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**Title:**

**The Role of the World Bank Regulations and programmes in reducing  
poverty in Ethiopia**

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## **TO MY LOVE TEDD**

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***One cannot think well, love well, and sleep well, if one has not dined well.***

***(Virginia Woolf, A Room of One's Own, 1929)***

## EXECUTIVE SUMMARY

*Recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice, and peace in the world.<sup>1</sup>*

*Poverty devastates families, communities and nations. It causes instability and political unrest and fuels conflict. Let us work in partnerships between rich and poor to improve the opportunities of all human beings to build better lives.<sup>2</sup>*

Despite some gains in economic reforms and international commitments, Ethiopia still maintains the position of one of the poorest countries in the world in the 21<sup>st</sup> century with very little power to influence the allocation of resources in the world market. The development problems in many of the sub-Saharan regions are confined within the country including the difficulty to keep up with the rapid increase in the number of primary school enrollments, which has led to a situation of compromised quality; high child mortality and HIV/AIDS, which poses additional challenges to the poor health facilities, gender and regional inequalities and unsustainable debt burden. Making matters worse, Ethiopia's political instability, civil war, recurring of drought, and economic mismanagement ties the country to a severe poverty cycle.

Ethiopia has made important economic, social and political reforms with the support of the World Bank and other multilateral institutions, to pave the way for the country to face the challenges posed by globalization. However, these reforms have not been sustained by effective implementation. The response to overcome the problems has also been slow to see rapid growth.

Ethiopia thus faces an immense, multifaceted development challenge to meet the Millennium Development Goals. But with the help of the World Bank and other multilateral donors and institutions, it can minimize the effects of poverty and reduce aid dependence through improving governance, investing in people, increasing competitiveness and diversifying its economy, resolving conflict, and above all by protecting basic human rights. All these however require a greater legal, political, social, cultural and environmental commitment to resolve the tension affecting many lives in Ethiopia today.

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<sup>1</sup> Preamble to the Universal Declaration of Human Rights (1948).

<sup>2</sup> United Nations Secretariat, sg/sm/101/OBV/515, Commitments Made at the World Summit represent breakthrough in fight against poverty, secretary general, Kofi Annan, said in international day message.(13/10/2005).

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## INTRODUCTION

*Poverty is the oldest and the most resistant virus that brings about a devastating disease in the third world called under development. Its rate of killing cannot be compared to any disease from the genesis of mankind. It is worse than malaria and HIV/AIDS which are claimed to be the highest killer diseases. HIV/AIDS attacks only a few number of people in a society and the whole society at large “ out of the worlds population of more than 6 billion people, nearly 1.3 billion people live on less than a dollar a day, and close to 1 billion cannot meet their basic consumption requirement ...”<sup>3</sup>*

Poverty has been on the global agenda in a meaningful way since 1990, when the World Bank issued its first report on the subject.<sup>4</sup> After the Millennium Summit of 2000, the international community greatly intensified the campaign to reduce poverty. Consequently, there have been huge efforts to contribute to poverty reduction policies and to raise aid flows. In this context, there are some who believe that the World Bank and IMF reduce poverty but in order to do so, this requires them to all but control the financial policies of poor countries.<sup>5</sup> This view seems to be reflected in the activities of many international financial institutions, particularly in conditions attached to the lending programs by the World Bank. What does this mean for the poverty reduction, which the World Bank is trying to achieve, however? Indeed, what does the World Bank mean by poverty? As Least Developed Countries, like Ethiopia continue to register population growth, the question of addressing poverty remains.

Although the World Bank shows positive statistics on poverty reduction,<sup>6</sup> the reality on the ground shows that poverty in Sub-Saharan Africa continues to grow.<sup>7</sup> This is one of the foremost challenges confronting the world community, and particularly humanitarians, in modern times. Meeting this daunting challenge calls for a substantial increase of resource flows in the World Bank’s overall lending and grants to Least Developed Countries in Sub-Saharan Africa. However, it seems that the total amount of debt relief from multilateral and bilateral donors

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<sup>3</sup> Tazoacha Francis ”The Causes and impact of poverty on sustainable development in Africa.” paper. Conference Bordeaux France (2001). [http://ced.u\\_bordeaux4.fr/SCTAZOACHA.pdf](http://ced.u_bordeaux4.fr/SCTAZOACHA.pdf)

<sup>4</sup> World Bank Development report 1990, available at [www.rrojastdatabank.org](http://www.rrojastdatabank.org)

<sup>5</sup> Shah, Anup. Causes of Poverty, (2005), available at [www.globalissues.org](http://www.globalissues.org)

<sup>6</sup> Global Poverty Report, G 8 Okinawa Summit July 2000.

<sup>7</sup> Department for International Development Fact Sheet, available at [www.dfid.gov.uk](http://www.dfid.gov.uk) and Stephen, Rwembelo. The Complexity of African Poverty, Global Policy Forum available at [www.globalpolicy.org](http://www.globalpolicy.org)

and measures in economic adjustment reforms have fallen far short of what is necessary to address this economic recovery and sustainable growth. Indeed, some feel that the medicine of neo-liberalism brought by the World Bank is killing the African patient.<sup>8</sup>

Moreover, the debt relief measures introduced by the World Bank's concern about the unsustainable debt burden of low-income countries, that is, the Heavily Indebted Poor Countries (HIPC) initiative is also being condemned for exacerbating Africa's debt misery. In the minds of some people, the World Bank is largely to blame for the financial failure of poor countries like Ethiopia in Sub-Saharan Africa.<sup>9</sup> Others go so far as to question the necessity of the World Bank's existence, arguing it would be more effective to abolish an institution that has made a big business out of 'ending poverty' and completely devolve the work to local, national and regional institutions better equipped to attack the causes of poverty.<sup>10</sup> The question here is: does the World Bank really take responsibility for poverty in Ethiopia?

As Ethiopia is amongst the world's least developed countries, poverty is widespread and multi-faceted. The country is one of the Heavily Indebted Poor Countries very much dependent on debt relief and foreign aid. Addressing the inter-related dimensions of poverty in Ethiopia is urgent, especially with the Millennium Development Goals of poverty reduction that the country is expected to achieve by 2015.<sup>11</sup> The country remains at the mercy of the World Bank's substantial debt relief, which is a condition for additional loans, and other grants to realize its goals.

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<sup>8</sup> Bond, Patrick, *Against Global Apartheid South Africa meets the World Bank, IMF and International Finance* (2003).

<sup>9</sup> Onimode, Bade, *The IMF, the World Bank and the African Debt*, (1989).

<sup>10</sup> Bello, W., 'Meltzer Report on Bretton Woods Twins Builds Case for Abolition but Hesitates', (2000), *Focus on Trade*, No. 48, April 2000, available on [www.tni.org/archive/bello/meltzer](http://www.tni.org/archive/bello/meltzer)

<sup>11</sup> United Nations Millennium Declaration, Resolution adopted by the General Assembly, A/RES/55/2, 18 September 2000. MDGs to be achieved by 2015 are halve extreme poverty and hunger, achieve universal primary education, empower women and promote equality between women and men, reduce under-five mortality by 2/3, reduce maternal mortality by 3/4, reverse the spread of diseases, especially HIV/AIDS and malaria, ensure environmental sustainability, create global partnership for development, with targets for aid, trade and debt relief.

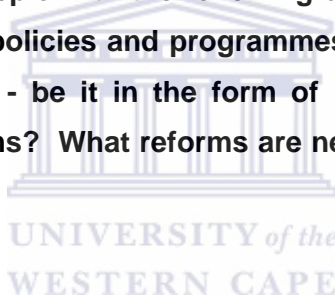
## **OBJECTIVE**

The general objective of the research is:

- to assess the objectives of the World Bank in reducing poverty in Ethiopia;
- to examine the extent to which Ethiopia is benefiting from the World Bank's policies with respect to poverty reduction;
- to deal with the impact of World Bank policy measures on poverty in Ethiopia.

## **RESEARCH QUESTION**

In this research paper, the writer will explore the challenges regarding Ethiopia's poverty from perspective of the World Bank. The research will examine the theoretical and conceptual underpinning of the World Bank's general mandate and objectives on poverty reduction, using Ethiopia as a case study. Among other points, the research will grapple with the following questions: Has Ethiopia really benefited from World Bank policies and programmes, if so, to what extent? Does the country really need aid - be it in the form of loans or grants to solve the prevailing economic problems? What reforms are needed to change the situation in Ethiopia?



## **METHODOLOGY**

The research shall mainly be literature based on documented facts on the subject being explored.

## **SCOPE**

Considering the fact that dealing with the topic of poverty reduction in Africa as a whole is an extremely extensive undertaking, the writer will only focus on Ethiopia, using this, one of the least developed sub-Saharan African countries, as a case study. Moreover, the writer will essentially restrict consideration only to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), herein after "the Bank," as most of the Least Developing Countries in sub-Saharan Africa like Ethiopia get most of their assistance from these financial institutions of the World Bank Group.

## **LIMITATION**

In doing this research the writer has faced some problems during the analysis of documents produced by the Ethiopian government, donors, NGOs, and academics, which are likely to lead to inadequate understanding of the situation in Ethiopia. These problems, among other things, arose out of the application of concepts like 'poverty', 'democracy', 'federalism', 'state', 'market', 'civil and political rights'; as if they had the same meanings in Ethiopia as they do in western societies; tendency for 'over-generalization' to 'Ethiopia' of conditions which applied in a particular place at a particular time; lack of historical awareness both in analysis and in expectations of what development outsiders might achieve; and expression that can conceal proper analysis and minimize discussions,<sup>12</sup> which is related to both socializations and the interests of the stakeholders. Thus, this research might be full of holes, which if filled, might lead to a different conclusion.

## **KEY WORDS**

Articles of Agreement of the World Bank, corruption, economic sovereignty, Ethiopia, good governance, Heavily indebted poor countries, least developed countries, Millennium Development Goals, poverty, poverty reduction strategy paper, structural adjustment, Sub-Saharan Africa, World Bank.

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<sup>12</sup> The government tend to use 'revolutionary', donors 'scientific' or 'moral, academics 'disciplinary', and NGOs tend to use 'biblical' styles.



# CHAPTER ONE

## THE WORLD BANK AND POVERTY

*If we make the average of mankind comfortable and secure, their prosperity will rise through the ranks.*<sup>13</sup>

*As the images of life lived anywhere on our globe become available to all, so will the contrast between the rich and the poor become a force impelling the deprived to demand a better life from the powers that be.*<sup>14</sup>

### 1.1. Structure and purpose of the World Bank

Following the devastation of World War II, the “World Bank”<sup>15</sup> came into existence with the aim of reconstructing Europe. Today, however, broadening its mission, the World Bank (WB) operates as a development agency with a mission statement that says “our dream is a world free of poverty.”<sup>16</sup> In realizing this mission, it plays a major role in world economic governance through different interventions mainly: direct loan facility and the setting of policy conditions under which the loans and grants flow to third world and post communist countries.

