Experiences from an Ethiopian economic research project

by

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[1] Setting up the project

I had never worked on or in Africa before Spring, 2003. As an economist who worked on long-term growth and development in the poorer EU member states and aspirant states, I was very aware that the EU-funded investment aid that had served to galvanise Ireland and other so-called “lagging” EU economies, were totally absent from the economies of the less developed world. Prior to 2003, I only had a vague understanding of why development aid to the really poor countries of sub-Saharan Africa, had been a catastrophic failure. Consequently, I paid particular attention to an interesting advertisement that appeared in the *Economist* in April, 2003. It had been placed by the Ethiopian Economic Policy Research Institute (or EEPRI), and sought a partner with whom to collaborate on building an economic model of the Ethiopian economy, with the aim of using it for long-term policy design and analysis.

My background in the ESRI was in the economic design and analysis of the so-called EU Structural Fund (or Cohesion) programmes, from which Ireland, Greece, Portugal and Spain had benefited from the late 1980s, and from which the new member states of Central, Eastern and South-Eastern (formerly Communist, and centrally planned) will benefit for at least the next fifteen years. These EU programmes are designed to provide massive investment assistance to the poorer member states to improve their infrastructure, their human resources, and stimulate their business sectors to greater entrepreneurship, innovation and profitability. The economics behind this process has been a very active field of research over the past two decades, in the areas of growth theory, trade theory and the economics of spatial development and under-development.

As I mulled over the advertisement, I wondered if the research and tools that were being used in the poorer EU countries could also be used in an African state that was at a much more serious level of under-development. Just as in the EU, growth and development is also an objective for Africa, as well as more pressing humanitarian priorities of poverty reduction and targeted aid at times of drought and famine. Just as in Eastern Europe, many African countries had flirted with particularly nasty and debilitating forms of centralised state economic planning. But unlike the EU, there did not appear to be anything analogous in Africa to the EU-inspired National Development Programmes and massive Structural Fund investment aid.
Furthermore, unlike Ethiopia, even the poorest European countries – I have Albania and Kosovo in mind – are recognisably part of the European economy, and have good prospects of closer integration in the future. When you visit Prishtina in Kosovo, you see a very poor version of a recognisably European city. The standard of living in Kosovo is in the region of 1,300 euro per year. Before I visited Ethiopia, this was my idea of extreme poverty. But whereas Kosovo (and the rest of the Balkans) can look to Europe as the locomotive of its future growth, an economy like that of Ethiopia has very weak and tenuous links with the global economy, and seemed to face development challenges of a completely different order of magnitude.

I did not respond to the advertisement immediately. Indeed, it was the late autumn of 2003 before I again came across the cutting from the *Economist*, and wondered who had stepped up to collaborate with the EEPRI. I wrote to them, explaining that I had developed economic tools to work on the EU development programmes, and would be interested in an exchange of information and research. It soon became clear that the competition was still under way, and I was asked to submit a late tender. Only then did I discover that our own Department of Foreign Affairs, through its Irish Aid Programme, was a key funder of the initiative.

There appeared to have been only one other serious contender, a Dutch consultancy firm that was run by researchers who had previously worked in the Central Plan Bureau (CPB), and who had implemented a simple modelling schema in a range of less developed countries. But as they were already working for the Ministry in charge of state planning in Ethiopia, the EEPRI – an NGO, whose Director was an impressive and rather charismatic figure, Dr Berhanu Nega – wanted to maintain a distance from the government Ministries. Dr. Nega received his PhD, from The New School for Social Research, New York, in 1991. He served as president of the Ethiopian Economic Association, founded the Ethiopian Economic Policy Research Institute, and served as a consultant for the UN Economic Commission for Africa. In early 2004 we learned that the ESRI tender had been accepted.

**[2] Designing the research programme**

In designing the project for Ethiopia, what I came up with was a fairly simple, basic programme of economic research that would act as kind of stocktaking at the start, and would evolve quickly towards an Ethiopian economic (computer) model framework suitable for development analysis.

