

## **AN OVERVIEW OF ETHIOPIA'S PLANNING EXPERIENCE**

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### **I. INTRODUCTION**

In one form or another, economic planning is practiced in various countries. The Great Depression and the emergence of Keynesian economics as well as the socialist system in the USSR all provided early impetus to the evolution of planning of the whole economy. During the Second World War the belligerent countries resorted to planning in the face of the breakdown of market relations. Most of them continued the practice in the post-war years.

The material prerequisites for the planned organization of social production is related to the emergence and development of large-scale industrial production. This and the progress of technology impart a direct social character to production, which shows itself in particular in the complex interdependence of various sectors of production, in the growth of its concentration and the strengthening of ties between enterprises and between regions.

The evolution of economic planning in developing countries is very much related to the breakup of colonial fetters and the attainment of independence. The political independence of these countries had unleashed high expectations for accelerated socio-economic development. To meet this challenge, the newly independent countries embraced planning as an effective means to accelerate their socio-economic development. The Marshall Plan (as the US AID for reconstruction of Western Europe is known), the World Bank and the various UN agencies have, in one way or another, influenced the emergence and spread of planning in developing countries. The rationale is that planning is considered effective in mobilizing resources and allocating them into priority areas of development -- thereby helping developing countries to break out of their vicious circle of poverty.

It is also essential to note that deliberate planning of the economy does not in any way mean that planners may act as they think fit or set up any proportions and tasks they wish. Planners have to adapt their plan to the demands of objective economic laws and realities. The efficiency of planning depends to an enormous scale on the ability to comprehend the mechanism of these economic laws.

This short paper briefly outlines the history of planning in Ethiopia and the actual working mechanism of the planning process. Some proposals on the major tasks of planning in the coming period have also been forwarded.

## II. AN OVERVIEW OF ETHIOPIA'S PLANNING EXPERIENCE

### A. Historical Background

It is over three decades since Ethiopia adopted a planned approach to development. In the immediate post-World War II period, separate programmes and plans, which were not integrated into a general framework of a national plan covering the entire economy, were drawn up by various government agencies and served as the bases for government policy. Subsequently, sectoral programmes of varying durations were prepared for agriculture, industry, forestry, transport and telecommunications, education and water resources development.

These sectoral plans and programmes were mostly proposed schedules of public expenditure. However, they served the useful purpose of focusing attention on planning, and their inadequacies helped reveal the limits and weaknesses of partial planning. Recognition of these facts, combined with several other factors such as the rising preference of planning in developing countries by western countries providing loans and grants, led the government to formulate an overall development plan.

Thus an administrative machinery for formulating plans called the National Economic Council was established in 1955. The Council consisted of a Planning Board and a Secretariat to the Board, specifically charged with the task of drawing up plans. The Executive Committee of the Planning Board was chaired by the country's Prime Minister and had the following members: 1) Minister of Finance; Mining and State Enterprises; 2) Minister of Health; 3) Minister of Public Works and Communications; 4) Minister of Agriculture; 5) Minister of National Community Development; 6) Governor of the State Bank; 7) Minister of Posts, Telegraphs and Telephones; 8) Minister of Commerce and Industry; 9) Minister of Information; 10) Vice Minister of Education and Fine Arts; and 11) Vice Minister of the Planning Board, Secretary.

Ethiopia's First Five Year Development Plan (1957-61) and its Second Five Year Plan (1962-67) were prepared under this arrangement.

A number of developments, important to the economy as well as to the structure of the government itself, have taken place during these years. The First Five Year Plan, which marked the start of national planning for the country's integrated development, offered something much needed but heretofore unavailable, namely, the first comprehensive picture of the economy, and much new information came to light. Even for those areas where serious obstacles stood in the way of complete knowledge, a start was made to overcome these obstacles; and the Second Five Year Plan not only continued this effort but applied it more widely.

One significant outcome of this effort was the realization of the importance of statistics for planning. The Central Statistical Office (CSO) was established during

these years, originally under the Ministry of Commerce and Industry under which the Planning Board Secretariat was also administered.