#### 1.1.1. How it is organized?

The word “World Bank” actually refers to two institutions: IBRD and IDA. Loans and assistance for developing countries are distributed through the IBRD,<sup>17</sup> which assists middle-income countries and credit worthy poor countries by promoting sustainable development through loans, guarantees, and analytical and advisory services, and IDA,<sup>18</sup> which focuses exclusively on the world’s 81 poorest countries (home to 2.5 billion people) and supports country-led poverty reduction in these countries with interest-free credits and grants- money provided by contributions from members. The purpose of the Bank is clearly stated in Article 1 of the original Bretton Woods Articles of Agreement:

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<sup>13</sup> Franklin D. Roosevelt (Rourke, John T., Mark A. Boyer, World Politics International Politics on the world stage, brief 3<sup>rd</sup> ed.(2000) p. 298.

<sup>14</sup> Nelson Mandela, to a joint session of the U.S Congress, October 7, 1994

<sup>15</sup> The word first used in reference to the IBRD in an article in *The Economist* on July 22, 1944 in a report on the Bretton Woods Conference and which later became an official name for IBRD and IDA in 1975.

<sup>16</sup> Mission statement and Code of Professional Ethics available at <http://www.worldbank.org> and <http://siteresources.worldbank.org/INTETHICS/Resources/CodeinEnglish.pdf>

<sup>17</sup> Data: established in 1945, 185 members, cumulative lending of \$394 billion, and fiscal 2004 lending of \$11 billion 87 new operations in 33 countries [www.worldbank.org](http://www.worldbank.org)

<sup>18</sup> Data: established in 1960, 166 members, cumulative commitments of \$151 billion, fiscal 2004 commitments of \$9billion for 158 new operations in 62 countries. [www.worldbank.org](http://www.worldbank.org)

- 1. To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the re-conversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.**
- 2. To promote private foreign investment by means of guarantees or participation in loans and other investments made by private investors, when private capital is not available on reasonable terms, to supplement private investment by providing on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.**
- 3. To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members there by assisting in raising productivity the standard of living and conditions of labour in their territories**
- 4. To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first**
- 5. to conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and in the immediate post-war years, to assist in brining about a smooth transition from a wartime to a peacetime economy<sup>19</sup>**

Presently, the five institutions,<sup>20</sup> including the IBRD and IDA, that now make up the World Bank Group, as the conglomerate calls itself, specialize in different aspects of development towards achieving the overarching goal of poverty reduction. They provide loans, policy advice, technical assistance, and knowledge-sharing services.

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<sup>19</sup> World Bank Articles of Agreement, 1989 [www.worldbank.org](http://www.worldbank.org)

<sup>20</sup> The International Finance Corporation (IFC) which promotes economic development through loans to the private sector in developing countries. The Multilateral Investment Guarantee Agency (MIGA) encourages private companies in the international community to invest in developing countries by providing guarantees against such risks as breach of contract, war, and currency inconvertibility. The international centre for Settlement of Investment Disputes (ICSID) helps encourage foreign investment in developing countries by providing international facilities for arbitration of investment disputes.

### 1.1.2. World Bank and decision making

Although the World Bank Group is owned by its member countries,<sup>21</sup> decision making in the bank is not based on the principle of one country one vote, rather votes are weighed according to the amount of money each country puts in to the bank and to their quotas in IMF.<sup>22</sup> Each country has 250 votes plus one additional vote for every share that it holds, each worth \$ 1 million. For instance, the United States has 58.44 percent and 16.38 percent of the votes in IDA and IBRD respectively, where as, Ethiopia has only .25 percent and .08 percent of the total votes.<sup>23</sup> By tradition the president is nominated by the Bank's largest shareholder, the United States. The candidate for president who must be a U.S. citizen is put before the Bank's Board of Executive Directors,<sup>24</sup> who vote on the nomination. The president is elected for a five-year renewable term, chairs meetings of the board of directors and is responsible for the overall management of the Bank.

This shows how rich countries have an effective say in all policy matters. Although a lot has been said over this matter and the Bank is trying to increase the level of developing countries' participation in decision making, there is still a wide gap that needs to be filled.

Basically, it is necessary for the Bank to acquire legitimacy in this respect especially with the present move to fight poverty; for the bank to be a credible source of advice and for the advice to be backed by conditions, which the countries feel a sense of ownership in the different policy matters concerning their policy space. This is similar to how its governance is structured and how much it represents the interest of its members.

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<sup>21</sup> Member countries include borrowers, lenders, and donors. It is also supported by government agencies, NGOs, other aid agencies, and the business or private sector.

<sup>22</sup> The number of member countries varies by institution, from 185 in IBRD to 143 in ICSID, as of May, 2007, [www.worldbank.org](http://www.worldbank.org).

<sup>23</sup> United States is the largest single shareholder followed by Japan 10.12 and 7.86%, Germany 6.49 and 4.49%, the United Kingdom 4.98 and 4.31%, and France 4.07 and 4.31% and the rest 15.9 and 62.61% of the shares are divided among the other 161 and 179 member countries respectively. ([www.worldbank.org](http://www.worldbank.org) Jan. 18, 2007)

<sup>24</sup> The five largest shareholders appoint an executive director each, and the remaining member countries are all represented by 19 executive directors. The Bank's 24 executive directors make up the Board of Executive directors. They oversee the Bank's business, including approving loans guarantees, new policies, country assistances strategies, and borrowing and financial decisions.

The fact that the poorest countries in Africa who are primary beneficiaries and recipient of IDA financing, do not have a large enough voice in the IDA decision making process and are under-represented in IBRD puts its legitimacy in doubt. Ethiopia, for instance, is one of Africa's largest recipient of IDA support, with a portfolio of 23 active projects totalling more than US \$1.8 billion.<sup>25</sup> It really calls for a sense of ownership by the country to effectively carry out all the projects. Hence, there should be an effort to overcome this gap by trying to reconfigure shareholding and/or by adding a couple of seats to the board of IBRD and opening up seats to IDA recipients to influence the shaping of IDA policies.

### 1.1.3. Resource flows

The IBRD, the main lending financial institution, raises almost all of its money in the world's financial markets by selling AAA-rated bonds to pension funds, insurance companies, corporations, other banks, and individuals around the globe.<sup>26</sup> Bank finances also come from earnings on its investments, fees paid by member countries, contributions made by members (particularly the wealthier ones), and the loans repaid by borrowing countries.

In the case of IDA, most of the money, which is replenished every three years, would come from capital subscriptions from donor countries rather than bond sales. Its purpose as stated in Article I of the Articles of Agreement are:

“to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world included within the Association's membership, in particular by providing finance to meet their important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, there by furthering the developmental objectives of the IBRD...and supplementing its activities”<sup>27</sup>

In addition, Article V of the Articles of Agreement outlines the use of IDA resources and the conditions of its financing:

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<sup>25</sup> This is as of June 2006. [www.worldbank.org/ethiopia](http://www.worldbank.org/ethiopia)

<sup>26</sup> The Bank has a high credit rating because it has large, well managed financial reserves. This means it can borrow money at low interest rates and pass those rates on to its borrowing countries <http://www.worldbank.org/ibrd>.

<sup>27</sup> IDA Articles of Agreement 1960 [www.worldbank.org](http://www.worldbank.org).

- a. *The association shall provide financing to further development in the less-developed areas of the world included within the Association's membership.*
- b. *Financing provided by the Association shall be for purpose which in the opinion of the Association are of high developmental priority in the light of the needs of the area or areas concerned and, except in special circumstances, shall be for specific projects.*
- c. *The Association shall not provide financing if in its opinion such financing is available from private sources on terms which are reasonable for the recipient or could be provided by a loan of the type made by the Bank.*
- d. *The Association shall not provide financing except upon the recommendation of a competent committee, made after a careful study of the merits of the proposal. Each such committee shall be appointed by the Association and shall include a nominee of the Governor or Governors representing the member or members in whose territories the project under consideration is located and one or more members of the technical staff of the Association.*<sup>28</sup>

Presently, the Bank receives a larger sum of grant from its shareholders and other institutions in trust funds<sup>29</sup> than it gets for the IDA. Some of this is for its big multi-donor initiative channelled through the Bank like the Heavily Indebted Poor Country (HIPC) initiative and IFC donor-supported trust funds to help with the technical assistance of various projects.<sup>30</sup>

## 1.2. The Definition of Poverty and the World Bank

Despite all the moves to reduce poverty and its consequences, it has been and remains to be a contested area. It has been difficult to get a consensus on a consistent approach over what constitutes poverty, which in turn is closely linked to disagreement about its causes, and the weight to be given to these different causes and dimensions of poverty, the need to attach importance to time and the depth of poverty, and to the vulnerability and risks of different groups to becoming poor. This in turn leads to disagreement about how best to address it.<sup>31</sup> Presently, with the Millennium Development Goals, there is a broad consensus among international institutions on halving the proportion of people living in

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<sup>28</sup> IDA Articles of Agreement 1960 [www.worldbank.org](http://www.worldbank.org)

<sup>29</sup> Trust funds are financial arrangements between a Bank Group institution and a donor under which the donor entrusts the Bank Group with funds for a specific development related activity.

<sup>30</sup> <http://www.worldbank.org/rmc/tf>.

<sup>31</sup> Gilbert, Geoffrey, World Poverty, (2004), p. 1-30.

extreme poverty by 2015, which is to be seen through the declining proportion of people living below \$ 1 per day; poverty gap and share of poorest quintile in national consumption.<sup>32</sup>

### 1.2.1. The notion of poverty in general

The notion of poverty is extremely subjective and as such has often been the source of controversy. In Ethiopia it is absolute poverty not relative poverty. There are differences in how the level of poverty in developed economies, for example in the EU and the US, compares to the poverty existing in underdeveloped economies such as Ethiopia and other sub-Saharan countries. Further, the assessment of the severity of scarcity also depends on time and place.<sup>33</sup> These discrepancies suggest that any definition of poverty will be open to some interpretation and criticism depending on one's ideological and philosophical position. This notion however, is translated into policy through a set of definitions and measures. The issue of definition and measurement of poverty have been extensively discussed in development literature.<sup>34</sup>

Defining and measuring poverty are essential to any discussion of poverty reduction. Basically, key concepts behind poverty have evolved considerably in recent years. The definitions of poverty may vary not only according to absolute-relative yardstick but also in its narrowness and breadth. This goes beyond the biological deprivation (food, water, clothing and shelter), which constitutes absolute poverty. It covers lack of income and access to good quality health, education and housing, and the quality of the local environment.<sup>35</sup> None of these, however, are guaranteed rights for the poor.

This concept also includes the definitions deployed by the UN to include violations of basic human rights and dignity, lack of participation in decision making, powerlessness. In 2001, the United Nations Economic, Social and Cultural

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<sup>32</sup> Kamanou, Gisele. Challenges of poverty statistics in the UN Statistical Commission framework and in the present content of follow up of the UN Millennium Development Goals.

