THE BRETTON WOODS INSTITUTIONS AND THE ETHIOPIAN ECONOMIC REFORM

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1. INTRODUCTION

In the past internal efforts and sufficient domestic resource mobilization used to play predominant role in successful economic development. Currently, however, whatever domestic efforts are undertaken, they are unlikely to be effective unless the rest of the world supports them. Thus, in the current international economic order, external financing plays pivotal role in developing countries, development endeavour as their economy is characterized by low income, limited domestic resources, and low rates of investment. Nevertheless, its purpose is expected to prop up internal effort and pave the way for indigenous sustained economic development. To that end, foreign finance is assumed to finance national development agenda. Given the prevailing levels of resources available for finance, very low levels of per capita income and private consumption, and vulnerability to frequent and large external shocks it would not be surprising to find developing countries relying on a large amount of external financing (UNCTAD 2000).

The two Bretton Woods Institutions (BWIs), the International Monetary Fund (IMF) and the World Bank play a significant role in economic and social development activities of developing countries. IMF has the aim of promoting international monetary cooperation, exchange stability and orderly exchange arrangements, to economic growth and high levels of employment. It provides temporary financial assistance to countries with internal and external imbalances. The World Bank, on the other hand, has the objective of providing concessional loans to support economic development efforts of developing countries. The Bank is usually involved in sectoral supports including the promotion of the private sector development, public sector management, trade and investment.

Practically, any prudent lender worries about repayments and as a result it demands preconditions to be fulfilled by the recipient before advancing the loan. Likewise, when IMF and the World Bank extend loans they put a range of conditionalities that the debtor countries have to fulfil. In other words, the Bretton

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Woods institutions commend a course of action that the recipient countries should follow. Some argue that, however apart from their main role of extending help to developing countries they assumed the role of policy maker for all those countries. It is asserted, that the BWI's conditionalities impose a number of actions that borrowing countries don't necessarily see at their own interest. In extreme, conditionality is viewed as the IMF's imposing conditions on a country in a way that infringes on its rational sovereignty. The Bretton Woods institutions, however, claim that their policy is designed to clear the economic mess and put the economy on the right track. Moreover, they considered their conditionality as proper technical assistance forwarded to draw well-specified actions to bring economic developments in the borrowing country (IMF 2001).

Ethiopia, moving away from centrally planned economic management system to a market oriented system, and confronting both internal and external imbalances has been seeking financial and technical assistance from the IMF and the World Bank. The main purpose of this paper is to explore the nature and dynamics of relations between Ethiopia and these international financial institutions. The relationship between these institutions and the Ethiopian government has followed a path full of ups and downs and yet a number of policies are being implemented fully or partially with the sponsorship of these institutions. The process of decision-making and the extent to which such policies affect the economic performance of Ethiopia are issues of contention and deserve closer examination. The paper addresses the interactions of these institutions and the Ethiopian government and the extent to which the economic reform of the country has been influenced by such a process.

To this end, the rest of the paper is organized as follows. The next section highlights the role of the two international financial institutions in the developing economies in general and the Ethiopian economy in particular. Section three discusses issues and factors that these institutions exert in the process of Economic Reform Programmes of Ethiopia. The final section draws conclusions.

2. THE ROLE OF THE BRETTON WOODS INSTITUTIONS IN THE DEVELOPING COUNTRIES ECONOMY

The Bretton Woods institutions, namely the International Monetary Fund (IMF) and the World Bank, were established in 1944 with the purpose of promoting international monetary stability and economic growth and development. The IMF had the objectives of promoting international monetary cooperation, facilitating the expansion and balanced growth of international trade, promoting exchange stability, assisting in the establishment of a multilateral system of payments, and making its resources available (under adequate safeguards) to members experiencing balance of payments difficulties (IMF 2002).

IMF provides credits to member countries with balance of payments problems to support policies of adjustment and reform. As of June 30,2002, it had credits and loans outstanding to 88 countries for an amount of SDR 66.3 billon (about US$ 88 billion).

On the other hand, the World Bank is focused on growth and development through long-term project lending, initially for the reconstruction of the war-torn Europe in the II World War. Later on, the Bank found extended role and began providing financial resources and technical assistance to developing countries. It extends its concessional loan with the aim of investing in people through basic health and education. Through its loans, policy advice and technical assistance, the Bank supports a broad range of programmes aimed at reducing poverty and improving living standards in the developing countries.

