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**ESSP-II Conference Report 1
October 2009**

Synopsis of the Conference on Accelerating Agricultural Development, Economic Growth and Poverty Reduction in Ethiopia

Ethiopia Strategy Support Program (ESSP-II)

Conference Report 1

October 22-24, 2009

IFPRI-ADDIS ABABA

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ETHIOPIA STRATEGY SUPPORT PROGRAM

Based in Addis Ababa, ESSP began its activities in late 2004 with the aim of undertaking timely and actionable research to fill knowledge gaps, improve knowledge database management systems, and strengthen national capacity to undertake policy relevant economic analysis.

Phase I of ESSP operated from September 2004 to June 2008. ESSP conducted a varied program of economic research and provided extensive technical and analytical support towards the establishment of the Ethiopia Commodity Exchange (ECX). Phase II of ESSP, which began in July 2008, places a greater emphasis on capacity strengthening, while continuing a program of policy-relevant research and analysis.

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Introduction

The Ethiopian Strategy Support Program (ESSP-II) Conference on “Accelerating Agricultural Development, Economic Growth and Poverty Reduction in Ethiopia” was held at the Addis Ababa Hilton Hotel from October 22-24. This conference was organized to share current and ongoing research efforts of IFPRI – ESSP-II researchers and collaborating Ethiopian Institutions. Ato Newai Gebre-Ab (Chief Economic Advisor to the Prime Minister and Executive Director, EDRI) attended all three days of the conference, as did Wro. Samia (Director General of CSA) and other high level figures from a variety of government ministries.

On the first day of the conference, Ato Newai Gebre-Ab presented certificates of achievement to 8 trainees who successfully completed an intensive four day training on Economic Policy Analysis and Computable General Equilibrium modeling given by ESSP2 in September 2009.

Below is a synthesis of topics discussed and major findings, as well as reactions from participants during the first two days of the conference. (A synthesis of the symposium held on October 24 is found in a separate document.)

Opening Remarks

Ato Newai Gebre-Ab (Chief Economic Advisor to the Prime Minister and Executive Director, Ethiopian Development Research Institute, EDRI)

Ato Newai Gebre-Ab opened the conference by thanking the participants for their attendance and encouraging all to participate in discussion of the papers and findings to be presented.

Day 1: Thursday, October 22, 2009

Session I: Enhancing Agricultural Productivity

Presentation: Trends and Determinants of Ag Productivity: Alemayehu Seyoum Taffesse & Alejandro Nin-Pratt (IFPRI)

FINDINGS:

- Sample means from the CSA Agric Sample Survey (AgSS) data show:
- Only about half of farmers use fertilizer (teff, wheat and maize)
- Farmers using both seed and fertilizer have moderately higher yields (this does not correct for agro-ecology, other inputs and many other factors)
- Controlling for agro-ecology, use of improved seed, credit use and other factors, regression analysis of CSA national data indicates:
- Average and marginal productivities are positive but relatively low
- Using the regression coefficients, recent growth in teff and maize yields is not explained by fertilizer increase or other factors included in the regressions
- Ethiopian Rural Household Survey (ERHS) yield trends (rainfall sufficient highland cereal-based agro-ecological zone) show:
- Wheat: yield levels and (positive) trend are similar to AgSS data for this ecology
- Maize and teff: much lower yields and opposite trend as compared to AgSS data for this ecology

Presentation: Public Expenditures on Agriculture: Alemayehu Geda (Addis Ababa University)

FINDINGS:

- The top priority: Capacity Strengthening in Ministry of Agriculture in order to better:
- Assess returns on proposed projects and
- Link micro-level planning to the macro-economic and sectoral planning

Session 2: Rural Service Delivery and Weather Insurance

Presentation: Agricultural Extension and Rural Water Supply: Tewodaj Moges (IFPRI), Zelekawork Paulos (IFPRI-ESSP II), Regina Birner (IFPRI), Fanaye Tadesse (EEA) & Mamusha Lemma (EEA)

FINDINGS:

- Detailed household, key informant and group interviews in eight sites across Ethiopia indicate:
- Access to safe drinking water sources is very low
- 32% of study households in 2009—which is substantially higher than nation-wide rural access of 11% in 2004 (World Development Indicators, 2008)
- Water committees, the lowest level service providers
- Are still insufficiently inclusive
- Are not able to counter-act top-down facility provision.
- Have high discretion in setting rules, fees, etc., but are unable to effectively use this discretion due to nearly no training on “soft skills” (community relations)
- Agricultural extension strategies are needed to better target female farmers, including linking extension with women’s groups and increasing female staff among extension agents

