Market Oriented Reforms and Changes in Urban Household Income : A Study in Selected Small Towns of Ethiopia

(Work in progress, not to be quoted)

Abstract:

Ethiopia's economy, which was weakened greatly during 17 years of heavy handed rule by a Marxist junta, has recovered considerably following the introduction of market oriented reforms during the early 1990s. Nonetheless, as the results of a household survey conducted in four small towns of the country in 2000 show, it seems that the negative consequences of the reforms have outweighed their expected positive outcomes. In general the findings suggest that the incidence of poverty has increased considerably in the study towns. On the whole, households in the small towns of coffee production regions fared considerably better than those found in the towns of predominantly grain producing regions. It also appears that the economic liberalization has led to increased polarization in the monthly income of households in the study towns.

Introduction

Ethiopia, a country with an area of 1.14 million square kilometers is located in the region that is known as the Horn of Africa. Presently it is the third most populous country in the continent with a total population of more than 71 million in July 2004. The interior parts of the country are largely made up of highlands that are capped with massifs that rise to over 4000 meters above the sea level. As these highlands capture most of the annual precipitation of the country, they are home for the overwhelming majority of the population of the country that depends on sedentary agriculture for its livelihood. Most of the urban centers of the country are also found on these highlands. Comparatively, the peripheral areas of Ethiopia are made up of semi-arid lowlands which are inhabited predominantly by nomadic and semi-nomadic pastoralists. The main type of sedentary agriculture that is practiced in Ethiopia is mixed farming that involves the production of grains and the raring of livestock chiefly for subsistence. Parts of the southwestern, southern and eastern highlands of Ethiopia, in addition to producing grains, specialize in the production of coffee, which is the leading export crop of the country.

As one of the oldest independent countries in the world, Ethiopia was ruled by its own monarchs until the 1970s. Emperor Haile Selassie I, who led the country starting from 1930 save for the short period of Italian occupation (1936-1941), was deposed by a Marxist junta known as the "Derg" in 1974. The Derg did whatever was in its power to build a socialist state on the Ethiopian soil. Accordingly it nationalized all rural and urban land, all rental housing units, banks, insurance companies, manufacturing industries, commercial farms and various other types of business enterprises. As such, it ruled the country with an iron fist until it was finally overthrown by the Ethiopian Peoples Revolutionary Democratic Front (EPRDF) in 1991.

Regardless of its avid adherence to the Marxist ideology, the Derg had shown a considerable interest to liberalize the national economy during its final years, especially consequent to the fall of the Berlin wall and the collapse of the Communist system in Eastern Europe. In fact, it appeared as if the junta was beginning to make a U-turn in its economic policy when it began to embrace the idea of "mixed economy" while it was on its last leg. Nonetheless, other than attempting to loosen the noose on some aspects of the economy, it did not stay long enough in power to implement its intended reforms.

In sharp contrast to the Derg, the EPRDF opted for a markedly more democratic and decentralized form of governance (Van der Loop, 2002) although some writers challenge the view that there was a real process of democratization in the country until the 2000/2001 elections (Pausewang, et.al, 2002). What is least disputable, however, is that the new government started introducing market oriented reforms shortly after coming to power. While keeping both urban and rural land as public property, it privatized numerous enterprises that were under government control. It put in place various mechanisms to boost up private sector investment and encouraged the free flows of people, ideas and goods to an appreciable extent. Not enough work has been done to date to examine the extent to which these market oriented reforms have impacted on the livelihood of the ordinary citizens of the country. The scantly literature that is available on the subject, tends to give mixed results particularly on matters concerning the reduction of poverty. In view of these facts, the objective of this study to assess the extent to which these reforms have influenced the household income structure in selected small towns of the country.

Methodological Note

Both primary and secondary data are used in this study. The primary data were collected through a household survey that was conducted in four small towns whereas the secondary data were gathered largely from published sources. The number of the study towns was limited to four mainly by budgetary constraints and shortage of time. The choice of each study town was made based on the understanding that it reflected the realities of a typical small town of Ethiopia, whose principal function is serving as a mediator of local commerce for predominantly agrarian communities. In order to drive this basic consideration further home, it was decided to study towns that were located in diverse agro-ecological settings while being reasonably distant from the direct metropolitan influence of Addis Ababa, the national capital. Accordingly Guder and Kemise were selected for the study from principally grain producing regions whereas Seka and Wenago were selected from areas that specialize in the production of coffee.

Two types of surveys, one major and another minor, were conducted in each town. The major survey involved interviewing 200 heads of households that were selected through a systematic random sample in each town irrespective of its population size. The minor survey involved interviewing a fixed number of 60 retailers in each town. On the whole the aim of the combined surveys was to interview a total of 800 household heads and 300 retailers in the four towns. The survey was conducted mainly in mid 2000, and as such, reflects the perception that the respondents had about the economy and their day to day living conditions nine years after the EPRDF came to power.

Although the study's main area of concern was assessing the changes, if any, that have taken place in the monthly income of households in the selected towns, it was not in its objective to identify poverty lines. The main questionnaire that was used to solicit the required information during the household survey was therefore, prepared in such a way that it could capture the respondents' perceptions of the changes that have taken place in their livelihoods following the country's return to a market based economy.

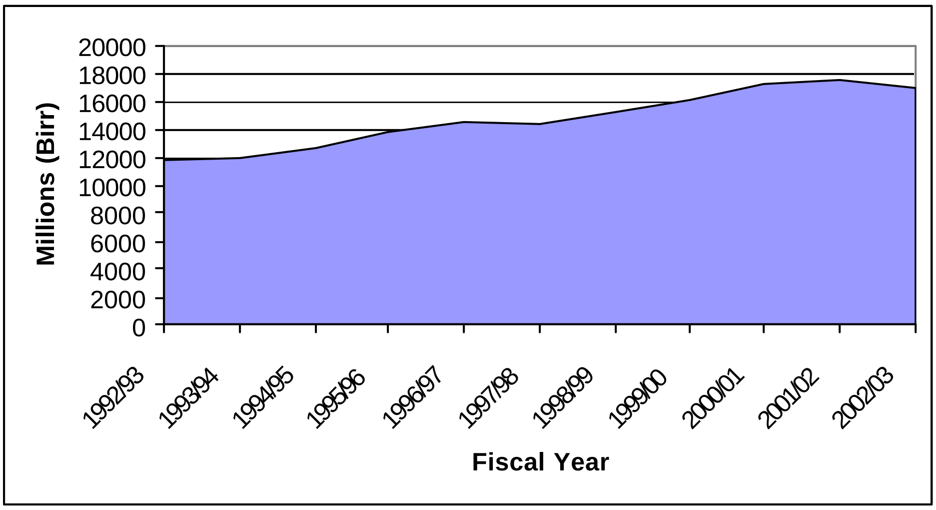
Economic Liberalization and the Household Income Situation in Ethiopia

Ethiopia is one of the poorest countries in Africa with a per capita income of USD 112.7 in 2004. The overall performance of the national economy of Ethiopia is to large extent a reflection of the state of affairs in the agricultural sector which has been accounting for about 45 percent of the GDP and until recently and is presently supporting more than 80 percent of the country's population. The sector's performance has in the recent past shown marked oscillations with major changes in weather conditions. The seasonal rainfalls have increasingly become so unreliable in substantial parts of the country that most scholars now feel that drought has established itself as a cyclical phenomenon in those parts of Ethiopia. As the experience of the last four decades show, the time gaps between two consecutive droughts have increasingly shortened thereby exposing the people to recurring problems of food insecurity. During years of good rainfall, the farmers reap bumper harvests while in years of draught millions starve. For instance, it has been estimated that the drought that occurred in 2003 affected a total 13 million people in various parts of the country (MOFED, 2003).