From their inception the two sister institutions have different objectives and division of responsibilities. The Fund focuses on the provision of temporary assistance to correct balance of payments problems in member countries, while the Bank concentrated on growth and development activities through its long term project lending.

In the current globalisation era, no developing country can stand alone to alleviate its economic development constraints. In most cases, developing countries found themselves in severe and unsustainable macro-economic imbalances, which led them to seek financial assistance, either from donor countries or BWIs. The recent practice being, donors and hence the main shareholders of IFIs refer borrowers to negotiate with the IFIs. Thus, as a result of sustained economic crises in developing countries the vast majority of nations in the world have turned to the International Monetary Fund for balance of payments assistance and the World Bank for development assistance. Apart from their financial support, it is widely recognized that getting the stamp of approval from the BWIs would attract foreign capital to developing countries. To be eligible for the support of the two financial institutions and other donors, countries are required to full fill a number of conditions.

2.1. Structural Adjustment Programme and its Conditionality

Any prudent lender worries about repayments, and to make certain that the money utilized on the intended programme, it demands preconditions to be fulfilled by the recipient before advancing the loan. Like wise, when IMF and World Bank extending loans they put a range of conditions that the debt receiving countries had to fulfil. In other words, the Bretton Woods institutions commend a course of actions that the recipient country should follow.

Since the early 1980s a large number of developing countries have adopted structural Adjustment Programmes prescribed by the Bretton Woods institutions.

The adjustment programmes are imposed on these countries as a condition for the receipts of loans. New loans are granted only if the debtor nation implements IMF/World Bank prescribed polices. Surprisingly, even other donors either bilateral or multilateral all look after the Fund's position towards the recipient country. Adjustment measures are divided in to stabilization and structural. Stabilization is advocated mainly by the Fund and it is relatively a short-term measure. On the other hand the World Bank is identified with Structural Adjustment and has medium and long-term span.

Generally speaking, structural adjustment programmes have the objectives of bringing a faster rate of growth of national income, lower inflation, increased openness, and improvement in investment. To accomplish these objectives programmed countries are insisted to conduct macro-economic stability. Such measures include reduction of the overall public sector deficit by way of restraining government expenditure and privatisation of public enterprises. Restricting money growth close to the level of economic growth and adopting interest rate policy designed to promote domestic saving are part of the recommended macro economic policies. Exchange rate adjustment mainly through devaluation and trade and payment liberalization towards opening the economy to the rest of the world are also indispensable components of the structural adjustment policies of the Fund and the Bank. Deregulation of the prices of goods, services and factor inputs is another prominent conditionality.

Banking system and financial sector reform is the other branch of requirement for structural adjustment programme. Reduction of financial repression by removing ceilings on interest rate, restoration of solvency to the system and improvement in bank infrastructure are major components of reforming the financial sector.

In view of the Fund and the Bank, excessive government expenditure result in domestic financing and affects the private sector by crowding out the available credit and retarding development performance by creating inflationary situation through pumping excess money in the economy. They also advocate trade liberalization as a vehicle for enhancing the welfare of consumers by providing opportunities to choose from a wide variety of quality and cheaper imports as well as removing inefficiency from the economy. Devaluation is assumed to change relative prices and switching demand from foreign to domestic goods and encourage export items.

By and large, to be eligible for structural adjustment loan of the Fund and the Bank the borrower country is required to full fill such conditionalities. In effect conditionality could be legitimate and may be necessary, as lenders require a sort of assurance for the repayment. Some argue however, that apart from their main role of extending help to developing countries they assume the role of policy maker for countries that agreed to conduct economic reform programmes. The Fund and the

Bank claimed that their policy is designed to clear the economic mess and put the economy on the right track.