The First and Second Five Year Plans also drew attention to the need for creating other important institutions, many of which have been established by the government. A development plan is essentially a general guideline of policies to be pursued and measures to be adopted, consonant with such policies; it defines broad areas of economic and social activity to be promoted and describes how they are to be implemented. What gives substance to this broad action programme are the specific projects -- the roads to link the people and markets of the country and to open up new areas, the hydroelectric installations to generate power for industrial plants and cities, the factories to transform the nation's raw materials into manufactures, and so on. These projects require specialized institutions both for their elaboration and for their financing.

In this regard, not only have existing project-oriented institutions from before the First Five Year Plan been strengthened (e.g., Imperial Highway Authority, Ethiopian Electric Light and Power Authority, Imperial Board of Telecommunications of Ethiopia), but new ones have been created. Among these were the previously mentioned Central Statistics Office, the Technical Agency, which was responsible for appraising development projects and the so-called Ethiopian Investment Corporation.

A number of proposals had also been worked out for the implementation of the Second Five Year Plan. Notable among these were the establishment of planning units within each ministry and government agency and effective coordination of economic and social policies both at the higher and lower levels of the government. In fiscal administration, the most important proposal was the relation of the budget to the annual plan. In view of this, the government had announced policy statements with regard to the relation of the budget with the Second Five Year Plan through the medium of annual plans. However, the indispensable administrative mechanism through which these policies could be put into effect was not strong enough as expected.

In the field of monetary and credit institutions, the recommendations of the Second Five Year Plan were fully implemented. The former State Bank of Ethiopia was split into the new National Bank of Ethiopia becoming a Central Bank, and the Commercial Bank of Ethiopia operating as a normal business bank.

More broadly, the nation's experience with planning showed the need for reforming the administrative machinery of the government. It was acknowledged that planning, to be truly operative, required a modern administrative structure different from that inherited from the pre-planning past. Accordingly, the government created a high-level Administrative Reform Committee towards the end of the First Five Year Plan.

Among the leading objectives of this Administrative Reform Committee were:

- a) the simplification of the then existing ministerial structure by the elimination of unnecessary ministries; and
- b) the transfer of certain functions from one ministry to another in order to avoid duplication and overlapping of responsibility.

In 1962 the Committee submitted its report in which it made a number of proposals for creating new ministries, and dissolving or reformulating the functions of others. Consequently, in 1966 the order defining the powers and responsibilities of ministers was promulgated.

Among the ministries established by Order No. 46 of 1966 was the Ministry of Planning and Development which had the following duties and responsibilities:

- a) It was generally responsible for the conduct of the government's planning activities;
- b) It supervised and coordinated the activities of the government's planning administration;
- c) In cooperation with other ministries and public authorities concerned, initiate, prepare and organize long-term development plans and submit them for approval by the Council of Ministers;
- d) Receive each year from the ministries and public authorities concerned, or, if the same are not so received, initiate and prepare annual development programmes and the supporting development budget proposals; analyze, evaluate and consolidate the said annual development programmes and development budgets and present them to the Ministry of Finance for consolidation into the annual government budget;
- e) In agreement with other ministries and public authorities concerned, establish appropriate and effective procedures to ensure that approved development plans and programmes are properly implemented and that the development budget is properly expended for the purposes for which it was allocated;
- f) Carry out or cause to be carried out technical and economic feasibility studies of individual development projects;
- g) Be responsible for the securing, compilation, analysis, collation and publication of data and statistics;
- h) Negotiate and conclude, in accordance with approved projects, programmes and plans, agreements and arrangements regarding the provision of bilateral and multilateral assistance, and coordinate the same with other ministries and public authorities concerned;
- i) Formulate and enforce general credit policies of government financial institutions and corporations engaged in the financing of development plans and programmes; and
- j) Be principally responsible, together with other ministries and public authorities concerned, for representing and protecting the interests of the government in public financial institutions and corporations engaged in the financing of development plans and programmes.

The country's ambitious Third Five Year Development Plan (1968-1973) was compiled under the supervision of this ministry.

Regarding the plans themselves, the first two Five-Year Plans were conservative as testified by the low or modest levels of investment and growth rate targets they set to achieve, while the Third Five Year Plan was ambitious in both regards and ended up with serious underimplementation.

In 1970 the Ministry of Planning and Development was reorganized to become the Planning Commission with more or less identical duties and responsibilities. On the eve of the 1974 revolution, the Planning Commission was headed by a minister who was aided by three vice ministers. It had ten departments and employed about seventy national and expatriate professionals.

