reinvigorated its Ministry of Finance in supporting its corporate sector, providing it with fiscal incentives and nurturing it to the maturity of higher productivity and global competitiveness. The Japanese state also invested in technology and innovation as tools of economic progress. Other NIEs were to follow in Japan’s footsteps from the 1960s.

A developmental state may be perceived as one that “authoritatively, credibly, legitimately and in a binding manner is able to formulate and implement its policies and programmes. This entails possessing a developmentalistideology that privileges industrialization, economic growth and expansion of human capabilities. Such a state also has to be able to construct and deploy the institutional architecture within the state and mobilize society towards the realization of its developmentalist project”. A developmental state is therefore defined in political, ideological and institutional terms.

Developmental states have differed in their evolution, context, trajectory and manifestations. There are therefore cultural and conjectural peculiarities in the emergence and nature of developmental states around the world. Developmental states have emerged largely through trial and error and learning by doing, which have no formally designed templates that aspiring countries can copy. However, while context may differs, the concept of the developmental state is a useful analytical tool in explaining the nature and character of states and the propensity for good economic performance by countries, deployed across time and space. It lends itself to a degree of comparative analysis because developmental states have discernible, common attributes that can be investigated across countries and over time, even against variations in context.

**The following features often characterize Developmental states:**

**Vision setting, capable leadership and a developmentalist ideology**

Capable (but not necessarily authoritarian) leadership constitutes a primary agency in the construction of a developmental state. It must be a leadership that defines and articulates a clear developmentalist vision and an economic agenda for the country; outlines plans and strategies for achieving the goals; builds an elite coalition for support and ownership; builds the technical capacity to elaborate and sustain the agenda; and mobilizes popular support. Develop mentalist leadership is often underpinned by a strong sense of nationalism—an unabashed commitment to transform the condition of the country, change the structure of production, promote capital accumulation and fast-track the process of industrialization. However, the notion of a developmental leadership is not about building personality cults or strongmen but about leadership providing clear direction for social and economic change, creating a powerful pro-development constituency among the ruling and bureaucratic elites, and harnessing the critical economic and social forces in the country.

A coherent develop mentalist coalition constitutes the social base and driving force of a developmental state. This coalition may vary from country to country, but it has to be driven by the need to transform the structure of the economy and to industrialize, as well as to build human capacity. Such developmental coalitions, are “generated and come to the fore because of the desire to break out of the stagnation of dependency and underdevelopment; the truly successful ones understand that they need the market to maintain efficiency, motivate the people over the long term, and serve as a check on institutionalized corruption while battling against underdevelopment”. Such an elite developmental coalition, Johnson further observed, “is not committed first and foremost to the enhancement and perpetuation of its own elite privileges but to the economic progress of the country”. Consequently, rent-seeking will be minimized and where it exists, will be more geared towards productive activities rather than wasteful consumption.

**Relative state autonomy (in formulating and implementing policy)**

State autonomy is about the capacity of the state to formulate policies independent of contending social forces, to serve the best interests of the country as perceived by the managers of state power. It implies that the state has a high degree of capacity to generate and analyze information, on the basis of which it can independently formulate and implement its policies without being captured by sectional interests. State autonomy is the antithesis of state capture. In reality, however, complete state autonomy is often unrealizable. The state is a product of and is embedded in society, and constitutes a site of interest articulation, aggregation and realization by social forces. As such, the state cannot be “suspended” above society, but regulates and promotes group interests consistent with the national development agenda.

The concept of relative autonomy therefore becomes plausible in the context of a developmental state. While the state promotes the capitalist class and is committed to capital accumulation, neither must it become captive to it. The thrust of state policy should have a broad national agenda but should be driven by a clear developmental ideology. The concept of “embedded state autonomy” has been articulated in the literature to describe a situation in which the state has relative independence but responds and coordinates with non-state actors and institutions, especially the private sector and civil society.

As the experience of Japan and Korea showed, rather than the complete state autonomy that existed in the industrialization phase, there was a dense network of ties among the state, the private sector and civil society, in which the state was the “guarantor” of the interests of those groups within the context of broad national objectives of economic development.

**State institutional capacity, notably a strong and competent bureaucracy**

The capacity of public institutions, especially the bureaucracy, is crucial to economic performance in a developmental state. The bureaucracy constitutes the “soft underbelly of the state”, which advises the political executive and formulates and implements public policies. Professionalism, discipline and technical skills are core issues in administrative competence and capability In the East Asian experience, the bureaucracy was responsible for the “actual planning, intervening and guiding of the economy”. Although the East Asian economies were able to build strong bureaucracies that were neither gifts from the past nor easy outgrowths of surrounding social organization, but hard-won edifices constantly under construction.