While the Derg was in power, the national economy was in such a very bad shape that it would be awkward to talk about economic growth particularly with reference to the junta's initial and final years of rule. According to Dercon (2002) the most important factors behind the poor performance of the national economy then were the market control, the protracted civil war and famine. As data available at the Central Statistical Authority (CSA) as well as the Ministry of Agriculture show, agricultural production plummeted to record levels during the years that immediately followed the Derg's ascent to power. The market control, it seems, was thus put in place partly to ensure the steady supply of grains to the urban populace. This was made possible by requiring peasants to deliver a specified quota of grain to the Agricultural Marketing Organization (AMC) at rates that were below market prices. The fixed quotas often meant that the peasants were required to handover 50 to 100 percent of their produce to the government through the AMC. This, in fact dealt a huge blow to the rural economy which was already weakened by civil war, famine, uncertainties surrounding access to and use of land, and a bit later by the messy villagization and resettlement programs. Towards the end of the 80s the Derg was so much troubled by the ever worsening performance of the economy that it lifted its restrictions on grain trade. By 1990, frustrated by the course of events in Eastern Europe and the Soviet Union, the junta was forced to officially embrace the concept of mixed economy. Nonetheless, it could not stay in power to see the fruits of its nascent vision of economic liberalization.

The EPRDF began to introduce market oriented reforms beginning from the early 90s. As early as 1992, it launched a program of reform and structural adjustment which involved allocating the "labor force in different sectors, on the response of real wages and on returns to education" (Krishnan et. al. 2002). Another bold step that it took shortly after coming to power was that of devaluing the Birr significantly. It also declared that Agricultural Development Led Industrialization (ADLI) was its main strategy for bringing about sustainable economic development in the country. While leaving land as a public property, it introduced a lease system through which investors could acquire land at rates that were to be determined through a bid system. In 1994, it issued proclamations that allowed for the establishment of private banks and insurance companies. This led to the emergence of a number of private banks and insurance companies right away. As a result, as early as 1997, PADCO reported that private banks held about 20 percent of the deposits in cities like Addis Ababa. These and several other reforms finally helped to solidify the country's transition from a command to a market based economy" (Van der Loop, 2002).

Figure 1. Trends in the Gross Domestic Product of Ethiopia, 1992/93-2002/03



Source: Ministry of Finance and Economic Development: Annual Report on Macroeconomic Development in Ethiopia (2002/2002), Addis Ababa: September 2003.

As shown in Figure 1, the overall trend of the GDP of post 1991 Ethiopia indicates that the country's economy has experienced a significant recovery following the introduction of the market-oriented reforms as mentioned above. On the whole the GDP grew at an annual average rate of about 5 percent during this period. The sector growth rates were 2.3 percent for agriculture, 5.3 percent for industry and 6.3 percent for distributive services during the same period. Irrespective of such a development, however, the fact remains that Ethiopia is one of the heavily indebted countries of Africa. The total outstanding external and domestic debt of Ethiopia stood at USD 6.8 Billion and Birr 26.5 Billion respectively at the end of the 2002/2003 fiscal year. During the same year, the country paid more than Birr 1.1 billion in debt service (MOFED, 2003).

It is not difficult to see that the above mentioned heavy debt burden would make it extremely difficult for the government of Ethiopia to bring about sustainable development in the various branches of the national economy. Nonetheless, there are writers who claim that the economic recovery of post 1991 Ethiopia has already considerably impacted the lives of the rural population. Based on a study of six rural communities, Dercon (2002) writes that the lives of peasants have been improved as a result of the market oriented reforms. He admits that there were cases where people have experienced a move into poverty as a consequence of the reforms. In general however, he asserts that on average, the poor have benefited more from the reforms than the non-poor.

The condition of the urban areas, however, appears to be more mixed than those of the rural areas. As a study made in the late 90s (Krishnan, 1998) revealed, urban household income has increased considerably in the mid 90s. This increase appears to be partly a result of an upward revision of salaries of public sector workers that took place in 1995. This is not surprising since the public sector accounted for a high share of wage employment in Ethiopia. Wages in the private sector also appear to have risen considerably in an apparent response to these changes in the public sector although it appears that the rise was not large enough to suppress the rather long queues for public sector employment (Mengiste, 1998). It also appears that the reform was more of a rapid and sweeping response to external pressures rather than a process of incremental change that was contextualized with local realities and priority areas of intervention (Chanie, 2001). The overall impact of the rises in urban wage employment however, was significantly offset by fast rising prices of consumer goods and the increasing number of public sector employees that lost their jobs as a result of the structural adjustment program. In general it appears that the structural adjustment program led to hitherto unknown rates of job loss mainly among males who had no post secondary school training. Given that the economic liberalization could not immediately lead to a fast rise in private sector investment, the main option left to these job seekers was self-employment in the informal sector, primarily in petty trade. However, it appears that this sector was not only subject to considerable harassment by public officials but also much more the domain of females than males in urban Ethiopia of the early and mid 1990s (Krishnan, 1998).

The findings mentioned above clearly suggest that a considerable number of urban households have moved into the poverty bracket partly as a consequence of the structural adjustment program. In addition to this it appears that the increases in the salaries of government employees were no match for the fast rising prices consumer goods. It is difficult to convincingly establish this since not much work has been done to date to assess the magnitude of such developments in the greater part of urban Ethiopia. The few works that attempted to address the subject could not say much other than suggesting that poverty was becoming a more serious problem in post Derg urban Ethiopia. Regardless of the nature of the studies made and the methods used to estimate poverty lines, the

findings of most researchers tend to suggest that the incidence of poverty was not less than 60 percent in post 1991 urban Ethiopia (Mulugeta, 2001; Gossaye, 2001; Gebeyehu et.al. 2002).
The Ministry of Finance and Economic Development, which computed the incidences of poverty based on income and expenditure surveys made by the CSA in 1995 and 2000, however, provides considerably lower estimates. Nonetheless, it also admits that the incidence of poverty has increased in the urban areas of the country during the 1990s as shown below (MOFED, 2002a, 2002b).

As publications of the Ministry of Finance and Economic Development (MOFED, 2002 a; 2002b) show, the rural areas of the country were experiencing a considerable economic recovery during the first ten years of economic reform in sharp contrast to the urban areas that were experiencing a rise in the incidence of poverty. As shown in Table 1, poverty head count indices were considerably higher in the rural rather than in the urban areas of the country during the mid 90s. During the subsequent five years however, it dropped from what was 45.5 percent in 1995/1996 to 44.2 percent in 1999/2000. Comparatively the incidence of urban poverty increased from 33.3 to 37.0 percent in urban areas during the same period. On the whole, the incidence of poverty was reduced by 4% in rural areas whereas it increased by 11% in urban areas between 1995/96 and 2000.

