NATIONAL HUMAN DEVELOPMENT REPORT 2014
ETHIOPIA

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Accelerating Inclusive Growth for Sustainable Human Development in Ethiopia

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Addis Ababa, Ethiopia

Foreword

I am pleased to present the 2014 National Human Development Report, which has been written on the theme of "Accelerating Inclusive Growth for Sustainable Human Development in Ethiopia." It is over 15 years since the last National Human Development Report for Ethiopia was published and much has changed in the intervening period. The Government has been engaged in a major effort to transform Ethiopian society and place the country on a trajectory to become a middle-income economy by the year 2025. Over the last several years, the economy grew by nearly 10 per cent per annum, one of the fastest growth rates registered in the world. During this time, significant attention has been given to upgrading economic and social infrastructure and promoting pro-poor spending on education, health, and other services that benefit the poor and marginalized. Ethiopia's social safety net system was able to avert famine and mass suffering when drought struck the country in 2011, in contrast to the tragic events when drought struck in preceding decades. By the same token, the poverty rate fell from 38.7 percent per cent in 2004/05 to 26.0 per cent in 2012/13. Likewise, Ethiopia is on track to meet most of the eight Millennium Development Goals (MDGs) by 2015.

Despite the major economic and social improvements over the last decade, some 25 million Ethiopians currently remain trapped in poverty and vulnerability. With a Human Development Index (HDI) of 0.435 in 2013, the country is still classified as a "low human development" country, based on UNDP's Human Development Index. One of the key challenges for Ethiopia in its quest to become a middle-income country is therefore to ensure that all Ethiopians fully benefit from the phenomenal progress that the country has registered and that all have the opportunities to realize their human development potential.

This Report has been written to encourage debate and policy discussions on what further steps are needed to ensure that the goal of inclusive growth and enhanced human development is achieved. I commend the authors for computing regional HDI values – the first time this has been done for Ethiopia - to track progress and show disparities between the regions in Ethiopia. The report has been prepared with several diverse audiences in mind. It is intended for policymakers, development organizations, the private sector, civil society, students and the academic community. It is hoped that it will stimulate debate and engage Ethiopians throughout the country, as well as international partners, in creating opportunities that strengthen and advance human development so that Ethiopia can successfully achieve its laudable development goals.

Eugene Owusu
Resident Representative
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Acknowledgements

Preparation of the Ethiopia National Human Development Report 2014 (NHDR) has been done in consultation with the Ministry of Finance and Economic Development (MoFED) and the National Planning Commission (NPC). A concept note was prepared to guide the preparation of this NHDR, and the entire preparatory process was coordinated by a core team drawn from the Development Planning and Research Directorate of MoFED/NPC and the Policy Advisory Unit of UNDP. Consistent with the NHDR Policy Guidelines, particularly to ensure independence and national ownership, the preparation of this NHDR followed a collaborative and consultative process. A Technical Working Group (TWG) was formed composed of members from relevant departments of MoFED/NPC, UNDP, the Ministry of Health, the Ministry of Water and Energy, the Central Statistics Agency, the Ethiopian Roads Authority, the Ethiopia Development Research Institute, Poverty Action Network (PANE) and the Ethiopian Chamber of Commerce and Sectoral Associations.

The initial drafting of the Report was undertaken by a team of consultants and benefitted from inputs and revisions from UNDP Country Office staff and counterparts from the NHDR Technical Working Group, the UNDP Regional Bureau for Africa (RBA) Economists Network, a Readers' Group, and other experts.

The NHDR core team responsible for the overall direction and management of the report preparation process comprised: James Wakiaga, Senior Economist, UNDP; Haile Kibret, National Economist, UNDP; Roza Mamuye, Economics Associate, UNDP, Temesgen Walelign, Director, Development Planning and Research Directorate, MoFED/NPC; Solomon Alayu, Senior Expert, Development Planning and Research Directorate, MoFED/NPC; and Getahun Tafesse and Thomas Stephens, consultants. Georgina Wilde provided invaluable editorial support in preparing the document for publication.

The Technical Working Group included, along with the core team: Heyeru Hussien; Gebreegzabihere Gebru; Wondwosen Damte; Teshome Adno; Daniel Mengistie; Nurmeded Jemal; Eliyas Girma; Haregewoin Tekle; Mohammed Hussen; and Eyassu Gebru, The institutional affiliations of the Technical Working Group members are listed in Annex 2.

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Given the short time frame for completing the NHDR, the team relied mostly on existing data sources. The process was aided by the existence of a number of recently completed national surveys, such as the 2011 Household Consumption and Expenditure Survey (HCES), the 2010/11 Welfare Monitoring Survey, and the Demographic and Health Survey (EDHS), that helped to illuminate recent trends in the human development situation in the country. The team also used a number of reports and studies completed by the Government of Ethiopia and partners, which provided an in-depth analysis of recent socio-economic trends.

The comments and insights provided by the wide range of policymakers, senior managers and technical experts were invaluable for ensuring that the scope and direction of this report covered multiple perspectives.

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List of Abbreviations and Acronyms

AfDB	African Development Bank
APR	Annual Progress Report
ATA	Agricultural Transformation Agency
Br	Ethiopian birr
CSA	Central Statistical Agency
CSO(s)	Civil Society Organization(s)
DAG	Development Assistance Group
DBE	Development Bank of Ethiopia
DHS	Demographic and Health Survey
EEA	Ethiopian Economics Association
EFY	Ethiopian Fiscal Year (July 8-July 7)
EPA	Environmental Protection Authority
EPRDF	Ethiopian People's Revolutionary Democratic Front
ERA	Ethiopian Roads Authority
ERCA	Ethiopian Revenue and Customs Authority
ETC	Ethiopian Telecom Company
EU	European Union
FAO	UN Food and Agriculture Organization
FDI	Foreign Direct Investment
FEACC	Federal Ethics and Anti-Corruption Commission of Ethiopia
FTA	Financial Transparency and Accountability
GDP	Gross Domestic Product
GEF	Global Environment Facility
GEQUIP	General Education Quality Improvement Programme
GER	Gross Enrolment Rate
GHG	Greenhouse Gases
GNI	Gross National Income
GoE	Government of Ethiopia
GPI	Gender Parity Index
GTP	Growth and Transformation Plan
HDI	Human Development Index
HDR	Human Development Report
HEW(s)	Health Extension Worker(s)

HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune-deficiency
HCE	Household Consumption-Expenditure
HICE	Household Income, Consumption and Expenditure
HSDP	Health Sector Development Plan
HSDP	Health Sector Development Programme
ICT	Information and Communications Technology
IDA	International Development Association
Kebele	Ethiopian (Amharic) term for a village or community
LSMS	Living Standards Measurement Study
M&E	Monitoring and Evaluation
MDG(s)	Millennium Development Goal(s)
MDTF	Multi-Donor Trust Fund
MFI(s)	Micro-finance Institution(s)
MoARD	Ministry of Agriculture and Rural Development
MoE	Ministry of Education
MoFED	Ministry of Finance and Economic Development
MoH	Ministry of Health
MoLSA	Ministry of Labour and Social Affairs
MoWCYA	Ministry of Women, Children and Youth Affairs
MSME(s)	Micro, Small and Medium Enterprise(s)
NAP	National Action Plan for Gender
NBE	National Bank of Ethiopia
NER	Net Enrolment Rate
NGO(s)	Non-Governmental Organization(s)
NHDR	National Human Development Report
NPC	National Planning Commission
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PPDF	Public-Private Dialogue Forum
PPP(s)	Public-Private Partnership(s)
PSNP	Productive Safety Net Programme

RSDP	Road Sector Development Programme
SDPRP	Sustainable Development and Poverty Reduction Programme
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SNNPR	Southern Nations, Nationalities and Peoples Region
SOE	State-owned Enterprise
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
US$	United States Dollar
VAT	Value-added Tax
WEF	World Economic Forum
WIDE	Well-Being and Ill-Being Dynamics in Ethiopia
WFP	World Food Programme
WMS	Welfare Monitoring Survey
WMU	Welfare Monitoring Unit
Woreda	Ethiopian (Amharic) term for a district

Executive Summary

Over the 15 years since the country's last National Human Development Report (NHDR) was published Ethiopia has undergone significant economic and social changes and has recorded some of the highest growth rates in the world-over 10 per cent in some years. However, Ethiopia's Human Development Index (HDI) and its relative ranking have not moved appreciably during the past decade. Even though Ethiopia is one of the 10 countries globally that has attained the largest absolute gains in its HDI over the last several years, it still ranks 173rd out of 186 countries in the latest UNDP Human Development Report.

It is this development challenge that underlines the fact that the preparation of the NHDR is so opportune now and why the focus of the report on "inclusive growth for sustainable human development" is so apposite. In 1998, when the last NHDR was written, the development challenges facing the country were considerably different, even if poverty was then and still is the most challenging development issue facing Ethiopia. At that time, the threat of severe drought and famine still pressed upon the national psyche, as did the multiple challenges of overcoming decades of war, civil strife and socio-economic disruption.

To address these development challenges, since 1998 the Government has introduced a completely new development framework that ushered in fundamental changes in policies, as well as in the institutional and administrative structures of governance. In this context, the Government prepared a number of strategic policy documents and national plans that sought to articulate the national policies and priorities that would put Ethiopia on a solid human development trajectory, with the overall objective of charting a path towards fulfilling Ethiopia's stated national vision:

> *. . . to become a country where democratic rule, good-governance and social justice reign, upon the involvement and free will of its peoples, and once extricating itself from poverty to reach the level of a middle-income economy as of … [2025].*[1]

1 MoFED,2010, p.1. N.B. The Government has amended the target date for achieving middle-income status from 2023 to 2025.

Socio-Economic Policies and Performance

At the centre of the country's strong economic and social performance has been the Government's proactive and leading role in shaping socio-economic policy. With its goal of making Ethiopia a middle-income country no later than 2025, the Government, among other things, has been investing heavily in economic and social infrastructure, streamlining public services, revamping the tax collection system, and supporting small and medium enterprises (SMEs). It has also prioritized key sectors such as industry and agriculture, as drivers of sustained economic growth and job creation. The most recent data, for 2012/13, reveal that GDP registered a growth rate of 9.7 per cent, which was accompanied by an increase in the savings rate and, backed by a prudent fiscal policy, the budget deficit was contained at 2 per cent of GDP.

High economic growth and enhanced pro-poor investments have helped reduce poverty in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty, and the share of the population below the poverty line fell from 38.7 per cent in 2004/05 to 26 per cent in 2012/13 (using a poverty line of US$0.60/day). However, because of high population growth, the absolute number of the poor (about 25 million) has remained largely unchanged over the past fifteen years.

In line with the Growth and Transformation Plan (GTP), pro-poor sector spending as a share of the federal government budget has increased steadily from 28 per cent in 1999/2000 to 70 per cent currently. Nevertheless the tax take to GDP ratio remains low at 12.5 per cent in 2012/13 in contrast to the Sub-Saharan Africa (SSA) average of over 20 per cent, and external assistance in providing basic services remains critical.

In looking at the social sectors, education has been expanding rapidly in Ethiopia over the past 15 years, and net enrolments in primary school have almost trebled since 1994. Currently, 85.7 per cent of Ethiopian primary age children are attending primary school. Secondary school enrolment has risen too, but remains at quite low levels, especially in rural areas and among the poorest income groups. Only in the last five years did the gender gap start decreasing

at the secondary education level, whereas the Government has succeeded in achieving gender parity at primary level. Trends in access to basic health services and health gains have also shown dramatic improvements over the last 10 years. Life expectancy, a key component of the HDI, has increased for both men and women. In line with the GTP and Health Sector Development Plans, the Government has been making strong efforts to provide health services for local communities, achieving impressive results in service expansion.

Inclusiveness of Growth

Despite the generally favourable policy and institutional framework, the analysis in this Report reveals that inclusive growth and development is occurring only slowly across the entire country and among certain socio-economic groups. Ethiopia's rapid growth and development are thus not being evenly distributed throughout the country, nor are they spreading fast enough, with emerging regions in particular remaining relatively disadvantaged.

Regarding employment creation, there were an estimated 1.4 million new entrants to the labour force in 2005, and their number will rise to 3.2 million per year by 2050. These are therefore the additional number of productive jobs and employment opportunities that must be created in Ethiopia each year, assuming there is no backlog of unemployment If not, poverty and international emigration rates will rise accordingly.

Ethiopia's Policy and Institutional Framework

The Government's focus on governance and on local decision-making underpin Ethiopia's progress in human development. Considerable attention has been given to decentralization and the devolution of power to the regional states and local levels. The Government recognizes that the basic prerequisites for development include peace and security, a good governance system that is based on accountability and transparency, popular participation, and a democratic system that ensures freedom as well as human and property rights. It is understood that people must not only be beneficiaries of the development process, but also be the main actors in the design and implementation of development policies, strategies and programmes.

From a national planning perspective, the Government is to be commended for its pursuance of carefully interlinked long-term strategic, medium-term and short-term annual plans, supported by appropriate institutional arrangements and carefully monitored implementation. The Government generally follows a process of policy formulation and planning that is both bottom-up and top-down.

The Government is also recognized for introducing ambitious development strategies and plans. Based on the Ethiopian Constitution and the long-term development vision, the government initially developed a series of 20-year, long-term plans focusing especially on the social sectors. These long-term plans in turn were used as the bases for developing a series of five-year medium-term development plans. In turn, annual plans were developed for key sectors based on the five-year plans. The Government furthermore developed medium-term expenditure frameworks that created inter-linkages between available public finance and the plans.

From a planning perspective, the major question for the Government is the optimal role of the state and the private sector in an economy which has made significant progress under a Developmental State model, but still needs to promote a more dynamic and diversified domestic private sector that serves both local and export markets and offers more Ethiopians productive employment. There is significant scope for improvement because the share of the private sector in employment, production and investment remains low. The Government should continue investing in human capital to drive growth, innovation and productivity.

Conclusions and Recommendations

By any measure, Ethiopia's achievements over the past decade have been impressive: average annual economic growth rates of over 10 per cent over the past decade; major investments in economic and social infrastructure; notably high pro-poor expenditures for social services; and corresponding improvements in a number of social indicators, including a reduction in the poverty headcount from 38.7 to 26 per cent between 2004/05 and 2012/13.

Despite these positive outcomes, Ethiopia still faces many daunting human development issues. Some 25 million Ethiopians remain in poverty, and these and many Ethiopians just above the poverty line are vulnerable to shocks and food insecurity. Maternal health care has lagged well behind other health statistics and the availability of effective health care is inconsistent across the country. Educational indicators suggest ongoing problems with the quality of education, as shown by retention rates and educational performance markers. Perhaps most worrying from the standpoint of inclusive growth are the high rates of un- and underemployment in both urban and rural areas, especially as large numbers of productive jobs for the poor and near-poor are needed under current and projected labour market trends. Economic growth over the past decade has generally meant an increase in productivity and output levels in some parts of the economy, but these have been accompanied by increasing severity of poverty.

To address the need for more inclusive growth and accelerated human development, the Report offers a series of recommendations addressing the following policy priorities:

1. Although the incidence of poverty has substantially declined in the past decade, poverty severity is increasing indicating that there is a need to focus on reaching the poorest of the poor more effectively. In addition some 25 million Ethiopians are still below the national poverty line.
2. The linkages between agriculture, manufacturing and the services sector should be strengthened. A concerted effort is needed to increase agricultural productivity, thereby enhancing agro-processing and increasing the share of industry particularly in the manufacturing sub-sector.
3. Addressing youth unemployment should be a top government priority. To address youth unemployment Government should further strengthen its support for technical and vocational training and for SMEs to effectively nurture entrepreneurship and productive job creation.
4. Government should strengthen support to the private sector to engage in the productive sectors of the economy particularly in manufacturing and the services sector. This could be achieved by expanding access to credit and continuing to invest in infrastructure with a view to lowering business transaction costs.
5. Despite tremendous expansion in education at all levels in the past several years, there is a pressing need to invest more in both the quality and continuity of education services.
6. There is a need to accelerate investment in the quality of health care services. Like the education sector, the Government may wish to consider designing and implementing a health service quality improvement programme.
7. As stipulated in the National Population Policy, it is important for Ethiopia to ensure the harmonization of population growth and socio economic development so as to safeguard human development gains and promote inclusive growth and the welfare of the population.

An important conclusion emerging from this report is that the Ethiopian government has consistently demonstrated the political will to address forthrightly the myriad and competing interests associated with formulating a consensus-driven development agenda, and then to follow through rigorously on the implementation of that agenda. A key element in this process has been the Government's ability to adapt policies, strategies and programmes as needed to meet overall national goals. This model of adaptation and re-examination, rather than entrenched rigidity, will provide the underlying dynamism necessary for Ethiopia to achieve the national vision of becoming a middle-income economy by 2025, while significantly accelerating human development and inclusive growth for all Ethiopians. In short, the analysis suggests that it is the improved implementation and fine-tuning of policy, not alterations to the broad policies themselves that will, in the coming years, have the most impact on accelerating the pace of Ethiopia's inclusive growth.

1 Introduction

It has been over 15 years since the last National Human Development Report on Ethiopia was published. Since that time, Ethiopia has undergone significant economic and social changes and has recorded some of the highest growth rates in the world- over 10 per cent in some years. On the other hand, the relative ranking of Ethiopia's Human Development Index (HDI) has not moved appreciably during the past decade, when compared with other developing countries that have registered similar growth rates. Ethiopia is one of the 10 countries globally that has attained the largest gains in its HDI over the last several years, but in the most recent Human Development Report (2014) Ethiopia ranks 173rd out of 187 countries. It is this predicament and the development challenge that it poses that makes the preparation of a new NHDR so opportune, and the focus of the report on "inclusive growth for sustainable human development" so apposite. The current Report also comes at a time when the Government of Ethiopia has embarked on the formulation of a successor medium-term strategy to the Growth and Transformation Plan (GTP), and will decide what policy and programme changes are necessary to meet Ethiopia's overriding development target of becoming a middle-income country by 2025.

When the last National Human Development Report (NHDR) was issued in 1998, the development challenges facing the country were different. While poverty was then, as now, the most serious problem facing Ethiopia, this was

Box 1.1 Ethiopia at a Glance

Population:	85.8 million (2013)
GDP:	US$46.6 billion (2013)
GDP per capita:	US$550 (2013)
Annual Average Br/US$ exchange rate:	18.3 (2012/13)
Life expectancy at birth (years):	62.2 (2013)
Primary school gross enrolment rate (%):	95.3 (2012/13)
Births attended by skilled health professional (%):	23.1 (2012//13)
Contraceptive prevalence rate (%):	28.6 (2011)
Literacy rate (% of both sexes aged 15 and above):	46.7 (2011)
Unemployment rate (urban) (%):	16.5 (2012/13)
Unemployment rate among urban youth (15-29) (%):	23.3 (2011/12)
Areas further than 5 km from all-weather roads (%):	45.8 (2012/13)
Mobile phone subscribers (million):	23.8 (2012/13)
Poverty incidence (%):	26.0 (GTP/APR 2012/13)
HD Index:	0.435 (2013)
HDI rank:	173/187 (2013)

Sources: MoFED, 2013; MoE, 2013; MoH, 2012; UNDP, 2013; UNDP,2014

compounded by the threat of severe drought and consequent famine, and by the legacy of decades of war, civil strife and socio-economic disruption.

To address these challenges, the Government introduced a completely new development framework that ushered in fundamental changes in policies, as well as new institutional and administrative structures of governance in the context of the Developmental State model. Among other things, the country formulated a new constitution. Under the new constitution, the country was reorganized into nine regions and two city administrations. Public service was revamped based on a comprehensive business re-engineering process and new sets of regulations hastened and eased service provision and enabled the large-scale mobilization of government revenue. These changes paved the way for the Government to unveil ambitious and bold development strategies and plans. The Government has prepared a number of strategic policy documents and national plans that sought to identify the national policies and priorities that would put Ethiopia on a solid human development trajectory.

Of note was the Sustainable Development and Poverty Reduction Programme (SDPRP) 2002/03-2004/05, followed by the more substantial Plan for Accelerated and Sustained Development to End Poverty (PASDEP) 2005/06-2009/10. PASDEP's main objectives were to ensure accelerated, sustained and broad-based economic development and to pave the way for the achievement of the Millennium Development Goals (MDGs) by the end of 2015. Ethiopia was among the first countries in Africa to embrace the MDGs and integrate them into its national development planning and policy framework.

It was during the period of the PASDEP that the Ethiopian economy first achieved a year-on-year average growth rate of 11 per cent, and considerable progress was made towards meeting several of the country's MDG targets. This performance coincided with the onset of the new millennium according to the Ethiopian calendar 2000 (or 2007/08 in the Gregorian calendar), which the Government proclaimed as the dawn of an Ethiopian renaissance and used to re-energize the country's development agenda.