The bureaucracy or the bureaucratic elites are not the only players in developmental governance. There are other relevant institutions and actors supportive of a developmental state, including the central bank, other financial regulatory authorities, and the judiciary. Their capacity is directly related to the capacity and performance of the state.

**Effective national development planning**

Development planning is about identifying national priorities, setting targets, developing strategies, facilitating coordination among various sectors and stakeholders, and establishing monitoring and evaluation mechanisms for achieving short- to long-term development goals. Development planning is a key component of a developmental state as borne out by the experience of the East Asian economies. In Korea, for example, the Economic Planning Board—considered the “brain and engine of the Korean economic miracle” promulgated five-year economic plans. In Japan, through a strategic planning process, the state supported the private sector with financing, technology and an import licensing system. Taiwan had four-year economic plans, which managed coordination and implementation of economic development policies. The economy embarked on an import-substitution and export-oriented industrialization policy.

Development planning is not anathema to the African development process. In fact, it was the hallmark of the post-colonial development strategy, which was mistakenly attacked and rebuked under the SAPs. However, with the failure of SAPs acknowledged, and the rethinking about bringing the state “back in”, the era of development planning has gradually returned. One encouraging sign is the increasing recognition that developing countries need development frameworks, in contrast to narrow models.

**Coordination of economic activities and resources**

Effective coordination of economic activities includes creation of a pro-investment macroeconomic environment, effective supervision and monitoring of financial institutions, fiscal policies that provide incentives to the private sector, domestic resource mobilization and an effective public financial management system.

Within a coordinated economic system, the developmental state may set performance targets for capital—foreign, local or both—to reduce inefficiency and waste. It may reward those that meet the targets and punish those who fail to meet them. In effect, a developmental state may use a carrot-and-stick approach to rent distribution, increased productivity and economic growth.

**Support for a national entrepreneurial class**

A national entrepreneurial or capitalist class, which in the literature is referred to as a national bourgeoisie, is a precondition for domestic capital accumulation and the development of a market economy. A developmental state must make conscious efforts to expand and nurture its bourgeoisie, as it will facilitate industrialization and private sector–led economic growth. The history of all developmental States has been one of growing such a class. Although in many East Asian economies small-scale family businesses, commonly owned by heads of families, were the norms, active state support transformed some of them into global conglomerates and transnational corporations, through the emergence of a strong national bourgeoisie. The development of big corporations of the zaibatsu in Japan and chaebol in Korea are related to this.

In the African experience, the link between the state and the local business class has been weak, with the state often pandering to the dictates of foreign business interests in the name of attracting FDI. This has stultified the development of a capitalist class and consolidated the role and interests of foreign multinational corporations. Attracting foreign investment must not exclude the promotion of local business interests, and national development plans should consciously aid the emergence of a national bourgeoisie, whose business concerns will grow, consolidate and diversify with time, to compete in the global economy.

**Commitment to expansion of human capacity**

A developmental state often reinforces its human capacity and invests in social policy and programmers. These dimensions include investment in quality education, health-care services, economic and social infrastructure and, in some cases, land reform. In most East Asian economic models, “social policies are always important ingredients in the arsenal of developmental States. These policies revolved around non-state entities such as families and firms, with the state guaranteeing the implementation of social welfare programmers. The provision of basic services such as education, health care and housing are all measures to enhance human capabilities.

For example, over 90 per cent of Singaporeans live in owner-occupied public housing built and maintained by a public utility. Taiwan now has subsidized health and education. In essence, a developmental state must prioritize human capacity and social welfare as the means of ensuring the required knowledge, skills and congenial social environment for development to take place and be sustained.

**Peace, political stability, rule of law and predictability in government business**

Without peace and political stability, investment risks increase, with serious challenges to doing business. The rule of law ensures that property rights are protected, and economic transactions are underlined by “market trust” and legitimate relations. In many of the East Asian economies in the period of economic take-off and consolidation, capable political leadership and strong bureaucracy imposed predictability in dealings with government. In other words, a developmental state must be able to evoke confidence from different stakeholders and a broad section of society.

* + 1. **DEMOCRATIC DEVELOPMENTAL STATE**

At this juncture, it is important to clarify the concept of a democratic development state so that it can be applied to the African context. The concept of democracy has received extensive treatment in the social sciences literature. It is generally conceived as voters, through regular elections, choosing their leaders. A classical definition in this regard is that offered by Huntington who conceives a political system as being democratic, “to the extent that it’s most powerful collective decision makers are selected through fair, honest and periodic elections in which candidates freely compete for votes and in which virtually all the adult population is eligible to vote”. This has become the dominant way in which democracy is conceived.