Presentation: Weather Insurance for Farmers: Ruth Vargas Hill (IFPRI)

FINDINGS:

- Methodology: Structured game on weather-index based insurance with farmers in SNNPR
- Results suggest that providing insurance would increase farmer investments in agricultural inputs (e.g. fertilizer)
- Discussion from Nyala Insurance: Access to credit is a major constraint on farmer use of fertilizer (and potential use of insurance)

Day 2: Friday, October 23rd, 2009

Session 3: Household Food Security

Presentation: Food Consumption Patterns and their Determinants: Zeleka Paulos and Kibrom Taferre (IFPRI / EDRI)

FINDINGS:

- Large variation in consumption patterns by urban/rural and agro-ecology; as well as by per capita expenditure quintiles
- Own-price elasticities of food are generally high, households are price responsive: change quantities consumed in response to price changes
- Analysis of impacts of the effects of price increases must include these quantity adjustments to be accurate

Presentation: Trends in Household Food Security in Ethiopia: Emily Schmidt (IFPRI)

FINDINGS:

- Although considerable improvement occurred across all regions, all regions remain within the serious or very serious category:
- Addis Ababa and Harari remain the top performers in the ERHI ranking and have progressed out of the very serious category.
- SNNPR dramatically improved its score from 2000 to 2005, and is currently 4th in the ERHI ranking.
- There has been **substantial improvement** in the index across all regions between 2000 and 2005
- When new nationally representative data are available (2010?), analysts can determine the extent to which these positive trends have continued

Presentation: Implications of Price Shocks on Household Food Security: S. Robinson (Sussex), Dirk Willenbockel (Sussex), Hashim Ahmed (EDRI), Paul Dorosh (IFPRI)

FINDINGS:

- For each commodity, a region's share of national commodity production and the share of value added from that commodity in household income largely determine the magnitude of effects on national prices, incomes and consumption
- Regional production shocks have limited effects on national markets; thus, local level monitoring is crucial for identifying and responding to sub-national production shocks

Panel Discussion: Food Security Programs (John Hoddinott), Mulugeta Beshada (Concern), and Bernhard Meier zu Biesen (GAA Welthungerhilfe)

FINDINGS:

- Examples of successful micro-level interventions in irrigation exist
- PSNP interventions have succeeded in providing a consumption floor; when combined with OFSP, there are significant increases in incomes, as well

Session 4: Agriculture and Beyond: Macro- and Micro- Analysis

Presentation: Household Income and Welfare Dynamics: Evidence from the ERHS Surveys: John Hoddinott (IFPRI)

FINDINGS:

- Initial findings from the 2009 ERHS data show substantial improvements in households' perceived welfare, various household assets, child education (both boys and girls)

Presentation: Constraints on the Rural Non-farm Economy: An Analysis of the Hand Loom Sector: Gezahegn Ayele (EDRI), Lisa Moorman (IFPRI), Xiabo Zhang (IFPRI) and team

FINDINGS

- Greater infrastructure is associated with more complex marketing networks and greater marketing linkages between rural and urban markets
- Electricity enables longer working hours
- Controlling for other factors, access to electricity (and other associated infrastructure) raises output per worker of rural hand-loom enterprises by 55 percent relative to those without electricity

Presentation: Real Exchange Rates, Growth and Income Distribution: Paul Dorosh (IFPRI), Sherman Robinson (Sussex) and Hashim Ahmed (EDRI)

FINDINGS:

- Foreign exchange rationing results in an appreciation of the real exchange rate (in comparison to a policy of no rationing)
- The major beneficiaries of this policy are those who receive economic rents generated from rationing
- Incomes of net producers of tradable goods (including many farmers) are reduced

Symposium on “The Structural Transformation of Ethiopia’s Economy: Future Direction for Development Strategy”

Day 3: Saturday, October 24th, 2009

Opening Remarks

Wro. Samia, Director General, CSA

Presentation: The Spatial and Structural Transformation of the Ethiopian Economy: Paul Dorosh and Emily Schmidt (IFPRI): The Rural-Urban Transformation in Ethiopia

KEY POINTS:

- Ethiopia has placed a primary emphasis on rural and agricultural led development; nonetheless, the country continues to urbanize.
- Improved transport within Ethiopia has facilitated greater mobility of capital, goods, and people, and incentivized population clustering along major transportation routes
- Larger cities have emerged over the 3 census years, especially in Oromia, Amhara and SNNP regions. These cities represent large potential markets for agricultural products.
- Barriers to increased production and farm incomes include:
- Small size of land holdings
- Dependence on rainfed agriculture / limited irrigation
- Remoteness: limited access to market centers