As the PASDEP was drawing to a close, the government began a series of extensive consultations and meetings, which sought to draw on the lessons of the PASDEP and resulted in the current national development plan, the Growth and Transformation Plan (GTP) covering the period 2010/11-2014/15. Like the PASDEP, the underlying rationale of the GTP was to chart a path towards fulfilling Ethiopia's stated national vision:

. . . to become a country where democratic rule, good-governance and social justice reign, upon the involvement and free will of its peoples, and once extricating itself from poverty to reach the level of a middle-income economy as of ..[2025]. (MoFED, 2010, Vol.1, p. 21)

In light of the Government's strong commitment to human development and inclusive growth over the past decade and in the ongoing GTP, what factors can help to explain Ethiopia's high growth rates but still low ranking on the Human Development Index? While this fundamental question will be explored in much greater detail in Chapters 2-6, some of Ethiopia's current economic and social characteristics are highlighted below.

- The Government's emphasis on pro-poor expenditure is paying off in improved access to education and health care services.
- On the education side, the primary school net enrolment rate rose from 68.5 per cent in 2004/05 to 85.7 per cent in 2012/13; the primary school (grade 8) completion rate increased from 42 per cent to 52.8 per cent during this period; secondary enrolment also improved, from 33 per cent to 39 per cent for grades 9 to 10, and from 4 per cent to 9.5 per cent for grades 11 to 12.
- During the past decade, Ethiopia has made impressive progress in the decentralization of authority and service delivery. A phased approach to decentralization has been adopted, with a transfer of powers from the centre to regional states (1991-95), followed by the decentralization of service delivery, first to woredas (districts) and, for some aspects, down to kebeles (villages).
- On the health side, the proportion of fully immunized children rose from 44.5 per cent

Box 1.2 Inclusive Growth and Human Development

Inclusive growth is seen as a sustainable pathway out of poverty. It entails exploring policy options which could have the greatest impact on poverty reduction and human development. According to UNDP, development can be inclusive and reduce poverty only if all people contribute to creating opportunities, share the benefits of development, and participate in decision-making. As such, inclusive growth is critical for advancing human development and integrates the standards and principles of human rights. The 2010 review of the Millennium Development Goals demonstrated that progress has been most successful in countries where economic growth is broad-based and widely distributed. Pursuing inclusive growth involves an interplay of policies and programmes that ensure that shared growth and benefits reach different groups of vulnerable populations.

in 2004/05 to 87.6 per cent in 2012/13; the percentage of births attended by trained health care workers increased from 12.4 per cent to 23.1 per cent during the same period.

- While access to health services has considerably improved, some health indicators, such as maternal mortality and chronic under-nutrition remain relatively high.
- Ethiopia has already achieved the MDG 4 target of reducing child mortality and is on track to reach the MDG 1 target on eradicating extreme poverty and hunger and MDG 6 on combating HIV and AIDS, malaria and other diseases (MoFED and UN, 2012).
- Despite double-digit economic growth and substantial decreases in the percentage of the population below the national poverty line, the absolute number of the poor is roughly the same as 15 years ago and a significant proportion of the population hovers just above the poverty line and is vulnerable to shocks. Moreover, the severity of poverty [2]increased from 2.7 per cent in 1999/2000 to 3.1 per cent in 2010/11 (MoFED, 2013b).
- Despite a wide range of social protection interventions implemented across the country, the prevalence of vulnerabilities is on the rise and food insecurity is a significant developmental challenge. The Productive Safety Net Programme (PSNP), Ethiopia's largest social protection programme and one component of the Food Security Programme, has had a positive impact on livelihoods, especially during times of crisis. However, while the food security situation of programme beneficiaries has improved and their productive assets and livestock holdings have increased, graduation levels from the programme have been lower than anticipated.

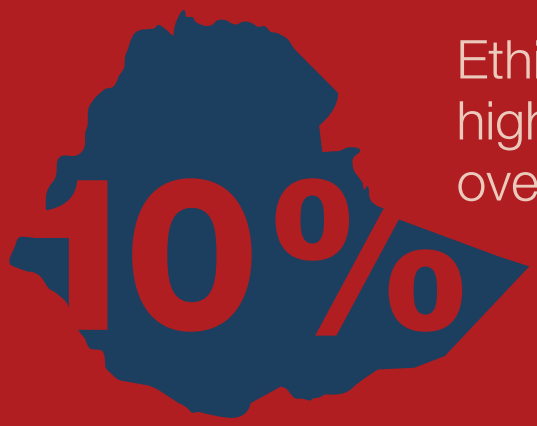
These snapshots of Ethiopia's human development progress over the last decade help to provide a road map for exploring which areas need further analysis and which areas may require additional attention from Ethiopian political leaders and policymakers. The analysis which follows is meant to provide insights and recommendations that may help policymakers prioritize certain aspects of the national development agenda so that Ethiopia can reach its goal of becoming a middle-income economy by 2025.

Human Development and Inclusive Growth: Definitional Issues

Before turning to Ethiopia's specific challenges, it is perhaps useful to first establish the policy context and theoretical underpinnings for human development and inclusive growth. Since the concept of human development was first introduced by UNDP in 1990, the term has gained widespread acceptance. Human development was formally defined in the first Human Development Report as "a process of enlarging people's choices". The most important of these wide-ranging choices are to live a long and healthy life, to be educated and to have access to the resources needed for a decent standard of living. Additional choices include political freedom, guaranteed human rights and personal self-respect. In later reports and in work outside the UN[3], the concept has been refined and elaborated to include broadening

2 The severity of poverty measures inequality among the poor. The fact that inequality increased from 2.7 per cent to 3.1per cent shows that the depth of poverty among the poor has increased over that period

3 See, for example, the pioneering work of Amartya Sen (1999) and, more recently, Martha Nussbaum (2011).



Ethiopia has recorded some of the highest growth rates in the world – over 10 per cent in some years.

On the education side, the primary school net enrollment rate rose from **68.5%** in 2004/05 to **85.7%** in 2012/13.

Ethiopia is one of the 10 countries globally that has attained the largest gains in its HDI over the last several years.

the choices and strengthening the capabilities of all individuals. An important contrast has thus been established between the long-standing view of economic prosperity- embodied in the measurement of economic achievement by gross national income (GNI) per capita and human development - human achievements measured by a range of human indicators.

To bridge this contrast between economic growth and human development, increasing attention has turned to the concept of inclusive growth, which attempts to link economic growth specifically with reductions in poverty and inequality. While there is no single agreed definition of inclusive growth, a distinction is often made between pro-poor growth and inclusive growth. Pro-poor growth generally focuses on people below the poverty line, whereas inclusive growth can include all strata of a society- the poor, the near-poor, middle-income groups and the well-to-do[4]. Another distinguishing characteristic of inclusive growth is that rather than being limited to income outcomes, as is pro-poor growth, it also includes the manner in which growth takes place. Hence it embraces both the pace and the pattern of growth. Inclusive growth can thus be considered as widening the opportunities for participation, both with respect to engagement in productive economic activities and having voice in the direction of the growth process itself (Ranieri and Ramos, 2013).

Given this perspective, inclusive growth has become a vital component of sustainable human development. A decade of robust economic growth in many African countries, with a focus on GDP and macroeconomic performance, has not been matched with significant levels of poverty reduction and cannot be considered inclusive. Growth must be understood in broad human development terms as expanding individual capabilities, widening people's choices and creating new opportunities for both income growth and human progress. Growth can only be considered inclusive if it not only boosts income but also manifests itself in improvements in indicators of health, education and other aspects of social welfare. Such growth must also bring in its train the rapid expansion of quality jobs as this has a direct bearing on human development.

Report Organization

After this brief background on the policy focus of human development and inclusive growth, the report is organized to examine various aspects of Ethiopia's significant development progress and to consider the remaining challenges.

Chapter 2 examines the socio-economic context which has formed the basis of Ethiopia's achievements in human development. It explores the sources of Ethiopia's growth and the factors influencing economic performance and human development and highlights some of the social development trends discussed in more detail in subsequent chapters.

Chapter 3 explores the nature of Ethiopia's efforts at accelerating human development. The chapter focuses on regional variations in human development, as well as national progress in education, health and other indicators of human development. It includes the computation of national and regional HDI values and inequality -adjusted HDIs. The chapter also analyses the country's poverty trends, from the point of view of both income distribution and income inequality.

Chapter 4 examines Ethiopia's human development in the context of the potential impacts of risk, vulnerability and climate change on the country's poor and near poor. Attention is given to some of the programmes and mechanisms that the Government has put in place to address these inter-related issues.

Chapter 5 turns to an analysis of the inclusiveness of Ethiopia's economic growth and human development as well as the factors and trends affecting the pace of inclusive growth. The chapter then turns to Ethiopia's efforts and challenges with respect to employment and job creation as a central component of any inclusive growth strategy.

Chapter 6 looks at the policy, institutional and financial framework that the Ethiopian Government has designed within the context of the Developmental State paradigm to address the country's priorities for human development.

4 For a discussion of inclusive growth definitions, see Klasen (2010) and Ianchovichina and Lundstrom (2009).

By any measure, the Government, with support from the international donor community, has shown considerable resourcefulness in formulating policies and exploring institutional approaches for achieving the country's development targets. Several of these issues are examined, including Ethiopia's approach to the governance and institutional flexibility necessary to address identified needs. The discussion of public finance reviews the impact of investment choices and expenditure patterns and how they have a bearing on human development and the inclusiveness of growth and participation, especially for the poor and vulnerable.

Based on the background analysis undertaken in previous chapters, the last chapter, Chapter 7, considers the strategic challenges to and opportunities for accelerating inclusive growth and human development. The purpose of the chapter is to suggest the areas where policy and institutional re-orientation may be required as they specifically relate to inclusive growth and human development. The chapter closes with a summary reflection on factors affecting human development and inclusive growth, for consideration by Ethiopian policymakers and researchers as they look to formulate the development agenda to follow the current Growth and Transformation Plan.

As part of the analysis that was undertaken for this Report, a qualitative survey was also conducted to pinpoint some of the perceptions_of policymakers, parliamentarians, senior professionals, managers, executives and opinion-makers about current government policy and policy needs for the future. The survey is not statistically significant given the small sample size, but it throws light on the insights and opinions of Ethiopian professionals working on the frontlines of the country's efforts to meet the challenges of human development and inclusive growth. The survey questionnaire and the survey results are found in Annexes 3 and 4 respectively.

Finally, it is important to emphasize that the preparation of this National Human Development Report has been a collaborative effort between MoFED/NPC and UNDP. A concept note was prepared to guide the preparation of the Report, and the entire preparatory process was coordinated and led by a core team drawn from the Development Planning and Research Directorate of MoFED/NPC and the Policy Advisory Unit of UNDP. Consistent with the NHDR Policy Guidelines, especially to assure independence and national ownership, preparation of this NHDR followed a collaborative and consultative process. A Technical Working Group (TWG) was formed, composed of members from relevant departments of MoFED/NPC, UNDP, the Ministry of Health, the Ministry of Water and Energy, the Central Statistics Agency, the Ethiopian Roads Authority, the Ethiopian Development Research Institute, Poverty Action Network (PANE), the Ethiopian Chamber of Commerce, and Sectoral Associations.

2

Ethiopia's Recent Socio-Economic Development

To understand the current issues and challenges for human development, it is useful to analyse the evolution and patterns of socio-economic development in Ethiopia. This chapter therefore examines trends in income growth, sources of growth, and the economic environment which has contributed to, or limited, human welfare and inclusiveness.

To consolidate gains in human development, the growth process has to become inclusive. This necessitates growth in sectors that are capable of creating productive jobs and generating decent wages for improved livelihoods. Furthermore, households have to be empowered with the capabilities that allow them to participate in the growth process. These capabilities encompass many of the non-income dimensions of well-being, such as education and health, along with social safety nets and protection from shocks and vulnerabilities. These aspects of human development are discussed in the following chapters.

As noted in the first chapter, Ethiopia has experienced very strong economic growth over the past decade. Economic growth averaged 10.9 per cent per year between 2003/04 and 2012/13, compared with the Sub-Saharan average of 5.4 per cent. Impressive achievements were also made in social development, especially in the expansion of health and education services. However, given Ethiopia's low starting base, the gains made so far have neither resulted in the full transformation of the economy nor in the society-wide transformation of well-being.

2.1. Trends in Economic Performance

At the centre of the country's strong economic performance has been the Government's proactive and forceful role in shaping socio-economic policy. In pursuit of its goal of making Ethiopia a middle-income country by the year 2025, the Government has been investing heavily in economic and social infrastructure, streamlining public services, revamping the tax collection system, and supporting small and medium enterprises. It has also prioritized key sectors such as industry and agriculture, as drivers of sustained economic growth and job creation. The most recent data, for 2012/13, reveal that GDP registered a growth rate of 9.7 per cent; this was accompanied by an increase in the domestic savings rate backed by a prudent fiscal policy, helping to contain the budget deficit at 2 per cent of GDP.

Table 2.1 Key Macro Indicators

	2004/05	2010/11	2011/12	2012/13
GDP growth (%)	12.6	11.4	8.8	9.7
Agriculture	13.5	9.0	4.9	7.1
Industry	9.4	15.0	17.1	18.5
Services	12.8	12.5	11.1	9.9
Saving (as % of GDP)	9.5	12.7	15.0	17.7
Investment (as % of GDP)	26.0	27.9	33.1	33.0
Fiscal deficit (as % of GDP)	4.6	1.6	1.2	2.0
Exports (US$ billion)	0.8	2.7	3.2	3.1
Imports (US$ billion)	3.6	8.2	11.1	11.5
Trade deficit (US$ billion)	2.8	5.5	7.9	8.4

Sources: MoFED and NBE.

Measured by real GDP, the Ethiopian economy grew by 8.8 per cent and 9.7 per cent in the fiscal years 2011/12 and 2012/13, respectively. Although these growth rates show a decline compared with the 11 per cent average growth for the previous eight years, they remain relatively robust. In fact, Ethiopia was the 12th fastest growing country in the world in 2012 (World Bank, 2013).

The relative decline in the rate of growth is primarily the result of a slowdown in growth in the agriculture sector, from 9 per cent in 2010/11 to 4.9 per cent in 2011/12 and onward strengthening to 7.1 per cent in 2012/13. This has significantly reduced the contribution of the agriculture sector to the overall growth of the economy.

Ethiopia's capacity to address poverty, food insecurity and various other socio-economic problems is highly dependent on the performance of agriculture. This Report stresses the key importance attached by the Government of Ethiopia to prioritizing the agriculture sector in the medium term, not only to support overall growth but also to ensure that growth is inclusive and to alleviate the livelihood stress and vulnerability found within sections of society.

There are also other concerns, despite the impressive achievements. These include specific trends and shortfalls, such as the widening gap between domestic savings (17.7 per cent of GDP in the most recent year) and investment (33 per cent), as indicated in Table 2.1. There is a need to deepen the mobilization of domestic savings. The fiscal deficit is currently 2 per cent of GDP, which is not a worry in itself. But the fact that it is on a rising trend, especially in light of the significant role of state-owned enterprises in large-scale borrowing, warrants close attention. In particular, the greatest possible efforts should be made to ensure that large-scale public enterprise investments generate the expected returns in future.

Figure 2.1 Trends in the Value and Growth of Exports

Source: NBE

Ethiopia achieved 21 per cent annual average growth in the value of merchandise exports between 2004/05 and 2012/13. However, between 2011/12 and 2012/13 the value of exports declined by 2.5 per cent to stand at US$3.1 billion by 2012/13. The decline in export revenue was mainly driven by falling international prices for major export commodities such as coffee and gold and a fall in the volume of some export commodities such as oilseeds

Figure 2.2 Trends in the Value and Growth of Imports

Source: NBE

The total import bill steadily increased on average - by 12.5 per cent per annum between 2004/05 and 2012/13, to stand at US$11.5 billion by 2012/13. As a result, the trade deficit widened from US$3.6 billion in 2010/11 to US$8.4 billion in 2012/13.

The general consumer price index was projected to be contained at a single digit rate during the GTP period. However, during the last three years (2010/11-2012/13), inflation was in double digits. The inflation rate, which was 18 per cent in 2010/11, increased to 33.7 per cent in 2011/12, declined to 13.5 per cent in 2012/13 and fell further to 8.1 per cent in December 2013.

In sum, there have been bouts of high inflation in recent years, and, while annual inflation is currently much lower, at the single digit level, keeping it down remains a major macroeconomic objective. The Government is to be commended for maintaining single-digit levels of inflation since March 2013, but continued vigilance is needed in the light of inflation vulnerability, reduced international prices for key commodities (coffee and gold), and global economic contraction (World Bank, 2013).

2.2. Factors Affecting Growth

Ethiopia's growth reflects a mix of factors. Private consumption and public investment have driven demand side growth, with the latter assuming an increasingly important role in recent years. For example, soaring public investment explains most of the 2011/12 growth (about two-thirds), with private consumption accounting for about one third (World Bank, 2013). On the supply side, economic growth was driven by growth of the services and agricultural sectors, while the role of the industrial sector was relatively modest.

Other factors and policy decisions have played a part in influencing the direction and pace of the economy. These include: political stability; the absence of war and civil strife; favourable weather (no severe drought except in 2011); external inflows (foreign direct investment, aid, and remittances); and a series of significant reforms in the areas of price deregulation, privatization, trade, exchange rate policy, public sector management, and debt relief. Strong political commitment on the part of the Government set the stage for a well-conceived policy and planning process. Growth was supported by consistent resource mobilization and allocation in line with carefully prepared development plans, institutional reform, agricultural modernization, the development of new export sectors, strong global commodity demand, and government-led development investments. Ethiopian senior policymakers and managers generally feel positive about the recent performance of the economy in terms of stability and growth (see Annex 4).

Sectoral Shares in GDP and Contributions to Growth

The agriculture sector, historically the main source of growth, is gradually giving way to the services sector. The share of agriculture in GDP fell from 52 per cent in 2004/05 to 43 per cent by 2012/13, while the share of the services sector increased from 37 to 45 per cent during the same period, as shown in Table 2.2

Table 2.2 Sectoral Percentage Shares of GDP

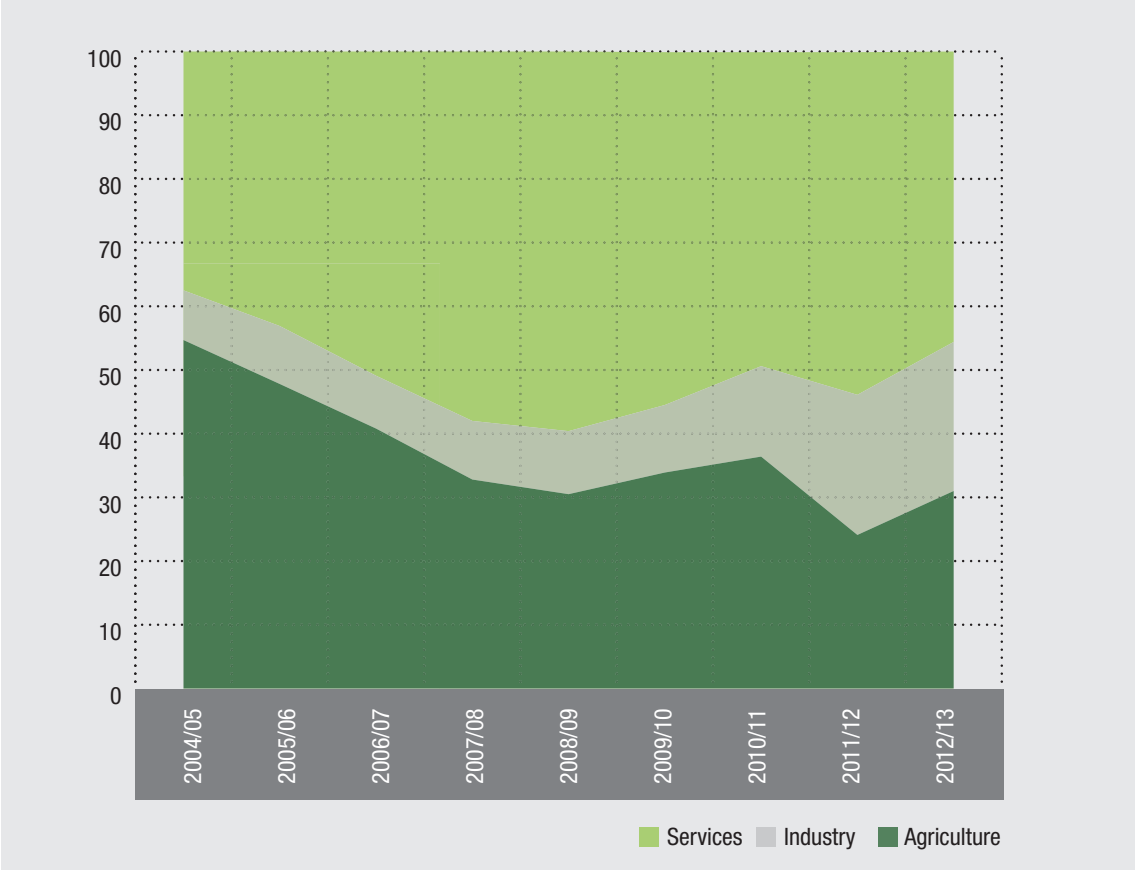
Sectors	2004/05	2012/13
Agriculture	52	43
Industry	11	12
Services	37	45
Total	100	100

Source: Compiled from MoFED data.