Despite the fact that scholars might have emphasized different aspects of it, there is a general consensus that liberal democracy has some basic principles, namely:

* citizen participation (meaning choosing their leaders)
* equality
* political tolerance
* accountability
* transparency
* regular, free and fair elections
* economic freedom
* control of the abuse of power
* a bill of rights
* the separation of the powers of the executive, the legislature and the judiciary
* accepting the result of elections
* human rights
* a multiparty system
* The rule of law.

It needs to be stressed that the democratic developmental state is one that can also foster economic growth and development. This means that not only is the state able to transform its economic base by promoting productive, income generating economic activities but must ensure that economic growth has the resultant effect of improving the living conditions of the majority of its population. White puts this succinctly: “development includes a process of economic change involving the construction of more complex and productive economies capable of generating higher material standards of living”.

In line with the above, a democratic developmental state has to have clearly defined socio-economic objectives that require active state interventions. Some of the social objectives include:

*the alleviation of absolute and relative poverty; the correction of glaring inequalities of social conditions (between genders, classes, regions, and ethnic groups); provision for personal safety and security; and the tackling of looming threats such as environmental degradation… Overall, to the extent that democratic politics are instrumental in organizing socio-economic progress along these lines, they can be described as developmentally successful; their success depends on the existence and efficacy of the democratic developmental state.*

The African Charter for Popular Participation’ identified some of the characteristics of such people’s organisations9. The organizations should be, grassroots-based, voluntary, democratically administered, self-reliant and rooted in the tradition and culture of the society. As noted earlier, such organizations are community-embedded. This moves away from the anti-state conceptions of participation and developmentalism “that completely circumvent or marginalize the state as non-governmental organizations, the private sector and local communities proceed almost surreptitiously with addressing issues of poverty and development without the encumbrance of the state”.

In discussing the democratic developmental state, a premium must be placed on its institutional or organizational attributes and its relations to surrounding social structures. It is the organizational structures that enable it to promote and achieve better economic performance. This emphasis moves away from conceptions of a developmental state only in terms of its objectives.

A starting point in conceiving the democratic developmental state should of necessity be the developmental state literature that gained currency following the wondrous economic performance of the East Asian developmental state from the 1970s. This literature has a number of variations but remains useful for researchers in distilling some of its basic characteristics. One strand of the literature emphasizes the developmental goals of the state.

A state is developmental when it establishes as its principle of legitimacy, its ability to promote and sustain development; understood as the combination of steady and high rates of economic growth and structural change in the productive system, both domestically and in its relationship with the international economy.

**Ethiopia as a Democratic Developmental State Model in Africa**

Ethiopia, since the fall of Dergue in May 1991 and particularly the period of 'renewal' that paved the way for the successful takeover of power by the progressive elements of the EPRDF in 1994 E.C. (2002/2003)had enabled the party to fine-tune its previous political program and economic strategies. The event was considered as a turning point in the party history and for the first time it has clearly declared developmental state ideology as both party and state ideology. Since then various social, economic and political reforms have been undertaken followed by the promulgation of pertinent policies and strategies. The reforms were aimed to achieve the national vision and mission to unshackle the nation from poverty and attain the ranks of middle income and high income economies as stipulated in the consecutive long term development plans; namely, ADLI,PASDEP and GTP.

The unique role of state in the economy of African developing states is clear and evident. The weak private sector which is by and large developed out of rent seeking political economy is not in a position to shoulder the aggressive investment capital demand of the economy. Furthermore, with the exceptions of South Africa and few Maghreb states in North Africa, a production-oriented private sector which is a prerequisite for developmental state industrialization is not yet developed in sub-Saharan Africa. Thus, a comprehensive and insightful state intervention is essential in Africa where market efficiencies are looming beyond the expected normal interplay of market forces.

When the market forces remain poor and inefficient so that rational state intervention remains critical and the best option available and sound panacea to free the nation out of poverty and underdevelopment in African context. Hence, key development sectors in Ethiopia are still being kept in the hands of state like what had been the case in Japan and East Asian developmental states, in order to facilitate the allocation of the existing meager rent to the most productive sectors of the economy .The prime objective of this intervention is nothing but to induce social development and industrialization in the emerging infant private sector.

Within less than two decades, Ethiopia became one of the few fast growing countries of the world (World Bank 2013). Ethiopia's growth success is peculiar to other emerging African countries in many respects. Firstly, it is the only African country with non-extracting economy that achieved such remarkable growth. Yet, African fast growing economies success is attributed to tourism, natural gas, petroleum or other mineral extractions. Secondly, it is the only African developmental state that equally stands among the top ranks of high-income groups of the world since there is nearly absolute income equality among its citizens. Thirdly, it is still the only African state that reduced the extreme poverty level of its citizens dramatically by half (except China and Indonesia). Finally, and most importantly, the existence of developmental-oriented leadership guided by realistic vision and long term development strategy are features that define the emerging democratic developmental state in Ethiopia.