The work programme was divided into three main phases. The first was a basic ground clearing exercise, involving the collection, study, and documentation of what can be learned from existing Ethiopian empirical research. Remember that our project concerned economic research, and was not an operational one, in the sense of working directly to assist people to improve their quality of life. So, the background of economic research and methods was vital to our task. Since Ethiopia’s challenges are not unique to that country, I then proposed to collect relevant research from other comparator economies (mainly less developed countries, but including the poorer EU member states). Finally, an attempt would be made to identify “gaps” in available research. In a developed economy, such an exercise would be much easier, since there would be a vast array of information available for use. This is not usually the case in the less developed world.

The task of preparing and analysing development policies in any country is a very sophisticated process. In addition to basic knowledge about the existing structure of the
economy, one needs special tools to explore appropriate policies, and to analyse these policies as best one can before public expenditure is irreversibly committed. The second phase of my proposed programme was to implement a computer model of the Ethiopian economy that could be used to explore different paths to development. This phase would also include training of the EEPRI economists in the skills and techniques of constructing and updating computer databases that are specifically intended for policy modelling purposes. In addition, publication of the results would be undertaken, in order to promote debate and discussion in Ethiopia, among policy makers, NGOs, businesses and academics.

The third and final phase would be to make use of the new tools of analysis prepare and publish forecasts of the likely future performance of the Ethiopian economy, drawing on the experience of the ESRI in this area. The issue at stake here was that the EEPRI Director, Dr Nega, wanted to broaden the discussion of development possibilities beyond the narrow circles of government and international aid agencies like the World Bank, and involve local civil society. As he expounded on these ideas during his visit to the ESRI in February, 2004 (accompanied by Dr Befekadu Degeffe, the EEPRI President), I came to look on our experience in the ESRI in an entirely new and flattering light. The fact that the IMF and the OECD would visit the Department of Finance, for their regular examinations of the state of Irish economy, and would then come to the ESRI for an independent (and sometimes different) view, had never before struck me as an example of civil society at work!

[3] Reading myself into a strange new world

In preparation for the Ethiopian project, I started reading intensely the literature of development economics, and was very disconcerted by one of the first books that I looked at: Bill Easterly’s iconoclastic The Elusive Quest for Growth, sub-titled “Economist’s Adventures and Misadventures in the Tropics”. This is an excoriating account of fifty years of development programmes and their failure. As Easterly says:

“We economists have tried to find the precious object, the key that would enable the poor tropics to become rich. We thought that we had found the elixir many different times. The precious objects we offered ranged from foreign aid to investment in machines, from fostering education to controlling population growth, from giving loans conditional on reforms to giving debt relief conditional on reforms. None has delivered as promised” (Easterly, 2002)

As I read further, and studied the research produced by the international agencies like the IMF, it became clear to me that much previous economic analysis and modelling research does not focus on the production or supply-side of African economies. Rather, it focuses on the income and expenditure sides. In other words, it was about spending rather than about producing. It examined how the national “cake” was divided between (say) public and private consumption, investment and exports, rather than how the “cake” was actually produced. Indeed, one could read a typical IMF country report and not learn anything about how output and wealth was being produced, or not produced: what sectors were growing and what sectors were in decline. In IMF-style publications, the same deathless prose is used for Ethiopia as for Ireland (say). All that differs is that the Irish – through mechanisms not normally explored by the IMF– seemed to have much more income and consumption. Perhaps the fact that I was Irish, and that the Irish economic “miracle” was driven by foreign direct investment and innovation in the supply side of the economy, made me particularly conscious of the very different orientation of analysis of the Ethiopian and other less developed economies.
At one stage I read in an issue of the quarterly report of the Ethiopian Central Bank that Ethiopia had attracted the praise of the IMF and the World Bank for being one of the most stable economies in the less developed world. Inflation (at least, as recorded in published data) was low and stable; the money aggregates were well behaved; and the banking system seemed not to be in a state of imminent collapse. What struck me as very odd was that it appeared to be of little concern to the Governor of the Central Bank, who boasted of the international praise, that Ethiopia was also one of the very poorest countries on the face of the earth!