Table 2.2 and Figure 2.3 show that the services sector has now overtaken agriculture as the largest sector, while the share of industry in GDP has remained more or less constant. By 2012/13, the services sector, spearheaded by the wholesale and retail trade subsectors, accounted for 45 per cent of GDP. Similarly, nearly 54 per cent of the growth in 2011/12 and 46 per cent in 2012/13 were attributed to the growth in the services sector (Table 2.3). The fact that the share of the industrial sector in GDP, and its contribution to growth, have remained low is a source of concern, however.

As noted, growth was stimulated by a mix of factors, including a strong determination on the part of the Government, which devised and implemented a strategy of careful planning and resource mobilization and allocation, characterized by institutional reform, agricultural modernization, the development of new export sectors (boosted by strong global commodity demand), and government-led development investments.

Figure 2.3 Share of GDP by Sector Over Time



Source: MoFED, National Income Accounts data.

Table 2.3 Sectoral Contribution to GDP Growth

Sectors	2004/05	2012/13
Agriculture (%)	54.7	31.0
Industry (%)	7.8	23.4
Services (%)	37.5	45.6
Total (%)	100.0	100.0

***Sources:** Compiled from MoFED and World Bank sources.*

The sources of growth in Ethiopia have gradually shifted over the decade from agriculture to services and, as will be discussed later in the Report, from private consumption to public investment. On the demand side, public investment has become the dominant growth engine in recent years. On the supply side, Ethiopia's recent high growth has been more the result of expansion in the services sector than the agriculture sector. The services sector is now larger than agriculture in terms of value added. The contribution of the agriculture sector to growth has declined from an average of 37 per cent during 2005/06-2009/10 to 31 per cent in 2012/13.

Despite the growing share of the services sector, agriculture remains the key sector of the economy, on which the great majority of the population still depends for its livelihood. The total agriculture value added (in constant price) increased by 82.9 per cent between 2004/05 and 2012/13. This is the result of wide ranging Government programmes targeted at improving the performance of the sector. For example, the number of agricultural extension beneficiaries grew from 10.56 million in 2011/12 to 11.66 million households in 2012/13, the number of development agents deployed reached 3,201 in 2012/13, up from 2,669 in the previous year. During this time, agricultural productivity (major food crops) rose from 1,700 kg /hectare in 2011/12 to 1,780 kg in 2012/13 (CSA, 2013 and MoFED, 2013). The GTP target was to increase productivity of major crops to 2,200 kg/ha.

Growth in agriculture has been driven by increased yields from greater use of better agricultural implements, fertilizers, pesticides, and improved animal husbandry technologies. Among other causes, enhanced access to markets and greater commodity diversification seem to have contributed to improvements in rural income. This could be attributed to the Government's agriculture-focused policies and strategies and increased non-farm employment in rural areas. This explains the emerging shifts in the rural economy including the wide spread in yields recorded over the last decade. In the last decade widespread growth in yields has been recorded (Dercon, Hill and Zeitlin, 2009).

Although measurement of these trends has not been uncontested, the significant reduction in rural poverty (see Chapter 3) suggests growth in yields may have contributed to poverty reduction. Higher food prices probably increased the incomes of net producers (having a marketable surplus), and a period of reductions in trade margins between cities increased the incomes of net producers and also benefited net consumers by lowering transaction costs (Minten, Stifel and Tamru, 2012). However, there is also increasing evidence that expanding non-farm enterprises are associated with lower poverty rates (Ambel and Yigezu, 2013), and that poverty rates have fallen faster in services than in other sectors of the economy, suggesting that the role of non-agricultural growth may also have been important in reducing rural poverty.

Despite these developments, there are some challenges that need to be overcome. Within the period 2005-2010, as GDP was growing at over 8 per cent per annum (a little over 5 per cent per capita), rural consumption growth was in the range of 3 per cent per year per capita (Gable, 2013). The low level of consumption in the rural areas is seen as contributing to the large-scale movement of rural youth to urban areas and emigration outside the country.

Finally, despite some diversification in the sources of growth, there has not yet been a commensurate shift in the sectoral distribution of the labour force. The share of the population employed primarily in the agricultural sector has fallen only slightly from 81 per cent in 1996/97 to 78 per cent in 2010/11 (Martins, 2013). While Ethiopia is gradually urbanizing, the share of the population that is urban is only 17 per cent (World Bank, 2013b). This compares with about 30 per cent for other Sub- Saharan countries (World Bank, 2009). Based on the experience of high-growth emerging-market economies, this would suggest Ethiopia has yet to undergo the kinds of major structural changes needed to sustain the pace of economic growth and to make it more equitable.

Savings and Investment

Savings and investment rates are often cited as one of the key barometers of sustainable growth. At the international level, a gross capital formation rate of 25 per cent of GDP is often used as a benchmark for attaining and maintaining a real GDP growth rate of 7 per cent a year. Seventeen developing countries managed to reach, or exceed, that benchmark in 2011 (UNCTAD, 2013).

Around 75 per cent of Ethiopian GDP goes to private consumption, up from 69 per cent in 1999/2000 (World Bank, 2013). Investment as a percentage of GDP has increased markedly, reaching 33 per cent in 2012/13, up from 22 per cent in 1999/00. Increasing the domestic savings rate in Ethiopia is desirable given the substantial investment proposals embedded in the GTP and the limits and risks associated with external sources of financing.

Table 2.4 Contribution of Expenditure Components of GDP

	2004/05	2009/10	2011/12	2012/13
Private Final Consumption Expenditure	80.5	83.1	77.8	75.0
Government Final Consumption Expenditure	13.9	9.4	7.2	7.3
Gross Capital formation	27.1	27.5	33.1	33.0
Net Exports	-21.5	-20.0	-18.1	-15.3

Source: MoFED, National Income Accounts data.

With respect to the sectoral distribution of investment projects, domestic investors have

shown more interest in investing in the services sector, which is seen as generating greater returns, whereas much of public investment is in industry, which is mainly on construction and electricity (EEA, 2013).

Although the domestic savings rate has increased in recent years from 9.5 per cent in 2004/05 to about 18 per cent of GDP in 2012/13, it is substantially lower than what would be expected for a low-income country, of about 24 per cent of GDP (World Bank, 2012b). Moreover, the gap between savings and investment has not been narrowing significantly, as it stood at 15.3 per cent of GDP in 2012/13 compared with 16.5 per cent in 2004/05 (Table 2.1). This is a major challenge.

There are a number of reasons why the savings rate is very low in Ethiopia. Ethiopia is a low-income country where the largest share of household spending is on consumption. Accordingly, widespread poverty and vulnerability keep national savings at a low level. Ethiopia has also been experiencing periods of high inflation, which, in the context of more or less fixed interest rates, discourages savings in the formal financial sector, as real interest rates are negative. A large proportion of the economy is non-monetized. The majority (83 per cent) of the population, notably in rural areas, leads a subsistence way of life, and financial services are concentrated in major urban centres. Hence, access to financial services for majority of the people is limited.

Internal Migration

Migration has contributed to poverty reduction, although its impact has been mixed. A recent study suggests substantial welfare gains accrue to individuals who migrate to urban centers but that these gains are half the size for female migrants compared with male migrants (De Brauw and Mueller 2012. A World Bank study on urban migrants looks at two categories of migrants: those who moved for education and employment opportunities; and those who moved to be domestic workers or guards in the cities (World Bank, 2010). Wages were seven times higher among the first category of migrants, compared with those of domestic workers and guards. Although most migrants reported improvements in living conditions upon migration, one in three domestic workers reported a worsening of living conditions after they moved.

Globalization Impacts

Global challenges such as reduced international food stocks and the financial crises of 2008, along with climate change, have led to a greater appreciation of Africa's vast natural resources and its role in the international economy. Similarly, the global forces unleashed through expanded trade, technological change and diffusion, and increased access to information has lifted some of the constraints historically facing Africa. Globalization and its consequences have operated through markets and through other formal and informal institutions. At the same time, global shocks such as the food, fuel and financial crises have had adverse effects on growth and poverty.

Globalization has posed both opportunities and challenges to Ethiopia. Ethiopia has benefitted from these global trends, but it is still among the least globally integrated countries in the world – both in terms of trade and information technology. Even when taking Ethiopia's income level into account, its level of trade openness is still lower than that found in other Sub-Saharan countries. While rising imports can provide an important source of technological change, as well as having an impact on markets and institutions, it is necessary for the trade gap to narrow in order to sustain large-scale imports and hence improve future economic opportunities. Globally, there has also been an increase in foreign direct investment (FDI); yet in Ethiopia FDI amounts to only 2 per cent of GDP, which is less than two thirds of the average for Sub-Saharan Africa (World Bank, 2013). Ethiopia has also suffered the negative consequences of globalization, such as declines in export revenue and imported inflation caused by global commodity price shocks.

Figure 2.4 Imports and Exports as a Percentage of GDP

Source: *MoFED, National Accounts data.*

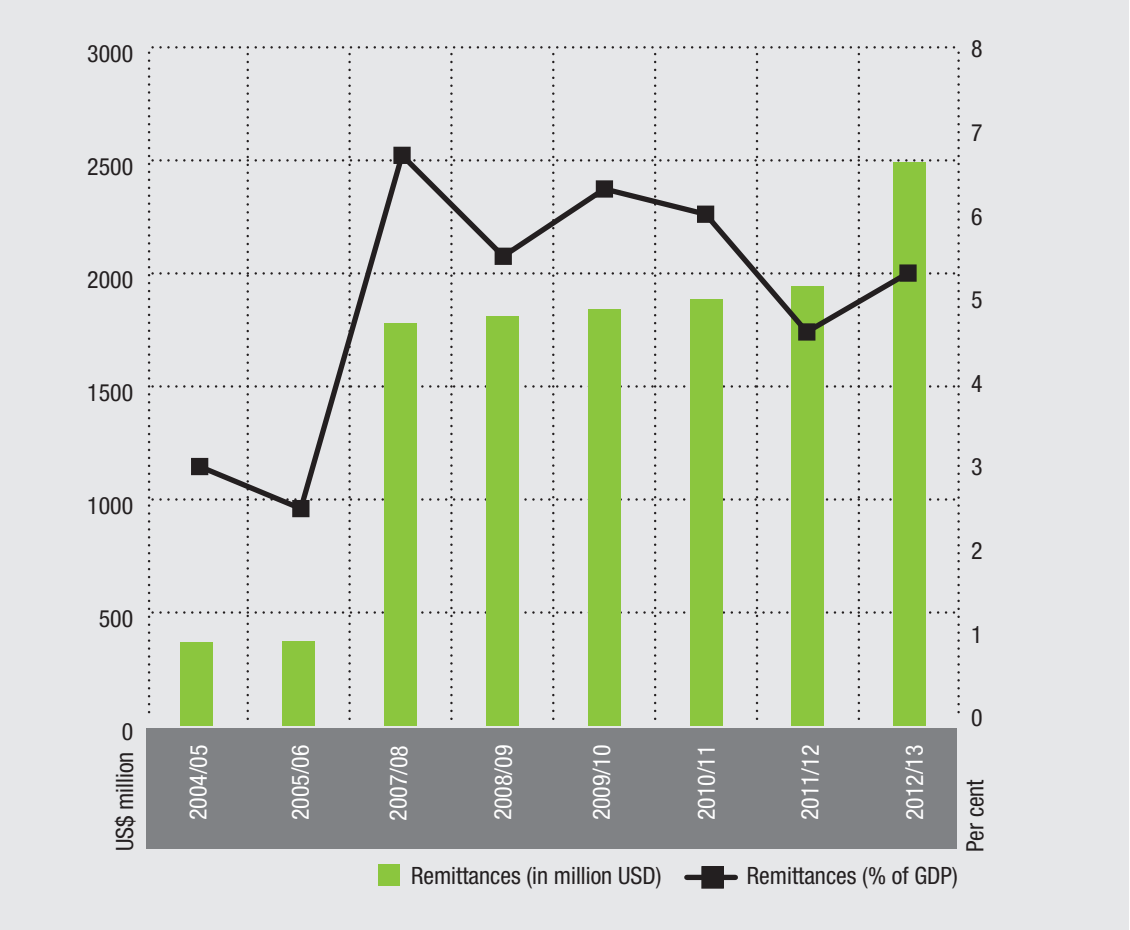
The rapid expansion of information and communications technology (ICT) has enhanced the pace of globalization and its impact on society. There is a distinct correlation between information technology and enlarging of people's capabilities and choices. In 1998 only 20 per cent of people in developed countries and about 1 per cent in the developing world had a mobile phone subscription. By 2009, these shares had climbed to 100 per cent and 57 per cent, respectively. By contrast, only 28 per cent of the population in Ethiopia had a mobile phone subscription in 2012/13. This compares with 70 per cent in many African countries. Internet access and use have also grown. In high-income countries, Internet users increased from 12 per cent of the population in 1998 to 64 per cent in 2009, and from near zero to 17.5 per cent in developing countries. Again, Ethiopia fell behind, with 5.2 per cent of the population subscribing to the Internet. Taken together, these low subscription uptake rates suggest that Ethiopia has still not taken full advantage of the global information technology revolution. This in turn limits people's choices and capacities to harness the benefits of globalization and information technology for more inclusive growth.

Remittances

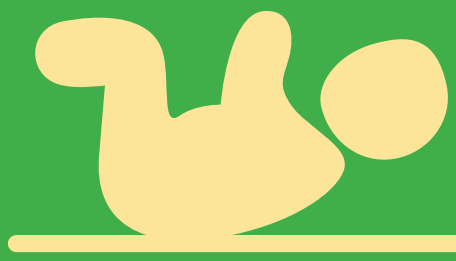
Remittances inflows to Ethiopia have been increasing in the past several years, with average annual growth of 27.7 per cent registered between 2004/05 and 2012/13. For example in 2012/13 US$2.5 billion was received from remittances in contrast to US$2 billion 2011/2012. Remittance inflows are critically important in supporting inclusive growth through boosting household consumption. They also help to narrow the gap between domestic savings and investment.

Over a longer period, remittances to Ethiopia as a share of GDP have increased markedly during the last 10 years (see Figure 2.5). Yet, even though remittances have increased globally over the last decade, Ethiopia's remittances are low when compared with its migration levels. The main source of remittances is the United States, followed by Israel and the Sudan.

Figure 2.5 Trends in Remittance Inflows

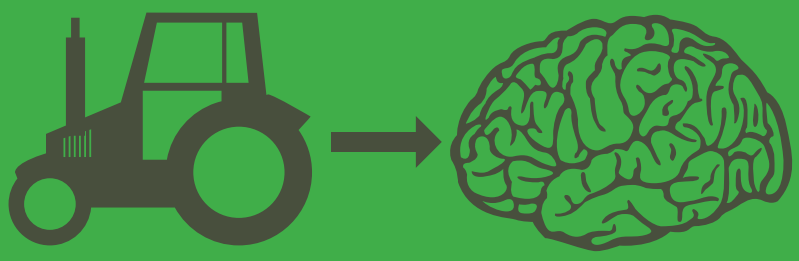


Source: NBE.



Ethiopia has already achieved the MDG 4 targets of reducing child mortality and is on track to reach most of the MDGs including MDG 1target on eradicating extreme poverty.

On the health side, the proportion of fully immunized children rose from **44.5%** in 2004/05 to **87.6%** in 2012/13.



The source of growth in Ethiopia has gradually shifted over the decade from agriculture to services.

Social and Cultural Shifts

Finally, one should not discount the social and cultural shifts that are occurring in Ethiopia and which have an impact on economic performance and human development. Demographic pressures and dwindling natural resources such as forestry, surface water, and arable land, have contributed to societal transformation of values and attitudes from communal towards individual rights and freedoms. Incentives that reward individual achievements have in turn accelerated technology adoption and innovation and business development.

The change of government in 1991 introduced a more democratic, transparent and accountable culture in the performance of public services and functions. With growing demands for better living standards and expectations, people aspired to an efficient public sector, zero tolerance of corruption and better management of resources. The Government had to adopt innovative ways of providing services and expanding infrastructure in order to accommodate the sheer size of a rapidly growing and demanding populace. Hence, some of the accelerated transformations in Ethiopia have at their root the underlying dynamics imposed by social, demographic and environment changes.

2.3. Trends in Social Development

Social development is primarily an end goal of development but also serves as a means to further welfare levels. Social development is thus very closely tied to the concept of human development. As noted above, the major objective of the Growth and Transformation Plan is to register broad-based, accelerated and sustainable economic growth and thereby reduce poverty. Accordingly, the Government has formulated and implemented pro-poor policies and strategies that are meant to accelerate broad-based economic growth and thereby promote poverty reduction and improved welfare for all citizens.

While trends in social development are discussed in greater detail in subsequent chapters, it is worth noting some highlights here.

Basic Social Services

A key feature of Ethiopia's social development over the past decade has been the tremendous expansion in social infrastructure. The Government has invested heavily, not only in economic, but also in social infrastructure. For example, education has been one of the key priority sectors, with the budget allocated to the sector increasing every year and reaching 25.2 per cent of the total in 2012/13.

Table 2.5 Comparison of Basic Indicators over Time

Indicator	2004/05	2012/13
Per capita Income (US$)	171	550
Poverty incidence (%)	38.7	26
Illiteracy rate (%)	71	53.3
Primary education coverage (net) (%)	68.5	85.7
Basic health service coverage (%)	76.9 (2005/06)	94 (2011/12)

Source: MoFED, 2013b.

Universal access to primary education is one of the MDGs. The Government has been attempting to meet this goal by or sooner than 2015. More than 16 million students are now registered at primary level, which brought the gross enrolment rate to 95.3 per cent and net enrolment rate to 85.7 per cent in 2012/13. Participation of girls at this stage is close to 50 per cent for regular programmes and slightly higher than 50 per cent for evening programmes.

Moreover, according to Well-being and Ill-being Dynamics in Ethiopia (WIDE) data (EDRI, 2014), social-education campaigns appear to have contributed to a scaling back of many harmful practices such as early marriage, female genital cutting, uvula cutting, baby teeth pulling, and the mingi - the practice in some parts of Ethiopia of abandoning children believed to be cursed. In a number of places, there has been some progress in reducing discrimination and stigma, a prerequisite for excluded groups to access services more easily. In some areas, HIV treatment and more positive community attitudes have changed the lives of people affected by the virus for the better.

In general, however, progress in educational achievements has not been without challenges. First, the quality of education has been deteriorating for some time, although the Government is now seeking to reverse this decline with a major general education quality improvement programme. Second, despite expansion of school infrastructure at all levels, continuity of education is still a major problem. This is evident even within primary education: net enrolment at the first cycle (grades 1-4) is very high at 95.5 per cent, whereas at the second cycle (grades 5-8), it falls to less than 50 per cent. The net enrolment for the first cycle of secondary education is only some 19.4 per cent, meaning that 80 per cent of the intended population at this level of schooling is not in the classroom. Third, budget allocation in the sector should be channeled to quality improvement. Districts (woredas) and school facilities seem to face serious operational budget constraints, which at the moment are being partially addressed through GEQUIP critical grant transfers. Fourth, about 35 per cent of the recurrent budget for primary education is funded through external aid, a trend which may not be sustainable in the long term (MoFED, 2013a)

The health sector has also benefited from expanding public investment on social infrastructure. For example, in the short period between 2008/09 and 2010/11, the number of health centres more than doubled in Tigray, Afar, Amhara, Oromiya, Somali and the Southern Nations, Nationalities and Peoples Region (SNNPR). There has, therefore, been marked improvement in the population-to-facilities ratio at different levels of health care.

Ethiopia has focused on improving the health of its population by concentrating on preventive health care. Child immunization is one aspect of this approach and the national coverage of full immunization of children under the age of one reached 87.6 per cent in 2012/13. Health Extension Workers (HEWs) have increasingly become key players in the sector, especially in rural areas. There are a total of 36,336 HEWs deployed throughout the country out of which 4,084 HEWs are in urban areas. Moreover, the Health Development Army is seen as a priority to meet Health Sector Development Programme (HSDP) and GTP objectives. More than 2 million “one-to-five” networks have been established nationwide (see Chapter 3).

Challenges in the health sector include a very high population-to-health-professionals ratio; the shortage of medical doctors is especially severe. The health sector has also suffered from a poor continuum of care, i.e. the referral system between levels of health care. In addition, the maternal mortality rate has persistently remained very high and continues to be a critical challenge. The percentage of skilled health care deliveries is still very low, at 23 per cent.