<sup>33</sup> Bielefeldt, T. et Armut in Deutschland, [www.bielefeldts.de/s\\_arm](http://www.bielefeldts.de/s_arm), 3 (2000).

<sup>34</sup> Lipton, and Ravallion, Poverty and Policy, (1995), and Ravallion, "Does Undernutrition Respond to Incomes and Prices? Dominance Test for Indonesia," (1992).

<sup>35</sup> DSS, Opportunity for All. First annual Report. London: stationery office, 23 (1999).

**Rights Committee issued a declaration that included a definition of its position on the question of poverty.<sup>36</sup> It states that:**

**“... the Committee holds the firm view that poverty constitutes a denial of human rights. [...] poverty may be defined as a human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights.”**

**Hence, states have responsibilities that go beyond specific government activities and that are subject to contractual agreements in the international human rights system. It basically emanates from the right that all people have to a decent life:**

**...a state party in which any significant number of individuals is deprived of essential foodstuffs, of essential primary health care, of basic shelter and housing, or of the most basic forms of education is, prima facie, violating the Covenant. Such minimum core obligations apply irrespective of the availability of resources of the country concerned or any other factors and difficulties.<sup>37</sup>**

**The definition of poverty is operationalized through measures. There have been different approaches followed by different international institutions to reach a single poverty measurement. For example, the monetary approach based on either income levels of or estimates of the money required for basic household consumption, the capability<sup>38</sup> and social exclusion<sup>39</sup> approaches which use social indicators such as life expectancy; infant mortality rates; levels of nutrition; adult literacy rates; primary school enrollments; maternal mortality; access to safe water and sanitation and immunisation rates. These assessments, however, lack a sufficient emphasis on the vulnerability of people in poverty, to the cyclical nature**

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<sup>36</sup> This Committee is one of the Human Rights Treaties Bodies, and issued a declaration entitled “Substantive Issues Arising in the Implementation of the International Covenant on Economic, Social and Cultural Rights: Poverty and the International Covenant on Economic, Social and Cultural Rights”. Statement E/C.12/2001/10 issued by the Committee on ESCR on 4 May 2001. <[www.unhcr.ch?](http://www.unhcr.ch?)

<sup>37</sup> “Maastricht Guidelines on Violations of Economic, Social and Cultural Rights”, Maastricht, 22-26 January 1997. A document that determines what actions or omissions constitute a violation of economic, social or cultural rights, and which stresses the importance of distinguishing lack of capacity from lack of will on the part of the State to fulfill its obligations under international treaties.

<sup>38</sup> Capability approach tends to lead to more emphasis on the provision of public goods; (Ruggeri Laderchi, C. et al, 35, (2003).

<sup>39</sup> It draws attention to the need to break down exclusionary factors for example, by redistribution and anti discrimination policies (Ruggeri Laderchi, C. et al. 35 (2003).

of some dimensions of poverty, to the manner in which poor people themselves perceive poverty or to the relationship between poverty and wealth creation. Thus, “in attempting to understand the changing nature and extent of poverty it is unwise to rely on any single measure.”<sup>40</sup> The identification and addressing problems of the poor require a multi-disciplinary and context specific approach.

### 1.2.2. World Bank’s definition of poverty

Recently, the Bank in its report<sup>41</sup> accepts the view of poverty as encompassing not only material deprivation but also low achievement in education and health. It focuses on deprivations in different dimensions of poverty but “in particular on the multiple deprivation experienced by the income poor”,<sup>42</sup> highlighting the importance of income and consumption measurements of poverty and encouraging greater international coverage of these measures as well as education and health indicators.<sup>43</sup> The Bank also believes that creating the conditions for the attainment of human rights is a central and irreducible goal of development.

The Bank uses income poverty measures, but also highlights non-income measures and influences such as life expectancy and HIV/AIDS, stressing that these measures need to be developed nationally. The report makes a comparison between people living in “absolute poverty” defined as having incomes of less than US \$ 1 (in purchasing power parity (PPP)) per day in Asia and Africa, and \$2 a day in Latin America and Caribbean; and with those living in “relative poverty” defined as those whose incomes are less than one third of the national average.<sup>44</sup>

Poverty can be viewed in different ways and depending on the approaches adopted; the outcomes might reveal substantial differences in poverty levels across countries. For instance, the African poverty study view was that “material deprivation is at the core of poverty: low income and consumption levels resulting

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<sup>40</sup> Layte, R., et al., “Targeting Poverty: Lessons from monitoring Ireland’s national Anti-Poverty Strategy.’ Journal of Social Policy, 571 (2000).

<sup>41</sup> World Development Report 2000/2001 p.15 available at [www.rrojastdatabank.org](http://www.rrojastdatabank.org)

<sup>42</sup> Id. p.19

<sup>43</sup> Id, p.21

<sup>44</sup> World Development Report 2000/2001



in poor nutrition, inadequate clothing and low-quality housing.”<sup>45</sup> This might bring economic growth at least as a necessary condition for subsistence poverty reduction. But there are factors explaining these low growth rates in Africa which need to be addressed in order to be on a growth path. For instance, there is considerable evidence that poverty has declined dramatically as measured by the number of people living on \$1 per day or less in Asia especially in China and India.<sup>46</sup> Market opening, private investment, protection of property rights, etc contributed greatly to the improvement. Where these spurs on growth and development are largely absent, such as in Sub-Saharan Africa, poverty has increased.<sup>47</sup>

Moreover, according to the Human Poverty Index adopted by the United Nations Development Programme (UNDP), 56% of people in Ethiopia were living below the poverty line, but the figure was only 31% in terms of international monetary poverty, i.e., by the Bank.<sup>48</sup> However, for India the figures were respectively 33% and 44%.<sup>49</sup> These make it impossible to identify precisely the extent and direction of the gap between the Bank’s estimates and those that would have been yielded by a sounder methodology. This might have led to a substantial underestimation of the extent of world poverty. It omits the most important elements of poverty. For example, it does away with the distinction that some are more destitute than others and the variation that exist over the depth and distribution of material poverty in different countries. It also does not reveal disparities within a group of people, hence any way of measuring poverty among women or minorities who often constitute a substantial share of the poor.

Poverty “is a result of economic, political and social processes that interact with each other and frequently reinforce each other in ways that exacerbate the deprivation in which poor people live”.<sup>50</sup> There have been debates on which rights constitute the most important human rights. These arguments tried to make a distinction between the political and civil liberties, which are freedom of press,

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<sup>45</sup> White and Killick, African Poverty at the Millennium: causes, complexities and challenges, 10(2001).

<sup>46</sup> Evans, Alison, Poverty reduction in the 1990s, (2000) p.12 [www.worldbank.org/html/oed](http://www.worldbank.org/html/oed)

<sup>47</sup> *ibid.*

<sup>48</sup> Ruggeri Laderchi et al, ‘Does it matter that we do not agree on the definition of poverty?’ 253 (2003)

<sup>49</sup> *ibid.*

<sup>50</sup> World Development Report 2000/2001, p.1

speech, assembly, the right to vote, entitlement to due process of law and other legal protections and economic, social and cultural rights, which are considered the basic necessities for an adequate standard of living, including employment, nutrition, shelter, health care, and education that are more important, particularly for the poor.<sup>51</sup> All of these principles however, are enshrined in the Universal Declaration of Human Rights. It should be noted that as sustainable development is impossible without human rights, the advancement of these interconnected human rights is impossible without development.<sup>52</sup> Hence, it is necessary to have a global poverty line that corresponds to a clear underlying concept of poverty, considers factors that give meaningful and accurate identification of the national currency and change in value through time, and encompasses a broader range of poverty indicators embodying the fundamental rights of the poor.

### 1.3. The World Bank's mandate on poverty reduction

As discussed previously, the Bank is the world's largest source of development assistance and uses its financial, labour and knowledge resources to help each developing country onto a path of stable, sustainable, and equitable growth in the fight against poverty. The Articles of Agreement have also provided the Bank with the flexibility necessary to confront the changing needs of development. It has adapted to the changing environment as new challenges to development appeared. Accordingly, the mandate of the Bank is to alleviate poverty and improve quality of life. It has evolved further from major infrastructure projects to poverty alleviation to refugee resettlement to HIV/AIDS prevention to anticorruption strategies and so on.<sup>53</sup>

The Bank is broadening its view of poverty reduction. Although it has found it difficult to design and implement tailor-made country assistance strategies to attain country broad-based national growth;<sup>54</sup> it proceeds with its implementation of the Poverty Reduction Strategy Initiative (PRSI) in collaboration with the IMF after its 1990's poverty report. Its main role has been more recent, with the Heavily

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<sup>51</sup> International Council on Human Rights Policy, Poverty, Development, Rights, (Geneva, November 24-25, 2004).

<sup>52</sup> Development and Human Rights

<sup>53</sup> [www.worldbank.org](http://www.worldbank.org)

<sup>54</sup> Evans, Alison, 12 (2000). Available at [www.worldbank.org/html/oed](http://www.worldbank.org/html/oed)

Indebted Poor Country (HIPC) initiative, which was begun in 1996,<sup>55</sup> and was followed by the Poverty Reduction Strategy Papers (PRSPs) in 1999.<sup>56</sup>

This initiative is one of the major steps taken by the Bank in its commitment to economic reform and poverty reduction in the world's poorest countries. It was designed to reduce external debt of these countries- those eligible for highly concessional assistance from the IDA, and that also face an unsustainable debt situation. Unfortunately, the potential remains unrealized, as was expected after all these years.<sup>57</sup> To get assistance, countries have to implement 'integrated poverty reduction and economic reform programs'. The Bank invented PRSP to ensure that debt relief money would go to poverty reduction, and to respond to evident weaknesses in relations between poor countries. To reach their 'decision point' triggering partial debt relief in the HIPC framework countries have to devise an Interim PRSP<sup>58</sup> or PRSP.<sup>59</sup> This also serves as a basis for all foreign aid to poor countries. But this does not do away with the conditions to be attached to loans.

#### 1.4. Conclusion

Presently, lending and non-lending activities of the Bank are more sharply focused on poverty reduction and linkage between country information on poverty and the Bank's country strategies have steadily improved. Progress is still uneven, however.<sup>60</sup> The World Bank's shaping and influencing the debates on poverty and approaches to poverty reduction under its mandate, should be able to facilitate social and economic development as a means of reducing poverty.

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<sup>55</sup> Peet, Richard, Unholy Trinity: the IMP, WB, and WTO, (2003) p. 141.