Table 1. Trends in Poverty Head Count Indices by Rural and Urban Areas

Location	1995/96	1999/2000	% Change Over 1995/96
Rural	47.0	45.0	- 42.0
Urban	33.3	37.0	11.1
Total	45.5	44.2	- 2.9

Source: MOFED, Ethiopia: Sustainable Development and Poverty Reduction Program, 2002b, Table 1.3

At the outset it appears that the explanation to the rising incidence of poverty in post 1991 urban Ethiopia resides mainly in the government's apparent lack of interest in urban development issues due to its rather obsessive preoccupation with ADLI. It also appears that it was considerably beyond the capabilities of the EPRDF to rectify within so short a time the endless wrongs of an urban economy that was weakened beyond imagination by 17 years of brutal rule by a Marxist junta. As a study by Bysten and Mekonnen (1999) indicates, prices in 1991 Addis Ababa were three times higher than those in 1976. The proportion of households belonging to the three lowest income brackets, those with up to Birr 150 monthly income in 1991 prices, has increased from 35 percent in 1976 to 57 in 1991. It also appears that the situation was even bleaker in provincial towns.

The towns under study

As a country with a long history of sovereign statehood, Ethiopia has a long history of indigenous urban development. Nonetheless, the country is presently one of the least urbanized nations of Africa with only about 17 percent of its total population living in urban settlements. In sharp contrast to its level of urbanization, however, the country has a relatively large number of urban places. According to the CSO, Ethiopia presently has 925 urban centers. The overwhelming majority of these urban centers however, are small towns. In fact about 80 percent of these urban places are towns with population sizes of 10,000 or less. Comparatively, towns with population sizes of 5000 inhabitants or less account for about 60 percent of all the urban settlements in the country. With the exception of Addis Ababa, which has an estimated population of more than 3 million inhabitants, the country presently has only ten cities with population sizes of more than 100,000. Aside from this, the country is witnessing one of the highest rates of urban growth in the world, i.e., about 4.3 percent per annum. Not surprisingly this accelerated urban growth is a product of both high rates of natural increase and accelerated rural-urban migration.

Most studies of urban Ethiopian tend to focus on the major cities while neglecting the smaller towns that are playing critical roles in the transformation of the rural economy. As mentioned above, the selection of the four study towns was made in such a way that two of them were from the grain producing areas whereas the remaining two were from coffee producing regions. From the grain producing areas the towns of Kemise and Guder were selected whereas from the coffee producing areas Wenago and Seka were selected. Kemise is located in the southeastern part of the Amhara region whereas Guder is in a town in western Oromia. Wenago is found in the Southern Nations, Nationalities and Peoples Region (SNNPR) whilst Seka is located in southwestern Oromia.

Table 2. Population size of the study towns

Town	Year		Growth Rate (%)
	2000	2004	
Guder	12841	15552	4.79
Kemise	14465	17262	4.42
Seka	2104	2439	3.69
Wenago	6877	8350	4.85

Source: Central Statistical Authority

As shown in Table 2, Kemise, the largest of the four study towns, had a population size of 14,465 whereas Guder had 12, 841 in habitants at the time of the survey. The population sizes of Wenago and Seka were 68777 and 2104 respectively during the same period. With the exception of Guder, which was at a distance of about 140 kilometers. from Addis Ababa, all of the towns were located at road distances of about 300 kms. or more from the national capital.

Like most other small towns of the country, the study towns have witnessed rapid population growth rates during the past four years. With the exception of Seka, three of the towns experienced average annual population growth rates that exceeded the national average of about 4.3 percent growth per annum. The fastest growing town was Wenago followed by Guder. In view of the fact that Wenago was a market town in a region that specialized in the production of coffee, it is surprising to see why Seka, also a market town in another coffee producing region displayed a relatively slower rate of urban growth. To some extent it seems that it was the proximity of Seka to Jima, the largest city in southwestern Ethiopia, that tends to suppress its growth rate to some extent. Given the rather very short distance between the two unequal towns, it appears that the smaller tended to see some of its labor force migrating to the much bigger one.

General Characteristics of the Respondents

The age structure of the majority of the respondents was such that most of them have lived long enough to experience life as adults during the greater part of the rule of the Derg. Their median age was 42, indicating that about 50 percent of the respondents were 32 years old or above when the EPRDF overthrew the Derg. More than three-quarters of them have lived continuously for ten year or more in the towns where they were interviewed. The gender composition of the respondents was also very good. This can be seen in the fact that about 40.2 percent of the respondents were females. The overwhelming majority were married as shown in Table 3. The average household size of the respondents was quite large, 5.89 persons per household. This is, perhaps partly a reflection of the housing shortage which characterized Ethiopian towns since the Derg nationalized urban land and rental houses.

Table 3. Marital Status of the respondents

Marital Status	Study Towns								Total	
	Wenago		Kemise		Seka		Guder			
	No.	%	No.	%	No.	%	No.	%	No.	%
Never married	23	11.5	7	3.5	23	11.5	23	11.5	76	9.5
Married	153	76.5	148	74	157	78.5	122	61	580	72.5
Divorced/ separated	4	2	12	6	7	3.5	25	12.5	48	6
Widowed	20	10	33	16.5	13	6.5	30	15	96	12
Total	200	100	200	100	200	100	200	100	800	100

As regards religion, Table 4 shows that about 56 percent of the respondents were Orthodox Christians. Muslims and Protestants accounted for about 37 and 7 percent of the total respectively. Interestingly, these figures are not much different from the overall distribution of these religious groups at national level.

When it comes to educational qualification, individuals who could neither read nor write accounted for a little more than one-fifth of all the respondents in the four study towns as shown in Table5. The majority of those who have been through one or another kind of schooling were individuals who have not gone beyond grade six. Only about one-tenth of the respondents had some kind of post secondary school training. Such a finding is consistent wit h the situation of small towns of Ethiopia at the time of the survey.

Table 4. Distribution of respondents by religious background

	Guder	Kemise	Seka	Wenago	Total
Orthodox	80.70	3.50	38.90	76.40	55.80
Catholic	1.00	0.00	0.00	0.50	0.30
Protestant	12.20	1.70	6.10	9.00	7.30
Muslim	6.10	67.50	58.10	14.10	36.50
Total	100.0	100.0	100.0	100.0	100.0

Table 5. Educational qualification of the respondents

Education	Study Town								Total	
	Guder		Kemise		Seka		Wenago			
	No.	%	No.	%	No.	%	No.	%	No.	%
Can't read or write	70	35.0	52	26.0	21	10.5	136	18.0	179	22.38
Literacy campaign	20	10.0	56	28.0	38	19.0	33	16.5	147	18.38
1-6	40	20.0	41	20.5	54	27.0	33	16.5	168	21.00
7-8	15	7.5	21	10.5	11	5.5	24	12.0	71	8.88
9-12	38	19.0	23	11.5	38	19.0	41	20.5	140	17.50
12+ [1-3]	13	6.5	6	3.0	34	17.0	29	14.5	82	10.25
Bachelor degree +	1	0.5			1	.5	4	2.0	6	0.75
Other	3	1.5	1	0.5	3	1.5			7	0.88
Total	200	100.0	200	100.0	200	100.0	200	100.0	800	100.00

The general characteristics of the respondents did not vary much between the study towns with regard to most of the variables considered above. Differences worth mentioning have, however been observed among the towns as regards the distribution of respondents by religion. For instance, the majority of the respondents in Guder and Wenago were Christians whereas most of the respondents from Seka and Kemise were Muslims. This is consistent with the religious background of the people of the regions in which the towns are found. Guder and Wenago are found in a region where Christianity is predominant whereas Kemise and Seka are located in regions that are predominantly inhabited by Muslims.