In summary, Ethiopia has attained impressive progress in access to more, but not necessarily better quality, social services. Communities in different parts of the country have benefited in a variety of ways: more girls and boys are vaccinated, go to school and attend school for longer; more women and men and their families can access preventive and curative health services; and more families appear to be living more sanitary and healthier lives with improved housing, and access to clean water and sanitation facilities.

Gender Equality and Women's Participation

Gender inequality is one of the main manifestations of inequality and is played out along political, social and cultural dimensions. Addressing gender inequality is thus closely linked to poverty and other development challenges. As an issue which is deeply-rooted in social norms and economic conditions, overcoming gender inequality is a key component of any strategy promoting human development and inclusive growth. If growth is to be inclusive, it has to address all forms of inequality and guarantee opportunities for all sections of the population, with a special emphasis on the poor, particularly women and young people, who are the most likely to be vulnerable.

The goal of reducing gender inequality has held a prominent place on the international development agenda. Global attention to the issue of gender inequality is reflected in Millennium Development Goal 3, providing motivation and direction for governments with a focus on education, employment, and political participation. There is a growing body of evidence suggesting that along with education, women's employment shows a strongly positive correlation with overall growth.

In Ethiopia, since the adoption of the National Policy on Women in 1993, various national policies on education and training, health, population and other areas have incorporated plans to boost women's participation and gender equality (MoWCYA 2006). Ethiopia's national development plans, including the current GTP, have embraced gender equality policies, and a National Action Plan (NAP) on gender equality has been developed. Regarding institutional support, the Ministry of Women, Children and Youth Affairs (MoWCYA) serves as the primary executing ministry with the mandate for im plementing the policy framework on women and children's issues. In the same way, regional Bureaux of Women, Children and Youth Affairs (BoWAs) have been put in place and are responsible for mainstreaming and ensuring women's rights (MoFED and UN, 2012). Similar structures have also been put in place at lower administrative levels of government.

To date, the policy and institutional measures have brought positive results. For example in the education sector, the gender parity has

Box 2.1 Promoting Women's Economic Participation

The relationship between women's empowerment and economic development is believed to be two-way: as much as economic development plays a key role in reducing gender inequality, greater and more rapid empowerment and participation of women would benefit development through increased efficiency. Gender inequality has persisted in Ethiopia in spite of the notable policies, legislations and programmes the country has put in place, and is an obstacle to ensuring inclusive growth.

Factors ranging from societal perceptions and traditional norms to limited access to strategic resources such as land have constrained women's participation in economic and social development. According to a land utilization survey by the Central Statistical Agency, (CSA, 2013b) the average size of landholding for women is 0.69 hectares against 1.23 hectares for men. The role of women as family heads is also very small, at only 25 percent of households, the majority of which are in urban areas and belong to the lowest income quintiles (CSA, 2012)

Women's employment tends to be concentrated in the informal sectors and unpaid family work, and there are very striking gender wage differences for similar work. The recent gender gap report by the World Economic Forum (WEF, 2013) showed that Ethiopia's performance on the overall gender gap index as well as on the sub-indices related to economic participation, educational attainment, health and survival and political empowerment has been average. Despite an improvement in most of the indicators, the score on women's economic participation deteriorated from 0.637 in 2011 to 0.615 in 2013.

Ongoing interventions by the Government and other development partners at the micro and macro levels, aiming to increase women's access to education, financial resources and basic rights, will eventually have to address the gap in access to productive resources as well as social attitudes to bring about increased economic participation by women and ensure they are benefiting from growth.

Sources: CSA, 2013b; CSA, 2012; WEF, 2013.

been improving. Between 2006/07 and 2011/12, the ratio of girls to boys has increased from 0.85 to 0.93 in primary schools and from 0.59 to 0.83 in secondary schools. Similarly, women's participation in the political arena has increased in the past few years. The proportion of seats held by women in the parliament reached 27.8 per cent in the last election (2011), up from about 21 per cent in the previous election.

At the same time, women's participation in leadership and decision-making still remains low. Only 10 per cent of ministerial positions and 16 per cent of legislators', senior officials' and managerial positions are held by women. Similarly, women make up only 33 per cent of professional and technical workers. In terms of earnings, the gender wage difference is large: the ratio of female to male wages for similar work is 0.65 (WEF, 2013).

In general, gender comparisons among different indicators suggest the need for greater action. In contrast to rates for boys and men, literacy rates for girls are lower than expected and unemployment rates for women are higher than expected. Similarly, as noted, there is still a substantial gender wage gap. Ethiopia-specific data confirm global evidence suggesting that women work more than men when both formal/informal and domestic work are taken into account. Women are double- burdened in the sense that participating in paid work does not significantly decrease the number of hours they are engaged in domestic work, which is especially true for women in rural areas. WIDE data across almost all communities indicate that the involvement of women in local political, administrative and development leadership and decision-making is very limited. Moreover, there are institutional capacity challenges observed in the Federal and Regional Women's Affairs structures which affect the process of more rapid mainstreaming and institutionalizing gender equality.

Legal System

Regarding the legal system as a reflection of social development, the Government focus has been on capacity-building to improve access, effectiveness, accountability and the rule of law in the sector. To enhance the capacity of professionals in the justice system, according to the most recent MoFED Annual Progress Report on the Growth and Transformation Plan, a total of 30,460 professionals consisting of judges, prosecutors, police, and other justice and legal civil servants were trained on short- and long-term courses over the period 2010 to 2013 (MoFED, 2014). The same report indicates that a well-coordinated system has been established for crime prevention, thereby improving the effectiveness of the justice sector.

Additional achievements within the sector include the following:

- The clearance rate of courts in criminal cases has reached 97.2 per cent.[5]
- There was a dramatic increase in the number of cases presented to the courts, increasing from 5,518 in 2010/11 to 96,165 in 2011/12.
- At the Federal and Regional levels the average time for settlement of cases fell from 45-60 days in 2010/11 to 22-30 days in 2011/12.

2.4. Chapter Summary

This chapter has highlighted a number vof successes and challenges surrounding Ethiopia's significant socio-economic development over the past decade. By any measure, the Government's efforts in macroeconomic policy formulation and follow-up implementation in support of human development have been commendable. Key points include:

- Ethiopia was the 12th fastest growing country in the world in 2012. This momentum is spearheaded by aggressive public expenditure on infrastructure development and is dominated by the services sector. The Government needs to shift the momentum towards directly productive sectors such as agriculture and the manufacturing sector. This will help realize what is planned in the GTP.
- The most recent data for 2012/13 reveal that GDP registered a growth rate of 9.7 per cent; this was accompanied by an increase in the domestic savings and a prudent fiscal policy, helping to contain the budget deficit at 2 per cent of GDP.
- As a result, Ethiopia is making significant

5 The clearance rate is the number of cases disposed of as a percentage of the total number of cases pending in a particular year

strides in both economic growth and social development. Still, the Government needs to consolidate what has been achieved so far, by enhancing their inclusiveness and ensuring their sustainability.

- The last several years have witnessed a notable shift in the composition of GDP, with the services sector's share now larger than those of agriculture and manufacturing, even though agriculture continues to be the source of employment and income for most Ethiopians.
- A key feature of Ethiopia's development over the past decade has been a tremendous expansion in social infrastructure. The Government has invested heavily not only in economic but also in social infrastructure. At the same time as Ethiopia has attained impressive progress in access to social services, their quality has not kept pace. Furthermore, gender participation comparisons across different social indicators suggest the need for increased government attention to the disparities that exist between the sexes.
- Overall, Ethiopia has attained impressive progress in providing access to more, but not necessarily better quality, social services. Communities in different parts of the country have benefited in a variety of ways: more girls and boys are vaccinated, go to school and attend school for longer; more women and men and their families can access preventive and curative health services; and more families appear to be living more sanitary and healthier lives with improved housing, and access to clean water and sanitation facilities.
- The Government has given increased priority to gender equality. Since the adoption of the National Policy on Women in 1993, various national policies in education and training, health, population and other areas have incorporated plans to boost women's participation and gender equality. Ethiopia's national development plans, including the current GTP, have embraced gender equality policies and a National Action Plan (NAP) on gender equality has been developed.

3

Ethiopia's Progress in Human Development

The previous chapter examined Ethiopia's socio-economic development from the standpoint of general economic and social trends. This chapter and the next one focus on an examination of specific aspects of human development that affect individuals' ability to access the basic capabilities that offer choices and opportunities for a productive and meaningful life. As stressed in previous chapters, economic growth is a necessary but not a sufficient condition for a sustained reduction in absolute poverty. Growth has to be inclusive and sustainable to guarantee human development.

3.1. Gains in Human Development

In examining the country's successes and challenges in human development, it is useful to place Ethiopia in the context of how its human development has advanced over the last several years. Even though Ethiopia remains a low HDI country in relative terms, it has been one of the top movers in the world in terms of the absolute gain in its HDI values.

Table 3.1 summarizes trends in HDI values calculated based on national government data and standard HDI methodology. These HDI estimates indicate a higher HDI value compared with the HDI computed by the UNDP 2013 HDR due to differences in data. For example, Ethiopia's HDI for 2013 computed in this Report is 0.461 while in the UNDP HDR for 2013 (UNDP, 2014) it was 0.435. Disaggregated by components, it is access to knowledge or progress in education which is contributing most to Ethiopia's high and rising HDI values.

The national HDI values have been progressively improving, as indicated by both the national and global calculations of the indices. Between 2005 and 2013, Ethiopia's HDI value increased from 0.350 to 0.461, translating into an annual average change of 3.5 per cent. Though this is an encouraging trend, the country still falls within the Low Human Development category; but if the current growth in HDI is sustained, it could attain the Medium Human Development category by 2025.

Looking at the HDI values of Seychelles, Tunisia and Algeria, which are in the high HDI bracket, and the other 12 African countries, which are in the medium HDI bracket, the major reasons why Ethiopia is still in the low HDI bracket are low education performance (particularly low mean years of schooling) and low GNI per capita. The minimum mean years of schooling and GNI per capita for medium HDI countries were 3.5 years and US$3,000, respectively in contrast to Ethiopia's mean years of schooling of 2.6 years and GNI per capita of US$1,300.

The inequality-adjusted Human Development index (IHDI), which is basically the HDI discounted for inequalities, is also computed for Ethiopia. Between 2005 and 2013, the IHDI increased from 0.349 to 0.459 indicating an average human development loss of 0.5 per cent per annum due to inequalities in health, access to education and income. According to (UNDP 2014), Ethiopia's IHDI for 2013 was 0.307 in contrast to HDI of 0.435 indicating an overall human development loss of 29.4 per cent.

Table 3.1 Trends in Ethiopia's National HDI

Sector	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Life expectancy	57.0	57.6	58.0	59.9	60.3	60.8	61.3	61.7	62.2
Primary enrolment (%) (net)	68.8	77.5	79.1	83.4	83.0	82.1	85.3	85.4	85.7
Secondary enrolment (%) (net)	11.8	13.2	14.7	13.8	13.5	16.4	16.3	17.3	19.4
Expected years of schooling	6.7	7.8	8.2	8.4	8.3	8.5	9.0	9.1	9.4
Mean years of schooling	2.0	2.2	2.2	2.2	2.2	2.2	2.6	2.6	2.6
GNI per capita at constant (2011) US$ PPP	722.1	778.9	847.8	914.5	966.9	1057.6	1147.3	1215.6	1288.5
HDI Index	0.350	0.370	0.381	0.394	0.414	0.426	0.447	0.453	0.461
Inequality-adjusted HDI	0.349	0.368	0.379	0.392	0.412	0.423	0.445	0.451	0.459

***Sources:** Authors' computation based on MoE, 2013; CSA, 2013a; CSA, 2012.*

Figure 3.1: The Trend in National HDI

Because Ethiopia was starting from such a low HDI base, the gains made so far have not resulted in significant changes in its overall human development ranking. In fact, Ethiopia is situated at the lower end of the spectrum for many development indicators when compared with the rest of Sub-Saharan Africa, and is among the bottom 15 countries in the UNDP Human Development Index for 2013.

In a 2011 analysis, Ethiopia ranked fourth in the global ranking for HDI advances and eighth in the global ranking for non-income HDI advances since 2000. Thus, even though Ethiopia's

relative HDI standing continues to be low, the county has made considerable progress given its original baseline and the fact that almost all countries are showing improvements in their human development indicators (albeit some are improving faster than others). Table 3.2 shows Ethiopia's (and several African countries) standing in UNDP's global ranking of advances in country HDI values.

3.2. Regional Variations in Human Development Performance

Ethiopia is a country of many nationalities and peoples, with a total population of 85.8 million (2013). Only 17 per cent of the population lives in urban centres, the great majority of them in Addis Ababa. Ethiopia has a federal, democratic government system, established in the early 1990s, with nine autonomous states and two chartered cities (collectively referred to as "regions"). The regions are usually categorized into two groupings: relatively well-developed and relatively less-developed (emerging) regions.

The emerging regions, are characterized by small, scattered, often pastoral[6] communities, making it more challenging to provide basic social services. Many of the areas are inaccessible with poor or no roads and limited social services, including schools and health facilities. There are also limited personnel in the social service professions.

Table 3.2 African Country Ranking Among HDI "Fast-Moving" Countries (2000-2011)

Global Rank: HDI	Global Rank: Non-income HDI 2010/11
2. Rwanda	2. Rwanda
3. Sierra Leone	3. Niger
4. Ethiopia	4. Burundi
5. Mozambique	5. Mali
6. Mali	7. Tanzania
7. Burundi	8. Ethiopia
8. Niger	9. Sierra Leone
9. Tanzania	10. Mozambique
10. Congo, Democratic Republic	11. Angola

Source: UNDP, 2012.

6 The pastoral lands of Ethiopia are divided into five geographical zones, namely, Northeastern; Eastern; Southern; Southwestern; and Western. These areas are estimated to cover 78 million hectares, or about 60 percent of the total land mass of the country.

7 Consumption expenditure per capita is used as a proxy for regional incomes due the absence of GDP estimates for the regional states.

Table 3.3 Ethiopia: Regional HDI calculations (2004/05 and 2012/13)

Region	Life Expectancy		Expected years of schooling		Mean years of schooling		Consumption exp. per capita adult equivalent [7]		Human Development Index (HDI)		Inequality-adjusted HDI (IHDI)	
	04/05	12/13	04/05	12/13	04/05	12/13	04/05	12/13	04/05	12/13	04/05	12/13
Tigray	53.5	61.0	7.1	13.1	2.3	2.8	3,652	6,018	0.397	0.524	0.372	0.513
Afar	53.9	59.5	1.2	3.7	1.1	2.0	4,986	5,370	0.276	0.361	0.258	0.353
Amhara	54.7	58.0	7.0	9.9	1.4	2.0	4,028	5,660	0.391	0.455	0.367	0.445
Oromia	54.3	59.5	7.4	8.8	2.1	2.7	4,679	5,625	0.424	0.458	0.398	0.448
Somali	57.1	61.0	1.7	7.1	0.8	1.9	4,590	5,336	0.281	0.419	0.263	0.410
Ben Gumuz	50.6	57.0	8.0	10.2	1.5	2.4	4,025	5,894	0.392	0.467	0.367	0.457
SNNPR	52.5	58.0	6.8	9.9	1.8	2.7	5,300	5,497	0.415	0.462	0.389	0.452
Gambella	58.0	58.0	7.4	10.0	2.5	3.9	2,799	5,222	0.387	0.472	0.363	0.462
Dire Dawa	55.0	59.5	7.9	10.2	4.3	4.8	4,220	5,679	0.460	0.506	0.431	0.495
Harari	55.2	70.5	7.5	9.2	4.6	4.9	5,512	6,728	0.490	0.567	0.459	0.555
Addis Ababa	62.2	62.0	11.4	11.2	6.6	6.3	2,992	6.523	0.508	0.569	0.476	0.556

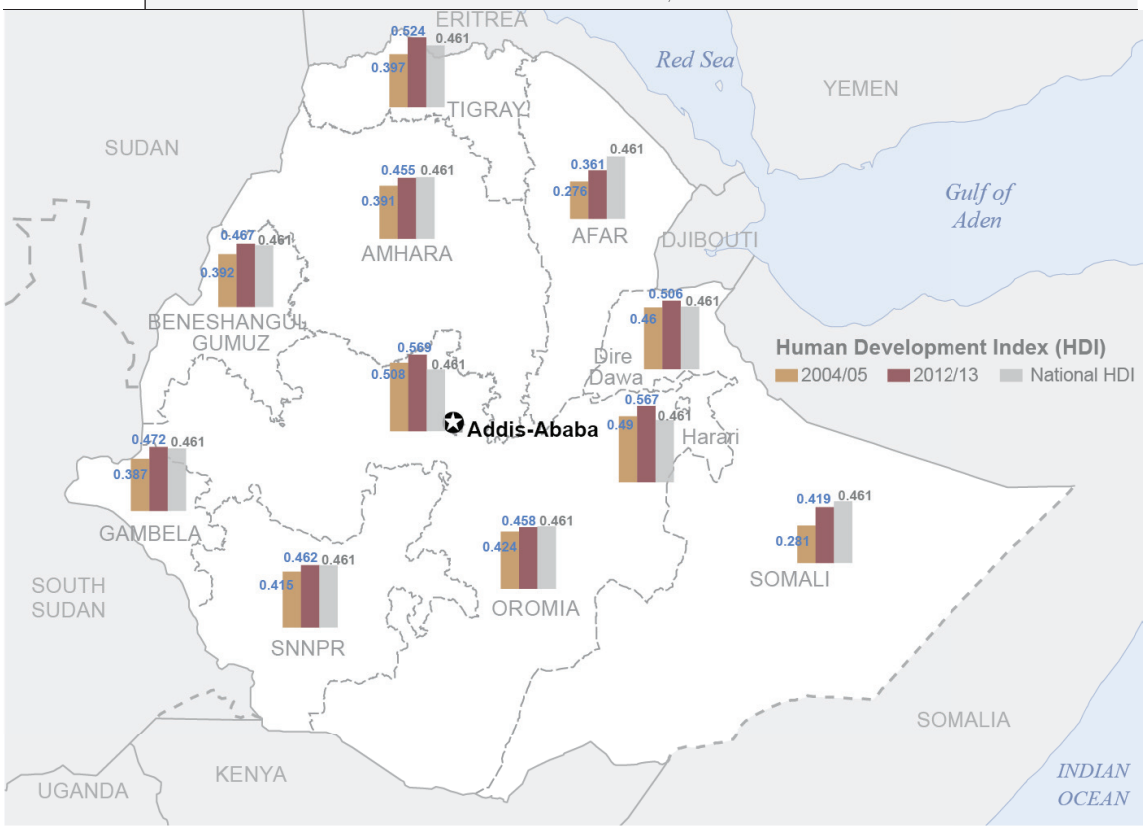


Table 3.3 provides regional HDI values, showing the disparities and inequalities between regions (see Annex 1 for technical note on the HDI).

With regard to regional disparities in HDI values, the four regions of Afar, Somali, Amhara and Oromia have the lowest HDIs, below the national HDI of 0.461. This is mainly attributed to low educational attainments in these regions. The HDI for Gambella region at 0.472 appears to be an exception compared with its peer regions of Somali, Afar and Benshangul-Gumuz, and this has been attributed to its high educational attainment. Further analysis may be required to explain its better performance in education given its high poverty headcount of 32 per cent, among the highest in the country. The inequality-adjusted HDI of the regions indicate that the average loss in human development due to inequality is 2.2 per cent, which is the percentage difference between the HDI and the IHDI.