Historically, the Fund and the Bank from their inception hold the purpose of correcting imbalances and build sustainable growth in member countries. In this connection economists recall that originally the Fund was established to prevent another depression in the world economy. Thus, it was designed to provide liquidity by granting loan, and advice countries to adopt expansionary policies including increasing expenditure, reducing taxes, lowering interest rates in order to boost demand. Paradoxically, Structural Adjustment Policies, advocates countries to have lower deficits, raising taxes, and higher interest rates (Havnevik 1987)

It is believed that the structural adjustment programme requirements are based on the classical economic theory that output, employment and prices (including wages, interest rates, the exchange rates) are best determined by the free play of market forces and that prices are the most effective instruments for the efficient allocation of resources. In most of the developing countries, particularly in Sub-Saharan Africa, however, realities proved the other way round. Practically, countries adopting the structural adjustment programme are forced to move towards freer markets without being in a position to take full advantages of available market opportunities. To this end, because of the low capacity to adjust their supply, programmed countries fell to enjoy the expected results. In other cases, countries those managed to prop up their export supply highly affected by significant fall in price. Coffee export prices could be cited as a case in point.

More specifically, most of the policy instruments attached as conditionalities in IMF and the World Bank structural adjustment policy found to be inappropriate for programme countries. The recommended credit policy, for instance, leads to output contraction as it discourages investment. In the absence of discriminated credit policy it is impossible to support productive and comparative advantage of the economy. High interest rate, apart from fuelling inflation, has no relevance to the agricultural sector of the developing countries which is the main stay of the economy.

With regard to the condition attached with the exchange rate policy, in these countries, structural adjustment programmes' recommendations do not bring tangible results as their tradable items are primary commodities often subject to quotes and prices determined outside their control, while having essential and demand inelastic imports such as fertilizer, petroleum, capital goods, medicines, etc. Similarly trade liberalization negatively affects their infant industries. The condition related with the privatisation policy would not be successful as the indigenous private sector of the developing countries is not strong enough to take over state enterprises. Besides, practices proved that privatisation is accompanied with workers layout, as the new owners tend to maximize their profit by trimming

down the wage bill.

State intervention and government expenditure is more required in developing countries unlike in developed ones. Thus, across the board reduction in budget deficit adversely affects the provision of government services and investment in social sectors. Furthermore, the recommendation to rely on market and price in these countries could not be successful, since widespread, market imperfection is dominant in their economic order.

Above all, it is blamed that all conditionalities recommended for all programmed countries have strong similarity in their nature, in terms of their content, their duration and their method of negotiation. Thus, the two financial institutions are highly commented as they fail to consider country specific economic, social, and political situations.

On the other hand, programme negotiations are confined with officials of the central bank and of the Ministry of Finance. In this regard, economic growth and social welfare tend to be neglected, and financial stability to be given precedence. Ministries of other sectors particularly concerned with education, health, and agriculture are marginalized in IMF/World Bank programme evaluation. In addition, IMF/World Bank experts who are negotiating with the programmed countries are not well equipped with specific conditions of the country. According to the former World Bank Vice president and winner of the 2001 Nobel Prize in economics, Joseph E. Stiglitz, IMF experts, macro-economic training doesn't prepare them well for the problems that they have to deal with developing countries' economic condition. It is also unlikely to think that an IMF mission staying not more than three weeks in the capital city of any developing country to understand and comprehend the real situation so as to recommend solutions. Thus, Stiglitz further noted that the standard IMF procedure before visiting a client country is to write a draft report first. The visit is only intended to fine –tune the report and its recommendation and to catch any glaring mistakes. (Stiglitz 2002).

Countries' experiences proved that structural adjustment programmes have been accompanied by falling per capital incomes rising unemployment and impoverishment, falling welfare of vulnerable groups and reduce growth prospects. Thus, the Fund's popular Enhanced Structural Adjustment Facility (ESAF) programme had adverse consequences for the poor, either directly through reducing incomes or indirectly through reduction in social service provision. Furthermore, the programme have often flawed by a lack of distributional analysis and by poor sequencing of reforms notably premature financial liberalization.

In this regard, there has been a remarkable shift in theory and thinking to design economic policies, many argue that the presence of market imperfections and the relationship between market and non-market activities are major factors to revisit

Being part of the developing countries and moving away from centrally planned and weak economic condition to a market oriented system; Ethiopia remained one of those countries receiving the IMF and the World Bank financial and technical assistances.

As could be recalled in Ethiopia the period between 1974-1991 witnessed a centralized economic system, where the state played the dominant role in all spheres of economic activity and the private sector as well as market forces were deliberately marginalized. As a result weak institutional capacity, market imperfections, structural rigidities, poor economic management and adverse externalities were the overriding characteristics of the economy.