<sup>56</sup> [www.worldbank.org](http://www.worldbank.org)

<sup>57</sup> The poverty reduction strategy initiative: Findings from 10 country case study of World Bank and IMF support. The World Bank (2005). Available at <http://www.worldbank.org/oed>, <http://www.imf.org/ieo>

<sup>58</sup> The initial process in PRSP

<sup>59</sup> [www.worldbank.org](http://www.worldbank.org)

<sup>60</sup> Evans, Alison, Poverty Reduction in the 1990s, (2000) p.12, [www.worldbank.org/html/oed](http://www.worldbank.org/html/oed)

## CHAPTER TWO

### POVERTY IN ETHIOPIA AND THE WORLD BANK

*“Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, and medical care and necessary social services...”<sup>61</sup>*

*The message for countries is clear: educate your people; ensure their health; give them voice and justice, financial systems that work, and sound economic policies, and they will respond...<sup>62</sup>*

Ethiopia is a federal republic under the leadership of the Prime Minister and the ruling Ethiopian People’s Revolutionary Democratic Front (EPRDF) coalition. It is the second-most populous country in Sub-Saharan Africa, and one of the most impoverished. Poverty is rampant: 75 million people live in Ethiopia, 80% of them live below the poverty line (less than \$2 a day).<sup>63</sup> The World Bank estimates that the population is currently growing at 2.2% per year, although the government estimate is 2.7%.<sup>64</sup> Since rural areas account for about 85 percent of the population, poverty is primarily a rural phenomenon. However, despite the substantial growth in the service sector, there is a growing consensus that poverty incidence and inequality in urban areas is increasing as a result of chronic unemployment, unemployed migrants, and the emergence of a small upper class, while rural poverty incidence remained constant with a one or two percentage points decline.<sup>65</sup>

There is also a considerable variation in the incidence of poverty across the 10 regions within the country- it is highest in Tigray and lowest in Harari.<sup>66</sup> This is because of the fact that some of the regions are left behind somewhat as growth has picked up by virtue of their sheer remoteness. Notable features of poverty in Ethiopia are frequent episodes of food insecurity, widespread gender inequality, political instability, war, human rights violations and the increasing fragility of the

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<sup>61</sup> Universal Declaration of Human Rights (1948).

<sup>62</sup> World Bank Group President James D. Wolfensohn- Address to the Board of Governors of the World Bank, Hong Kong, China (September 1997).

<sup>63</sup> Human Development Report (2006).

<sup>64</sup> Special Report FAO/WEP Crop and Food Supply Assessment Mission to Ethiopia, (Feb. 24, 2006) available at <http://www.reliefweb.int/library>

<sup>65</sup> Ethiopia Well-Being and Poverty in Ethiopia, The Role of Agriculture and Agency, Report No 29468ET, (2005)

<sup>66</sup> Human Development Report (2006).

natural resources base. Moreover, the fact that the country became land-locked when Eritrea seceded, macroeconomic policies notably economic policy volatility and a lack of openness to international trade and lack of competitiveness in the international market and in microeconomic policies, which have disproportionately taxed rural producers, eroded social capital, undermined the provision of public services and resulted in a retreat into subsistence by rural producers.<sup>67</sup> All these factors are contributing to low growth rates that Ethiopia is experiencing for decades.

The central purpose of this chapter is to synthesize some of the major problems that need to be addressed and highlight those that are often left unattended in designing poverty reduction strategies for the country to trade its way out of poverty.

### 2.1. Overview of factors underpinning poverty in Ethiopia

Since 1991 Ethiopia, with the establishment of the transitional government under the Ethiopian People's Revolutionary Democratic Front (EPRDF), has been following a long-term strategy of Agricultural-Development-Led Industrialization (ADLI),<sup>68</sup> which envisages a growth process that is inherently poverty reducing. It has also been followed by different programmes like the Poverty Reduction Strategy Paper (PRSP) and its second phase, i.e., the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), which is Ethiopia's guiding strategic framework for 2005/06-2009/10 through programmes such as the Protection of Basic Services (PBS).<sup>69</sup> These have been accompanied by decentralization and empowerment, judiciary and civil service reform, and institutional capacity building. Although, it might seem too early to assess the pros and cons of some of these programmes, the periodic changes that were expected did not take place.<sup>70</sup> That is because of the fact that causes of poverty in

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<sup>67</sup> United Nation Development Programme, Country Case Studies on Challenge Facing Landlocked Developing Countries. (2003). Available <http://hdr.undp.org> see also [www.worldbank.org](http://www.worldbank.org) on country report, Economic Intelligence Unit Report, 2006.

<sup>68</sup> ADLI is adopted in 1990.

<sup>69</sup> Ethiopia building on Progress: A plan for Accelerated and Sustained Development to End Poverty, Ministry of Finance and Economic Development. The Federal Democratic Republic of Ethiopia, (2005). available at [www.dagethiopia.org](http://www.dagethiopia.org) and see also [www.worldbank.org/ethiopia](http://www.worldbank.org/ethiopia)

<sup>70</sup> The Economic Intelligence Unit Report, 2006

Ethiopia are of a multidimensional nature, which in turn made it difficult to see changes with certain policy measures.

### 2.1.1. Food security and agriculture

The most important factor contributing to poverty is sub-optimal levels of agricultural technology. Recurrent drought, problems of utilizing the existing water resource for agriculture production, the accompanying degradation of the natural resource base, absence of private land ownership and poor infrastructure have also contributed to persistent and growing food insecurity in Ethiopia. Since 85% of the population gain their livelihood directly or indirectly from agricultural production, including livestock,<sup>71</sup> developing the agricultural sector would help the ensuing food security of the majority of the people.

According to the World Bank, it seems plausible that poverty levels have reduced in part as a result of the success of fertilizer/seed programme in food-surplus livelihood systems,<sup>72</sup> but there are food-deficient areas particularly those hit by continuously failing rains, there is starvation and increased destitution.<sup>73</sup> Despite the 2004 recovery year from the serious drought of 2002-2003, by the end of 2005 the Government of Ethiopia (GOE) had requested more food emergency assistance and 8.6 million people were relying on food aid in 2005.<sup>74</sup> These are people who have lost the capacity to produce or buy enough to meet their annual food needs even under normal weather and market conditions. Land is the major resource. However, land belongs to the State in accordance with the Constitution,<sup>75</sup> so that the right to property is also questionable. Besides, it is ultimately the productive capacity of land that matters in Ethiopia,<sup>76</sup> which made access to land emerge as key private endowments to help households to try to reduce the level of poverty. Thus, affecting access to land has an impact on the government's move to poverty reduction. Hence, making farmers smallholders would clearly maximize the inclusiveness of the growth process as it captures the rural population and decreases the high rate of rural-urban migration.

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<sup>71</sup> Agricultural sector represents about 45% of GDP followed by Services 43%, industry 12%.

<sup>72</sup> World Bank 1999:8

<sup>73</sup> Dessalegn and Aklilu, 2000 and the SCF Food Security Zone Studies.

<sup>74</sup> EC Diagnostic Survey 2006

<sup>75</sup> EPRDF Constitution Article 40(3), 1994

<sup>76</sup> Christiansen, Luc et al, Poverty Dynamics in Africa, Growth, distribution and Poverty in Africa messages from the 1990s, (2002).

Dependent on a few vulnerable crops for its foreign exchange earnings and reliant on imported fertilizers and oil, Ethiopia lacks sufficient foreign exchange earnings. The foreign exchange needed for these imports is financed through loans, donor assistance and the government treasury. The government has taken some measures to solve this problem, including stringent import controls and sharply reduced subsidies on retail gasoline and fertilizer prices in accordance with the Bank's and IMF conditionality.<sup>77</sup> However, following the issuance of the fertilizer policy in 1997, removal of subsidies led to higher price increases and unpredictability of prices that is not considerate of the farmers' economical problems. What is worse in this situation is that the estimates suggest that the annual phosphorus and nitrogen loss nationwide due to dung removal is roughly equivalent to the total amount of commercial fertilizer annually applied,<sup>78</sup> which distress the farmers. This in turn exacerbates food insecurity and the famine that occurred in 2002-2003. Even if it is known that risk permeates life in Ethiopia, the striking feature is that shocks can have long lasting damaging effects. As a result, the largely subsistence economy is incapable of meeting the budgetary requirements for drought relief, an ambitious development plan, and indispensable imports such as oil. The gap has largely been covered through foreign assistance inflows.

Macroeconomic projections suggest that reaching the Millennium Development Goals of halving poverty incidence by 2015 will not be possible without buoyant agricultural growth.<sup>79</sup> Food insecurity is not only a result of these causes, but may even lead to further deterioration of the situation. It is necessary not only to tackle the immediate and visible impacts of food insecurity for example by providing food aid to undernourished people, but consequently also tackling the root causes through appropriate measures for sustainable development of the country.

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<sup>77</sup> The Economic Intelligence Unit Report, 2006. See also Ethiopia Well-Being and Poverty in Ethiopia, The Role of Agriculture and Agency, Report No 29468ET, (2005)

<sup>78</sup> Country Report, Ethiopia well-being and Poverty in Ethiopia: The Role of agriculture and agency, 97 (2005).

<sup>79</sup> Country Report, Ethiopia well-being and Poverty in Ethiopia: The Role of agriculture and agency, 213 (2005).

### **2.1.2. Political Instability and War**

There is an accumulation of convincing empirical evidence pointing to the importance of political stability and good governance for growth and poverty reduction.<sup>80</sup> There are various components covering different aspects of political stability such as government stability, internal conflict, external conflict, and with regard to governance and institutional quality, for example, corruption, democracy, accountability and bureaucracy quality.

The 'noble cloth' in Ethiopia, i.e., federalism that comes with the right to self-determination as guaranteed by the Constitution<sup>81</sup> is based on ethnicity. Consequently, it has been a means to intensify conflict over resources within each multinational federal unit and the Federation has been tension-ridden. The inter-ethnic conflict in the Gambella region in December 2003 between the Anuak and Nuer, between the Sheko Majanger and Manja and between the Sheka and Renk in the Yeki are some of the many inter-ethnic conflicts that prevail in today's Ethiopia.<sup>82</sup>

Following a brutal 1998-2000 border war Ethiopia's relations with Eritrea remained tense and unresolved, even in the presence of the peace agreement in December 2000. Both countries insisted they will not instigate fighting, but both also remained prepared for any eventuality.<sup>83</sup> Ethiopia has also been involved in a fight with neighbouring Somalia last year, which gave rise to the loss of many Ethiopians' lives and created tension within the region. Moreover, as a result of the ongoing trial of opposition leaders accused of treason for fomenting protest following the "democratic election",<sup>84</sup> there was a sustained period of political uncertainty accompanied by a series of human rights violations.

Human rights abuses reported since the election included: limitation on citizens' rights to change their government during the election; unlawful killings, and beatings, abuse, and mistreatment of detainees and opposition supporters by

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<sup>80</sup> Alesina, A. & R. Perotti "The Political Economy of Growth: A critical Survey of the Recent Literature, (1994), Collier et al Aid Allocation and Poverty Reduction, (1999), World Bank 2000.