Implications for Development Strategy:

- The data through 2005 indicate that agricultural growth is associated with significant declines in rural and national poverty.
- Likewise, various simulation modeling exercises show that future agricultural growth is likely to further reduce poverty.
- Continuing recent high rates of agricultural growth will not be easy. There is no cause for complacency!
- Currently, on average, productivity of fertilizer on cereals is low
- Recent yield growth is still not well understood
- Increasing yields will likely require greater use of improved seed and improved extension, as well as fertilizer
- Differentiated growth strategy by regions may be the best approach
- In higher potential areas, focus on increasing agricultural productivity and improving marketing channels as in the proposed Agricultural Growth Program (AGP)
- In drought-prone, food insecure areas: Provide a safety net and help food insecure households build up assets and raise incomes (as PSNP and OFSP are currently doing)
- Anticipate increased urbanization and plan public investments to promote growth of market towns and urban hubs
- Gain the benefits of competitive international trade by maintaining price incentives for production of agricultural and non-agricultural tradable goods through appropriate real exchange rate policy

Presentation: Commercial Farmers, Agricultural Growth, and Growth Linkages: John Mellor (John Mellor Associates)

KEY POINTS:

- Economic development transforms a country from primarily agricultural driven economy to primarily manufacturing and services sector oriented
- If Ethiopia follows a normal pattern of high growth, in 20 years:
- The agriculture sector will have increased by four times
- Agriculture's relative importance will be 2/3 less
- Rural inhabitants will have access to : Staffed health clinics, Secondary school education, All weather roads (for 90 percent of the rural population)
- The “middle farmer” is the primary actor who drives growth and poverty reduction.
- 40 percent of the “middle farmers” have 75 percent of agricultural land and have larger land plots (>1 hectare each)
- These land areas tend to be the already more productive geographic areas
- Ethiopia has unusually large potential to achieve rapid agricultural growth.
- High population density requires good production conditions
- Similar countries with comparable conditions out-yeild Ethiopia
- Small number of constraints to remove

Presentation: Beyond Agriculture: A Greater Role for Urban Industrial Growth?: Stefan Dercon (Oxford University)

KEY POINTS:

- Growth in the urban economy is now essential in Ethiopia to achieve faster growth in agriculture and faster poverty reduction. The conditions in Ethiopia are not right for an agriculture first strategy.
- Technology adoption/changing practices occur not in a vacuum, but require high economic returns
- Either massively high productivity technologies/ practices
- Or sustained high prices, requiring high demand

Panel Debate on “Ethiopia’s Growth to 2030: The Role of Agriculture” between John Mellor, Stefan Dercon and Alemayehu Seyoum, with moderator David Spielman (IFPRI)

In this debate, each of the participants had the opportunity to answer the following six questions posed by the moderator. Debaters also presented closing statements.

- What is your vision of a feasible successful development for Ethiopia in 20 years time? What would be the role of agriculture in this scenario?
- What are the major constraints to increasing agricultural productivity in Ethiopia? What can be done to overcome these constraints?
- To what extent is a low level of market development a major constraint for agricultural growth in Ethiopia? What needs to be done?
- Given widespread poverty in Ethiopia, many argue that targeted pro-poor interventions (both social protection and livelihood strengthening) are the highest priority. Others argue that accelerated economic growth is the better policy for sustainable poverty reduction. What is the appropriate balance between these alternatives in Ethiopia?
- What are the major constraints to industrial development in Ethiopia? Insufficient market demand? Under-developed value chains? Access to credit? Policy uncertainty? Other constraints? In which sub-sectors do you see the biggest prospects for growth?
- Other than what has already been discussed, what do you see as the other two or three major development challenges and opportunities for Ethiopia?

Below is a summary of the main points made by the three debaters:

John Mellor

Argued for an agriculture first approach:

- Rapid agricultural growth dominates employment growth in developing countries
- Agriculture is currently important to both GDP and employment in Ethiopia
- When middle income status is reached:
 - Agriculture still dominates employment growth
 - Agriculture becomes modestly important to GDP growth
 - Employment growth becomes more important than GDP growth
- Rapid agricultural growth accelerates urban growth
 - But diffuses it throughout the country
 - Minimizes rural slums
- It will be many years before the absolute size of the farm population declines
- Current urban population is very small (16% of total population is defined as urban in the 2007 census)
 - Thus, education and health must be offered in rural areas.
 - The same infrastructure is required for these sectors as that which dominates spending for agricultural growth
- With regards to fertilizer:
 - Accelerate growth in fertilizer use
 - Ensure growth in imports at 10% per year