The Influence Economic Reform on Household Income

As mentioned in the introductory section, the EPRDF began to introduce market oriented reforms shortly after it came to power. Accordingly it has designed and implemented various programs that have indisputably helped to revitalize the private sector. Over the years numerous business and industrial establishments have been privatized. Licenses were given to both foreign and domestic entrepreneurs that wanted to invest in various sectors of economy. Private banks, insurance companies, hospitals, colleges and schools are now common place in the major cities of the country. Although both rural and urban land still remain directly under government control there is a leasehold system in place which enables investors to acquire land principally through public tender at rates which are payable over a maximum of 99 years. The rather noticeable boom in construction that the country witnessed in its major urban areas in the recent past is undoubtedly an outcome of this policy.

It is clear that increased involvement of the private sector in construction as well as the delivery of goods and services in Ethiopia would mean increased job opportunities, greater consumption of industrial and non-industrial outputs and consequently economic growth at least in the big cities like Addis Ababa. It also means greater opportunity for self employment in business in the larger as well as smaller urban places all over the country. As mentioned earlier, the country's economy has significantly recovered from the downward spiral that it witnessed in the 70s and 80s and has registered 5 to 6 percent annual growth rates in the 90s. Also as discussed above, the experiences of some of the larger cities of the country show that this growth does not seem to have improved average household income to levels that could reduce the incidence of urban poverty. To the contrary, the experience of the large cities of the country was a rise in the incidence of poverty. One important question that may be raised here is: to what extent was this true for urban Ethiopia as a whole, and if true, how better or worse were the conditions of the smaller towns that were far away from the leading hubs of economic activity? An attempt is made below to assess the patterns of change in the monthly income of the surveyed households.

During the questionnaire survey, an attempt was made to gauge the changes that took place in household income following the take over of power by the EPRDF. Most urban households in the small towns of Ethiopia tend to depend on diverse and intermittent income because public sector jobs are in short supply. Due in part to this reason, they often find it difficult to respond to researchers who ask them to report the exact amounts of their monthly earnings. Even in situations where they have regular income, most are reluctant to provide exact figures for various reasons. It was therefore, decided to ask them only to indicate where they belong in a list of nine consecutive income categories ranging from respondents with income of less than Birr 100 to those earning more than Birr 2000 per month. The questions were framed in such a way that they could indicate the categories of their pre and post EPRDF earnings.

The household survey has in general produced impressive results as regards the changes that took placed in the monthly income of the households in the study towns. Prior to dealing with the changes in income, however, a brief discussion of the distribution of the households by income group is in order. In general the income distribution is negatively skewed with nearly one half the households (48.87%) earning less than Birr 100 at the time of the survey. Nearly three-quarters of the households (73.51) were earning Birr 300 or less. This figure is very high even by Ethiopian standards. For instance, as a survey made in 1996 in various parts of the country revealed only about 50 percent of the households earned Birr 300 or less (Mammo, 1996). The town specific values were such that the proportion of respondents earning Birr 300 or less per month was more than 80 percent in the study towns from the grain producing regions whereas it was less than 70 percent in the case of those from those in coffee production regions.

As stated earlier, identifying poverty lines was not within the scope of this study from the outset. Nonetheless, the distribution of households by monthly income that is mentioned above gives a considerable clue as regards the proportion of households that were found in the poverty trap at the time of the survey when examined in the light of already known poverty lines. One such indicator which can help us to appreciate the depth of the problem is an examination of what it means to live on Birr 300 or less per month when seen in the light of the US dollar. The official exchange rate was Birr 8.15 per USD 1.00 at the time of the survey. This means that nearly three quarters of the households lived on less than USD 36.81 per month or at a rate of about USD 1.23 per day. At the individual level, without taking into account differences in age, this means that almost three-quarters of the population lived on about USD 0.21 per person per day. This is clearly worlds away from the USD 1.00 per person day that has been increasingly acknowledged as the cutoff line for identifying people who are found in the poverty trap following the UN Millennium Declaration of September 2000. It is even more striking to know that with the exception of one town, Wenago, none of the respondents in the remaining three study towns had a household with monthly income of more than Birr 2000 (USD 245.40).

As regards changes in household income, as shown in Table 6, slightly more than one half of the respondents reported that their income have increased after the change of government in 1991. Although this finding looks positive, a closer examination of the experience of households in each income category reveals that these increases in income were markedly offset by the income background as well as proportion of the households that reported either decrease or stagnation of income during the given period. In general, the proportion of households reporting increase in income ranged from a low of 46.10 percent in the formerly Birr 201-300 monthly income category to a high of 81.82 percent in the formerly Birr 1001 -1500 monthly income category. As a closer examination of Tables 6 and 7 reveals, proportionally it is households that were formerly in the higher income categories that tended to tip the scale in reporting that their income have increased when compared to those who were in the lower income categories.

It is also interesting to note that it is households that were in the lowest income category during the rule of the Derg that have the highest proportion reporting that their monthly income did not change during the first decade of market oriented reforms. In addition to that more than 60 percent of the respondents who reported decreases in their monthly income were individuals who were earning Birr 200 or less before the fall of the Derg. It thus, appears that while a considerable proportion of the poor seem to have witnessed some upward shift in their monthly income an even larger proportion of people have found themselves in abject poverty during the same period. Obviously, as discussed below, a considerable proportion of the respondents who were found in the lowest income stratum at the time of the survey were people who belonged to higher income categories while the Derg was in power. In addition to this, reporting an increase in income does not necessarily mean escaping from the poverty trap.

Table 6. Distribution of households by income category before the fall of Derg and by reported changes in income during the post 1991 period.

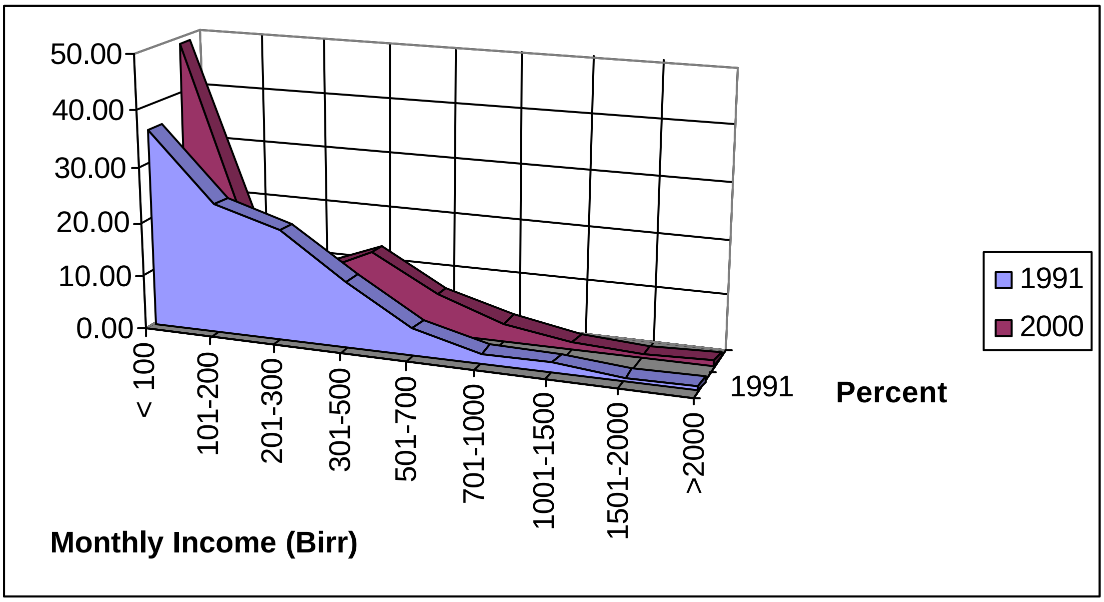
Income Category (Birr)	Reported changes in income						Total	
	Increased		Decreased		No change			
	No.	%	No.	%	No.	%	No.	%
< 100	83	33.74	127	51.62	36	14.63	246	100.0
101-200	44	26.67	108	65.45	13	7.88	165	100.00
201-300	64	45.39	65	46.10	12	8.51	141	100.00
301-500	32	37.65	42	49.41	11	12.94	85	100.00
501-700	12	36.36	20	60.61	1	3.03	33	100.00
701-1000	5	41.67	7	58.33	0	0.00	12	100.00
1001-1500	2	18.18	9	81.82	0	0.00	11	100.00
1501-2000	1	33.33	2	66.67	0	0.00	3	100.00
> 2000 birr	2	40.00	3	60.00	0	0.00	5	100.00
Total	245	34.95	383	54.64	73	10.41	701	100.00