<sup>81</sup> EPRDF Constitution Article 38

<sup>82</sup> Human Rights Watch Report (2004)

<sup>83</sup> United Nation report 2005, see also The Economic Intelligence Unit Report, 2006

<sup>84</sup> The election took place in May, 2005



security forces; poor prison conditions; arbitrary arrest and detention, particularly those suspected of sympathizing with or being members of the opposition; detention of thousands without charge and lengthy pre-trial detention; infringement on citizens' privacy rights and frequent refusal to follow the law regarding search warrants; restrictions on freedom of the press; arrest, detention, and harassment of journalists for publishing articles critical of the government; restrictions on freedom of assembly; limitations on freedom of association; violence and societal discrimination against women and abuse of children; female genital mutilation (FGM); exploitation of children for economic and sexual purposes; trafficking in persons; societal discrimination against persons with disabilities and religious and ethnic minorities; and government interference in union activities.<sup>85</sup> Indeed, the cost of the actual war, the prevailing proxy war, and the internal political tension is too much for Ethiopia to focus on development.

The prevailing political ideology in the country seems to subsume the legal, economic and social pillars to dictate peace and security in the country. The political climate seems to present a stiff test of impartiality to the judiciary following the imprisonment of opposition party members and other people against the government in relation with the election. The issue of due process is at the heart of the case. Business confidence has also suffered in the aftermath of the elections<sup>86</sup> and it increased the need for strengthened institutions, such as the judiciary, to mediate conflict and to ensure that all firms irrespective of political affiliation, are able to enforce their contractual and property rights, such that economic merit alone determines the rules of exchange and market outcomes. Otherwise, as the private sector is facing a difficult business climate and unfair competition from companies linked to the ruling party,<sup>87</sup> it would be difficult to get rid of the economic and social unrest.

In the presence of all these human rights crises and deadly conflicts, what the Bank did was to suspend direct support for the federal government budget and instead transfer resources to district level, which is indirect funding, through the

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<sup>85</sup> Amnesty International Report, 2006; Human rights Watch report, 2006; Bureau of Democracy, human rights, and labour- country reports on human rights practices, 2006

<sup>86</sup> International Development Association Interim country assistance strategy for FDRE, Report (2006).

<sup>87</sup> The Economist Intelligence Unit Country Report-Ethiopia, 9 (2006).

Bank's led PBS project, which had already secured funding of US \$215m from the Bank and US \$175 from the UK.<sup>88</sup> The disorder did not cut off the support Ethiopia gets from the Bank or other key donors.

A human rights perspective has had an influence on governments' and citizens' institutions and processes not only locally but also nationally and internationally. Its importance lies in the fact that "the rights-based development approach amounts to a paradigm of participative development which is not discriminatory, which empowers people, which involves accountability, and which is based on fundamental rights and freedoms that are universal and inalienable."<sup>89</sup> Considering, however, the situation in Ethiopia and the Bank's response, it seems anomalous to what the Bank strives for that is to say peace and development.

As a matter of fact, some of the things Ethiopia is committed to are full of anomalies compared to what is done on the ground. While calling for development, the Bank should be considerate of its support in giving loans to a state that is boldly at odds with this objective as the ultimate debt burden is on the people. For example, "*more than one third of all debts owed to the UK government is owed by Nigeria. ...around 3 billion pounds... and these were extended to it while it was under a military dictatorship*".<sup>90</sup> When a country is internally suffocating under dire political misfortune created by the conflict over power, key donors like the Bank should be able to take measures to change the situation by setting mechanisms for Bank country assessments in order for the country to keep its international commitments. Otherwise, how could one expect for a poverty stricken country like Ethiopia to succeed by extending loans alone.

### 2.1.3. Debt and Debt sustainability

Ethiopia's debt has been unsustainable for decades even under the narrow criteria used by international agencies to calculate what countries can afford to pay. Changes in interest rates and continued low coffee prices, which are the main sources of export earnings, are projected to drive the value of the debt up to

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<sup>88</sup> The Economist Intelligence Unit Country Report- Ethiopia 21 (2006).

<sup>89</sup> Office of the UN High Commissioner for Human Rights. "Development and Rights: The Undeniable Nexus." Declaration by Mary Robinson, OHCHR, at the Special Session of the UN General Assembly on the Implementation of the Results of the World Summit on Social Development, Geneva, 26 June 2000.

<sup>90</sup> Susan Willet, (1999).

220 percent of Ethiopia's exports, even after promised debt relief under the HIPC initiative.<sup>91</sup> According to the Bank, a country is said to have achieved debt sustainability if it attains 150 percent or less Net Present Value-to-Export ratio.<sup>92</sup> Even after the expectation that the HIPC Initiative would reduce the present value of the debt to export ratio to 150%, the ratio is projected to increase over the next few years and remain above the benchmarks through 2010.<sup>93</sup> External debt service will absorb 6% of the export revenues during the next 15 years. Despite strong growth in exports and remittances, the large current-account deficit and lower international reserves will increase pressure on the currency in 2007 and the rate of depreciation is likely to be faster than in 2006. This has left Ethiopia to remain one of the most vulnerable highly indebted countries, though its debt service burden seems to remain low.

Furthermore, its domestic debt is high compared with other countries in sub-Saharan Africa although, as a result of very high levels of excess reserves in the banking system, interest rates are negative in relative terms, and therefore servicing this debt does not place a heavy burden on the budget.<sup>94</sup> Conversely, over the medium term, it would be prudent to expect interest rates on government debt to become positive as excess reserves decline and competition in the financial sector increases. Hence, targeting a gradual reduction in the domestic debt stock is also important to provide the flexibility to respond to unforeseen shocks, particularly climatic shocks that call for additional expenditures and adversely affect revenue performance to meet external debt.

In the presence of such facts the country will not reach any sustainable point without significant infusion of assistance from the Bank to improve its export earnings, increase government revenues and acquire the resources necessary for the growth of the economy. IDA should consider extending assistance beyond the normal allotment by “topping up” the current debt by using a large portion of grants rather than loans.

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<sup>91</sup> IMF World Economic Outlook, October 2001.

<sup>92</sup> Debt indicators and sustainability assessment in eight post-completion-point countries available at [http://www.worldbank.org/ieg/hipc/docs/appendix\\_e.pdf](http://www.worldbank.org/ieg/hipc/docs/appendix_e.pdf)

<sup>93</sup> The Economic Intelligence Unit, 2007

<sup>94</sup> International Monetary Fund and International Development Association: Ethiopia Poverty Reduction Strategy Paper Annual Progress Report Joint Staff Assessment, 2004.

#### 2.1.4. Social Sectors

Ethiopia's poverty poses far too complex a challenge to have one easy solution. Various programs are either in place or in preparation to ease the burden of ill health, inadequate education, malnutrition, and all other manifestations of poverty in the country. The implementation of the MDGs for progress against poverty, ignorance, and misery over 2015 is also devoted to specific social problems such as health and education in a comprehensive antipoverty agenda. Ethiopia's Sustainable Development and Poverty Reduction Program (SDPRP) identified these as the main pro-poor sectors that need to be addressed to achieve the MDGs.<sup>95</sup> The returns on an investment in these sectors are shared around the world; individual countries rarely have the incentive to devote their own resources to providing them. These however, serve to empower society to carry out its economic activities, to effectively undertake political and social responsibilities which ultimately result in poverty reduction. Poverty reduction necessitates good policy formulation and resource allocation to these social sectors.

##### A. Education

Considering the importance of education to development, Ethiopia has made remarkable progress quantitatively and the gross enrollment of primary school education has reached 62%. However, this expansion has placed tremendous strains on the system, and quality has suffered. According to the World Bank's review of Education Sector Development mid-term review, it has identified overcrowded schools, insufficient school supplies, crumbling school buildings and facilities, poorly trained, and demoralized teachers and a lack of general discipline in the public school system.<sup>96</sup>

Furthermore, looking into the regional perspective, the gap in the gross enrollment rate at primary level is very wide. For instance in 2004/05 Addis Ababa and Gambella, have a gross enrolment rate of 125% while the gross enrollment rate for Amhara, SNNPR and Diredawa, ranges from 75.9% to 80.3%. The two predominantly pastoralist regions, Afar and Somali, have 17.1% and 20% gross

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<sup>95</sup> When it is prepared in 2002, it identified water, agriculture and food security, education, health, road as crucial to poverty reduction in Ethiopia.

<sup>96</sup> [www.worldbank.org](http://www.worldbank.org)

enrollment rates respectively.<sup>97</sup> Although there seems encouraging progress in enrollment, the variations between regions as demonstrated that there is a lot to be done to achieve the target under the MDG and maintain equity among regions.

### **B. Health and Basic Services**

Despite progress in the health sector, Ethiopia's social indicators still show the inadequacy of basic services, which have impacted the human development. Ethiopia is almost at the bottom of UNDP's Human Development league report (2004) that is 170<sup>th</sup> out of 177: life expectancy at birth is 42 years,<sup>98</sup> infant mortality is as high as 116 per thousand,<sup>99</sup> 47% of children under five suffer from malnutrition, which is uniquely high in sub-Saharan Africa,<sup>100</sup> and only 24% of Ethiopians have access to water sources.<sup>101</sup>

The general health status of Ethiopians is poor - especially for women - due to low incomes, low levels of education, poor access to and utilization of health services, and traditional practices. For instance, women in 2005 accounted for 55% of the 1.32 million people in the country living with HIV/AIDS.<sup>102</sup> Given the country's relatively large population, the number of people living with HIV/AIDS in Ethiopia is third largest in the world next to South Africa and India. Over the past few years, the Bank has committed more than \$1.6 billion to fight the spread of HIV/AIDS around the world especially in developing countries. As a result, it has approved funding for HIV/AIDS projects in Ethiopia. This, however, has not achieved the intended result and it is also difficult to conclude that these projects have solved the problem.<sup>103</sup>

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<sup>97</sup> Country Report, Ethiopia well-being and Poverty in Ethiopia: The Role of agriculture and agency, (2005) pp. 197-211, 40. See also Ethiopia MDG Report 2005/06.

<sup>98</sup> Compared with 46 years average in the rest of the sub-Saharan Africa; 77 years in the US; and 85 in Germany - The World Factbook, CIA

<sup>99</sup> Compared to 6.7 per thousand in the US and 4.2 per thousand in Germany, - The World Factbook, CIA

<sup>100</sup> Compared to 1% of children in the US - The World Factbook, CIA

<sup>101</sup> While all US citizens and all Germans have full access to such facilities.

<sup>102</sup> HIV/AIDS Gender inequality puts women in Ethiopia at increased risk of HIV Transmission: [http://www.kaisernetwork.org/daily\\_reports/rep\\_index.cfm](http://www.kaisernetwork.org/daily_reports/rep_index.cfm)

<sup>103</sup> Ethiopia A Country Status Report on Health and Poverty, main report (2005). [www.worldbank.org](http://www.worldbank.org).

According to one study,<sup>104</sup> poverty reduction in Ethiopian rural communities would have been 18% greater had households been protected from the effects of ill health and granted social protection. However, family planning services are under-utilized and under-developed; HIV/AIDS remains a growing problem with population growth, likewise people in some regions die of curable illnesses as a result of a lack of health care services. The issue of health is one of the reasons rapidly reversing the country's social and economic gains. Hence, the focus should be towards preventing communicable diseases, alleviating common nutritional disorders, maintaining environmental health and hygiene, reducing population growth rate, bringing realistic and equitable solutions for the rehabilitation and expansion of basic infrastructure especially for the rural population without any regional inequalities.