- Expand coverage of cooperatives
- Private sector free access to import warehouses
- Expand research system to raise returns to fertilizer
- Focus extension on sustainable fertilizer packages
- With regards to seeds:
 - Completely reform seed sector
 - Focus research system on breeder seed
 - Focus seed Corporation Foundation seed with profitable prices
 - Private sector with highly profitable prices.
- 90% of rural population within 2 kilometers of an all-weather road in 10 years
- Expand high value commodities: Coffee, Horticulture, and Livestock

Stefan Dercon

Argued for urbanization linking to agricultural growth:

- Danger of considering agricultural growth in isolation
- Growth in agriculture constrained by
 - lack of urban income growth,
 - failures in science and seed markets,
 - limited returns to fertilizer, and
 - likely dynamic constraints from input market structures.
- With regards to fertilizer:
 - In isolation from seeds, economic returns very doubtful ‘on average’ (so scope of expansion beyond 40% unlikely)
 - Yield difference minimal, Value-Cost ratios for most crops not high enough
 - Relatively high cost would suggest that even in ‘packages’ there are not massive returns
 - Meanwhile, this technology is strongly promoted in spite of a lack of seeds
- With regards to seeds:
 - Even for maize only 20% improved seed use, wheat is lower
 - Failure of science and adaptation: not just need for more support, but also need innovative institutional designs
 - Failure of multiplication and distribution system
- Agriculture not first is not the same as agriculture last:
 - Agricultural growth will remain an essential part of development strategy
 - “Commercialisation” is essential but it is not just supply plus markets (traders tc)
 - Requires demand growth to increase and sustain demand
 - Requires agricultural strategy that pays more attention to economic returns (not just yields) and the complementarity of urban economic growth.

Alemayehu Seyoum Taffesse

Highlighted several development priorities including:

- Increased emphasis on
 - Agricultural technology research (including a systematic exploration of the opportunities and risks associated with genetic modification); and
 - Non-cereal products (particularly fruits/vegetables, dairy, honey) and higher potential areas.
- Designing agricultural research and extension programs suitable for specific agro-ecological zones. Specifically:

- Encouraging a shift into tree crops and semi-modern dairy farming in the highlands (with fodder production as a new and growing activity);
 - Encouraging expansion of cereal production in the low lands;
 - Investing in water management in all areas;
 - Investing in disease (human and animal) control in less moisture reliable low lands; and
 - Enhancing the role of the private sector in agricultural input provision, particularly improved seeds.
- Encouraging non-agricultural self-employment (for instance by providing start-up capital for those farmers who are willing to give up their land in exchange).
 - Improving health care and access to education in rural areas.
 - Continuing the on-going effort to reduce the costs of entrepreneurship – reforming the civil service, reducing bureaucratic obstacles, reforming tax administration – and periodically review outcomes with stakeholder participation.
 - Additional investments in infrastructure with greater focus on connecting less accessible areas.
 - Further liberalising the telecommunications sector by allowing private investment other than joint-ventures with the government, while using innovative ways to ensure universal service.

Closing Remarks

Andrew Spezowka (CIDA) as a representative of Donors Interest Group

- Under this second phase, the ESSP partnership has grown, firmly placing research as a public good in Ethiopia and making the necessary investments.
 - Ato Newai and his team at EDRI deserve full credit for advancing demand for evidence-based research for our collective benefit.
- This symposium, and the policy conference that preceded it, could not have been better timed by EDRI and IFPRI.
 - Recently, the Government of Ethiopia has initiated the preparation of its next five-year development plan -- building on the accomplishments achieved under PASDEP.
 - Bringing together government policy-makers and planners, researchers, and development practitioners, EDRI and IFPRI have presented a body of high quality research to inform Ethiopia's future development strategy.
- Organizations such as EDRI, other think tanks and tertiary institutions have a vital role to play in working with government to ensure that development plans are based on the best available evidence of what's working.
- Our collective responsibility as donors is to be adaptive to the changes needed for Ethiopia to enjoy many more decades of economic growth for the well-being of all Ethiopians and for its neighbours.

Ato Newai Gebre-Ab ended the conference by thanking ESSP-II for the previous three days of intense conversation and discussion on development themes central to Ethiopia's growth strategy. He also gave special thanks to the audience and the presenters (especially John Mellor, Stefan Dercon and Alemayehu Seyoum) and the moderator (David Spielman).