The new government, which assumed power in 1991, pursued policies towards stabilizing the economy and moving towards a market-oriented economic management. To that end, the then Transitional Government began the implementation of comprehensive macro-economic and structural reforms. The IMF, the World Bank and other multilateral and bilateral donors showed their willingness to support the government's development agenda.

3.1. IMF/World Bank Intervention and their Conditionality to the Ethiopian Economic Reform Programme

Although Ethiopia was a late comer compared to other developing countries, the government from the out set agreed with IMF and the World Bank to conduct Structural Adjustment Programme (SAP) to solicit external assistance to finance the envisaged economic reform programme and benefit from the available technical assistance. To implement the SAP the government in collaboration with the two Bretton Woods institutions prepared Policy Framework Paper (PFP), which identifies the policy objectives and commitments of the Government. The PFP outlines objectives, strategies and measures to be taken in macro-economic and Structural Adjustment Policies during 1992/93-1994/95 bounded with time frame. The PFP focused on reducing institutional rigidities and structural distortions. The principal policy requirements include exchange rate adjustment, public expenditure reduction, trade liberalization, reduction of the role of the state in production and distribution, controlling prices, and intervening in exchange and product market, liberalization of the financial sector, and privatisation.

More specifically the following were major requirements to be implemented by the government during the first SAP programme. (GOE 1998)

I. Legal and Institutional Reform

- Create conducive legal environment for a market based economy,

- Create effective and efficient decentralized government structures,
- Establish clear arrangements between the Central Government and the Regions, fostering local responsibilities and safeguarding national fiscal integrity.

II. Fiscal Policy

- Reform tax policy, broaden the tax base, improve equity and enhance efficiency,
- Reduce government expenditure, curtail outlays with little economic or social benefit,
- Reduce subsidies and ensure their transparency,
- Introduce government bonds, bills, etc for sale to public.

III. Monetary and Financial Policy

- Restrain the rate of domestic credit expansion,
- Strengthen and enhance the status of bank supervision and ensure capitalization,
- Revise banking law and regulations to increase bank autonomy and permit private domestic banks,
- Allow the formation of private domestic insurance companies,
- Introduce and maintain positive real interest rates, set minimum deposit and maximum lending rates.

IV. External Policies

- Adjust the exchange rate to eliminate the overvaluation of the currency,
- Eliminate all export taxes,
- Revise the tariff structure with a view to rationalizing rates of effective protection,
- Obtain external debt relief.

V. Investment Policy and Industry

- Simplify licensing and land acquisition procedures,
- Eliminate discriminatory credit, and foreign trade treatment of the private sector,
- Streamline the approval of foreign and joint ventures to one-window basis.

VI. Pricing and distribution

- Decontrol prices other than monopoly produced and a few essential goods,

- Set public utility tariffs on the basis of opportunity cost, taking into account ability to pay,
- Encourage private sector participation in trade
- Develop a flexible and efficient labour market,
- Rationalize and privatise public enterprises,
- Deregulate all road freight tariffs.

In October 1996, Ethiopia entered a three-year ESAF arrangement with the IMF and began the third phase of the reform programme, which covered the period 1996/97-1998/99. In this programme the IMF put various conditionalities including fiscal consolidation, further liberalization of the exchange and trade system, undertaking rapid pace of structural reforms, strengthening of human resource base of the economy, rebuilding the environment and physical infrastructure.

In this agreement the IMF conditionality focused on intensifying the previous requirements and to that effect the government produced a new policy framework paper in collaboration with the Fund and the World Bank. The Paper again put time frame, objectives and targets including strategies and measures to be taken to implement policy actions. The principal measures include the following, among others:

I. Fiscal Policy:

- Broaden the tax base, increase the revenue to GDP ratio, improve equity and enhance efficiency,
- Introduce VAT,
- Strengthen tax administration,
- Raise capital expenditure as a share of GDP in line with the three-year rolling public investment programme.