#### 2.1.5. Equality

Gender disparity is another challenge facing Ethiopia. A woman's ability to earn income is limited by unequal access to opportunities and education, and they typically earn half of what men earn. To overcome this problem the government has 'declared its unequivocal commitment to the development of women,'<sup>105</sup> women's rights are enshrined in the National Policy on Women<sup>106</sup> and the Constitution promulgated in 1994. Women's legal position has been seen to improve through pension and family law, and the civil servant maternity provision. The Penal Code and Procedure were expected to include laws on sexual and reproductive rights of women during their reform,<sup>107</sup> but there is still a need for amendment and adoption of this protection.

Nevertheless, 'implementation of women's policy is proving to be a challenging and formidable task'<sup>108</sup> particularly given regionalization and decentralization. In addition, despite the different steps to promote human rights, much remains to be done. Human rights of women in particular continue to be disregarded, especially

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<sup>104</sup> Dercon, Stefan, Growth and shocks evidence from rural Ethiopia, 2(2002) see Luc C., et al Poverty Dynamics in Africa,(2002).

<sup>105</sup> Beijing+5 Country Report:1

<sup>106</sup> National Policy on Women 1993

<sup>107</sup> The New Revised Criminal Code, Proclamation No. 414/2004 and The Criminal Procedure Code Proclamation 1961 which has not yet been revised and promulgated is not fully in compliance with the Beijing Platform for Action 2000. [www.un.org/womenwatch/daw/followup/session/preskit](http://www.un.org/womenwatch/daw/followup/session/preskit), [www.hrw.org](http://www.hrw.org), [www.amensty.org](http://www.amensty.org).

<sup>108</sup> Women Affairs Office:1

in areas such as domestic and sexual violence, and performance of harmful traditional practices. A major problem is that the customary laws form part of the broader regulatory framework within which women operate. Significant barriers face women in Ethiopia. Women have less access than men to productive resources, efficient technologies and inputs essential for raising productivity or reducing time needed for their labour. Although women are responsible for at least one-half of all subsistence agricultural production, their contribution has not been recognized. At the same time, women usually figure more prominently than men among population groups identified as food insecure.<sup>109</sup>

## 2.2. The World Bank's approach to Ethiopia's poverty

The Bank has recently moved to broad participation and ownership principles where the stakeholders get the chance to generate meaningful discussions, outside narrow official circles and provide alternative policy options with respect to the macroeconomic framework and macro-relevant structural reforms. This is however, in its early stage and did not bring the intended result in Ethiopia.<sup>110</sup>

The process had limited impact in the outcome as a result of an absence of any mechanisms to ensure that key issues were aired and broader debate well-informed. The approach has often generated relatively strong ownership in a narrow circle of official stakeholders responsible for driving the process, but much less among other domestic stakeholders. For instance, the government was criticized for a lack of transparency in the formulation and implementation of the PRSP from the beginning. By the time the government consulted with the people, it was consumed by the May 2000 elections and not about poverty reduction in the country.<sup>111</sup> The Poverty Reduction and Growth Facility (PRGF) was also not open to discussion by the public or civil society for the reason that it was difficult to present the highly technical macroeconomic issues to ordinary citizens.<sup>112</sup> These

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<sup>109</sup> Special Report FAO/WEP Crop and Food Supply Assessment Mission to Ethiopia, (Feb. 24, 2006) available at <http://www.reliefweb.int/library>

<sup>110</sup> Country Report, Ethiopia well-being and Poverty in Ethiopia: The Role of agriculture and agency, (2005) pp. 197-211, 40. See also Ethiopia MDG Report 2005/06.

<sup>111</sup> Woldehanna, T. et al, "Poverty Profile of Ethiopia, 1999/2000", (2003). See also Dessalegn, R. MEDREK, 5(2001) and MOFED, "Ethiopia: Sustainable Development and Poverty Reduction Program, Addis Ababa. 38 (2002a).

<sup>112</sup> *ibid.*

programmes can successfully enhance the welfare of society when they embrace the sense of ownership by the stakeholders mostly affected by them.

### **2.2.1. Poverty Reduction Program**

Ethiopia started to undertake Economic Reform Programs (ERPs) in the early 1990s, which were introduced to facilitate transition from a command to a market oriented-system that is ultimately expected to result in macroeconomic stability. In 1992 the Bank introduced a Structural Adjustment Facility (SAF), which was followed by an Enhanced SAF of the IMF in 1996, to bring a faster rate of growth of national income, lower inflation, increased openness, and improvement in investment.<sup>113</sup> As a result, public expenditure was strengthened and made to focus on building the human and physical capacity of the economy. Resource allocation favouring vulnerable groups/regions was further reinforced and managing sector development programs were emphasized. For instance, the National Policy of Ethiopian Women and the National Environment Policy were brought into focus by way of mainstreaming the concerns of women and environmental issues in the development process.

In 1999, the Bank with the IMF turned its face to PRGF, which replaced ESAF. The PRGF became a new conditionality to get a new loan from the Bank and reference for other donors to support the economy. It was approved in 2001 and the conditions to be put in the PRGF program were to emerge from the recipient country poverty reduction strategy.<sup>114</sup> Ethiopia's Sustainable Development and Poverty Reduction Program (SDPRP) targets economic growth averaging 7% a year in order to reduce poverty by half in 2015 and it is also consistent with the PRGF program. SDPRP has adopted the World Development Report (200/01) definition of poverty: lack of opportunities, lack of capabilities, vulnerability, and voicelessness. While the material deprivation and low achievement in education,

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<sup>113</sup> To accomplish the objectives, the country was required to have macro economic stability through measures: reduction of public sector deficit by way of restraining government expenditure and privatizing public enterprises, exchange rate adjustment through devaluation and trade liberalization, deregulation of the price of goods and services, reform on the banking system which were indispensable components of SAP.

<sup>114</sup> This is, as laid out in the country's Poverty Reduction Strategy Paper (PRSP) or Interim-PRSP, with the assumption that important social and sectoral programs and structural reforms aimed at poverty reduction were identified and prioritized in the country's PRSP.



health, and malnutrition are more or less well measured; low level of security was not appropriately measured. The powerlessness dimension was also not measured at all.<sup>115</sup>

The Plan for Accelerated and Sustained Development to End Poverty (PASDEP) has been put into action to replace the SDPRP that is the first phase of PRSP and covered 2000/02-2003/04. PASDEP involves human development, rural development, food security, and capacity building with a particular emphasis on greater commercialization of agriculture, the private sector and 'a scaling up' of efforts to achieve the MDGs, which at present are difficult to meet. Although the Bank's Country Assistance Strategy is not new to the country, the Bank recently introduced the Interim Country Assistance Strategy (ICAS) in May 2006 as a result of high political tensions and civic strife following the 2005 elections. ICAS came with a new emphasis on governance and a shift in lending away from direct budget support in favour of project-specific assistance. This seems to call for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) to become more active in the development of the investment area through regional projects.

#### A. Poverty Reduction and Conditionality

The Bank's Articles of Agreement do not specifically prescribe or regulate conditionality in policy-based lending. Nevertheless, the Bank has a right to exercise wide discretion in approaching its response to "special circumstances," which is the basis for its policy-based lending.<sup>116</sup> This right should also be in conformity with its developmental purposes and the conditions should be justified under its Articles.<sup>117</sup>

The relationship that exists between the Bank and Ethiopia is full of conditions, either binding or nonbinding that the country has to meet so as to get any loan facility.<sup>118</sup> Even if the fund plays a significant role in determining the poor country's ability to gain access to other donors/creditors, nearly all official

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<sup>115</sup> Reddy, Sanjay G., and Thomas W. Pogge, How not to Count the Poor. (2005).

<sup>116</sup> Article III, Section (4) (Vii) of IBRD and Articles, V, Section (1) (b.) of IDA Articles of Agreement

<sup>117</sup> Article I of IBRD and IDA Articles of Agreement

<sup>118</sup> The country has 67 conditions attached to only 2005 loan extended by the Bank. World Bank and IMF conditionality: a development injustice, Eurodad, June 2006 <[www.eurodad.org](http://www.eurodad.org)>

development donors/creditors tie their development aid and debt relief to the presence of the Bank program. Though the conditions have sometimes had a positive contribution to the economy, they have also contributed to the violations of the economic, social, cultural and economic rights of a large swathe of the population in the country because of the absence of adequate safety-net measures.<sup>119</sup>

The implementation of these policies has led to a whole series of social problems including rising unemployment, crisis in rural areas leading to rural-urban migration, increased economic inequality, and higher proportion of women becoming impoverished.<sup>120</sup> The pressure on the government to cut petroleum subsidies has led to an increase in fuel prices which in turn has resulted in an increase in consumption goods that are basic to the poor. In the absence of other welfare mechanisms to balance out the situation by doing this it will impoverish the poor, not change their lives.

The Bank should be able to conduct poverty and social impact analysis before the implementation of these policies as it also need to safeguard the resources transferred to it by member countries. The Poverty and Social Impact Analysis (PSIA), which is meant to provide information on the trade-offs among different policy options for achieving both growth and reducing poverty, is in its early stage in Ethiopia.<sup>121</sup> The main problem in poor countries like Ethiopia in conducting such research is a lack of funds. In aggregate terms Ethiopia has received relatively little aid on a per capita basis. For instance, for the period 1998-2006, the average aid per person was \$15 a year, which is low considering the population size.<sup>122</sup> Therefore, enough resources should be allocated for such purposes and these policies should be accompanied by safety net programs.

## B. Debt Relief

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<sup>119</sup> Narayan, Deepa & et al., *Voices of the Poor Crying Out for Changing*, 173 (2000).

<sup>120</sup> Ibid.

<sup>121</sup> It was conducted on tax reform that the country has undertaken in 2003. According to the result, it has a negative impact on the 40% of poorest population. See a report on the Impact of the Poverty Reduction and Growth Facility on Social Services in Ethiopia. Afrodad, 2005. [www.afrodad.org](http://www.afrodad.org).

<sup>122</sup> The Democratic Republic of Congo with 55 million people receives an average of \$24 of aid per capita during the same period. See, *Country Assistance Evaluation Paper: Ethiopia*, 2(2007)

The Bank and other multilateral international lenders agreed to cancel more than 2/3rds of the outstanding debt to poor countries that qualified for a program called Highly Indebted Poor Country Initiative (HIPC). In return, the countries pledged to introduce sound macroeconomic policies, create a sound legal system, and establish a reliable and accountable financial system. Accordingly, these countries have to pass through two steps to get debt relief: a “decision point” where the country makes the pledge and is accepted into the scheme, and a “completion point” where the pledged reforms are achieved.<sup>123</sup> In April 2004, Ethiopia reached its “completion point” under the Enhanced HIPC initiative,<sup>124</sup> and received a topping-up of debt relief in addition to the value in HIPC debt relief announced at the Decision Point.<sup>125</sup> Following this, the Bank with the objective of providing additional support to HIPCs to reach to the MDGs, approved 100% cancellation of Ethiopia’s debt to IDA, as part of the Multilateral Debt Relief Initiative (MDRI).<sup>126</sup>

Be this as it may, the issue remains as to whether such relief would bring sustainable economic growth and eliminate poverty in the country, especially with the present move towards trade liberalization that the Bank is pushing forward. Though debt relief seems to contribute to economic growth through a shift in the allocation of resources, it will not eliminate poverty by itself. When the Bank says that debt relief, would help “the poor who need and deserve better education, better health services, greater access to pure water, and greater opportunities to escape poverty,”<sup>127</sup> then it has to make sure that it reaches them.