Figure 3.2: Comparison of Regional HDIs

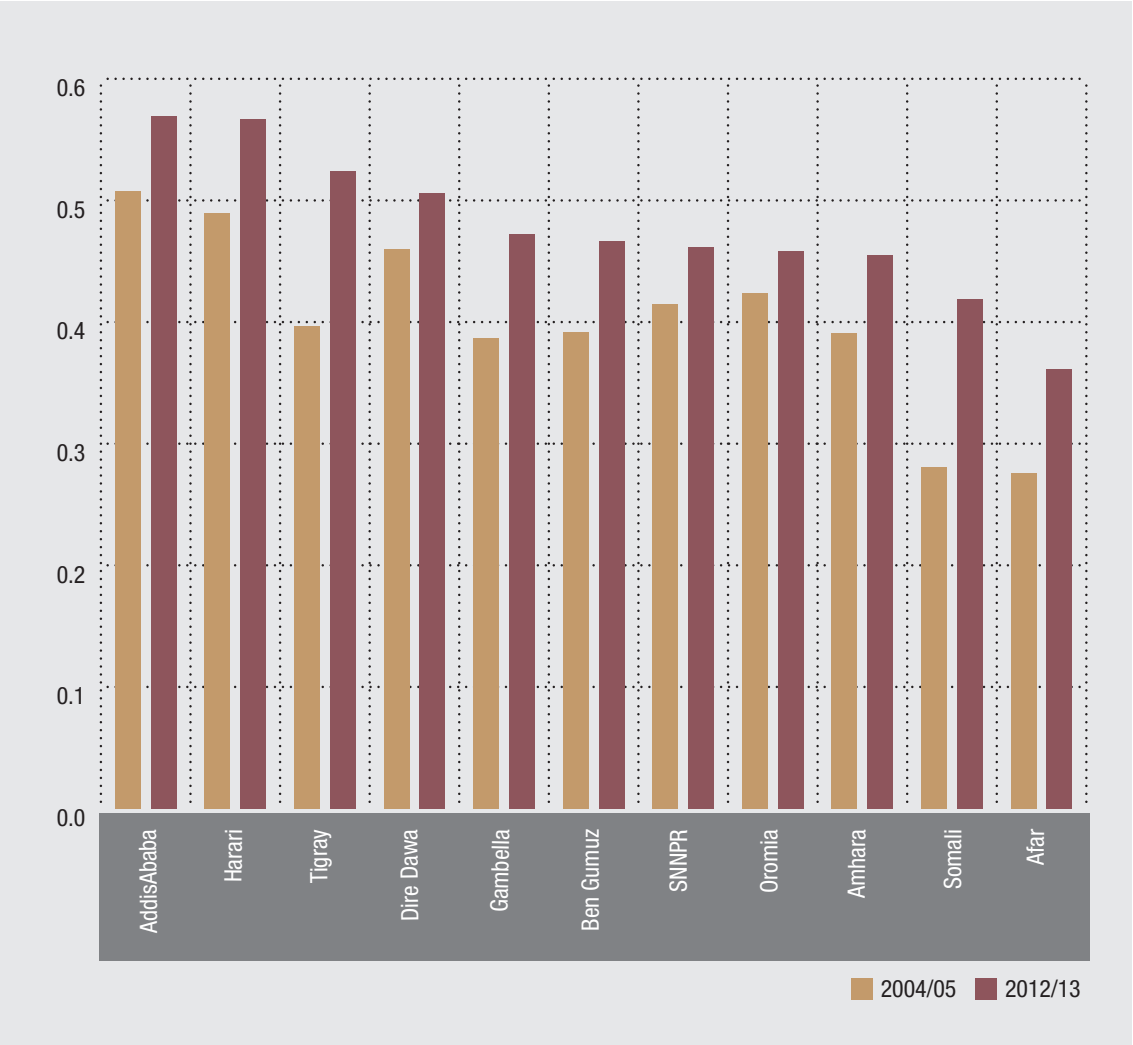


Figure 3.3: Comparison of Regional HDIs and National Average

Table 3.4 Regional Comparisons in Key Selected Basic Human Development Indicators 2011

	Life Expectancy (years)	Poverty incidence (%)	Net Primary School Enrolment Rate (%)	Gender Parity Index (grades 1-8)	Pentavalent immunization coverage (%)
National	59.5	29.6	85.7	0.94	87.6
Tigray	61.0	31.8	92.0	0.99	89.9
Afar	59.5	36.1	31.7	1.04	70.7
Amhara	58.0	30.5	91.7	1.01	79.3
Oromiya	59.5	28.7	83.9	0.91	93.2
Somali	61.0	32.8	81.8	0.97	65.9
Benishangul-Gumuz	57.0	28.9	91.6	0.81	80.0
SNNPR	58.0	29.6	88.9	0.90	100.0
Gambella	58.0	32.0	98.0	0.92	43.5
Dire Dawa	59.5	28.3	85.9	0.90	67.4
Harari	70.5	11.1	74.8	0.84	81.0
Addis Ababa	62.0	28.1	69.4	0.98	88.8

The official poverty results indicate that poverty incidence is highest in Afar, Somali, and Gambella (relatively less developed, pastoral areas) and lowest in Harari, Addis Ababa and Dire Dawa (urban centres). In all regions, consumption is higher in urban areas. However, the Gini coefficient for urban areas is 0.37 compared with 0.27 for rural areas. Hence, there is much higher inequality in urban areas than in rural areas. Overall, absolute poverty in 2010/11 (compared with 2004/05) has declined in all regions except Dire Dawa, a largely urban area (where the absolute poverty incidence increased by 6.1 per cent). Moreover, compared with the previous years, the difference in poverty incidence among the regional states narrowed substantially between 2004/05 and 2010/11, indicating balanced growth among regional states (MoFED, 2013b). Even though the difference in real consumption among regions is very small, real consumption levels are highest in Harari, when measured in per adult equivalent, and in Addis Ababa when measured in per capita terms. For per capita measurements Addis Ababa is followed by Harari, Tigray, Benishangul-Gumuz and Dire Dawa regions, while Amhara, Afar, Oromiya, and Somali recorded lower consumption levels. In all regions, consumption is higher in urban areas (MoFED, 2013b).[8]

In terms of non-income poverty, as indicated by access to services such as health, nutrition, education and literacy and sanitation, there has been an overall improvement in most indicators that mirrors the trend in consumption poverty. Rural areas in particular have seen quite dramatic improvements in water and sanitation, as well as primary school enrolment. The biggest differences are still between rural and urban residents, however, and policy needs to continue to focus on the provision of these services, so as to maintain and expand the gains achieved.

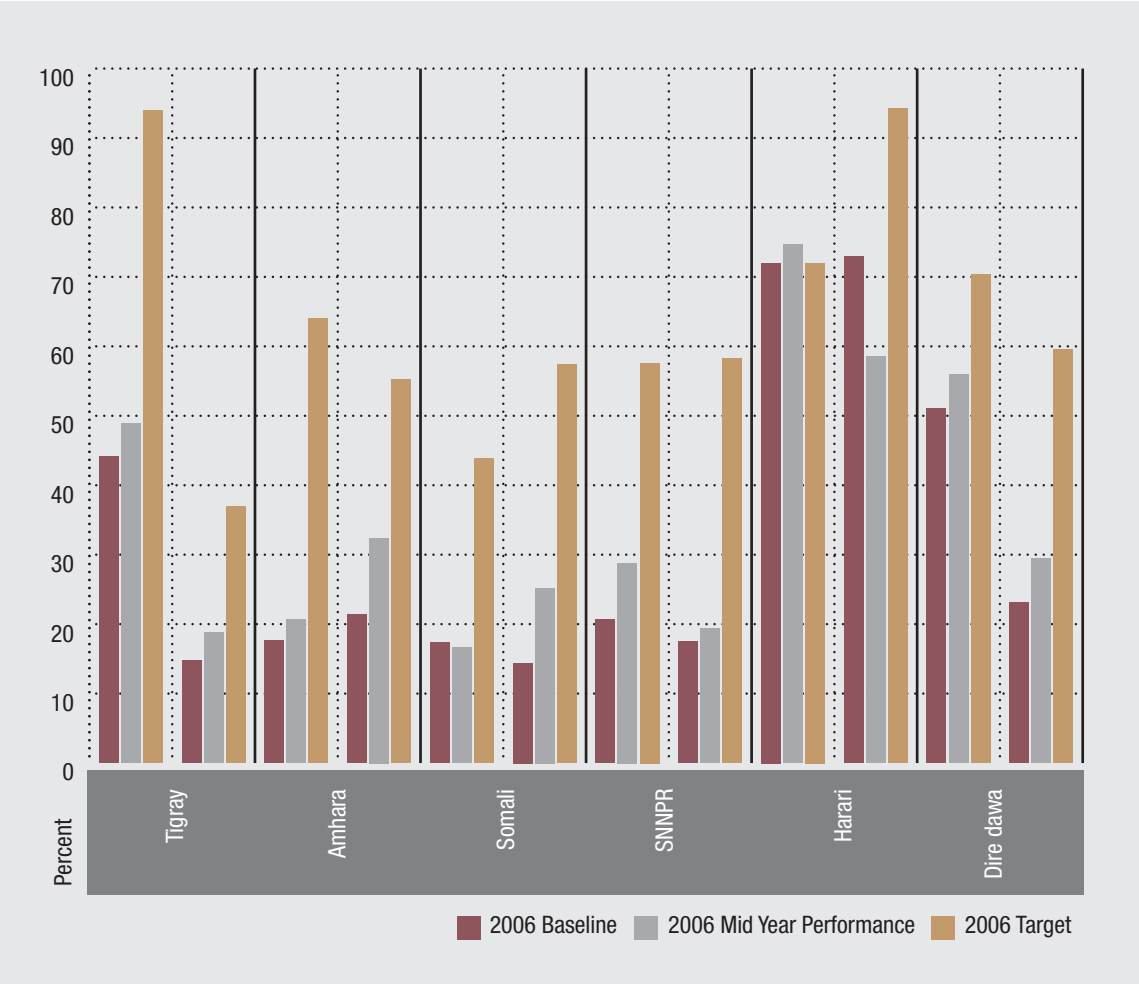
8 Nationally, food consumption, as a share of total consumption, fell from 60 percent to 57 percent between 1995/96 and 2004/05 and to 53 percent in 2010/11. Consequently, non-food expenditures grew rapidly between 2004/05 and 2010/11, by 24 percent in rural areas, and by 38 percent in urban areas.

Life expectancy in all regions is in the range 57-62 years, except in Harari which has the highest life expectancy at 70.5 years. The lowest life expectancy is found in Benishangul-Gumuz region, at 57 years. Interestingly, the net primary enrolment levels in two of the developing regional states, namely, Gambella, 98 per cent, and Benishangul-Gumuz, 92 per per cent, are among the highest. Tigray and Amhara regions have also very high enrolment rates, at 92 per cent. However, the Afar region has by far the lowest net primary school enrolment rate at only 32 per cent. Addis Ababa has also the second lowest net primary school enrolment rate of 69 per cent. On the other hand, although in terms of enrolment they are the lowest performers, Afar and Addis Ababa have the best performance in terms of gender equity. Afar has already met the gender parity goal set by the Government, and Addis Ababa is also near to achieving the goal. Amhara and Tigray have also met the gender parity goal, while the other regions' performance is also very encouraging and likely to reach the goal before 2015. Similar variations exist in terms of immunization coverage across regions.

The national average contraceptive acceptance rate is 59.5 per cent. However, there is great variation across regions ranging from 5.4 per cent in Somali to 84.1 per cent in Amhara. Some of the regional differences are thought to be driven more by socio-cultural factors than by availability.

Similarly, the national average percentage of assisted deliveries is 23.1 per cent. Again, there is great variation across regions ranging from 16.7 per cent in Somali to 74.7 per cent in Harari, as noted in Figure 3.4.

Figure 3.4 Regional Comparison in Percentage of Assisted Deliveries



Source: JCF, 2014.

To address the disparities between regions, a Pastoralist Health Promotion and Disease Prevention Directorate has been established within the Ministry of Health for the purpose of adequately addressing the problem of health care among pastoralist communities/emerging regions. However, despite these efforts, basic services delivery in pastoralist communities in the country remains a challenge, creating huge disparities in access to and the use of essential basic services. This is because of several factors generally associated with the pastoralist lifestyle that include dispersed settlement patterns, seasonal mobility and the pervasive prevalence of harmful traditional practices, which, among other things, perpetuate the underutilization of services, even when they are available.

3.3. Education

Long-term trends indicate that encouraging progress in educational attainment has been made in Ethiopia. In particular, the expansion of education in the last 10 years has been impressive.

Table 3.5 Average Annual Construction of Schools

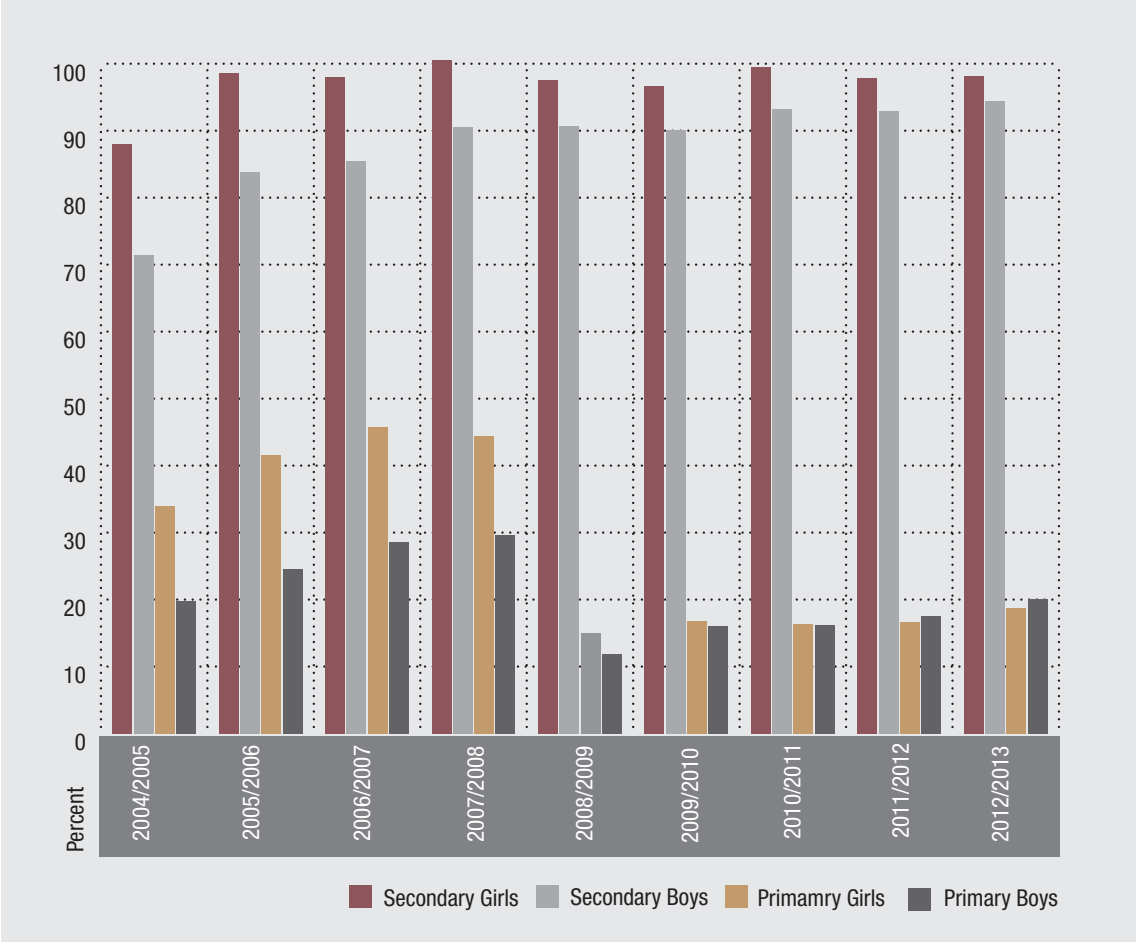
	2003/04-2012/13
Public schools	1,852
Public average growth rate % p.a	10.5
Private schools	177
Private average growth rate % p.a	15.1

Source: MoE, 2013.

While the recent expansion of education has taken place at all levels, the Government has made particular efforts towards universal primary education. Gross enrolment rates in primary school are 98.2 per cent for boys and 92.4 per cent for girls, while for secondary schools the gross rates are 40 per cent for boys and 37 per cent for girls (MoE, 2013). Ethiopia has thus seen an enormous and rapid increase in enrolment in primary education that has contributed to reducing the gender imbalance within education (Figure 3.5). The Government aims to achieve universal primary education for those aged 7-14 as a GTP target by 2014/15.

As part of expanding educational opportunities over the past two decades, net enrolments in primary school have almost tripled since monitoring began in 1994. Currently, 85.7 per cent of Ethiopian primary age children are attending primary school (see Figure 3.5 and Table 3.6). Secondary school enrolment has risen too, but remains at quite low levels, especially in rural areas, and among the poorest groups. Only in the last five years did the gender gap start decreasing at this level of education.

Figure 3.5 Gross Enrolment Rates, Primary/Secondary; Boys/Girls



Source: MoE, 2013.

Domestic savings rate has increased in recent years from 9.5 per cent in 2004/05 to about 18 per cent of GDP in 2012/13.

A **key feature** of **Ethiopia's social development** over the past decade has been the tremendous **expansion** in **social infrastructure.**

Agriculture remains the key sector of the economy, on which the great majority of the population still depends for its livelihood.

Table 3.6 Net Primary Enrolment, Gender Parity and Grade 8 Completion Trends

	2004/05	2010/11	2011/12	2012/13
Net enrolment (Grades 1-8), %	68.5	85.3	85.4	85.7
Male	73.2	87.0	86.8	87.5
Female	63.6	83.5	83.9	83.9
Net enrolment (Grades 1-4), %	67.6	91.8	92.2	95.3
Male	69.9	94.0	94.4	97.9
Female	65.1	89.4	89.8	92.6
Net enrolment (Grades 5-8), %	33.9	47.3	48.1	47.2
Male	38.3	46.6	47.0	46.5
Female	29.4	47.9	49.2	48.0
Gender Parity Index (GPI)	0.87:1	0.94:1	0.93:1	0.94:1
Grade 8 Completion Rate, %	34.3	49.4	52.1	52.8
Male	42.1	52.5	52.4	53.3
Female	26.3	46.2	51.9	52.2

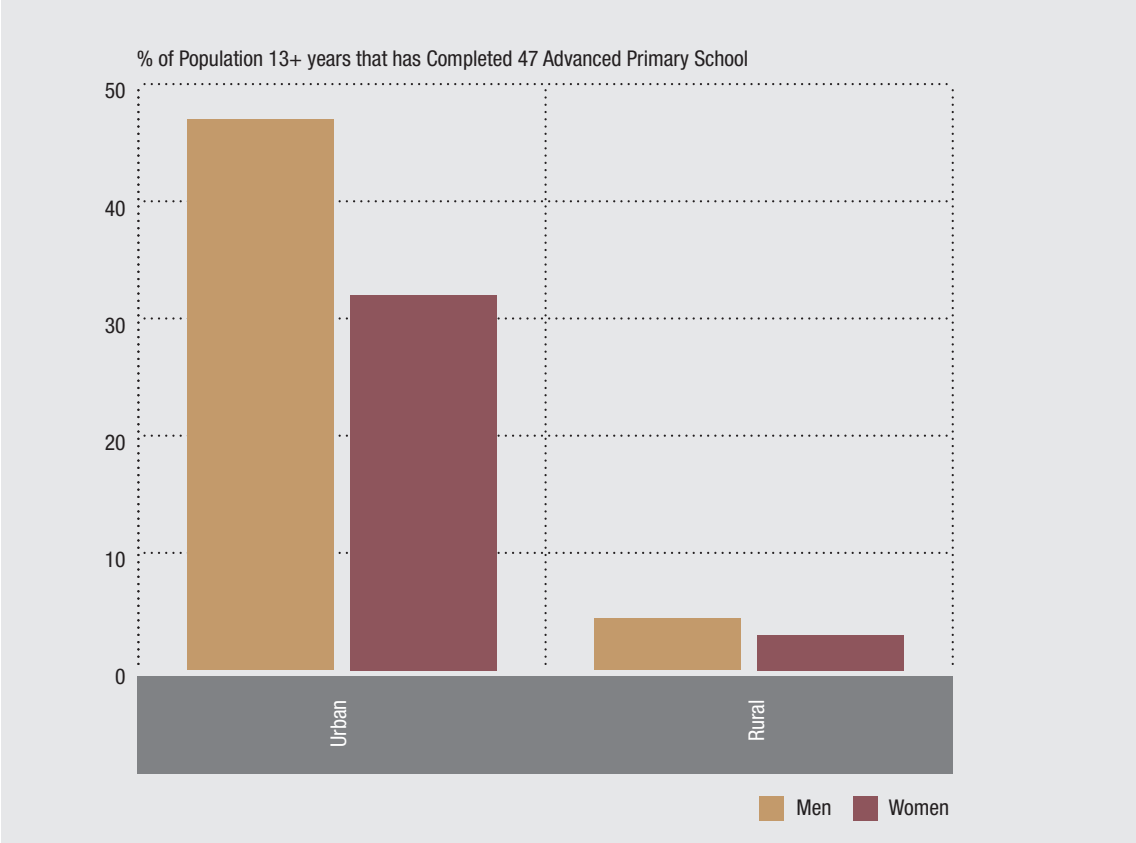
Source: MoFED and PBS, 2014.

Primary school (Grades 1-8) net enrolment rose from 68.5 per cent in 2004/5 to 85.7 per cent in 2012/13, but it remained virtually unchanged over the last two years of that period. Lower primary net enrolment rate (Grades 1-4) reached 95.3 per cent, having improved by 3.1 percentage points from the previous year. While net enrolment for both boys and girls are showing improvement, boys' net enrolment is ahead of girls' by 5.3 percentage points.