After 1974, this Commission was renamed the Central Planning Commission by Proclamation No. 128 of 1977. By late 1978, however, the planning machinery was reorganized to form the National Revolutionary Development Campaign and Central Planning Supreme Council (NRDC & CPSC).

NRDC & CPSC prepared and executed six annual Development Campaign Programmes popularly known as *Zemechas*. The campaigns were essentially designed to attain limited and immediate objectives to address urgent problems of the times. Moreover, formulated in the absence of long- and medium-term plans with the appropriate perspectives and strategies, they could not be effective for laying the foundations for the economic growth of the country. They also proved to be inadequate in solving pressing problems which result from the basic weaknesses of the economic structure itself.

It was, therefore, decided to launch a long-term perspective plan to serve as a policy tool for the realization of Ethiopia's long-term objectives. Once again, the planning institution underwent a restructuring process to enable it perform this task. As a result, the Office of the National Committee for Central Planning (ONCCP) was established in 1984.

Since its establishment, the ONCCP has been the organ responsible for the preparation of integrated short-, medium- and long-term plans of the country. As is well-known, the first major assignment of the ONCCP was the launching of a Ten-Year Perspective Plan covering the period 1984/85-1993/94.

Among the contents of the over-ambitious Perspective Plan were the overall and sectoral orientation of development as well as production (see Table 1) and investment targets, financial and manpower requirements and policy and organizational measures needed to attain the targets. The implementation of the Perspective Plan was undertaken through the elaboration of short- and medium- term plans.

At its head office, the ONCCP had fourteen departments representing all the sectors of the economy and was gradually extending its regional planning offices to the then thirty administrative regions of the country.

**Table 1: GDP at 1980/81 Factor cost by Sector of Origin**  
(in million Birr)

Year	Total GDP	Agriculture	Industry	Services
1983/84	8,840.0	4,270.3	1,418.5	3,151.2
1993/94	16,593.8	6,485.2	3,971.9	6,136.7
Average annual growth (per cent)	6.5	4.3	10.8	6.9

Source: ONCCP, *Ten Year Perspective Plan, 1984/85-1993/94*, (1984), p. 24.

Finally, even though significant restructuring didn't take place, it would be appropriate to mention that in early 1991, the planning office was once again rechristened the Ministry of Planning.

## **B. The Planning Process**

Planning can be defined as "a continuous process which involves decisions or choices, about alternative ways of using available resources, with the aim of achieving particular goals at some time in the future" [Conyers and Hills 1984]. The national economic plan is usually made up of a system of plans which, though they differ from each other in terms of the time period that is covered and the degree of detail with which various indicators are elaborated, together make up a single coherent economic plan. This system of plans includes a perspective (long-term) plan, a medium-term plan and a short-term (annual) plan. All three types of plans have, at one time or other, been prepared in Ethiopia.

As in other countries, here in Ethiopia, the planning process at all levels passes through a series of iterative stages. These are:

- 1) the preliminary stage;
- 2) the analytical stage;
- 3) adjustments and directive stage;
- 4) plan elaboration stage;
- 5) plan adoption stage; and
6. plan implementation stage.

### **1. The Preliminary Stage**

At the initial stage, the highest organs of the state and government (Council of Representatives and/or Council of Ministers) give general guidelines and directives on the economic, social and political tasks of the coming period, which serve as the starting point for the planning institution to initiate the planning process.

### **2. The Analytical Stage**

At the analytical stage, evaluation of socio-economic conditions in the country as well as the international economic situation, analysis of the state of the economy at the beginning of the plan period, assessment of the implementation of the previous plan, identification of major socio-economic problems, development constraints, development possibilities and alternatives and other similar planning tasks are undertaken.

On the basis of this analysis as well as state and government directives, the national goals and objectives of development in the plan period are determined. Consecutively, the rates and main proportions of development needed to attain the set objectives are calculated by:

- preparing alternative growth scenarios that could bring about the achievement of the specified objectives under various assumptions;
- analyzing the pros and cons for each scenario and selecting the best growth scenarios; and
- integrating the above processes to serve as the marco-framework (guidelines) which contains mainly:
  - the analysis of current economic situation;
  - overall objectives, goals and strategies;
  - GDP and sectoral growth variants;
  - investment ceilings (sectoral and global);
  - the budget frame; and
  - balance of payments projection.