Debt relief might even affect the economy negatively from a foreign direct investment perspective, especially in the presence of other factors.<sup>128</sup> The country

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<sup>123</sup>The completion point under the HIPC Initiative is also when creditors commit irrevocably to debt relief, while, the decision point, which precedes the completion point, is when debt relief is committed and begins on an interim basis.

<sup>124</sup> Initially, 19 countries will receive 100 percent cancellation of their eligible debt: Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia.

<sup>125</sup> Net present value (NPV) of US\$1,275 million in HIPC debt relief announced at Decision Point, and a topping-up of debt relief by an additional US\$707 million in NPV terms. [www.worldbank.org/hipc](http://www.worldbank.org/hipc)

<sup>126</sup> The World Bank’s Board of Executive Directors approved the relief on March 28, 2006.

[www.worldbank.org/hipc](http://www.worldbank.org/hipc)

<sup>127</sup> World Bank Press Release (2006).

<sup>128</sup> Compared with rich countries, businesses in poor countries are burdened with many more regulations, three times the administrative costs, nearly twice the bureaucratic procedures and delays, and fewer than

needs to establish a credit history with commercial lenders and to demonstrate to potential investors that it is a sound place to invest. But if all of its debt is cancelled, it may lose its credibility for further borrowing and investments.

Presently, the relief is accompanied by a topping-up of new loans and unless the Bank and the government come up with a comprehensive development strategy, the country will not come out of a never-ending succession of debt cycles.<sup>129</sup> The country relies on few agricultural export products whose prices are often unstable in the international market for their foreign exchange earnings. Faced with unpredictable export earnings, Ethiopia would find it difficult to service debt and at the same time pay for desirable imports, notably oil, medicines and equipment. Cycles of debt and debt cancellations cannot result in poverty reduction to Ethiopia unless the Bank or government take into account the presence of other factors contributing to heavily indebtedness apart from debt while drawing on their strategy to poverty reduction.

### 2.2.2. Revising the World Bank's approach

There is an increasing demand on development institutions or agencies to demonstrate results and effectiveness on the ground. It is therefore not surprising to discuss the pros and cons of the Bank's interventions and whether its interventions have met the intended objectives.

The Bank's Articles of Agreement includes prohibitions: "the bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions..."<sup>130</sup> From the beginning, however, this prohibition has not prevented the Bank's governing board from using the Bank for highly political purposes,<sup>131</sup>

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half of the property rights protections. Poor countries have much to do to develop a business climate in which companies can flourish and give back to the community. See Economic Intelligence Unit Report 2006.

<sup>129</sup> Ethiopia's interest payment by 2020/21 on the new debt following HIPIC from 2001-2003 will be more than half of all payments assuming absence of debt service on new borrowing until 2007/08. See Ethiopia's decision point document, Table 14 and 16, (2001).

<sup>130</sup> Section 10 of Article IV of the IBRD Articles of Agreement (as amended effective February 16, 1989)

<sup>131</sup> For an account of the Bank's involvement in the domestic affairs of its members see David A. Baldwin, *Economic Development and American Foreign Policy*, The issue of inference intensified during the 1980s, when the Bank became heavily involved in policy-based lending. See Joan M. Nelson, "The Diplomacy of

and over time these have become a subject of sharp debate. The Bank's contributions to conflict prevention have come from efforts to build a domestic economic foundation for peaceful international relations. And most deadly conflicts occur within states where the Bank is deeply engaged. Yet despite its involvement in national and local affairs, the Bank does not seem to appear to have sought to use its economic influence to moderate local tensions and to help create the secure environment conducive to sustainable political and economic development.

This however needs to be looked into through the different conditions that the Bank sets for the countries to fulfil. At different times the projects that were online were disturbed and the continuity of the different economic reforms was not guaranteed because of the uncertain political situation in the country. For instance, the Bank's CAS for 1998-2000 and PRGF were discontinued as a result of the war situation with Eritrea, and then the Bank had to introduce another reform in the subsequent periods.<sup>132</sup> This kind of interruption obviously has some negative implications upon achieving a progressively positive outcome. It is therefore prudent for the Bank and the government to devise programmes which survive such kind of incidents. This requires careful consideration of reforms that reach not only the economic spheres of the country but also the political and the social diameters. Furthermore, despite its political sensitivities, earlier careful attention to the status of human rights in all borrowing countries should become a normal feature of Bank country assessments.

The Bank should also take in to account the presence of the necessary conducive environment to implement the strategy design. One of the challenges facing any of the adjustment programs undertaken by the Bank with the government is that some of these programs assume some basic reforms within the system. For example, the right place for the PBS plan would be in a country where there is accountability, participation of the local people at every level, checks and balances and transparency throughout the process.

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policy-based lending," in *Between two Worlds: The World Bank's Next Decade* (Washington: Overseas Development Council, 1986).

<sup>132</sup> African Forum and Network on Debt and Development, *The Impact of the Poverty Reduction and Growth Facility on Social Services in Ethiopia*, study report (2005).

Having funds for new projects will not suffice unless the projects are realized. The Bank helps fund new projects costing millions of dollars, however, failure to employ tighter technical standards and supervision in the process of completing the projects affected the quality of aid. For instance, this problem is not limited to the road sector in construction and upgrading of several roads reaching out to different regions of the country that have been financed by the Bank. Therefore, the Bank should make sure that the money granted or borrowed is used properly and the projects are completed in a timely manner. This might require the Bank to be involved in the process and give technical assistance to the government. Further reforms are needed to strengthen prudential supervision, expand competition and make the process of resource allocation more efficient both with the government side and the Bank.

The Bank's involvement in what is called second generation reforms, which are of great importance to achieve the needed economic development in the country, seems far behind. Judiciary and civil service reforms and empowerment are areas where the bank should pay attention while thinking of funding the economic policy reforms of the country. The presence of a more impartial, independent, accountable and effective judiciary that is able to control corruption in the beneficiary country would clear the way for a transparent implementation of the structural adjustments and also reduce problems causes of poverty.

### **2.3. Conclusion**

Despite the progress made in recent years in Ethiopia, and the possibilities held out by better policies, more than half the population are desperately poor. Hence, the Bank being the largest external source of finance for education and health,<sup>133</sup> should place greater emphasis in maintaining effectiveness in the funds that are being disbursed. The Bank should be working with the government to maintain debt sustainability, peace and security, social safety nets, regional equality and gender equality, so as to be more successful in alleviating poverty.

Considering the practical, operational value in the way the Bank's Articles are drafted, it is important to focus on the economic and social development but at

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<sup>133</sup> World Bank Annual Report 2000

the same time it is also significant to give attention to political and ideological issues, which have a lot to do with relieving the burden of poverty. The Bank and the government should work towards increasing the productivity of the poor through investment in human capital support for improved policies, funding rural and agricultural economic development programs, and debt relief. It is also necessary to be cognizant of the effect of some economic policy reforms that might cause real pain to the poor and try to deal with the challenge without confusing the difficulty of the policies with their necessity.



## CHAPTER THREE

### REFORMS NEEDED TO MAKE THE WORLD BANK'S INTERVENTION WORTHWHILE

*“There has never been a famine in any country that has been a democracy with a relatively free press... I know of no exception.”<sup>134</sup> “Power not ruled by law is a menace.”<sup>135</sup>*

*Who saves his country, saves himself, saves all things, and all things saved do bless him! Who lets his country die, lets all things die, dies himself ignobly, and all things dying curse him!<sup>136</sup>*

#### 3.1. Development Strategies

Aid has a critical role to play in fighting poverty and its consequences. However it is not a magic bullet, unless it is deployed effectively as part of a widely development strategy to make a lasting difference in helping people to lift themselves out of poverty. Ethiopia has been receiving large amounts of loans and aid for the last couple of years, nonetheless the poverty in the country still persists.<sup>137</sup> It is also clear that there is need for more urgent aid. Increasing aid by itself is not enough. The aid system is not geared to achieving poverty reduction goals, rather a subset of the means to an end. The solution has to be found within the entire civil, political, economic, social, cultural and environmental system of the country.

Presently, with the trend of globalization and considering Ethiopia's domestic circumstances and vulnerability to non-domestic factors, international institutions like the Bank may influence policies by binding norms generated in the international sphere into the domestic political or economic arena. But what should be noted is they do not set domestic policies. The country can choose how

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<sup>134</sup> Amartya Sen, Resources, values, and Development,(1984).

<sup>135</sup> Arthur J. Goldberg, U.S Supreme Court Justice, Commencement address at Catholic University of America, June 17,1966. Biography; Columbia Encyclopaedia.

<sup>136</sup> Senator Benjamin H. Hill of Georgia; *His Life, Speeches and Writings*, epigraph, p.594 (1893). From on “Notes on the Situation,” a series of articles appearing in the Chronicle and Sentinel, Atlanta, Georgia.

<sup>137</sup> Ethiopia Well-Being and Poverty in Ethiopia, The Role of Agriculture and Agency, Report No 29468ET, (2005).



it goes about meeting its targets, including whether it uses the full range of flexibilities permitted within the realm of any international legal commitment that it has entered. Domestic policies determine the impact of the influence on the country. Hence, more work needs to be done with regard to public policies to treat external pressures as simply other interests to which the state must respond.

Development is about human rights not only in terms of equitable wellbeing for all, putting the poor high on the agenda, recognizing power as a central issue, and giving voice and priority to poor people but also in a function of the way in which these results are achieved. The government should employ policies, programmes and projects which are compatible with human rights principles and standards conducive to the genuine achievement and enjoyment of a decent life for all.

Civil, political, economic, social, cultural and environmental rights enshrined under the Covenant on Economic, Social and Cultural Rights (ICESCR) or the other human rights instruments, which Ethiopia ratified, are those minimum or essential human rights obligations that make it possible for a person to enjoy an adequate level of life, and have a vital role to play in poverty reduction. This adequate level of life involves “the continual improvement of the conditions of existence”<sup>138</sup> and is enshrined in Article 25 of the Universal Declaration of Human Rights. These rights provide a framework of standards or rules within which detailed poverty reduction programmes can be constructed at the international or national levels, and this will ensure that due attention is paid to essential elements in strategies to combat poverty like non-discrimination, equality, people’s participation and accountability.