[4] My first visit to the EEPRI in Addis Ababa

I paid my first visit to Addis Ababa in May, 2004 and met the small team of economists that had been assembled. By any standards, this was a well qualified group: a team leader who had a PhD in econometrics and who had worked in a Canadian university before returning to the University in Addis, and then transferring to the EEPRI. The four junior researchers all had Masters degrees in economics, and had some previous experience with using modelling techniques. But it was with disappointment that I learned that Dr Berhanu Nega had resigned from the EEPRI Directorship, and had entered politics (in a leading role in the new opposition CUD party).

In setting about building the research work, and getting to know the team, all that I brought to the EEPRI project by way of experience was my extensive work with similar teams in almost all the countries of Eastern Europe. What were the characteristics of the teams in these formerly Communist countries? There was a full and frank acceptance of the utter failure of the previous policy regime, i.e., central planning. There was an often vigorous embrace of new, market-oriented ways of planning economic strategy, and a desire to gain from the experience of other, more developed countries. Previous economic research was very limited. If quantitative research was being done, one had to disregard all data prior to 1989. Indeed, one also had to disregard the data from 1989 up to 1995, a period of collapse and restructuring when inflation was very high. It was usually easy to have informal working arrangements between all members of the team; frank exchanges of views; sharing of knowledge; a degree of enthusiasm for the work; no standing on dignity; the smartest team members were often the very youngest.

Very different characteristics quickly emerged in the work environment in Ethiopia. First, there was very little sense that Ethiopia had passed through three distinct political regimes since the 1960s: the old Imperial regime of Emperor Haile Selassie, the communist Derg, and the present quasi-democratic regime. Second, there was a desire, verging on an obsession to use data for the full period since 1960, in cases where it was available. Only after my first visit did I have the opportunity to read Ryszard Kapucicinski’s extraordinary book on the final decade of Haile Selassie’s rule, and it confirmed my suspicion that we should have thrown away all data prior to the fall of the Derg regime in 1992. Unlike the case in Eastern Europe, there was a rather hierarchical system, where I found it difficult to deal with the young team members directly, rather than through the local team leader. Third, there was no culture of sharing information, even between colleagues within the EEPRI. A typical example of what I mean was illustrated in February, 2005, when I met a World Bank researcher in Warsaw, who quickly learned of my interest in Ethiopia. He told me of a very interesting World Bank conference on modelling that had been held in Addis the previous September, 2004, and related modelling work that was fully available on a web site associated with the Bank’s project. This research was extremely relevant to our own work in the EEPRI. I noted from the web material that there was a list of participants, and that the EEPRI team leader had attended the week-long
seminar! Even though I had visited Addis Ababa in November, 2004, nobody had even mentioned the seminar or the interesting material to me, and it was four months later that I found out about it by accident! Finally, and most serious, there was great difficulty in discussing public policy in a relaxed, frank and open way. These types of critical discussions are the very life-blood of Western civil society and research groups. In Addis Ababa, people quite literally looked over their shoulder constantly when they spoke to you about the government and public policy.

As we started working on gathering economic data, my rather naive assumption was that since Ethiopia had a large CSO establishment, and was the headquarters of the OAU, data of acceptable quality would be forthcoming. Unfortunately, the situation on the ground was very different. When one sees decades of price stability, even during the civil war that led to the collapse of the Derg in 1992, one gets suspicious. When we analysed the data on trade, it appeared that tiny Djibouti was Ethiopia’s largest trading partner, taking a huge fraction of exports. But this was merely an artefact, created by the land-locked nature of Ethiopia, and that most trade was shipped out through Djibouti! There was no effort to ensure consistency of data. Collection started and stopped at random. For example, the publication of constant price data on household consumption continued after 1992, but the current price data stopped abruptly. The UN web site had sectoral data for Ethiopia that were not available locally, and nobody in the local Central Statistics Office appeared either interested or concerned.