Table 7. Distribution of households by income category after the fall of Derg and by reported changes in income during the post 1991 period.

Income Category (Birr)	Reported changes in income						Total	
	Increased		Decreased		No change			
	No.	%	No.		%		No.	%
< 100 birr	56	15.64	262	73.18	40	11.17	358	100.00
101-200 birr	31	27.19	70	61.40	13	11.40	114	100.00
201-300 birr	26	43.33	25	41.67	9	15.00	60	100.00
301-500 birr	76	78.35	11	11.34	10	10.31	97	100.00
501-700 birr	41	78.85	7	13.46	4	7.69	52	100.00
701-1000 birr	18	81.82	2	9.09	2	9.09	22	100.00
1001-1500 birr	8	88.89	1	11.11	0	0.00	9	100.00
1501-2000 birr	2	66.67	1	33.33	0	0.00	3	100.00
> 2000 birr	6	100.00	0	0.00	0	0.00	6	100.00
Total	264	36.62	379	52.57	78	10.82	721	100.00

As stated earlier the household income data was collected in such a way that the respondent indicates the income category to which he or she belongs. Thus, we have attempted to compute a rather crude mean household income of the survey households based on the class mid point values. The result of the computation showed that the average household income of the four study towns were Birr 236.87 and 237.75 before and after the down fall of the Derg respectively. The poverty line of urban Ethiopia was estimated by the World Bank as Birr 244 for a family of five just about the time this survey was completed (Mulugeta, 2001).. Notwithstanding the fact that the average household size of the respondents from the four study towns was a bit higher than five, this means that not less than 70 percent of the surveyed households were living below the poverty line at the time of the survey. This figure compares reasonably well with the urban poverty index of the towns of the Tigray National Regional State which was estimated to be 66.3 percent during the same period(MOFED, 2002a,). It is also good to note that in 1996 the poverty head count index of Dessie, a large city in the Amhara region was estimated to be as high as high as 71 percent (Amha, 2003).

Figure 2. Percentage distribution of households by monthly income group in 1991 and 2000



As shown in Figure 2, the changes that took place between 1991 and 2000 in the distribution of households by monthly income groups were such that the income distribution of the year 2000 was more negatively skewed than that of 1991. The considerably less even distribution of the distribution of the households by monthly income groups in 2000 were, in fact, suggestive of the prevalence of relatively greater income variations in this period. Figure 2 also shows that the income groups that were most sensitive to the events of post 1991 Ethiopia were those who belonged to the lowest income strata.

The overall implication of the findings mentioned above is that there has been increasing polarization in income between the relatively wealthier and the less fortunate households in the study towns between 1991 and 2000. This is also confirmed by our estimates of the variations in the shares of the total income received by all the respondents during the pre and post 1991 period. Our estimates indicate that households earning Birr 600 or more accounted for 9.17 percent of the respondents and collected 36.7 percent of the monthly income that were generated by all of the respondents in 1991. In the year 2000, the proportion of the respondents that had monthly earning of Birr 600 or above increased to be 12.8 percent of the total whereas their share of the total monthly earnings of all the respondents soared to about 47.6 percent.

The results of the survey, in general suggest that the incidence of poverty has considerably increased in the four study towns during the post 1991 period. This is, in fact very much in agreement with the findings of most of the studies that were made on the country's post 1991 urban household income patterns that are mentioned earlier. Nonetheless, it appears that the incidence of poverty is considerably higher in the study towns and is most probably the same in most other smaller towns of the country. As shown in Figure 2, the proportion of households in the lowest income stratum (less than Birr 100 per month) rose from what was slightly more than one-third of the surveyed households before 1991 to nearly one-half of the same in 2000. In absolute terms, the number of respondents in this income category increased by about 43 percent during the period under consideration. Comparatively the number of those in the next two higher income categories, Birr 101-200 and Birr 201- 300, shrunk by about 40 percent between 1991 and 2000. The next three higher income strata (Birr 301-500, Birr 501-700 and Birr 701-1000) however, jointly gained a 37.4 percent expansion in number of households earning such types of monthly income during the same period.

Table 8. Percentage distribution of households by marital status and monthly income of less Birr 300.00

Monthly Income (Birr)	1991			2000		
	% of total married	Single		% of total married	Single	
		% of total males	% of total females		% of total males	% of total females
< 100	31.21	44.74	50.00	43.87	27.08	70.78
<200	54.53	52.63	72.67	58.74	54.17	88.31
<300	75.34	71.03	92.00	68.59	62.50	92.21

In absolute numbers however, the above mentioned higher income categories gained less than half as many new households as the lowest income stratum during the given period. This means that the greater proportion of the households that were lost by the shrinking Birr 101-300 income category made a downward move along the income strata to join the poorest of the poor. In view of the fact that the public sector was the main source of wage employment in these small towns, most of the gains as well as loses made in the number of households by the various income brackets appears to be partly a result of the structural adjustment program. In fact, it simply appears that the structural adjustment program contributed considerably to the deepening of absolute poverty in urban Ethiopia as a whole by putting out of work a substantial proportion of the academically not so well qualified civil servants that were on the payroll of the Derg. It also appears that the demobilization of at least 400,000 soldiers that served under the Derg has also contributed considerably to the expansion in the incidence of urban poverty in the country as a whole between the years 1991 and 2000.

Another interesting thing that needs to be looked into at this stage is the extent to which changes in household income between 1991 and 2000 have affected household heads belonging to different marital status and gender groups. Our findings indicate that on the whole married couples fared considerably better than those who were out of wedlock whereas males were by far less represented than females in the lowest income strata. As shown in Table 8, the proportion of married household heads who belonged to the lowest income strata of less than Birr 100 per month accounted for about 43.87 percent of all the married respondent in 2000. Comparatively only 27.08 percent of the single male and 70.78 percent of the single female respondents belonged to this income group respectively at the time of the survey. On the whole female headed households accounted for about 20.1 percent of all the surveyed households at the time of the survey. The fact that about 88 percent of such households were earning less than Birr 200 per month at the time of the survey clearly indicates that they were the poorest of the poor in all the surveyed towns. One important factor that explains this is the fact that about 55 percent these females respondents were widows, a phenomenon which is not so surprising to find in post civil war Ethiopia.