II. Monetary and Exchange Rate Policies and Financial Sector Liberalization:

- Make operational an inter bank money market,
- Operationalise inter bank market for foreign exchange with a view to eventually phasing out the weekly auction of foreign exchange by the NBE,
- Bring the Construction and Business Bank to point of sale,
- Improve the viability and stability of the financial system,
- Issue invitations to independent and internationally reputable firm to conduct a comprehensive financial and managerial audit of the CBE, with a view to improving the operations of the bank, and select a firm to conduct the audit of the CBE.

III. External Sector Policies:

- Eliminate the remaining restriction on external current account transactions, which include mainly eliminate the foreign exchange surrender requirement, remove all restrictions on external current account transactions pertaining to business travel, education and health, and increase the limit on holiday travel to USD 1200 per person per trip,
- Reduce the maximum tariff rate to 40 per cent and the number of bands to seven, so that the average tariff rate drops from 21.5 per cent in 1997/98 to 19.5 per cent in 1998/99, further reduce the maximum tariff rate to 30 per cent and the number of tariff bands to six, so that the average tariff rate drops to 17.5 per cent by 2000/01.

III. Private Sector Development:

- Accelerate a Privatisation Action Plan for 1998-2000,
- Bring 10 state farms and two large enterprises (brewery and cement factory) to point of sale.
- Bring at least 80 enterprises to point of sale.

IV. Capacity Building and Governance, and Civil Service Reform:

- Strengthen expenditure management and financial accountability,
- Improve human resource management,
- Upgrade service delivery,
- Implement Sector Investment Programmes,
- Improve poverty monitoring capacity,
- Reduce food insecurity.

The programme, however, terminated in October 1997, as the IMF and the Ethiopian government failed to reach understanding on a policy package for 1997/98. The major contentious issue was in relation to the financial sector. The Fund advised the government to split up the Commercial Bank of Ethiopia into three or four smaller banks to pave the way for privatisation. The Fund also pressed the government to open the market to foreign banks. (Addison and Alemayehu 2001) It also further pushed the government to liberalize the capital market. After conducting intensive negotiation the government reached agreement with IMF to resume the programme in 1998. In this negotiation the IMF lifted its demands to have the Commercial Bank of Ethiopia broken up into three or four separate banks. The fund requested CBE's account to be scrutinized by independent external auditors while the government agreed to transfer operations of a purely commercial nature being carried out by the National Bank of Ethiopia to commercial banks. Agreement was also reached to reduce CBE's non-performance loan. The two parties agreed to privatise the second largest bank, Construction and Business Bank. The government strictly argued that giving priority to build institutional capacity and

macro-economic stability prior to allowing foreign banks and liberalizing the capital market is indispensable.

The revised programme reached in agreement was in the context of a medium-term strategy for the period 1998/99-2000/01 reflects the sense of ownership of the government of Ethiopia. Following the eruption of the border conflict, however, the Fund lifted its agreement and suspended the ESAF arrangement. Following this action other donors also hold their assistance completely.

In view of protecting the country's sovereignty the government had no option but to drift from its previous agreement and commitment with the BWIs during the conflict. It gave priority to finance the war and as a result it sacrificed some of its policy actions, credited to the successful development goals, which culminated at the verge of the war. The increased defence expenditure coupled with the discontinued foreign finance, badly threatened the country's development policies.

With the signing of peace agreement with Eritrea, the Ethiopian government and the IMF entered into a Poverty Reduction and Growth Facility programme for the years 2000/01-2002/03. In this context, the principal conditionalities agreed by the two parties mainly intensified the previous substances indicated in the ESAF arrangement. They focused on GDP growth, industry, private sector development and export promotion, reduce food insecure rural households, strengthen macro-economic stability, increase public expenditure on poverty reduction and strengthen expenditure management, reduce the prevalence of HIV/AIDS, improve tax administration and enhance revenue, financial sector development, improve foreign exchange market, justice system reform, civil service reform, capacity building, and decentralization.

To support the reform agenda indicated in the I-PRSP, the PRGF envisaged to (a) Increase annual economic growth from 5 per cent to about 7 per cent (b) limit inflation to a low single digit, and (c) raise the import reserve cover to about four months. To achieve such objectives the programme focuses on four policy components (a) the reorientation of budgetary resources from defence towards poverty alleviation outlays, (b) tax reforms that lay the foundation for strong revenue performance, (c) improved monetary management and financial sector reform, and (d) capacity building and regulatory reforms to improve the delivery of government services and to promote private sector development.