I began to realise that we were dealing with what I might term “Potemkin” data: a statistical facade with little of no reality behind it. Where lots of data were available – from the Central Bank, on exchange rates, interest rates, monetary aggregates – the EEPRI researchers were very keen to press into service the latest statistical techniques of analysis. Academic education in less developed countries places as much emphasis on training in sophisticated methodology as in developed countries. However, in this project there was a need to put aside techniques that were more appropriate to “data rich” countries, and adopt simpler, more robust approaches. It was difficult to convince the EEPRI researchers that we had to look elsewhere if we were to understand development issues in their country. That if the “official” data were either unavailable or misleading, we had to devote resources to constructing “unofficial” data. That we could afford to neglect the financial/monetary side of the economy, and focus on subsistence agriculture – which absorbed some 70 per cent of the population. That we had to try to understand what was going on within the various subsectors of manufacturing and market services. That this research was essential if we were to be in any position to use the model to explore national strategic patterns.

[5] The enormity of the task dawns

It is abundantly clear that the types of frameworks and economic models used by the main international agencies and national government planners are inadequate, mainly because they are focused on the short-term distribution of national income rather than on its creation and evolution over the longer term. Because of this, the collection and publication of economic data (so vital for strategic analysis and planning) has been distorted by the bias of the international agencies away from in-depth structural analysis of African economies. The abject failure of development aid to promote growth in sub-Saharan Africa, recently documented in Bill Easterly’s book *The Elusive Quest for Growth*, appears to be one of the consequences of the absence of the necessary tools for successful planning and financing of structural development. The usual joke is that we economists are people who are obsessed with seeing if things that work in practice, will work in theory! But national development planning and
strategy is an area where you do need to explore alternatives using models before embarking of the irreversible expenditure of massive resources.

If future efforts at stimulating development in sub-Saharan Africa, such as described by Jeffrey Sachs in *The End of Poverty*, are to have any greater chance of success, African policy makers urgently need to learn to use the tools of modern international macroeconomics and business research to conceptualise and define their own specific developmental goals in the language of conventional economics and business strategy, rather than depend on analysis by international agencies that has been shown to have failed. What my short time working on Ethiopia suggests to me is that – unlike the case of the former communist states of CEE – this is very difficult to pull off in Africa.

Unfortunately, by the summer of 2005, events had taken a serious turn for the worst. Dr Berhanu Nega’s opposition party appears to have won the general election, and Berhanu himself was elected mayor of Addis Ababa. However, the result was annulled by the government. And Berhanu and other leaders of the opposition party (the CUD) were arrested after a further protest over election irregularities on 1 November, 2005, during which 46 people were killed, and hundreds were wounded. Dr. Nega, Dr Degeffe and many other leaders of civil society are presently held in prison, under very bad conditions, and face charges including treason, which is punishable by death under Ethiopian law. Amnesty International regards them as “Prisoners of conscience, arrested solely for the non-violent expression of their political beliefs.” Sadly, these events have not attracted much media attention in the West.

Gradually I have come to realise that Dr Berhanu Nega’s idea of the EEPRI playing a role in the Ethiopian economy like that played by the ESRI in Ireland (amongst others), is likely to be very difficult. There appears to be very little functioning civil society in Ethiopia. There is no genuine culture of openness when it comes to evaluating critically government policies and considering alternatives. Recent events in Ethiopia have an uncanny resemblance to the situation in Ireland in 1932, when there was a peaceful transfer of power from the side that won the civil war to the side that lost. That was a defining moment in Irish history. The summer of 2005 was a similar defining moment in Ethiopian history, and the outcome was very different.

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