### **3. Adjustments and Directive Stage**

This stage involves the selection of the most appropriate course of development requirements at various levels with the available resources. This evolved into guidelines for the drawing up of sectoral and regional plans (see Table 2 and 3).

In Ethiopia, at this stage the planning institution transmits the plan guidelines (i.e., macro-framework) to sectoral ministries, agencies and regional planning offices with instruction to prepare and submit their own plan proposals according to a specified time schedule.

**Table 2: Gross Domestic Product by Industrial Origin at 1980/81 Prices (in million Birr)**

	1981 (estimate)	1982 (plan)	1986 (plan)	1982-1986 Annual growth rate
1. Gross Domestic Product	9,383.7	9,852.9	11,976.2	5.00
Agriculture	3,967.8	4,145.6	4,939.9	5.93
Industry	1,683.4	1,783.7	2,245.3	5.93
Service sectors	37,325.5	3,923.6	4,791.0	5.12
2. GDP at current market prices	1,0485.8	11,037.2	13,532.0	5.23

Source: ONCCP, *Macro Frame and Guidelines for the Preparation of the Five Year Plan (1982 - 86)* (in Amharic), p. 124.

#### **4. Plan Elaboration Stage**

This involves the process of preparing a draft plan which will eventually be sent to the highest authority in the country.

After receiving the plan guidelines through their respective sector ministries and corporations, enterprises elaborate their own plans and submit them to their respective corporations. As corporations were the next higher unit in the structure, they examine and adjust enterprises' plan proposals and then submit them to the respective sector ministry.

The ministries, in turn, examine and adjust their sectoral plan and submit the consolidated plan to the respective sectoral departments of the planning institution. Sectoral departments of the planning office examine the plan proposals in terms of their efficiency and check if they are consistent with the set objectives, and production, service and investment targets. This stage involves active interaction with the respective ministries, corporations, enterprises, etc. and also inter-departmental interaction within the planning institution.

#### **5. Plan Adoption Stage**

This represents a further step for the correction and amendment of the draft plan before approval. Here in Ethiopia, the planning office submits the draft plan to the Council of Ministers for consideration. The Council of Ministers, with the necessary corrections and adjustments, will submit the draft plan to the Council of Representatives for final approval.

**Table 3: Five Year Plan (1982-86) Fixed Investment at Current Market Prices  
(in millioa Birr)**

S.No.	Sector	1982 (plan)	1986 (plan)	1982-86 Total	Share of sectors
1	Agriculture	376.10	661.75	2,552.29	16.02
2	Transport & communication	314.12	552.69	2,131.67	13.38
3	Natural resources development	308.49	542.78	2,093.46	13.14
4	Industry	305.2	537.0	2,071.15	13.00
5	Energy	264.59	465.53	1,795.53	11.27
6	Mining	238.06	418.86	1,615.50	10.14
7	Housing & urban development	116.45	204.89	790.23	4.96
8	Education	73.95	130.12	501.86	3.15
9	Construction	173.73	305.68	1,178.97	7.40
10	Trade & tourism	60.33	106.16	409.45	2.57
11	Health	53.06	93.35	360.06	2.26
12	Social welfare	17.84	31.39	121.07	0.76
13	Financial institutions	13.15	23.13	89.23	0.56
14	Others	32.63	57.42	221.42	1.40
15	Total public investment	2,347.7	4,130.75	15,931.89	100
16	Private investment	414.90	728.95	2,812.11	
17	Total fixed investment	2,762.6	4,859.70	18,744.0	

Source: ONCCP, Ibid, p. 132

## 6. Plan Implementation Stage

At this stage, the plan approved by the highest organ of state in the country is distributed by the planning institution to sector ministries, commissions, regions, etc.

Upon receiving the approved plan, sector ministries, corporations, regions, enterprises and commissions prepare action plans based on their respective approved plans and start implementing it. This stage also involves follow-up and reporting activities of the implementation phase of the approved plan.

It should be underlined at this juncture, that planning being an iterative process (involving top-bottom and bottom-up processes), the various stages are interrelated and as such no single stage can be considered in isolation from the others. Hence, the results of earlier phases serve as inputs into the later phases of planning work; while the results of a later stage may lead to the revision of work done in the earlier stages of planning.