During this period, a shift in the policy effectiveness and the disappointing performance of reforming countries towards reducing poverty came to dominate discussions leading towards emphasis on poverty reduction policies.

Under the current PRGF agreement a new conditionality having a goal of poverty reduction has been added to the aforementioned policy measures. The country

required preparing Poverty Reduction Strategy Paper (PRSP), replacing the Policy Framework Paper (PFP). The government therefore prepared the Country's PRSP naming, Ethiopia: Sustainable Development and Poverty Reduction Programme (ESDPRP).

The preparation of the ESDPRP was coordinated by the government, based on a broad participatory process involving a wide range of development actors. In this connection, the civil society, the private sector, and in particular the poor themselves participate in formulating the document. It clearly identified and indicated outcomes of the programme, which calls for long-term commitment by donors, government and citizens at large.

To support the country's development agenda the World Bank Board endorsed an Interim Support Strategy in December 2000. The focus of the Interim Support Strategy was to help the country's post war recovery needs and to move to a sustainable growth. The ISS covered 12-24 months and include a number of operations addressing demobilization and reconstruction as well as $ 250 million Balance of Payments Support. In this regard the Bank granted an Economic Recovery Support Credit.

The Bank also designed Structural Adjustment Credit to be granted in a single tranche. For the effectiveness of the credit the Bank attached a number of structural conditionalities to be implemented by the government. Such policy actions, among others, include the following:

- Maintaining Poverty-focused macroeconomic policies,
- Promoting private sector development,
- Improving the investment climate,
- Improving export competitiveness,
- Improving public sector management and service delivery,
- Strengthening the civil service strategic and legal framework,
- Improving expenditure management and prioritisation.

3.2. Merits of the IMF/World Bank Interventions in the Ethiopian Economic Reform Programme

The Policy Framework Paper designed jointly by the IMF and the World Bank with the government from the outset based on the Transitional Economic Policy, aiming at replacing the previously centrally planned economy by a market-oriented one. Both the government economic policy and the PFP cautiously designed to rationalize the role of the state in the economy, encourage private investment, mobilize external resources and draft sectoral strategies and programmes, which

have been deemed appropriate to manage the economy.

In this connection, it is worthwhile to stress that conditions attached to SAP were in congruent with the government's economic policy programme. In other words most of the conditionalities incorporated in SAP were components of the New Economic Policy programme of the government envisaged in advance. Hence, IMF/World Bank apart from giving their financial and technical assistance they added momentum and give courage to the government to expedite the reform process through imposing conditions. Such conditionalities, however, undeniably introduced a sort of measure that required belt-tightening and sacrifice. It is also recognized that the IMF/World Bank conditionality and the Fund's surveillance promote confidence to the private sectors and facilitate their participation in the privatisation process. More importantly, other bilateral and multilateral development partners of the country were at ease to extend their support in subsequent to the Fund's regular review reports. This could be justified as all development partners of the nation quitted their assistance when the Government and the Fund failed to agree to continue the ESAF programme in 1996 and following the border conflict with Eritrea.

Some of the reform measures undertaken so far are not easy to be initiated internally, as they contained immediate negative impact on individual well-being. The reform measures on retrenchment and privatisation might be hard, if not impossible, to implement by a new government in the absence of forced measures imposed externally.

Experiences of other countries are very useful to speed up the reform process. Donors' intervention in the reform programme, therefore, contribute largely in advising ways and means to tackle problems and to avoid mistakes committed by countries that have undertaken similar reform programmes.

In this regard, the country's tax reform studies were benefited from other countries' experiences through a resident tax administration expert of the IMF. The expert designed most of the reforms undertaken so far and envisaged in the future. His studies proposed several reform measures helping the government to enhance the revenue administration capacity and improve as well as modernize the revenue collection mechanism.

With the objectives of liberalizing and stabilizing the economy, the government implemented basic and radical changes regarding legal, fiscal, monetary, foreign exchange, trade, investment, institutional and regulatory measures. Such measures brought significant improvements in stability and economic recovery.