Table 9. Percentage distribution of respondents by pre and post 1991 income category and town

Income in Birr	Guder		Kemise		Seka		Wenago	
	Pre 91	Post 91	Pre 91	Post 91	Pre 91	Post 91	Pre 91	Post 91
< 100	33.51	55.44	39.1	59.11	40.72	46.53	30.56	35.05
100-200	30.93	17.10	22.35	16.57	17.37	15.51	21.11	14.95
201-300	17.53	10.88	15.64	6.08	23.35	7.49	23.89	9.79
301-500	12.89	9.33	10.06	8.29	13.17	18.18	11.11	18.56
501-700	4.12	5.18	5.59	4.97	3.59	9.09	5.56	9.28
701-1000	0.52	2.07	1.68	3.31	1.20	2.67	3.33	4.12
1001-1500	0.52	-	3.91	0.55	0.60	0.53	1.67	4.12
1501-2000		-	1.68	1.10	-	-	1.67	0.52
> 2000		-	-	-	-	-	1.11	3.61

An examination of the overall patterns of household income changes in each study town, however, suggests that their agro ecological backgrounds have most probably influenced the proportions of their populations that fell below the poverty line. In fact, as shown in Table 9, the two towns in the coffee production regions have fared considerably better than their counterparts in the grain producing regions in this regard. The proportions of respondents with monthly income of Birr 100.00 or less were 55.44 and 59.11 percent respectively in Guder and Kemise at the time of the survey whereas the comparative figures for Seka and Wenago were 46.72 and 35.05 percent respectively. This difference is also considerably reflected in the estimated mean household income of the towns. The comparative figures for Guder and Kemise were Birr 166.58 and Birr 187.07 respectively whereas those of Seka and Wenago were Birr 221.93 and Birr 371.13 respectively.

Kemise's very high incidence of poverty seems to reside partly in the fact a substantially large proportion of its hinterland consists of a semi-arid region that is inhabited mainly by nomadic pastoralists. Wenago, which displays by far better economic conditions, happens to be located on a moist highland which produces coffee for export. As regards the changes in household income patterns during the given period, however, Guder leads the group in the rate at which its households fell to the poverty trap during the post Derg period. In fact the proportion of people found in the monthly income category of less than Birr 100 in Guder increased by about 22 percentage points in comparison to that of Wenago which increased only by about 4.5 percentage points during the given period. It appears that the post civil war shutting down of an ammunitions factory that was located in the immediate hinterland of the town has adversely impacted the economy of Guder.

Source of Income

One of the principal determinants of family income is the degree to which the main breadwinner of the family is gainfully employed. As the results of the household survey show, about 66.7 percent of the respondents were working at the time of the survey. The overwhelming majority of those who were working were traders whilst substantial proportions were farmers. Those who were not working included former civil servants and military personnel who were pensioners at the time of the survey. A breakdown of those who were not working by gender shows that the proportion of female respondents that were not working was two and a half times as large as that of the males that were not working. This is in part because a good number of the female respondents were housewives. more than about 20.3 percent of the male heads of household were not working. Regardless of these facts, from among those who were working, about 26 percent reported that they had only a temporary employment.

The leading source of monthly household income in the study towns was business both before and after the downfall of the Derg. The single most widely practiced business activity was retail trade which accounted for no less than one-third of business employment both before and after the downfall of the Derg. This finding is consistent with the principal function of the study towns, which as mentioned earlier, is to serve as mediators of local commerce. As the market survey mentioned in the section on research methods showed, most of the businesses that were found in the study towns at the time of the survey were small self-employed enterprises with a an average starting capital of Birr 1867.00. It is even more interesting to note that about one half the traders started their businesses with an initial capital of Birr 430.00 or less. While the average number of years the traders were in business was 12 years, about 53 percent of the total started their businesses after the new government began to launch the market oriented reforms. It therefore appears that the economic liberalization has in one way or another contributed to the expansion of small businesses in the study towns. As shown below, however, what really took place in these towns as regards businesses between 1991 and 2000 appears to be more of the reshuffling of the actors rather than a meaningful expansion in the number of business establishments. It just appears that some of the traders resorted to trade as a survival strategy in response to the adverse effects of the market oriented reforms and the structural adjustment program while some others were filling in some of the market niches that were previously held by the “kebeles” (neighborhood associations), other cooperative societies and individuals who could no longer stay in business. For instance, this can be seen in the fact that about 20 percent of those who were found running one or another small business in the study towns were formerly farmers while about 9 percent were serving as government employees prior to starting their businesses.

Wages and salaries were second only to business and were followed by farming as the main sources of income in the study towns. Public sector employment in the forms of civil and military service accounted for more than 80 percent of all wage employment in the study towns both before and after the downfall of the Derg. On the whole, the share of public sector employment has remained at about 25 percent of all forms employment in the towns regardless of the impact of the structural adjustment program.

Table 10. Distribution of the respondents by main source of income.

Source of income	Year			
	1991	%	2000	%
Wages/Salaries	197	29.06	220	30.39
Business	307	45.28	305	42.13
Farming	109	16.08	74	10.22
House Rent	4	0.59	15	2.07
Pension	16	2.36	41	5.66
Others	45	6.64	69	9.53
Total	678	100.00	724	100.00

As shown in Table 10, the proportion of respondents that reported business as their main source of income has dropped from 45.28 percent in 1991 to 42.13 percent in 2000. Comparatively, the proportion of household heads depending on wages and salaries has increased slightly from 29.06 percent to 30.29 percent during the same period. As a closer examination of Table 10 reveals however, the changes that took place in the actual numbers of respondents that depended on both sources of income were considerably lower than what was suggested by these proportional changes. In fact, both sectors seem to have experienced more of stagnation than growth. The actual number of household heads that were dependent on business as their main source of income remained virtually the same while that of those depending on wages and salaries grew at less than 1 percent per annum during the period under consideration. In sharp contrast to these developments, the populations of the study towns were growing on the average at rates of more than 4 percent per annum during the same period.

One area where the economic liberalization seems to have had a slight positive impact was in the number of households that were depending on rental income as a main source of income. As table 10 shows the number of such households, though still very small has grown four fold during the time under consideration. Apart from this, as discussed earlier, it was the job losses that seem to have been more significant rather the creation of new jobs in the study towns between 1991 and 2000. For instance, the number of household heads who depended on farming has shrunk by about 29 percent whereas the number of pensioners has grown by 156 percent. The shrinkage in the number of those who were previously dependent on farming can be partly explained by the fact that the sector has lost a substantial number of its labor force to the trade sector as mentioned earlier. It is also interesting to note that that that are classified as others (household heads with no regular income and were largely dependent on the support of others) has grown by 53 percent. The phenomenal growth in the number of pensioners and those that are classified as others is in fact, one of the leading factors that explain the above discussed rise in the incidence of poverty in the study towns.