Unfortunately, the rate for upper primary (Grades 5-8) net enrolment fell from 48.1 in 2011/12 to 47.3 per cent in 2012/13. The gender difference had been reversed in 2010/11, and was 48 per cent for girls against 46.5 per cent for boys in 2012/13. Large variations were observed at the regional level, with some regions (Tigray, Amhara, Benishaongul-Gumuz, SNNPR and Gambella) at or above the national average, while others lagged behind. The gender ratio at the national level stood at 0.94. Gender disparities in favor of boys are quite pronounced in some regions, especially in Benishangul-Gumuz and Harari.

Primary school completion rates (Grade 8) show ongoing improvement, reaching 52.8 per cent in 2012/13, representing a marginal improvement over the previous year (52.1 per cent). Male completion rates reached 53.3 per cent while females were at 52.2 per cent. The latest data (MoE, 2013) show a lower drop-out rate from primary school for girls (15.4 per cent) than boys (15.9 per cent). However, significant differences exist between rural and urban areas (see Figure 3.6).

Figure 3.6 Completion Rates Male/Female – Urban/ Rural (2011/2012)



Source: CSA, 2012.

Definitely more Ethiopians are attending school, especially in rural areas. The question is whether they are getting more knowledge and skills. The levels of literacy and numeracy (among the population over 10 years old) have increased significantly over time. As revealed in the 2011 Welfare Monitoring Survey (WMS), literacy rates have risen since 2004 from 37.9 per cent to 46.7 per cent in 2011. Literacy rates in Ethiopia are on target for males but lower than expected for females, even when taking into account levels of income. This is occurring despite major improvements in literacy for both sexes since the mid-2000s. Overall, the female literacy rate has increased from 27 to 39 per cent between 2004 and 2011, and male literacy from 49 to 59 per cent for persons aged 10 years and older.

Table 3.7 Expansion in Tertiary Education

	2004/05	2012/13
Universities	3	34
Colleges	16	65
Number of academic staff	4,046	23,905
Medical schools	1	25
Midwifery training institutions	0	16
Education expenditure (Br billion)	4.6	33.1
Total undergraduate enrolments	132,868	467,843
Total postgraduate enrolments	3,604	20,150
Total undergraduate graduates	11,535	75,348
Total postgraduate graduates	1,126	6,250
Medicine undergraduate enrolment	183	1,263

Sources: MoE, 2005 and 2013.

Turning to the tertiary level, university education in Ethiopia has a history going back some 63 years. The first higher education institute in Ethiopia was established in 1950 as Addis Ababa University College. When the current Government came into power in 1991, there were only two government universities and 16 colleges. Currently, there are 32 government universities (plus 75 private higher education institutes). The student intake (new enrolments), which was less than 15,000 when the current Government came to power in 1991, has reached about 467,843 currently. The education budget, which was only 16.7 per cent of the total budget in 2004/05, reached 25.2 per cent in 2012/13.

A total of 237,877 students were studying in technical and vocational institutions (TVET) in 2012/13. In 2012/13, 79,786 students graduated from government and private higher education institutions.

The recent narrowing of the education gap has contributed to the observed narrowing in the gender wage gap. On average, differences in education explain a significant fraction of the variation in productivity, wages and incomes among adults. Moreover, in their roles as mothers, educated women pass on the benefits of higher education to their children. A World Bank study (World Bank, 2012a) states that children born to more educated mothers are less likely to die in infancy and more likely to have higher birth weights and be fully immunized.[9]

9 In Taiwan Province of China, the increase in schooling associated with the education reform of 1968 reduced infant mortality by about 11 percent. In Pakistan, even a single year of maternal education leads to children studying an additional hour at home and to higher test scores (World Bank, 2012a).

In summary, more Ethiopians are at least getting basic education, which, by itself, is a significant achievement. However, it should be noted that there is still a very high level of illiteracy - over 20 million Ethiopians cannot read and write. Multi-sector collaboration is needed for curriculum development for promoting adult education. The Government provided educational instruction to 3.5 million adults in 2012/13 and planned to double that number in 2013/14. However, a significant portion of those who enroll in formal education at the first cycle of primary do not seem to continue their education even to the secondary cycle of primary education.

Quality of Education

The rapid expansion in access to and enrolment in education is a necessary but not a sufficient condition to ensure that Ethiopians have the knowledge and skills that will enable them to create or find more productive employment. There are multiple factors that come into play in this, including quality of education, employment opportunities, and the requisite environment to create or expand productive employment.

The Government is trying to improve the quality of education through the School Improvement Programme financed under the General Education Quality Improvement Programme (GEQUIP). This programme lays the groundwork for improvements in student performance. Examples include the creation of a conducive school environment, the improvement of school facilities, the use of cluster resource centers, tutorial classes, student peer networking, and greater participation via student parliaments / councils.

Table 3.8 Selected Education Quality Indicators

Indicator	2004/05	2012/13
Net Intake Rate (%)	60.9	95.5
Dropout Rate for Grade One (%)	22.4	22.5
Dropout Rate in Primary Education (%)	14.4	15.7
Gender Parity Index – Secondary 1st Cycle	0.6	0.92
Gender Parity Index – Secondary 2nd Cycle	..	0.81
Pupil Teacher Ratio – Primary	66:1	49.4:1
Pupil Teacher Ratio – Secondary (9-12)	51:1	28.7
Education expenditure (Br billion)	4.6	33.1
Share of Education Budget in Total Public Expenditure (%)	16.7	25.2

Sources: MOE, 2005 and 2013.

Box 3.1 Student Perceptions of Educational Experience

According to a survey of Ethiopian students, the teaching methods used by their teachers have been getting more participatory - one of the student representatives among the schools visited said that they usually work in groups, assist each other and ask and answer questions, and that the teachers encourage and support them. In most cases, better performing students play group leadership roles to facilitate peer learning (1:5 ratios). It was also reported that schools have started continuous assessment using a template developed by the Ministry of Education.

Source: Dercon, Hoddinott and Woldehanna, 2005.

Besides enrolment expansion, some indicators of education quality have begun to show progress. Examples include the mass hiring of new teachers that has led to the reduction in pupil-teacher ratios from 66:1 in 2004/05 to 49:1 in 2012/13 for primary education, and from 51:1 to 29:1 for secondary education. The national pupil-teacher ratio also improved slightly from 50:1 to 49:1 in the same period.

In the same period, the proportion of qualified primary school teachers increased from 60.6 per cent to 64.7 per cent, with qualified women slightly outpacing men. In addition, some 95 per cent of teachers and supervisors currently meet basic professional teaching standards and receive ongoing in-service training. The Government further plans for some 220 educational institutions to complete qualification standard assessments. And teachers' qualifications will be upgraded through professional development arrangements with US and UK educational organizations.

Similarly, efforts are being made to increase the use of tutorial classes for low performing students (mainly girls), purchase additional reading materials, promote improvements in libraries and laboratory facilities, and establish cluster resource centres for multi-purpose educational uses.

According to surveys of school directors, teachers and students, there have been visible changes in teaching methodology. The tendency of shifting from a lecture ("chalk and talk") approach to an active learning approach is becoming more common in schools.

The school environment is thus becoming more favorable for the entire teaching-learning process. In most schools, the availability of facilities - such as libraries, laboratories, pedagogical centres, separate toilets for boys and girls, and playgrounds - is improving. Other important developments include giving students from less developed regions preferential treatment in admission to tertiary education. Disabled children are being offered special education and appropriate facilities and infrastructure in regular educational institutions.

Table 3.9 Number of Health Facilities[10]

	2004/05	2012/13
Public Hospitals	11	127
Public Hospitals annual average increase in number		12.9
Health Centres	519	3,100
Health Centres annual average increase in number		286.8
Health Posts	4,211	16,048
Health Posts annual average increase in number		1,315

Source: Computed from MoFED data.

By and large, however, the main determinants of inequity and exclusion from education lie outside the classroom: poverty and food insecurity; child labour both at home and commercially; long distances to schools (especially to secondary schools); gender disparities and in particular early marriage; and the lack of continuous access for children from pastoralist families.

3.4. Health

Long-term trends in health access and health gains show dramatic improvements in the past 10 years. The Government has shown strong political commitment and leadership, which has resulted in impressive health service coverage, including enhanced responsiveness to community health needs. Health planning and interventions are based on extensive consultation and consensus-building with multiple stakeholders. As a result, Ethiopia has achieved multi-front health gains including the achievement of the MDG 4 on child mortality three years ahead of the target date. The overall gain has led to increased life expectancy for both men and women, which is a key component of the human development index.

The basis for accelerated improvement in health has been the rapid growth in the construction of health facilities, the training of health professionals and the budgetary resources allocated to the sector.

In line with the GTP and Health Sector Development Programmes (HSDP), the Government has been making strong efforts to expand and provide health services at all levels. Between 2005 and 2013, the number of health centres increased from 519 to 3,100, and public hospitals rose from 11 to 127. The number of medical schools increased from 5 to 25 in the same period (Tables 3.7 and 3.9).

The Government's health policy emphasizes preventive measures as most health problems in the country are related to communicable diseases. Hence, the Government has had comparable success in expanding health services at the community level. The number of health posts rapidly increased to reach 16,048 in 2013, up from 4,211 in 2005 and 6,191 in 2006. At present, the Government is planning to expand the health service system further through constructing more than 15,000 health posts, 3,056 health centres, and 800 new primary hospitals.

A Health Development Army has also been formed as a means to meet priorities set in the HSDP and GTP. The Army consists of 2,026,474 one-to-five peer networks that have been established nationwide. Priority is given to mass mobilization in pastoral areas.

With respect to immunization, its coverage at the national level in 2012/13 was 87.6 per cent for Pentavalent3[11] vaccine and 71.4 per cent for full immunization coverage. This compares with 70.1 per cent for Pentavalent 3 and 44.5 per cent for full immunization in 2004/05.

10 According to MoH (2007), the total number of Health Posts and health extension workers (HEW) needed for universal coverage of health service in rural areas is 15,000 and 30,000 respectively, which seems to have been achieved by 2011/12.

11 Pentavalent vaccine is a combination of five vaccines in one: diphtheria, tetanus, whooping cough, hepatitis B and Haemophilus influenza type b (the bacteria that cause meningitis, pneumonia and otitis) (www.unicef.org) and Pentavalent 3 is the third dose of the vaccine.

Table 3.10 Selected Key Health Indicators

	2004/05	2010/11	2011/12	2012/13
Immunization coverage[12] (%)	44.5	84.7	84.9	87.6
Pregnant women receiving antenatal care (millions)	1.219	2.403	2.550	2.860
Antenatal service coverage (%)	42.1	82.2	89.0	97.4
Number of health extension workers	2737	38,298	38,102	36,336
National water supply coverage (%)	36.0	52.1	58.3	68.5
Rural water supply coverage (%)	25.2	48.9	55.2	66.5
Urban water supply coverage (%)	92.4	74.6	78.7	81.3

Source: MoFED, 2014.

Box 3.2 Safe Birth Deliveries

Skilled attendance at birth is the most important intervention in reducing maternal mortality and one of the MDG indicators to track national efforts towards safe motherhood. The percentage of deliveries assisted by skilled health personnel increased from 16.6 per cent in 2010/11 to 20.4 per cent in 2011/12, below the target of 37.7 per cent set for that year. There was wide variation across regions, ranging from 8.4 per cent in Benishangul-Gumuz to 67.1 per cent in Harari and 66.4 per cent in Addis Ababa.

Sources: MoFED and UN,

In sum, Ethiopia is making noteworthy improvements in maternal and child health. Children are now vaccinated against major diseases and most pregnant women get antenatal and post-natal care. Based on the Ethiopia Demographic and Health Survey (EDHS), health indicators, between 2005 and 2010 contraceptive prevalence increased to 29 per cent from 15 per cent and good improvements were achieved in the under-five mortality rate, which fell from 123 (per 1,000 live births) in 2005 to 88 per 1000 live births in 2010. Infant mortality dropped from 77 to 59 per 1,000 live births during the same period. According to the Welfare Monitoring Survey, the prevalence of general illness dropped from 23.8 per cent in 2004 to 16.9 per cent in 2011.

Turning to the quality of health care, apart from achieving the global MDG 4 target of declining child mortality, improvements can be observed in malnutrition, anaemia, and immunization rates. The percentage of children vaccinated against DPT3 reached 87.6 per cent in 2013, up from almost 85 per cent the previous year. While several regions show promising increases, others (Afar, Amhara, Somali, Benishangul-Gumuz, Gambella, Harari, and Dire Dawa) are behind the national average with some showing downward trends. Antenatal service coverage has improved. The number of pregnant women receiving antenatal care for the first time from a health provider rose from 89 per cent 2012 to 97.4 per cent in 2013. This is a very promising trend given that only 82 per cent of women were receiving such care in 2011. The percentage of skilled health care deliveries increased from 20 to 23 per cent. However, there is great variation between regions, ranging from 14 per cent in Gambella to 73 per cent in Addis Ababa.

12 The coverage is for Pentavalent 3.

Table 3.11 Healthcare Workforce Standards

Indicators	Status in Ethiopia 2009	Status in Ethiopia 2013	International Benchmarks
Health Workforce Density	0.7 per 1,000	1.3 per 1,000	2.3 per 1,000 (WHO recommended)
Physicians	1 per 42,706	1 per 23,700	1 per 10,000
Nurses	1 per 5,000	1 per 1,890	1 per 5,000
Midwives	1 per 57,000	1 per 14,894	1 per 1,000

Sources: MoFED and Ministry of Health sources.

Girls are slightly more likely to be fully vaccinated (26 per cent) than boys (23 per cent). Urban children are more than twice as likely as rural children to have all basic vaccinations (48 per cent compared with 20 per cent). Children whose mothers have secondary education are more likely to be fully immunized than those born to mothers with no education (57 and 20 per cent, respectively). Similarly, 51 per cent of children in the highest income quintile are fully immunized, compared with 17 per cent of children in the lowest income quintile. There is a wide variation among regions in full vaccination coverage, ranging from 79 per cent in Addis Ababa to 9 per cent in Afar (CSA and ICF, 2012).

As the above data suggest, there are wide inequalities in the immunization status of children in Ethiopia. Children of educated women, rich households, and Addis Ababa and Tigray Regional State have higher chances of being fully immunized. Children from the richest and middle income households are less likely to have no immunization at all (by 74 per cent and 57 per cent respectively) compared with those from the poorest households. Children from SNNPR, Oromiya and Amhara are 3.82, 7.00 and 3.65 times less likely to be fully immunized compared with those from Tigray, which has the second highest proportion of fully immunized children. The preliminary findings indicate that there are uneven immunization coverage rates and hence unequal chance of protection from vaccine preventable diseases (Aemro, Bezuhan and Yibeltal, 2012).

A report by Save the Children (2014) also raises concerns about equity in health services citing how immunization coverage is different among different income groups, and between urban and rural areas. According to the report, children from richest households are twice as likely to be immunized compared to those from the poorest households and children in urban areas are twice as likely to be immunized as those in rural areas.

Based on revised data from the National Water Sanitation and Health Inventory, national potable water supply coverage increased from 58 per cent to 68.4 per cent between 2009/10 and 2012/13, reflecting an increase in both rural and urban coverage.

Even though many health outcomes have improved significantly over the last decade, Ethiopia is still lagging behind on some measures. For example, Ethiopia has still higher than expected shares of malnutrition compared with countries at the same income level. What is especially striking about Ethiopia's health data is the exceptionally high level of maternal mortality, given Ethiopia's income level.

Table 3.12 Trends in Skilled Delivery Coverage (%)

	2007	2008	2009	2010	2011	2012	2013
% Skilled Attended Births (National)	16.4	20.3	18.4	16.8	16.6	20.4	23.1

Source: MoH data.

Table 3.13 Poverty Trends in Ethiopia

	2004/05	2010/11	2011/12	2012/13
Per Capita Income (US$)	171	387	510	550
Poverty Headcount %	38.7	29.6	27.8	26.0
Food Poverty %	38.0	33.6	32.7	31.8

Source: MoFED data.

On average, 30 per cent of female deaths are maternity-related, although this share differs between age groups. Accounting for the fact that the frequency of births also differs between age groups, the number of maternal related deaths, given the number of births, is likely to decrease with age for the age groups 25-29 and higher. However, for the age group 20-24 the risk is higher than for the older age group and for 15-19 even more so, suggesting that giving birth at a younger age is much more risky than in the late 20s.

With respect to HIV and AIDS, over the last two decades Ethiopia has taken strong measures to address the epidemic, as a result of which HIV incidence has declined by 90 per cent. Death from HIV and AIDS has also declined by 53 per cent. HIV prevalence has also declined from 2.4 per cent in 2009/10 to 1.3 per cent in 2012/13. Moreover, the number of people who get HIV tests has increased from fewer than half a million to 12 million. HIV prevalence is now 3.8 per cent in urban areas and 0.5 per cent in rural areas. HIV prevalence varies from region to region. Prevalence rates are highest in Gambella (5.5 per cent) and Addis Ababa (4.4 per cent).

In sum, increased health-related expenditure has led to significant improvements in the health status of the population. With respect to the health budget, the health-related share increased from 5.6 per cent to 8.5 per cent between 2005 and 2010, and has remained at the same level for the past three or four years. Health expenditures per capita have been rising for a longer period, but especially rapidly since the mid-2000s. Total public health expenditures now average around 2.5 per cent of GDP, which is in line with the average for a country of Ethiopia's income level.

3.5. Poverty Trends

Broadly speaking, high growth has helped reduce poverty in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty. The rapid economic growth of the past decade has been generally accompanied by improved per capita income and a decline in poverty. However, because of high population growth, the absolute number of the poor has remained unchanged at some 25 million over the past 15 years.

The incidence of poverty declined markedly between 2004/05 and 2010/11. The headcount poverty rate fell from 38.7 per cent in 2004/05 to 29.6 per cent in 2010/11, using a poverty line of US$0.60/day. As indicated in Table 3.13, the incidence of poverty has continued to decline, falling to 26.0 per cent in 2012/13. This implies that Ethiopia is on track to achieve the MDG target of reducing poverty by half by 2015 from a baseline of 44.5 per cent in 1990. Over the same period, the poverty gap[13] was also reduced but not the severity of poverty. Headcount poverty fell in all regions of the country. However, food poverty remains high and no doubt raises overall poverty incidence, given the large share of household spending on food.

Poverty in Ethiopia has fallen in both rural and urban areas, despite the limited structural change that has taken place over the past decade. Between 2004/05 and 2010/11, real per adult equivalent consumption increased by 20 per cent, which is lower than the increase recorded over 1999/2000-2004/05.

Given that Ethiopia is largely a rural society, the trend in rural poverty mirrors with national poverty rates falling from 45.4 per cent to 30.4 per

13 The poverty gap is defined as the mean shortfall from the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line. This measure reflects the depth of poverty as well as its incidence.

cent between 2004/05 and 2010/11. Urban poverty experienced a similar trend, with urban poverty rates falling from 36.9 per cent to 25.7 per cent (MoFED, 2013b). Other dimensions of welfare have similarly shown dramatic improvement in rural and urban Ethiopia in the last decade. Using 2010/11 DHS data, Carranza and Gallegos (2013) show there was progress in reducing malnutrition over the last decade. For example, the number of severely stunted children fell by 38 per cent nationally, with a fall of 50 per cent in urban areas and a fall of 36.3 per cent in rural areas.

The growth elasticity of poverty, which measures the percentage reduction in the poverty rate as a result of a percentage change in per capita income, was 1.94 for Ethiopia between 1999/00 and 2010/11 (MoFED, 2013). This implies that a one per cent growth in income (consumption) growth results in 1.94 per cent reduction in poverty incidence. This places Ethiopia at the world average, but significantly higher than other countries in the region (Kalwij and Verschoor, 2005). Disaggregating the reduction in poverty into that coming from a change in average consumption and that coming from a change in distribution suggests that growth has accounted for 89 per cent of the national fall in poverty over the last 10 years, with little of the reduction resulting from changes in income distribution. Given that rural Ethiopia has a higher growth elasticity of poverty, of 1.97 compared to 1.4 in urban areas, changes in income (consumption) had a significant impact on the incidence of poverty in rural areas.

Changes in Income Distribution

According to Degefa and others (2004), one should expect to observe an increase in assets and associated income inequality during the transition from a centrally-planned economy to a market economy. This transition is what has happened in Ethiopia during the last decade. Part of the increase reflects the inherent inequalities of market economies and is essential to their effective functioning. Another part arises from an emerging differential access to assets, services, information and political influence.

According to Degefa and others (2004), growth in rural incomes accounted for 52 per cent of the reduction in poverty over the last decade. Urbanization of the population (through migration and expansion of urban centers into surrounding rural areas) accounted for one fifth of the reduction in poverty, and growth in urban incomes accounts for the remaining quarter.

Over the long term, as Ethiopia urbanizes, poverty will become more urban. In 2000, 11 per cent of Ethiopia's poor lived in cities, but this rose to 14 per cent in 2010/11. The number of urban poor stayed almost constant between 2004/05 and 2010/11 (at 3.2 million) even though urban poverty rates fell by almost ten percentage points (from 35.1 per cent to 25.7 per cent).