More importantly, in the current PRGF arrangement there comes significant change in the nature and extent of conditionality attached to the programme. With the introduction of the PRSP the country is committed to focus on poverty reduction

strategy. In this context, policy reforms are much more geared towards the achievement of poverty reduction objectives, by way of complementing economic structure and social policies. Ironically the aim of PRSP is in agreement with the Government economic policy: Agricultural Development-Led Industrialization (ADLI) which is believed to be pro-poor strategy. ADLI is based on the country's relatively abundant physical, human and natural resources. It is a long-term strategy that view agriculture as the engine of growth, on account of its potentially superior growth linkages, surplus generation, marketing creation, and provision of raw materials and foreign exchange (Mulat 2000). It is also positively correlated with the principle of decentralization. By and large, access to debt relief under the HIPC Initiative and access to concessional lending by the Fund and the Bank are now linked to the implementation of poverty reduction strategies.

The task of drafting the Ethiopia's Sustainable Development and Poverty Reduction Programme (PRSP document) pass through a participatory process which elicit the involvement of civil society, other national stakeholders and elected institutions. As a result, it is believed that the consultation process, which involved a broad spectrum of stakeholders, helps to foster ownership particularly where such stakeholders included the rural and urban poor. Virtually the processes gave opportunities to have useful insights that would otherwise have been overlooked by policy makers.

There is a general consensus that the document has been prepared not only as a means of securing financial support from the Fund, the Bank, and other development partners, but also as a national blueprint[1] to guide the country's development endeavour. In a nutshell, ESDPRP set clear development priorities and identifies gaps. This, in turn, gives opportunities for donors to align their assistance strategies to the priorities of the country.

With regard to the financial support, the Fund and the Bank extended their concessional loan to prop up the development efforts of the country. Referring the latest financial arrangements, the Fund granted SDR 100.28 million in the PRGF arrangement, SDR 88.47 million in ESAF, although only SDR 29.49 million has been disbursed, and SDR 49.42 million during SAP. On the other hand, Ethiopia has been benefited from the various technical assistances provided by the Fund in the areas of tax, monetary and banking reforms, consumer price index, public expenditure, etc.

In order to streamline its intervention in the country's PRSP the World Bank is preparing its Country Assistance Strategy (CAS). The CAS is expected to base

[1] [Well, my reading of the ESDPR does not show any development blueprint and the analysis of the document, given the data provided in the paper, was rather weak and misleading. It still lacks understanding of the core parameters to be able to address the problem of poverty in the country. It is quite short of being a blueprint.]

development strategies indicated in the ESDPRP. Although its assistance has been on project base, recently it tends to budget and Balance of Payment Support. In this regard the Bank approved an Economic Recovery Support Credit amounting to US$ 150 million in 2001. During the current fiscal year The Bank also extended Structural Adjustment Credit containing to $120 million, disbursed in a single trance.

As Ethiopia is an HIPC eligible country, she has been benefited from significant interim debt relief support from the Fund and the Bank in fiscal year 2001/02 to finance her poverty reduction strategy.

Although the country's economic performance is dominantly influenced by internal capacity, foreign intervention could not be underestimated. Accordingly, there is no doubt that the Bretton Woods institutions intervention in Ethiopia's recent economic performance plays important contribution. Financial and technical supports of the two institutions coupled with internal effort, brought significant improvements in the country's economic performance. In this connection, the country has made significant progress in macro-economic stabilization. Although performance varies from year to year, real GDP growth rose from 3.2 in 1992 to 10.6 per cent in 1996 (MEDaC 1999).

As indicated in the country's Sustainable Development and Poverty Reduction Programme document, the performance of the reform programme is positive. GDP grew by 7.9 per cent in FY 2000/01, inflation turned negative, while external current account deficit (including official transfers) fell from 5.3 in 1999/00 to 4.2 per cent in 2000/01 (Ministry of Finance and Economic Development 2002).

3.3. Demerits of the IMF/World Bank Interventions to the Ethiopian Economy

It is clear that the economic development agenda of developing countries requires, different policy approaches as their economic foundation varies from country to country. But the IMF develops similar assistance strategy for all developing countries. Therefore, its core conditionalities sometimes fell to address the basic economic development policy problems of a specific country, as conditionalities prescribed to all countries are more or less the same. The IMF-World Bank support to the Ethiopia's economic reform programme is not an exception.