At this point it is also interesting to note that about one fifth of the total household heads depended on trade as a secondary source of income during the pre 1991 period. Almost exactly the same proportion depended on agriculture as a secondary source of income to make ends meet during that period. The proportion of households depending on either activity as a secondary source of income has shrunk to about 20 percent in the year 2000, suggesting that there has probably been considerable job loses in both sectors. The principal causes for private sector job losses as regards both the main and the secondary sources of income are unclear. During the survey about 14 percent of those whose monthly income have fallen reported that they had lost their jobs while about 4 percent gave retirement as the main reason for their loss of jobs and decrease in income. It is also interesting to note that about 27 percent of those whose income have fallen blame market related problems as the main cause of decrease in their monthly income while about 5 percent reported that they were forced to close their businesses all together due mainly to poor market conditions.

To sum up, it appears that there are two plausible explanations for the observed weaknesses in the post 1991 economies of the study towns. First, it appears that the positive economic impacts of economic liberalization did not trickle down to the study towns on scales that would lead to employment growth in the leading sectors of their economies. Secondly, whatever positive impacts the reforms might have had, it appears that they were significantly offset by their own negative impacts as well as by the structural adjustment program.

Relationship betweenMonthly Income and Expenses

In the preceding pages we have discussed at length that there has been a marked decline in the income of the households in the lowest income strata between 1991 and 2000. It goes without saying that households in such income categories are far from covering their basic expenses based on the types of income that we mentioned earlier. Nonetheless, no one else other than the people themselves knows better the gap that exists between their monthly earnings and the money that they require for meeting their basic needs. Based on this understanding, the respondents were asked to assess the relationships between their income and expenses. The assessment was based on four scales of qualitative measurement namely highly sufficient, sufficient, insufficient and highly insufficient .

Table 11. Distribution of respondents by their views regarding the adequacy of their monthly income to cover their basic expenses

Monthly Household Income	1991		2000	
	Number	%	Number	%
Highly sufficient	79	11.4	39	5.1
Sufficient	337	48.6	156	20.3
Insufficient	216	31.2	228	29.6
Highly insufficient	61	8.8	347	45.1
Total	693	100.0	770	100.0

Table 12. Percentage distribution of respondents by monthly income and their views regarding the adequacy of their monthly income to cover their basic expenses.

Monthly Income (Birr)	Adequacy of Monthly	
	Sufficient	Insufficient
<100	8.68	91.32
101-200	28.81	71.19
201-300	30.16	69.84
301-500	41.18	58.82
501-700	46.15	53.85
701-1000	81.82	18.18
1001-1500	90.00	10.00
1501-2000	66.67	33.33
>2000	100.00	0.00
Total	25.34	74.66

As shown in Table 11, the number of household heads who viewed their 1991 monthly income either as sufficient or as highly sufficient was twice as large as those who thought the same about their monthly income in 2000. Comparatively, the number of those that thought their 1991 monthly income were highly insufficient was five times fewer than the number of those that thought the same about their 2000 monthly income. On the whole Table 10 shows that while the proportion of people who thought that their 1991 or earlier income were insufficient to cover their basic needs was 40 percent of all the respondents, the proportion that thought the same about their year 2000 monthly income was as high as 74.7 percent. This finding is not in conflict with our earlier crude estimate that no less than 70 percent of the households in the study towns were living in poverty.

We have attempted to double check the extent to which the above presented ratings of the relationships of income to expenses were reasonable by examining the extent to which those who rated their income as insufficient were also those who belonged to the lowest income stratum. As Table 11 shows, the proportion of those who rates their monthly income as insufficient was on the whole inversely related with their income categories. As expected the group with the highest proportion rating their income as insufficient were those that were in the lowest income stratum. Obviously, the case of those in the Birr 1501-2000 income category appears to be somewhat out of the place in Table 11. This anomaly could possibly a product of error in entering a single data point because the absolute numbers in this case were such that only 1 out of a total of 3 respondents rated his/her income as insufficient thus giving the rather misleading figure of 33.33 percent. It is also important to note here that virtually all of the 7 respondents in the next higher income group (more than Birr 2000) rated their monthly income as sufficient to cover their basic expenses.

Fast Rising Prices

The reason why about three quarters of the households thought that their monthly household income were insufficient to cover their basic needs seems to lie as much in their declining or stagnating income as it does in the rising cost of food and other non-food consumer items. The first real blow to the purchasing power of the consumers happened when the new government devalued the Birr by about 143 percent ( ) quite shortly after it came to power. Most respondents agreed that the economic liberalization has significantly improved the availability of many consumer goods that were in woefully short supply under the rule of the Derg. Among the products that were reported as being scarce while the Derg was in power were found grains, pulses, salt, sugar, medicines, soaps and petrol. About 71 percent of the respondents reported that there was no more scarcity of these items in the year 2000, indicating perhaps one more or less direct positive outcome of the market reforms.

The increased availability of the above mentioned consumer goods, however, was not made possible without cost. During the days of dire scarcity a good number of these goods were rationed to urban households through kebele cooperative stores. This food rations were also used by the Derg as political tools to ensure the loyalty of urban households to kebele administrations, the principal role of which was none other than detecting and suppressing all forms of descent. Even though there was a parallel private market in place, its functions were significantly crippled by price control and various other discouraging measures including restrictions on the inter-regional mobility of persons and goods. All of these drawbacks were lifted following the introduction of market oriented reforms. As the laws of demand and supply started to work in a relatively less controlled environment, the prices of basic consumer goods and services increased much faster than expected. On the contrary as discussed above, a substantial number of households saw their monthly income falling due in part to the structural adjustment program and also as a result of the demobilization of hundreds of thousands of the soldiers that served and the military junta. The consequence of all of this was increased hardships in the lives of thousands.

During the household survey, the respondents were asked to indicate the magnitudes of increase in the prices of basic consumer goods and services during the post 1991 period. As shown in Table 12, the respondents unanimously agreed that the price of almost every basic food and non-food items have increased considerably. On the whole the overwhelming majority agreed that the prices of food items, firewood, water supply, medicines and the cost of transportation have risen highly.

Table 13. Percentage distribution of respondents by their rating of post 1991 changes in the prices of selected consumer goods and services

Consumption Items	Post 1991 Prices of Consumer goods and services				
	Decreased	Some what increased	Increased very much	No Change	Total
Food	3.3	108	82.4	3.3	100
House rent	10.5	13	33.6	42.9	100
Clothing	20.4	21.1	48.6	9.9	100
Firewood	3	13.5	78.6	4.9	100
Gasoline	0.5	8.8	63.4	27.4	100
Electricity	7.1	17.3	49.8	25.8	100
Water	2.8	12.8	82.4	2.1	100
Medicine	7.6	5.9	84.5	2	100
Transportation	3.1	11.3	82.9	2.8	100
Liquor	3.1	25.4	61.8	9.8	100
Stationary	4.7	27.5	55.7	12.1	100

The ratings of the respondents concerning how prices changed between 1991 and 2000 were considerably reflections of the changes that were observed all over the country during the given period. For instance, the country level consumer price index (inflation) for food and transport were 9.5 and 25.6 percent respectively during the 1998/99 fiscal year at constant prices of 1995/96. As more recent data shows, it appears that the problem has worsened due in part to changes in weather conditions that have adversely affected the rural economy. As regards food price inflation, it appears that the region that was hit the hardest by inflation in the recent past was Oromia which witnessed a 32 percent inflation (MOFED, 2003). Since two of our study towns, namely Guder and Seka, are found in this region, it is not difficult to see how tougher making ends meet might have become for people in the lowest income strata in these places in the recent past .