Despite sound economic performance, progress in achieving MDGs and human development will be hindered if the growth is not accompanied by growing equity across income groups. For inclusive growth to take root, the major policy focus must be on improving the productive capacity of individuals and creating a more conducive environment for productive employment, rather than on income redistribution as a means of increasing economic power for excluded groups.

Income Inequality

Between 2004/05 and 2010/11, income (consumption) inequality measured by the Gini Coefficient has shown a slight decline from 0.3 in 2004/05 to 0.298 in 2010/11 (MoFED, 2013b). Inequality as measured by the coefficient declined in urban areas in this period from 0.44 to 0.37, while rural inequality remained broadly unchanged, at around 0.26. Poverty analysis based on CSA HICES reveals that poverty severity has increased in recent years (MoFED, 2013b). This indicates worsening of inequality among the poor, that the very poorest have not seen their incomes grow and that poverty severity has increased.[14] .

14 Poverty severity takes into account not only the distance separating the poor from the poverty line (the poverty gap), but also the extent of inequality among the poor. That is, a greater weight is placed on those households which are further away from the poverty line.

Table 3.14 Trends in Income Inequality (Gini coefficients)

Year	Rural	Urban	National
1995/96	0.27	0.34	0.29
1999/2000	0.26	0.38	0.28
2004/05	0.26	0.44	0.30
2010/11	0.27	0.37	0.30

Source: MoFED, 2013b.

More specifically, table 3.14 indicates that inequality is higher in urban areas than in rural areas. With regard to poverty and inequality in urban and rural areas, the headcount poverty rate fell in rural areas from 39.3 per cent in 2004/05 to 30.4 per cent in 2010/11. Over the same period, in urban areas it declined, from 35.1 per cent to 25.7 per cent[15]. In urban Ethiopia, during this period, a significant decline in the poverty gap and in poverty severity was observed, while the poverty gap remained the same and poverty severity increased in rural areas. The national level poverty severity index stood at 0.031 with the rural poverty severity index (0.032) being slightly higher than that for urban areas (0.027). Inequalities between rural and urban Ethiopia have decreased, to the extent that the rural regions' average expenditures per capita were 63 per cent of the urban level in 2010/11 compared with 48 per cent in 1995/96 (CSA, 2012)

A trend which appears to be coming through the Well-being and Ill-being Dynamics in Ethiopia (WIDE) research (EDRI, 2014) is that the difference in assets and lifestyle between the rich and poor households is "stark and increasing". Conclusions drawn from WIDE data indicate access to and use of services by the poorest and/or most vulnerable people is uneven and problematic. While it is acknowledged that the government has made large-scale public investment in rural infrastructure including roads and social amenities, people living in the remoter parts of the country still experience some difficulty in accessing schools, health centres, electricity and mobile transmission.

Despite the overall progress, Ethiopia still faces the challenges of reversing the recent trend of lower consumption growth among the bottom percentiles of its population and the worrying trend of negative consumption growth for the very poorest households. There seem to exist huge unmet needs and a very limited reach on the part of public services in targeting youth and the extreme poor. Growing inequality would reduce the impact of economic growth on poverty reduction.

3.6. Chapter Summary

This chapter has examined Ethiopia's human development trends looking specifically at health services, education and poverty trends. Some of the key findings include:

- Education has been expanding in Ethiopia over the past 15 years, and net enrolments in primary school have almost tripled since monitoring began in 1994. Currently, 85.7 per cent of Ethiopian primary age children are attending primary school. Secondary school enrolment has risen too, but remains at quite low levels, especially in rural areas and among the poorest groups. Only in the last five years did the gender gap start decreasing at this level of education.
- By and large, however, the main determinants of inequity and exclusion from education are outside the classroom: poverty and food insecurity; child labour both at home and commercially; distance to schools (especially to secondary schools); gender disparities (in particular early marriage); and continuous access to education for children from pastoralist families.
- The long-term trends in health access and health gains show dramatic improvements over the last 10 years. Life expectancy for both men and women has increased, which is a key component of the human development index.
- In line with the GTP and Health Sector Development Programme, the Government has been making strong efforts to provide health services for local communities, achieving im-

15 Note that only 17 per cent of the population lives in urban centres, the majority of whom reside in and around Addis Ababa.

pressive results in service expansion. For example, between 2005 and 2013, the number of health posts rose from 4,211 to 16,048; the number of health centers increased from 519 to 3,100; and the number of public hospitals rose from 11 to 127.

- With respect to immunisation, coverage at the national level in 2012/13 was 87.6 per cent for Pentavalent 3. This compares with 70.1 per cent for Pentavalent 3 and 44.5 per cent for full immunisation in 2004/05
- Even though many health outcomes have improved significantly over the last decade, Ethiopia is still lagging behind on some measures. For example, Ethiopia has still higher than expected malnutrition compared with countries at the same income level. And what is especially striking about Ethiopia's health data is the exceptionally high levels of maternal mortality, again given its income level.
- High economic growth has helped reduce poverty in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty, and the share of the population below the poverty line has fallen from 38.7 per cent in 2004/05 to 26.0 per cent in 2012/13 (using a poverty line of US$0.60/day)
- However, because of high population growth, the absolute number of poor (about 25 million) has remained unchanged over the past 15 years.

4

Risk, Vulnerability, Shocks and Climate Change

This chapter examines the continuing challenges facing Ethiopian society from various kinds of risks, vulnerability, and economic and environmental shocks. Ethiopia's quest for sustainable human development has faced daunting challenges emanating from shocks and crises, including natural disasters and climate risks. Hence, building resilience in development and human responses is critical to ensuring that human development is sustained and protected against such risks. Historically, Ethiopia has confronted a plethora of natural hazards - drought, floods, human and livestock epidemics - that often brought in their train great human suffering. This chapter looks at two inter-related issues that directly affect human development and livelihoods: the nature and extent of vulnerability and risk and their impact on the poor: and the long-term risks from environmental degradation and climate change.

4.1. Addressing Risk and Vulnerability of the Poor

In the everyday lives of the poor, risk and vulnerability to drought, pestilence, and other kinds of natural and man-made disasters can have a devastating impact on the abilities of households and communities to respond to and cope with such hazards. The 2014 *World Development Report* argues that effective risk management is a critical ingredient in the fight to end poverty as it unlocks opportunities, mitigates crises, and protects the poor in times of disaster and shock. The report indicated that "Risk management can be a powerful instrument for development—not only by building people's resilience and thus reducing the effects of adverse events but also by allowing them to take advantage of opportunities for development". In pursuing opportunities, people encounter risks of various kinds. To mitigate these risks requires preparation and recovery efforts by governments, communities and individuals. Better risk management can provide both resilience to adverse events and the ability to take advantage of development opportunities.

Although a significant proportion of Ethiopians report experiencing shocks to welfare and livelihoods, this number has fallen since 2005, particularly in rural areas. Successive years of good harvests and economic growth have not only had a positive impact on consumption poverty, but they may also have enhanced the ability of households to respond to future shocks that might occur. Asset ownership in rural areas is substantially higher today than 10-15 years ago and many more households report being able to raise money to handle an emergency than in the past.

Historically, the vulnerability of Ethiopian households in rural areas to bad weather has been very high. Almost half of rural households in Ethiopia were affected by drought in a five-year period from 1999 to 2004 (Dercon, Hoddinott and Woldehanna, 2005), and drought had a severe impact on the welfare of these households. The consumption levels of those reporting being affected by serious drought were found to be 16 per cent lower than those of the families not affected, indicating that the impact of drought had long-term welfare consequences.

Box 4.1 Institutionalizing Disaster Risk Reduction

Following the Business Process Re-engineering undertaken in the Government in 2007, the Disaster Risk Management and Food Security Sector (DRMFSS) was established and transferred (by proclamation) to the Ministry of Agriculture and Rural Development (MoARD). This new sector is led by a State Minister and comprises the Early Warning and Response Directorate (EWRD) and the Food Security Coordination Directorate (FSCD). This new arrangement brought a fundamental shift in the approach to disaster management, moving from a drought- and relief- focused approach to a more proactive multi-sectoral and multi-hazard Disaster Risk Management (DRM) approach.

The Ethiopian Government has developed a revised DRM policy that provides the direction for the kind of DRM system envisaged for Ethiopia in the present and future, shifting from a disaster response approach to a more comprehensive Disaster Risk Management. It relies on organizational structures with appropriate and harmonized roles and responsibilities at federal, regional and *woreda* levels. Horizontal and vertical coordination among decision-making bodies and effective DRM systems, processes and procedures are ensured. This revised policy was approved by the Council of Ministers in July 2013.

Source: MoA, 2013.

Part of the reason for the population's reduced vulnerability and liability to risk has been the direct result of the Government's strong commitment to the establishment of disaster early warning systems and social safety need mechanisms.

Ethiopia's policy approach to disaster risk reduction is found in the Government's 2010

National Policy and Strategy on Disaster Risk Management, which has been seen as marking a "paradigm shift" from past practices. These past practices were seen as ad hoc and poorly formulated. The Strategy was modeled on the Hyogo Framework developed at the 2005 World Conference on Disaster Reduction in Japan. The new policy marks an effort to break with the past, by prioritizing national preparedness and engaging the private and voluntary sectors and international agencies only where needed, unlike past disaster responses that were disproportionately reliant on external resources.[16] Thus, the policy calls for Ethiopia no longer to rely on external assistance for food aid by 2015.

Social Protection Laws and Schemes

Social protection is a central public policy component for countries addressing poverty, vulnerability and inequality. Social protection improves the effectiveness and efficiency of investments in agriculture, health, education and other basic services, thus accelerating the attainment of development goals, especially for the most vulnerable members of society. Investing in social protection reduces the vulnerabilities of poor people to external shocks such as aggregate income shocks, instability in the price of essential commodities, and the effects of environmental disasters and climate change.

Ethiopia's recently formulated social policy marks a shift from a social welfare approach to a completely new framework leading to coordinated actions to protect citizens from economic and social deprivation through emergency interventions and targeted cash transfers. These include:

- preventive actions designed to avert deprivation or to mitigate the impact of adverse shocks including health and unemployment insurance;
- proactive measures that aim to enhance assets and human capital and income earning capacity; and
- transformative actions including legal and judicial reforms, budget analysis and policy evaluations to help the nation better manage social protection (MoLSA, 2012).

16 For an overview of Ethiopia's disaster relief policies, see Woldemariam, 2013.

Box 4.2 Social Protection in Law and Policy

The Ethiopian Constitution, various medium-term development plans, sector medium-term development plans and sectoral policies have prioritized provision for social protection interventions. Ethiopia has also ratified multiple international conventions and instruments which have become part of Ethiopian law. These include:

- The Universal Declaration of Human Rights (1948);
- The African Charter on Human and Peoples' Rights (1981};
- The United Nations Convention on the Rights of the Child (1989;:
- The Convention on the Elimination of All Forms of Discrimination Against Women (1995);
- The African Charter on Rights and Welfare of the Child (1999); and
- The ILO Declaration on Fundamental Principles and Rights at Work (1998).

At the national level, legal reforms have been enacted with the aim of revisiting discriminatory laws so as better to protect the rights of vulnerable groups. Among these are the Revised Family Code, the Labour Proclamation, the Revised Criminal Code, Vehicle Insurance against Third Party Risks (Proclamation No. 559/2008), Proclamation to Provide for Social Health Insurance (Proclamation No. 690/2010), Public Servants' Pension Proclamation (Proclamation No. 714/2011) and Private Organization Employees' Pension Proclamation (Proclamation No. 715/2011 (MoLSA, 2012).

Before the approval of the social protection policy in 2014 Ethiopia did not have a comprehensive and integrated social protection system. Previously, the country had uncoordinated array of support mechanisms, programmes, action plans and interventions that served a variety of social protection purposes.

The Social Security Agency has managed a social insurance scheme since 1963. Coverage was limited to civil servants, the police and the military. The Social Insurance Scheme, which is a contributory pension scheme, provides benefits in old age, survivors' benefits and employment injury for only 1 per cent of Ethiopians. The Social Security Scheme is limited to the employees of government and parastatal institutions.

The Central Statistical Agency estimated in 2007 that there were a total of 1.8 million persons engaged in gainful employment in government, parastatals and the private sector. This constitutes 7.2 per cent of the total workforce engaged in urban and rural areas. Thus, of the 7.2 per cent of workers in the formal sector, social security coverage is limited to the even smaller percentage who are government and parastatal employees. Private companies and charitable organizations, which employ less than 1 per cent of people of working age, provide some employment benefits, including a contributory provident fund on which employees may draw, usually at termination of employment. These private schemes cover part or all of health costs that employees may incur.

Other than the above schemes, almost all self-employed and unemployed people have no access to any kind of formal social insurance (MoLSA, 2012).

Before the Government's recently approved the social protection policy, the Government had created the Productive Safety Net Programme (PSNP), Ethiopia's largest social protection programme and a major component of the Food Security Programme. The objective of the PSNP is to assure food consumption and prevent asset depletion for rural food insecure households in a manner that stimulates markets, improves access to services and natural resources, and rehabilitates and enhances the natural environment. A recent study by the International Food Policy Research Institute (Dorosh and Rashid, 2013) concluded that the PSNP has been highly successful in following the targeting criteria laid out in the PSNP's operations manual, although regional variations in targeting and delivery have been observed.

The PSNP evolved from the lessons learned from the tragic consequences of Ethiopia's experience in confronting the devastating famines of the 1970s, 1980s and 1990s. During the 2011 drought that hit the Horn of Africa, the

70%

Youth in Ethiopia are either self-employed or contributing to family income.

From 1997-2011 the number of large-and medium-scale manufacturing firms owned by the private sector (including international companies) trebled from 607 to 2,094 (EEA, 2013).

Over 2 million job opportunities were created in 2012/13 alone through its investment in infrastructure and construction activities.

Box 4.3 Ethiopia: Productive Safety Net Programme (PSNP)

Ethiopia launched the Productive Safety Net Programme (PSNP) in 2005 to provide transfers to people in the country's food insecure administrative divisions. The largest social safety net programme in sub-Saharan Africa outside South Africa, it reaches more than 7 million people at an annual cost of about US$500 million. The programme aims to provide predictable transfers to meet expected needs to bridge annual food consumption gaps and protect household assets from distress sales. The programme is part of the government's larger Food Security Programme, which also incorporates a package of Other Food Security Programmes (OFSP) that includes credit and subsidized inputs. PSNP has a public works component (84 per cent of 2008 participants) and a direct support component for households with no able-bodied members (16 per cent). The public works component employs people for up to five days a month for six months, targeting the months when agricultural activities are slowest. Beneficiaries receive cash or food. Transfers are not automatically adjusted for inflation, but they were increased in 2008 in response to rising food prices. One study of beneficiaries in public works projects found that people who participated in both the PSNP and OFSP were "more likely to be food secure, and more likely to borrow for productive purposes, use improved agricultural technologies, and operate their own non-farm business activities". A later study found a positive effect on income growth and food security, especially for people who received food only and mixed (cash plus food) payments. Price inflation reduced the benefits to households receiving only unindexed cash transfers. PSNP and OFSP show that government social programmes can protect entitlements and improve food security. The study also highlighted the challenges that beset such programmes—from the institutional complexity of cash transfers and credit access components to the difficulty of coping with food price volatility.

Source: UNDP, 2012.

PSNP was highly successful in scaling up its services by increasing the coverage and volume of support in a punctual manner that led to famine being averted. More recently, the Government has also begun exploring options for creating a social protection insurance plan as a complementary programme to the PSNP.

Despite the overall effectiveness of the PSNP in enhancing food security and increasing the livestock holdings of the beneficiaries, graduation levels from the programme have not been as high as hoped for under the GTP. The PSNP baseline number of participants was 7.1 million for 2009/10 with a target of only 1.3 million by 2014/15. In 2012/13, the number of beneficiaries served was 6.9 million. So, while the PSNP has been a highly successful social safety net programme, the target set by the GTP, aimed at improving the economic and social conditions of more poor families so that they are not as vulnerable to external shocks from drought and other natural disasters, has not been met.

4.2. Addressing Climate Change and Vulnerability

While drought and other natural disasters are often seen as short-term natural phenomena, the potential impact of climate change could have far more devastating consequences for the vulnerability of the poor to risk. Ethiopia is potentially among the countries that will be most severely affected by climate change. Ethiopia's vulnerability to climate change risks is the result of several factors, including its geographic location and the existing social and economic systems found in rural areas. The economic and social dependence of the population on climate- sensitive sectors is further exacerbated by widespread environmental degradation in parts of the country.

Even without the threat of climate change, Ethiopia's environmental risks are well documented and have a direct impact on the livelihoods and vulnerability of the poor. Environmental challenges include deforestation, overgrazing, soil erosion, desertification and poor farm management practices. In the late 19th century, about 35-40 per cent of the country was forested. Over-exploitation has massively depleted the country's woodlands to the extent that cover

had dwindled to less than 4 per cent of the total land surface by the turn of the millennium. Intensive Government efforts in reforestation have increased the cover, but it still remains under 10 per cent. The current rate of deforestation is estimated to be in the region of 150,000-200,000 hectares per year, and the FAO has estimated that fertile topsoil is lost at a rate of one billion cubic meters annually (ATA, 2013).

Understandably, these environmental problems will only be exacerbated by the threat of climate change. To address the environment and climate change challenge, in 2011 the Government prepared the Climate Resilient Green Economy Strategy (CRGE). Initially spearheaded by the late Prime Minister, Meles Zenawi, the CRGE has formally merged Ethiopia's aims of developing a green economy and promoting greater resilience to climate change into a single policy framework in support of its national development objectives. Some of the key objectives of the CRGE include:

- Improving crop and livestock production practices to improve food security and increase farmers' incomes while reducing emissions;
- Protecting and re-establishing forests for their economic and ecosystem services, including as carbon stocks;
- Expanding electricity generation from renewable energy sources for domestic and regional markets; and
- Leapfrogging to modern and energy-efficient technologies in transport, industrial sectors, and buildings.

The CRGE is coordinated and overseen by the CRGE Ministerial Steering Committee (an initiative under the Prime Minister's Office). Previously the Environmental Protection Authority (EPA) was dealing with the technical aspects, a role now played by the Ministry of Environment and Forestry (MEF) while MoFED is dealing with the financing aspects of the CRGE. CRGE units have been established in key implementing line ministries and regions to translate the strategy into sectoral programmes and investment plans. Federal (line ministries) and regional entities have been identified as national implementing entities that will be responsible for implementing programmes and investment plans in partnership with non-state actors where required. It is of paramount importance that the Government effectively co-ordinates these activities for the successful implementation of the CRGE.

With respect to financing, the Government has established a funding mechanism - the CRGE facility - to mobilize and disburse climate finance. This facility will provide financing for climate resilience programmes for building a green economy. The goal is to mobilize approximately US$200 billion from national and international public and private sources over the next 20 years.

Management arrangements for the facility have been designed to support strong country ownership. The facility supports two kinds of activities:

- Strategic initiatives to support line ministries and regional governments in the implementation of strategically planned programmes and projects. Potentially, 75 per cent of the facility's funds will be disbursed as pooled and non-earmarked funding, so that donor support will be contributing to the facility in order to implement CRGE-identified priorities.
- Demand-driven activities identified by non-state actors, such as NGOs and researchers, in collaboration with federal and regional entities. This funding could potentially be earmarked by donors.

The facility is likely to disburse funds as grants to support adaptation projects, for example, or as guarantees and results-based payments, which are more appropriate instruments for funding such investments as renewable energy projects.

In sum, Ethiopia has shown a strong commitment to responding to the prevailing and emerging challenges of climate change. The Government has undertaken a potentially far-reaching programme of environmental conservation and has begun building the policy foundations for "greening" the economy.

4.3. External Shocks and Inclusive Growth

The experience of countries like India, China and Vietnam demonstrates a strong correlation between globalization and poverty reduction, particularly as countries integrate with the global economy (World Bank, 2002) Yet countries that depend on primary commodity exports

tend to be prone to external shocks and risks. Like most countries in Sub-Saharan Africa (SSA), Ethiopia's economy is highly vulnerable to external shocks fuelled by dependency on fewer commodity exports and volatility in oil prices. The sudden convergence of food, fuel and financial crises in 2008 and the second wave of the global economic crisis in 2009 had a significant impact on Ethiopia. The transmission channels of the crisis in Ethiopia were to be found in remittances, FDI and ODA flows. During this period, Ethiopia witnessed volatility in FDI flows, high inflation, stagnation in remittances and weaker export earnings as depicted in Table 4.1.

In the face of such external shocks, the poor and vulnerable groups tend to suffer disproportionately especially where social safety nets are not adequately provided. In such instances, an inclusive growth approach allows the use of instruments like conditional and unconditional cash transfers to enhance affordability of goods and services to the poor (IPC, 2013). In this regard, the Productive Safety Net Programme (PSNP) in Ethiopia has proved effective in sustaining the livelihoods of the poor to enable them to cope better with exogenous shocks.