Policies to fight poverty will be more effective, sustainable, inclusive, equitable and meaningful for those who live in poverty if they are based on international human rights from the very first stages of their conception and design.<sup>139</sup> Rights and obligations under ICESCR require a system of accountability that is accessible, transparent and effective. These rights and obligations taken together establish a minimum threshold that all public policies have to respect. If any

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<sup>138</sup> International Covenant on Economic, Social and Cultural Rights (ICESCR), Article 11.

<sup>139</sup> Committee on Economic, Social and Cultural Rights (2001). Statement on “Poverty and the International Covenant on Economic, Social and Cultural Rights”, paragraph 8. Adopted by the Committee in its 25<sup>th</sup> period of sessions. E/C.12/2001/10, 10 paragraph 9. May. Available at : [www.ohchr.org](http://www.ohchr.org)

strategy that Ethiopia sets up to fight poverty does not reflect this minimum threshold it will not be consistent with the legally constituted obligations under the covenant.<sup>140</sup> Moreover, as a significant number of individuals are deprived of essential foodstuffs, primary health care, basic shelter and housing, and education, the State is failing its obligation under the Constitution,<sup>141</sup> which inculcates these human rights obligations. In addition even if there is a need that special attention must be given to disadvantaged and marginalized individuals and groups, this does not mean that the policies and other measures States implement should be geared solely to certain population sectors since all people have these rights, and these must be progressively promoted throughout society.

### 3.2. Good Governance

For governments to be effective the rule of law should be their guiding principle. In other words, the government itself should be bound by the law, every person should be treated equally under the law, the human dignity of each individual needs to be recognized and protected by law, and justice should be accessible to all without any discrimination and should operate free of bias with a fair and predictable rules.

As states and/or branches of states lose legitimacy and effective authority over the people as a result of lack of the trust and confidence of the people they are meant to serve, social movements can easily cast off influences of deadly conflict especially in a country where ethnic and minority tensions exist. Ethiopia, witnessing the far-reaching repercussions of economic and political crises of such conflicts along with the devastating impact of environmental destruction on the land, water, and air we all share, should come up with mechanisms to prevent it. International institutions may have influence, but they lack the mandate and the instrument to intervene and put an end to such acts, which in effect means everything boils down to the domestic sphere.

Good governance is manifested through the institutions such as courts, executive organs of the state and public policies. A country's system of justice should be the ultimate guarantor of equality under the law: property rights must be

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<sup>140</sup> Ibid. par. 17 states that countries should at least ensure the minimum obligation of the Member States.

<sup>141</sup> FDRE Constitution, Article 13-44, 1994.

protected, contracts must be enforced, and foreign and domestic investors must have confidence in the legal security of their investments. Ethiopia's judicial and civil service reform however is still in its initial stage and constrained by different challenges hindering proper implementation.<sup>142</sup> Besides, even if courts show little independence, the courts consideration of due process of law remains questionable.<sup>143</sup> In addition, the country is among the highly rated countries in corruption,<sup>144</sup> which limits the capacity of the state to provide quality of public goods and services. It is the result of a conglomeration of power and discretion combined with a lack of accountability, scrutiny and weakness in coordination amongst government agencies. All these are obstacles to development; the implications to human and developmental aspects are catastrophic. Unless serious steps are taken to break the cycle of poverty and the social inequities that pervade the country, ordinary desires for peace and security, decent housing, good nutrition, health care, quality education, and meaningful employment will elude vast numbers of people for generations to come.

Risks must be put in the right context so that they can also be managed properly. For instance the 2000-2002 price collapse in maize price was compounded by food aid mismanagement, with food aid being imported while it could have been locally procured to help support local cereal prices.<sup>145</sup> Besides, aid is crucial sources of hard-currency for country financing but it is not used aptly. Hard-currency loans are used for soft currency purchases such as rural schools and teachers salaries or micro credit programmes. Hence an ideal type of alternative development strategy at national level would have quite a positive outcome.

Local preventative actions should be looked at within the country's constitutional separation of powers including the coordination of the legislature and executive along with the independent judiciary. Policy must strive to reduce group inequalities, address the underlying causes of conflict and should be geared

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<sup>142</sup> Summaries of ten country case studies undertaken as part of the IEO evaluation of the PRSP/PRGF and OED Review of the poverty reduction strategy process Report CODE 2004-2005, The world bank operations evaluation department and international monetary fund independent evaluation office (July 2004)

<sup>143</sup> Ethiopia: Human Rights Watch Report, (2007).

<sup>144</sup> Transparency International the global coalition against corruption barometer (GCB) 2005/2004 [http://www.transparency.org/policy\\_research/surveys\\_indices/gcb/2004\\_\\_1](http://www.transparency.org/policy_research/surveys_indices/gcb/2004__1)

<sup>145</sup> Ethiopia Well-Being and Poverty in Ethiopia, The role of Agriculture and Agency, Report No 29468-ET

towards political, economic and social inclusiveness. Furthermore, these policies should be accompanied by development strategies, which balance the social and productive sectors.

### 3.3. Conclusion

The government of Ethiopia should not only dedicate itself to advancement of human rights, rule of law and transparency but build systems that foster their implementation. Considering the fact that absence of good governance undermines development and hampers the effectiveness with which domestic and external aid are used; the government should be concerned about how to deal with problem and its impact in Ethiopia. The success of such efforts also depends on the economic policies and institutions that underpin them.

The fundamental objective of the government in reducing poverty should include a domestic policy which fits the actual situation that the poor are facing and take into consideration the different elements like cultural, language, economic and other differences in the different parts of the region. It should also set out a programme which enables the economy to develop rapidly, to end dependence on food aid, and to allow poor people to benefit from the economic growth.



*Is Poverty the legacy we want to leave?*

## **CONCLUSION AND RECOMMENDATION**

*“We have it in our power to begin the world over again.”<sup>146</sup>*

Although poverty remains the most urgent unresolved issue of our time, the way to address it still continues to be subjective depending on the prevailing situation at hand. International or multilateral institutions including the Bank and governments involved in the process of reducing poverty should therefore conduct research involving a participatory approach before devising the means to resolve it. Having a broader understanding of poverty including its definition, causes and measures would lead to the best discourse that resists any interference in the process of addressing the problem. As poverty is a violation of the right not to be poor, which is the inalienable right to lead a decent life that is laid down in the international human rights instruments, poverty reduction needs to start with the Poor's perceptions of their own poverty and a process of sharing strategies, priorities and solutions of various stakeholders and cultural differences must be considered. This leads to a policy guide encompassing how it is to be developed and implemented. Moreover, it shows alternative mechanisms when faced by limitations.

Despite attempts made to reduce poverty, Ethiopia remains one of the most impoverished sub-Saharan African countries. The country with the internal problems murky, poverty clouds and its long term consequences for generation and international relations of the country needs to be deliberated with the utmost care. Both the Bank and the government of Ethiopia should note that a situation where absence of legal protection, economic regress, social stress, political instability and vulnerability interact in a vicious circle, would force the country to remain under poverty equilibrium trap in the long-term. Hence, they should consider establishing inclusive policies to offset major elements of inequalities, pro-poor growth, undertaking targeted reforms accompanied by social funds and social safety nets and other programmes to ease the consequences of any of the reforms. There is a need to undertake research and learn about the causes of

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<sup>146</sup> Thomas Paine, common sense, p.25

poverty among the poor in different regions of the country and how to target the population with appropriate information, education, and health facilities and how to craft the policy changes needed. It is best to address the problem of basic infrastructures, which facilitate and opens up ways to the use of potential resources to tackle poverty.

As the Bank is a multilateral organization created and overseen jointly by governments, whose interests are more political than commercial, to serve their changing national interests and values, it should reconsider its mandate in the principle which prohibits political considerations from affecting lending or other assistance decisions. The conditions that the Bank attaches to loans and grants should also be country; specific with serious consideration to all the different scenarios taking place and their social impact should be assessed before they are put on the ground.

As rapid poverty reduction has not been much more effective, Ethiopia remains unlikely to meet any of the Millennium Development Goal targets by 2015.<sup>147</sup> Ethiopia's political instability, violation of human rights, corruption and lack of good governance interfere with the work of the World Bank in providing support in reducing poverty. Having the influence to affect the policy changes in Ethiopia, the Bank has to work together with government and other stakeholders towards resolving these problems that have so far been the hallmark of social, economical and national tribulations.

Aid is not a welfare entitlement and should not be considered as the best means of achieving economic growth rather than encouraging the social and productive sectors. In countries like Ethiopia, it is difficult to phase out the aid dependency ratio rapidly but the country with the Bank and other donors could devise a strategy, which is backed by comprehensive, realistic programs to reduce such dependence, make the country economically competitive and reduce poverty. Achieving faster growth in Ethiopia will require higher levels of external aid, but also improvements in the capacity to effectively absorb and use such assistance through accelerated implementation mechanisms and other structural reforms

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<sup>147</sup> [www.dfid.gov.uk](http://www.dfid.gov.uk)

largely to support rural and private sector development. In doing so, both the Bank and the government must give due regard to the importance of the efficiency and transparency of the institutions that carry out the policies as much as the policies and resources for development.

Commitment to poverty reduction in Ethiopia should begin with domestic policies and strategies dealing with the very basics of the daily life of the poor. The strategies accentuating agricultural and rural development and encouraging the use of technology would lead to lower food prices thereby benefiting the poor. Moreover, investment in physical infrastructure and human capital with an outward orientation and a strategy of export-led growth based on labour-intensive manufacturers is particularly conducive to a country like Ethiopia to phase out the present move towards trade liberalization and also add to the resource endowment of poor. Furthermore, sound government policies are dependent upon the government's public expenditure priorities in giving the people greater control and the means to determine their lives including prudent external borrowing and debt management.

The credibility of the institutions, especially the confidence and trust the people have in the main branches of the state, mainly the independent judiciary with respect to the protection of their fundamental human rights, would lead to a successful development strategies for alleviating poverty. The essence of the government should be the rule of law preventing the dramatic inequalities in access to the prerequisites of economic growth: education, health care, credit and basic financial services, land and knowledge, as a result of legal, social, economic, cultural and political challenges. The Bank or any other international institution cannot determine the policies and be responsible for poverty in Ethiopia in the presence of the internal turmoil as a result of absence of inequality, violation of human rights, peace and security accompanied by a lack of cooperation to work together in a fight against poverty within the shell itself.

*"..., let us recognize that extreme poverty anywhere is a threat to human security everywhere. Let us recall that poverty is a denial of human rights. For the first time in history, in this age of unprecedented*

*wealth and technical prowess, we have the power to save humanity from this shameful scourge. Let us summon the will to do it.*<sup>148</sup>

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## Articles of Agreement

The International Bank for Reconstruction and Development.

The International Development Association.



*"Poverty is no longer contained within national boundaries. It has become globalized. It travels across borders, without a passport, in the form of drugs, diseases, pollution, migration, terrorism and political instability." (Human Development Report 1994)*

*If the misery of the poor be caused not by the laws of nature, but by our institutions, great is our sin. (Charles Darwin)*