Access to housing and basic services

Scholars often use data on housing conditions and access to housing and public services as indicators of the levels of socio-economic wellbeing of urban households. As regards access to housing, it was found that approximately one-half (51.6 %) of the respondents were homeowners. This is rather a high homeownership rate when seen in the light of the magnitude of poverty that prevails in the study towns. The most interesting thing here is that it is not their tenure status per se which indicates the economic wellbeing of households in the smaller towns of post 1974 Ethiopia. It was perfectly possible for a household to be owner occupier and at the same time live below the poverty line in virtually all towns of the country ever since urban land was nationalized in 1975. In fact, during the survey we found that two-thirds of the homeowners (67 %) reported that they acquired their housing units after 1975. Only 14.1 percent of all the home owners secured their units through inheritance whereas 70 percent of them constructed the units by themselves.

The quality of the physical housing shell, the extent to which it is connected to basic public services and its occupancy rate as expressed through room density (persons per room) can provide by far a better information than tenure status on the extent to which households are adequately housed in urban Ethiopia. As the results of our survey show, most of the homeowners and the tenants were poorly housed as far as housing quality was concerned. For the most part the units in which they dwelt were extremely small in size and lacking in one or another physical attribute. The walls of only 6.8 percent of the units occupied by the respondents were made from stones, bricks or hollow concrete blocks while the rest were made from much less durable materials such as wood and mud. About 75.8 percent of the households lived in units had no ceiling whatsoever. Only 23.6 percent lived in houses that had cement screed floors while the rest lived in houses with predominantly un-surfaced dirt floors. On top of this, about one-half of the households lived in units had a total of 3 rooms or less. This is quite worrisome in view of the fact that most of the rooms are small while the average household size was 5.89 persons per household. On the whole, the room density of the study towns was 3.2, a figure which is in excess of the UN defined maximum tolerable occupancy rate of 3 persons per room. The problem of overcrowding is even worse than what this figure shows because a good number of the living rooms are also used for cooking and commercial purposes. In fact only 19.2 percent of the respondents lived in units that had rooms purposely built to serve as kitchens whilst about 15 percent lived in houses that had dual functions as residential units and business establishments.

When it comes to toilets, about 69.6 percent of the housing units had private toilets whilst 19.6 percent had no toilets whatsoever. The condition of the units was dismal when it came to access to clean water. Only 21 percent of the households lived in housing units that had private water meters whilst 72.1 percent lived in units that had no access to tap water. Comparatively the number of households living in units with private electric meters was 47.6 whereas the proportion of those living in units that had no access to electricity accounted for 27.5 percent.

One important conclusion that can be drawn from the discussion of the housing quality of the surveyed households of the study towns is that except in the cases of electricity and toilets, well over 70 percent of the households were living in poorly built substandard units in overcrowded conditions. This finding tallies very well with our earlier modest estimation that no less than 70 percent of the households were living in poverty at the time of the survey.

Summary of Findings

The Marxist junta that ruled Ethiopia staring from 1974 was beginning to show interest in economic liberalization when it was deposed by the Ethiopian Peoples Revolutionary Democratic Front in June 1991. The new government took up from where the military junta left and continued to introduce market oriented reforms in the country on scales that the deposed regime probably never dream of. Apart from keeping both urban and rural land under government control, it strived to set a conducive ground for the development of a market based economy in Ethiopia. The reform program included such measures as the devaluation of the Birr, privatizing the main business and industrial establishments that were nationalized by the previous regime and introducing a land lease policy which to facilitate access to land for domestic as well as international investors.

The principal objective of this study was to asses the extent to which the market oriented reforms influenced the livelihoods of the average household in the smaller towns of Ethiopia with a special emphasis on the changes took place in monthly household income. The primary data used in this study was collected through a household survey that covered a total of 800 households and 300 traders in four purposely selected small towns, namely Guder, Kemise, Seka and Wenago. Guder and Kemise were located in the predominantly grain producing regions of Western Oromia and Southern Amhara respectively. Seka and Wenago were towns located in the major coffee production areas of southwestern Oromia and the Southern Nations, Nationalities and Peoples region respectively.

The distribution of the surveyed households by monthly income was such that about 73.51 percent of the respondents earned Birr 300 or less per month in the year 2000. Since the proportion of the surveyed households belonging to the same income category was 79.02 percent in 1991, it appears that a considerable number of households in this income category have experienced a rise in their monthly income between 1991 and 2000. Such upward shifts in monthly income have also been observed in the cases of those who earned Birr 500 or more. The overall picture however, was such that these positive gains have been considerably offset by the fact that the proportion of the numerically much larger group of households with monthly earnings of Birr 200 or less increased from 59.02 percent in 1991 to 64.9 percent in 2000. The proportion of an even larger group, that of households belonging to the lowest income stratum of less than Birr 100 per month, increased from what was just over one-third of the total (35.8%) in 1991 to nearly one-half of all the respondents (48.9%) in 2000.

The overall nature of the changes that took place in the monthly income of the surveyed households was such that there has been an increasing polarization of income between the relatively wealthier and the less fortunate households. In fact the results of the survey showed that households with monthly earnings of Birr 600 or more, while accounting for only 12.8 percent of the respondents, were collecting nearly one-half (47.6 %) of the overall sum of the monthly income that was generated by all the respondents. Households belonging to this income category accounted for 9.2 percent of the total surveyed households and collected just over one-third (36.7) percent of the income generated by all the households in 1991.

The inequality in income is even more pronounced when examined from the point of view of marital status and gender perspective. In general married household heads fared considerably better than those who were single. From the gender perspective, it was clear that female headed households who were the ones that were hit the hardest by the above mentioned decline in monthly household income. As result, 70.78 percent of the females who were not in wedlock for one reason or another belonged to the lowest income stratum whereas only 27.08 percent of the single males belonged to the same income group in 2000. Irrespective of all these differences, however, the majority of both the married and single household heads lived in poorly built housing units that had no access to one or another type of basic public services.

The leading source of income in the four study towns was business owing largely to the fact that the towns were mediators of local commerce in predominantly agricultural areas. Wages and salaries were second in importance as principal sources of income followed by farming. The growth of trade and wage employment was not impressive during the period under consideration whereas there was even a marked decline in the number of household heads depending on farming as their main source of income. The net effect of this was that the overall mean monthly income the surveyed households did not change appreciably during the time under consideration. It therefore, appears that the economy of the four study towns has either stagnated or even declined between 1991 and 2000. The town specific indicators in this regard however, show different results which suggest that those towns which had more tradable goods have performed relatively better than those without them. This can be seen in the fact that, as compared to households in the towns of grain producing regions, considerably fewer households were found in the lowest income stratum in the towns of the coffee producing regions.

The findings of this study in general suggest that the rise in the incidence of poverty which was observed in the larger cities of the country during the fist decade of economic liberalization was also true probably for most of the smaller towns of the country. The only difference in the case of the study towns however, is that they seem to have witnessed a considerably larger proportion of their households falling into the poverty trap in comparison to the larger cities. It just looks that the structural adjustment program, the demobilization of hundreds of thousands of former soldiers and police men and women, the privatization of various state corporations and parastatals in unison with the devaluation of the Birr and the lifting up of price controls had much to do with the phenomenal increase in the proportions of households who found themselves in the lowest income stratum after nine years of market based economy. Thus it appears that the expected positive impacts of economic liberalization have been considerably offset by their unintended negative influences.

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