### III. PLANNING AND THE TRANSITION PERIOD

The transitional period's draft economic policy, which was recently distributed for discussion, envisages Ethiopia as moving towards a market-oriented mixed economy where all forms of ownership and enterprises will operate on the principle of profitability and competitiveness. The cornerstones of the draft economic policy are:

- limiting the participation of the state sector in the economy;
- intensifying the role of the private sector; and
- encouraging popular participation in development.

Evidently, the draft economic policy entails a change in the role of planning. It can be argued that Ethiopia's so-called central planning has never been a fully operative central planning in its classical form as that made operative in the Soviet Union and Eastern Europe. This is because the private sector is dominant in the country's economy and it is very difficult to control and direct a predominantly peasant economy through a central plan.

The focus of Ethiopia's planning has always been the state sector where attempt was made to set targets and allocate skilled manpower, investment and foreign exchange. As such, it is quite easier to bring about reorientation of the state sector.

During the transition period, planning is expected to have strengthened capacity for macroeconomic management. In general, its role are likely to be:

- a) identifying priorities and indicating the development strategy;
- b) planning and guiding the state sector;
- c) assist in harmonizing the activities of the private sector through economic instruments;
- d) serve as center for policy analysis and forecasting;
- e) appraising projects requiring public sector financing;
- f) prepare medium- and long-term indicative plans; and
- g) formulating strategies for promoting regional development as well as the coordinated utilization and conservation of natural resources.

In general, the system of economic management of the transition period will utilize both plan and market in a complementary way. The emphasis, however,

should be towards market orientation, except where there is private and social cost divergence and where economies of scale exist.

#### IV. CONCLUDING REMARKS

It seems that Ethiopia's planning experience could be subdivided into the following periods.

The first period (1955-67) is marked by the establishment of the planning institution and the restructuring of the state machinery to the needs of planning. Both the First and Second Five Year Plans fall in this period.

After the restructuring came the ambitious Third Five Year Plan (1968-73) which stated that:

All modern development plans stress the attainment of adequate rates of growth, expressed in terms of the expansion the Gross Domestic Product and the derived levels of per capita income. The Third Five Year plan of Ethiopia establishes an annual target for the expansion of the GDP by six per cent. Starting in the first year with a rate of about 5%, the momentum of planned development is expected to increase so that by the last year of the plan the rate achieved should be above 6%. Such a rate may appear ambitious; but it nonetheless derives from the sound criterion of maximum feasible growth. Anything less would represent a less than maximum effort. Anything above this would depart seriously from the concept of maximum feasibility.

Between 1974 and 1978 there was little or no national planning in the country. The then Ethiopian government believed that it was busy enough with political work and the war effort.

Late 1978 marks the start of the Development Campaign (*Zemetcha*) years. Until 1984 six of them were prepared. Although these annual campaign programmes were designed to attain limited and immediate objectives, they helped to identify the major constraints of the economy.

Finally, in 1984 the Ten-Year Perspective Plan, which was even more ambitious, was launched. Once again it was declared that:

In general, the Ten Year Plan has set itself the lofty and difficult task of propelling Ethiopia out of the abyss of economic backwardness by enunciating appropriate development objectives and by creating favorable conditions for their realization [ONCCP 1984].

Technically, the Ten-Year Plan is still being implemented. However, the attainment of its targets have been hampered by a number of intractable problems. Indeed, planning in Ethiopia has become crisis management rather than development management.

To accelerate its economic growth over the medium- to the long-term period, Ethiopia faces depressing needs of increasing domestic and external resource mobilization efforts. This is also the main challenge of planning. This effort, however, is frustrated by recurring drought, instability in world commodity markets and, until very recently, by the intensified civil war.

The country's saving rate has been 3 to 4 per cent of GDP while gross investment rate has remained at only 11 to 14 per cent of GDP over the past decade. No country, even with reasonably efficient investment can expect to achieve a satisfactory GDP growth rate with such a low investment rate. Ethiopia's success in achieving its resource mobilization objectives will, therefore, depend in large measure upon its ability to improve the efficiency of its resource use. This requires a conducive economic policy environment and an effective system of economic management.

Accordingly, planning will have to focus on macroeconomic management in such a way that it effectively influences and harmonizes microeconomic decisions -- the domain of the market.

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