As to the magnitude of conditionality, it is sometimes beyond the capacity of the implementing country, and the time frames do not appreciate such capacity. In this regard given Ethiopia's limited institutional and technical expertise some conditionalities imposed at the beginning could be burdensome.

Some of IMF and World Bank core conditions, such as deregulation of fertilizer

prices, privatisation, and devaluation, have had adverse effect on the welfare of the poor. Moreover, higher input prices, lifting subsidy on fertilizer and declining agricultural export prices automatically affect the livelihood of the farmers that accounts about 85 per cent of the population. Apparently, fertilizer prices both DAP and UREA have skyrocketed from Birr 107.1 and Birr 95.3 per quintal in 1992 to Birr 262 and Birr 237 respectively. The devaluation of the country's currency accounted for an exorbitant price increase (MEDaC 1999). Furthermore, in recognition of the agreement reached with the BWIs the government has removed fertilizer price subsidy at the end of 1996. At the time of removing fertilizer subsidy; there was Birr 50 price subsidy per quintal. It is apparent that the removal of price subsidy and market liberalization on such strategic commodity highly reflected in the deterioration of income of rural households, which in turn affects the rest of the economy (Tadele 2002).

The commitment pledged by the government to pursue a more vigorous divestiture to full fill conditionality will be accompanied by job losses. In addition, lifting subsidy across sectors indeed, again impose hardship to such victims

The IMF and the World Bank insisted to conduct complete financial liberalization with out the presence of prudent financial management and competent expertise. In theory this is expected to facilitate investment capital to flow in. Unfortunately, the real situation in a country where the necessary preconditions do not fulfil the outcomes will be massive outflows.

Another aspect related to the domestic investment and growth is a tied prescription on rapid custom duty reduction, which exposed the domestic industry to foreign competition. Currently, our infant industries are thrown in a playing filed open to foreign goods. As they are found in unequal footing, massive imported goods seriously damage products of domestic investment. Yet, the Fund and the Bank forced the government to reduce further the maximum rate, tariff bands, and average tariff rate.

4. CONCLUSION

Developing countries can register sustainable economic growth and development only when the international community supports their internal strategies and efforts. In this connection, the Bretton Woods Institutions have played pivotal role in making funds available and serving as a catalyst for getting financial assistance and technical support from other donor countries.

It has been recognized that their conditionality has two-way benefits. From their perspective, it gives guarantee that the loan is addressing its target and promotes capacity to finance the repayment, while it gives the recipient country assurance

that the funds will be available when it meets agreed conditions.

Past experiences proved that their support was an integral part of the Ethiopia's economic reform programme. In the current international economic order, for a developing country such as Ethiopia, it is practical necessity to secure external financial assistance to attain economic stability, growth and development as well as alleviating poverty.

In line with this, and on top of their financial and technical assistance, IMF-World Bank conditionality encouraged the government to design and implement essential economic stabilization, recovery and improvement policies. Conditionality pressed the government to conduct some severe, even some times socially unfair measures for the sake of removing distortions in the economy.

It is worth mentioning here that low inflation, low interest rates and a realistic exchange rate, trade reforms and relatively decreasing role of the state through privatisation and deregulation helped to redress the imbalances of the 1980's and created conducive environment for sustained macro-economic stability. This is a strong feature of the Ethiopian Economy since the beginning of the economic reform.

It is known that policies that are not locally owned are unlikely to be implemented effectively Thus, it is recommended to give more emphasis to base on home-grown economic polices, which allows flexibility and consideration of internal realities in terms of capacity and commitment.

In this regard, the development of the country's PRSP (Sustainable Development and Poverty Reduction Programme.) is a significant achievement, as it gives more ownership for the country and designed to reduce poverty in its various dimensions, on a country basis. It is worth nothing here that preparing PRSP is not a goal; it is rather a means of bringing both internal and external efforts jointly and ready to fight poverty.

With the introduction of the ESDPRP the country is in a position to assess the source of poverty, prioritise needs, identify resource gaps and lay down strategies and programmes to reduce poverty. Similarly such efforts offer opportunity to donors to look for the country's needs and avail their assistance.

Thus stringent adherence of the document by both parties would be essential to reduce poverty and bring significant economic development in the country.

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