Ethiopia has been relatively successful in countering external shocks and risks through robust policies and programmes. Strong macro-economic policies, export diversification, infrastructure development and improvement in the business ecosystem have been effective in countering the downside risks and as a buffer to the unintended impact of globalization. As a result, the medium term growth prospects for Ethiopia remain strong and the immediate challenge will be to ensure all Ethiopians benefit from this growth.

Table 4.1 Trends in External Shock Transmission Channels (US$ mn)

	2006	2007	2008	2009	2010	2011	2012	2013
FDI flows	545.3	222.0	108.5	221.5	288.3	626.5	278.6	953.0
Remittances	736.7	1,207.6	1,779.7	1,812.2	1,847.3	1,886.3	1,945.9	2,491.3
Export Earnings	1,000.3	1,185.1	1,465.7	1,447.9	2,003.1	2,747.1	3,152.7	3,075.2
ODA	2,033.5	2,558.4	3,328.7	3,818.8	3,525.2	3,539.4	3,261.3	3,826.3
Fuel Imports	860.4	875.1	1,621.4	1,256.7	1,310.7	1,659.3	2,124.7	2,163.8
Annual Change (in %)								
FDI flows	105.7	-59.3	-51.1	104.1	30.2	117.3	-55.5	242.0
Remittances	26.4	63.9	47.4	1.8	1.9	2.1	3.2	28.0
Export Earnings	18.1	18.5	23.7	-1.2	38.3	37.1	14.8	-2.5
ODA	5.5	25.8	30.1	14.7	-7.7	0.4	-7.9	17.3
Fuel Imports	0.0	1.7	85.3	-22.5	4.3	26.6	28.0	1.8

Sources: NBE, World Bank, and OECD (DAC) reports, various years.

4.4. Chapter Summary

This chapter has outlined additional areas where Ethiopia has made important strides in reducing poverty and providing basic social services to accelerate human development. At the same time, a very large segment of Ethiopia's population remains poor and food insecure. Some of the key points from the chapter are given below.

- The Government has made a major commitment to reducing risk and vulnerability among the population. While this is still a major policy concern, the Government is to be commended for establishing disaster early-warning systems that are notable for marking a shift in orientation from crisis management to a multi-sectoral and multi-hazard disaster risk management strategy.
- The Government has also created the Productive Safety Net Programme (PSNP), Ethiopia's largest social protection programme and a major component of the Food Security Programme. Despite the overall effectiveness of the PSNP in improving food security and increasing the livestock holdings of the beneficiaries, graduation levels from the programme have not been as high as hoped for under the GTP.
- While drought and other natural disasters are often seen as short-term natural phenomena, the potential impact of climate change could have far more devastating consequences for the risk vulnerability of the poor.
- The Climate Resilient Green Economy Strategy (CRGE) has been established to support Ethiopia's aims of developing a green economy and promoting greater resilience to climate change under a single policy framework in support of its national development objectives. While still in its early stage, the CRGE has made notable initial progress in seeking to coordinate policies and programmes in support of greening the economy.

5

Analysis of Ethiopia's Inclusive Growth

The previous chapters have examined various aspects of Ethiopia's progress in human development, examining macroeconomic performance, health, education and poverty trends, as well as risk and climate change. This chapter turns to the question of how inclusive Ethiopia's remarkable progress has been over the last decade. As suggested throughout this Report, while strong overall economic growth is necessary, it is not a sufficient condition for inclusive development and substantial poverty reduction. For growth to be sustainable in the long run, it must be broad-based across multiple sectors and encompass a large part of the country's labour force. From a policy perspective, this means a focus on investments, competitiveness and growth in the parts of the economy where the poor are, or can be, economically active. Such growth and economic development is characterized as "inclusive growth".

The UNCTAD report The Least Developed Countries Report 2013 (UNCTAD, 2013) highlights the fact that the recent economic growth in many developing countries has not been inclusive and that economic growth's contribution to poverty reduction has been limited. The main explanation for the lack of inclusiveness is that growth in developing countries has not generated enough "quality" jobs, that is, jobs offering higher wages and better working conditions - especially for the young. Creating employment opportunities is critical because of the fundamental role that work plays in economic development and in people's lives. Not only do productive employment opportunities influence income, household welfare, aggregate demand and investment decisions, but they also are critical for the most sustainable and most dignified pathway out of poverty.

A growth process may not be inclusive for a variety of reasons. Certain segments of the population can be excluded if they are trapped in poverty due to failures in access to credit, land, or other key markets, or because low levels of education, productive skills or health prevent them from benefitting from the new opportunities offered by a general expansion of economic activity. In some countries, systematic patterns of discrimination and exclusion can be observed, linked to such factors as gender, ethnicity, origin, caste, religion or race.

The phenomenon of jobless growth has increasingly been recognized as a major policy concern worldwide, which is particularly manifested in low-income economies where the challenges posed by demographic patterns, persistent poverty, accelerated urbanization, and rising inequalities make the absence of remunerative employment, a source of significant social and political tension.

The sections below analyse the inclusiveness of Ethiopia's growth performance over the last decade.

5.1. Inclusive Growth from a Policy Perspective

To assess whether Ethiopia's growth has been inclusive, it is useful to explore first the policy and legal context that has been put in place to promote and ensure equity, equality of opportunity, and protection against the vagaries of market and employment transitions. One needs to answer the question regarding whether or not Ethiopia's policy framework allow the poorest segments of the population to expand their set of opportunities and raise their living standards. It is also important to see the extent to which

the policy environment supports equality of opportunity in access to markets and resources, and the extent to which the regulatory environment for businesses is fair and balanced

As discussed in Chapter 6, the Government has followed a Developmental State model, which has served as a first step in promoting inclusive growth. This model has emphasized significant investments in infrastructure and the expansion of social services as well as a strong commitment to decentralized decision-making. At the same time, the Ethiopian Constitution recognizes the presence of different socio-cultural groups, including historically disadvantaged and under-served communities, pastoralists, and minorities, as well as their rights to socio-economic equity and justice. Furthermore, Article 89 (4) of the Constitution stipulates that the Government "shall provide special assistance to Nations, Nationalities and Peoples least advantaged in economic and social development".

At the institutional level, the Government has set up the Ministry of Federal Affairs (MoFA) to ensure equity between regions. The responsibilities of this Ministry include promoting equitable development, with an emphasis on delivering special support to developing regions. A board composed of members from six ministries has been established under MoFA, including a technical committee for the integration of support to these Regions. The line ministries represented on the board are working together to improve the delivery of health services, education, water and other social services in order to promote more equitable development across Ethiopia's diverse regions.

Despite the generally favourable policy and institutional framework for inclusive growth, the analysis in the previous chapters suggests that inclusive growth and development is occurring but not at a rapid enough pace across the entire country and among certain socio-economic groups. In short, Ethiopia's rapid growth and development is not being distributed throughout the country, especially in emerging regions, notwithstanding the favorable macro policy framework

The disparity - and therefore the challenge - is aptly demonstrated by basic service delivery in pastoralist communities where there are significant differences in access and use of essential basic services. Several factors are generally associated with the pastoralist lifestyle, including dispersed settlement patterns, seasonal mobility and the pervasive prevalence of harmful traditional practices, which, among other things, perpetuate under- utilization of services even when and where they are available. For example, though expanding the provision of agricultural extension is a high government priority, challenges remain in terms of ensuring adequate coverage of extension services across regions, giving extension agents more discretion to adapt technology packages to the context of individual communities, and involving more female extension agents (World Bank and IFPRI, 2010).

Addressing the Demographic and Urbanization Dynamic

At its current annual growth rate of 2.5 per cent, Ethiopia's population is estimated to reach 112 million by 2025 and 137 million by 2037 (CSA, 2013a). According to UN projections Ethiopia's population will reach 130 million in 2025 and 187.5 million by 2050, placing Ethiopia among the top 10 countries in the world by population. The demographic challenge is most starkly observed in trends in proportion of the population who are young. Currently, about 60 per cent of the population, some 54 million people, is under 25 years of age, and this cohort is projected to double to well over 100 million by 2050 (UN, 2012).

Given the successes achieved in reducing child mortality and increasing life expectancy, Ethiopia has the opportunity to reap the demographic dividend (see Box 5.1). Existing opportunities to reap the demographic dividend include; a favourable policy environment through ongoing economic reform programmes; a large working age population; human capital development through strengthened educational and skill development opportunities for youth cohorts; and infrastructure development aimed at increasing labour productivity, promoting savings and investment, enabling economic efficiency, and boosting the accumulation of physical capital.

However, there are still challenges that could undermine the existing opportunities. The prevailing high fertility rate, though it has declined

Box 5.1 Reaping the Demographic Dividend

When there is a transition from high fertility and high mortality to low fertility and low mortality, there is an increase in the proportion of the number of economically active population compared to dependents. These workers are able to produce more, because of higher productivity, and earn higher income per capita, which leads to virtuous cycles of economic growth. With fewer births each year, a country's young dependent population grows smaller in relation to the working-age population. With fewer people to support, a country has a window of opportunity for rapid economic growth if the right social and economic policies are developed and effective investments in infrastructure, health, education, skill development and job creation are made

The demographic dividend is delivered through 3 three mechanisms: (i) Labour supply - the numbers available to work are larger. Also, women are more likely to enter the workforce as time required for childbearing and rearing is reduced because of decreasing family size. (ii) Human capital investments - with smaller numbers of children, there will be greater investment in education, health, etc. Hence, primary and secondary enrolment rates are increased. (iii) Savings - younger working age people tend to have a higher level of output and also a higher level of savings, which will increase the potential for investment.

Source: Ross, 2004.

from 7.7 per woman in the early 1990s to 4.8 in 2011, implies that it will take a longer period for Ethiopia to complete the demographic transition with its population increasing the demand for higher education, housing, health care and employment opportunities. The low level of savings due to a high dependency ratio is another challenge that needs to be addressed if the country is to capitalize on the window of opportunity offered by the demographic dividend. High dependency on rain-fed agriculture for food, employment and exports is also a constraint on current economic growth.

Ethiopia is at a critical stage of development where population growth is posing major infrastructure and employment challenges. In different parts of the country, especially in urban areas, there are already visible challenges, such as large numbers of unemployed, road and transport congestion, and strains on public services and utilities.

Ethiopia issued a National Population Policy in 1993 to harmonize the growth of the population with the socio-economic development of the country. The activities indicated in the policy are mainstreamed into sector policies and strategies. While there were notable achievements in such areas as reducing child mortality, the extent to which the policy has been effective in achieving its goal needs further investigation (see Box 5.2). This investigation will be of benefit to the design of policies and strategies that will enable the country to reap the demographic benefits and promote inclusive growth more successfully over the long term.

Box 5.2 The National Population Policy

Recognizing the need for harmonizing the rate of population growth and the capacity of the country for the development and rational utilization of natural resources aimed at maximizing the welfare of the population, Ethiopia issued its National Population Policy in 1993 (TGE, 1993). The main long-term objective of the Policy is to close the gap between high population growth rate and low economic productivity and to expedite socioeconomic development. The Policy followed sectoral approach, and the implementation of the activities indicated in the National Population Policy were mainstreamed into sectoral policies and strategies. Among other things, the National Population Policy aimed to reduce total fertility rate (TFR) from 7.7 children per woman in 1993 to 4.0 and increasing the contraceptive prevalence rate from 4 per cent to 44 per cent by 2015. The population growth rate has declined from 2.9 per cent during the early 1990s to 2.5 per cent at present. TFR has declined from 7.7 to 4.8 during the same period, while Contraceptive Prevalence Rate (CPR) increased from 4 per cent to 29 per cent. Significant achievements were made in terms of reducing child mortality and increasing life expectancy. The effectiveness of the National Population Policy in achieving its main goal of harmonizing the rate of population growth with the country's social and economic development is, however, not yet reviewed. Given the target date for the Policy is 2015, it is high time that the achievements and challenges encountered in the implementation of the Policy are reviewed and the lessons learnt from the implementation of the policy are incorporated in to the relevant policies and strategies, so that the country is able to benefit from the potential demographic dividend that the current situation offers.

Sources: TGE, 1993 and CSA,2012.

Urbanization trends are another key factor in Ethiopia's demographics. The level of urbanization in Ethiopia has started to create major income inequality challenges, as discussed in Chapter 4. The annual population growth rate in urban areas has been projected at 4.1 per cent between 2012 and 2030 (UN, 2012), based on rising rural–urban migration, continued high fertility rates, and general population growth.

5.2. Pace and Pattern of Growth

As discussed already, Ethiopia has experienced strong economic growth over the past decade. Economic growth averaged 10.9 per cent per annum in 2003/04-2012/13, compared with the Sub-Saharan Africa average of 5.4 per cent.

Growth in Ethiopia has reflected a mix of factors, including agricultural modernization, the development of new export sectors, strong global commodity demand, and robust public investments. Private consumption and public investment have driven demand-side growth, with the latter assuming an increasingly important role in recent years. On the supply side, growth has been driven by an expansion of the services and agricultural sectors, while the role of the industrial sector was relatively modest. More recently annual growth rates have declined slightly, but they still remain at high single-digit levels. Growth in the export of goods has also moderated in recent years and a decline was observed in 2012/13 for the first time since 2008/09.

Analysing disaggregated growth trends over the course of a decade allows us to explore the extent and direction of the process of structural change in Ethiopia. The share of agriculture in GDP declined from 51.9 per cent in 2004/05 to 42.7 per cent in 2012/13. The share of industry stayed more or less the same, at 12.3 per cent of GDP, while the share of services increased from 37.5 per cent in 2004/05 to 45 in 2012/13. More generally, the trends suggest that there was little structural change of the type that results in strong increases in productivity, incomes, technological intensity and high value-added.

Table 5.1 Growth Rate of Real GDP by Sector (%)

Sector	2005/06-2009/10 Average	2009/10 Baseline	2012/13 Planned	2012/13 Actual	2010/11-2012/13 3 years average	2010/11-2014/15 average plan
Real GDP	11.0	10.5	11.3	9.7	10.0	11.2
Agriculture and allied sectors	8.4	7.6	8.6	7.1	7.0	8.6
Industry	10.1	10.8	21.4	18.5	16.9	20.0
Services	14.4	13.2	10.5	9.9	11.0	10.6

Source: MoFED, 2013.

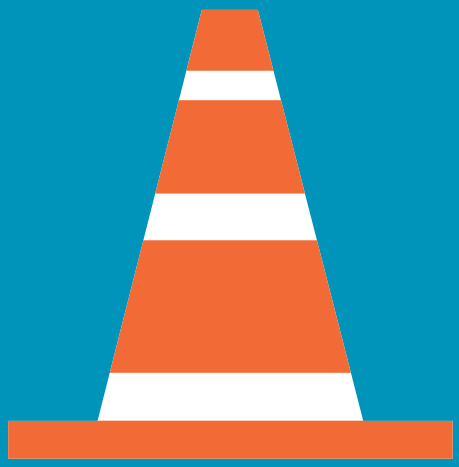
As indicated in Table 5.1, the share of the agriculture sector in the economy is declining gradually, while the share of industry is still modest. Although the growth performance of the industrial sector during the first three GTP years was above the PASDEP five-year average (16.9 per cent), the narrow industrial base has prevented a rapid rise of the sector's contribution to GDP. Growth in the industrial sector will need to accelerate if it is to play a greater role in the overall economy and thereby ensure significant structural transformation.

The agriculture sector in Ethiopia directly supports some 85 per cent of the population, constitutes 43 per cent of GDP, and over 70 per cent of export value. Approximately 16 per cent of the Government's public expenditures are committed to this sector (EDRI, 2014). Increasing agricultural productivity levels is considered to be the most vital requirement for sustaining economic growth in Ethiopia. The Government designed and implemented the Agricultural Development Led Industrialization (ALDI) strategy and established the Agricultural Transformation Agency (ATA) as a transformational institution to spearhead the modernization of the sector (see Boxes 5.3 and 6.5). The important question is to what extent the Government has been successful in its policies and programmes for extension services, the adoption and diffusion of improved seed varieties, and the promotion of fertilizer use.

Table 5.2 Share of GDP by Major Economic Sectors (%)

Sector	2004/05	2012/13	2010/11-2014/15 Average Plan
GDP at current market prices	100.0	100.0	100.0
Agriculture and allied	51.9	42.7	38.8
Industry	10.6	12.3	15.6
Services	37.5	45.0	45.6

Source: MoFED, 2014.



Over the past 16 years, Ethiopia has spent Br 142 billion on road construction, of which 77 per cent was covered from internal sources.

Tax collection has on average increased by 35.8 per cent annually since 2006/07 (MoFED, 2014).

The fiscal deficit declined from 3.7 per cent of GDP in 2004/05 to 2 per cent in 2012/13.

Box 5.3 Agriculture and Inclusive Growth in Ethiopia

Agriculture is the backbone of the Ethiopian economy and underpins inclusive growth. Beginning the late 1990s, Ethiopia emphasized agricultural growth as the centerpiece of its Agricultural Development Led Industrialization (ADLI) Strategy. This represented a radical shift in policy from an "industry-first" approach adopted by the Derg regime (1974-1991) to an "agriculture-first" policy, with particular focus on smallholder agriculture. Under the ADLI, agricultural growth was expected to spur industrialization through backward and forward growth linkages (creation of demand for inputs, processing of agricultural outputs, and increased household demand for consumer goods). Moreover, agricultural development would be part of a broader rural development strategy including rural infrastructure development, expansion of education and improved health services. ADLI thus provided the guiding framework for Ethiopia's successive medium term development plans (SDPRP, PASDEP and GTP).

The focus on agriculture has paid off. Agricultural growth, which averaged 2.9 per cent in the 1990s and 6.2 per cent in the 2000s, has been the key to the observed high rate of economic growth and significant improvement in food security in Ethiopia. While agriculture is growing and continues to provide livelihood for millions of people, sustaining and building on progress made towards national and household food security, and continued reliance on agriculture as a major driver of economic growth requires multi-faceted interventions. Among other things, it requires sustaining growth in crop and livestock production, investment in productivity enhancing technologies, increasing market efficiency, providing effective safety-nets, maintaining macroeconomic incentives and stability, and managing the rural-urban transformation.

Source: Based on Dorosh and Rashid, 2013.

Despite the overall success of the policies designed to boost agriculture, their impact has not been uniform. Data suggest that the outcomes and role of direct economic interventions such as the extension services, improved seeds and fertilizer, and in some places small-scale irrigation, have been mixed and have varied significantly between communities. These current intervention models have resulted in highly differentiated community and household-level outcomes, thereby suggesting that growth has been unevenly distributed rather than inclusive.

Issues of inequality and access to education and health, the pace of sectoral transformation and rising productivity, and the introduction of new technologies can all affect the inclusiveness of growth. Coupled to these are the looming threats that lie outside the control of the household - drought, disaster, environmental degradation and climate change - all of which can reduce growth, jobs, productivity and skills capabilities.

The positive impact of rural infrastructure investment is well documented. Studies conducted have tracked several communities over time from 1995 to 2013 (EDRI, 2014). These longitudinal studies reveal that infrastructure interventions and expansion, including new and improved roads, electricity, and the establishment of small *kebele* centres contributed to lifestyle changes and improved access to schools and health services. MoFED (2014) also confirms that travel times to primary schools have been reduced significantly for rural residents, in particular since 2004. For example, rural residents are now on average under half an hour from the nearest primary school, compared with 47 minutes in 2004 (MoFED, 2014).

5.3. Employment and Job Creation

By any measure, Ethiopia's most valuable asset is its people, in particular the young. It is only by engaging its citizens in productive employment that Ethiopia can achieve lasting and constructive growth. This will be realized when households are empowered with the capabilities that allow them to participate in growth and access opportunities and services that should be available to all. Thus, as the Government well understands, sustainable human development based on inclusive growth cannot be achieved unless and until significant progress is made in creating higher levels of productive employment opportunities for Ethiopia's growing population.

Trends in Un(der)-employment

Unemployment and underemployment are major concerns for Ethiopian society. The 2012/13 Labour Survey indicated that the rate of unemployment in Ethiopia declined from 8.2 per cent in 2005/06 to 4.5 per cent in 2012/13.

Unemployment is higher among women both in urban and rural areas. According to the 2011 urban employment and unemployment survey, the overall unemployment rate in urban areas is 17.5 per cent, 11.4 per cent among males and 24.2 per cent among females. The survey indicated a high youth unemployment rate, 23.3 per cent (29.6 per cent female and 16.4 per cent male) for age group 15-29 years. Compounded by a sizable number of new entrants joining the labour market every year, unemployment represents a barrier to fulfilling the rights of individual youth as well as realizing the national development vision.

Equally disturbing, the 2010/11 Ethiopian Demographic and Health Survey found 27 per cent of children aged 5-14 were engaged in child labour, defined as being so much work that the hours involved interfere with their education and right to have some play time (MoLSA, 2012).

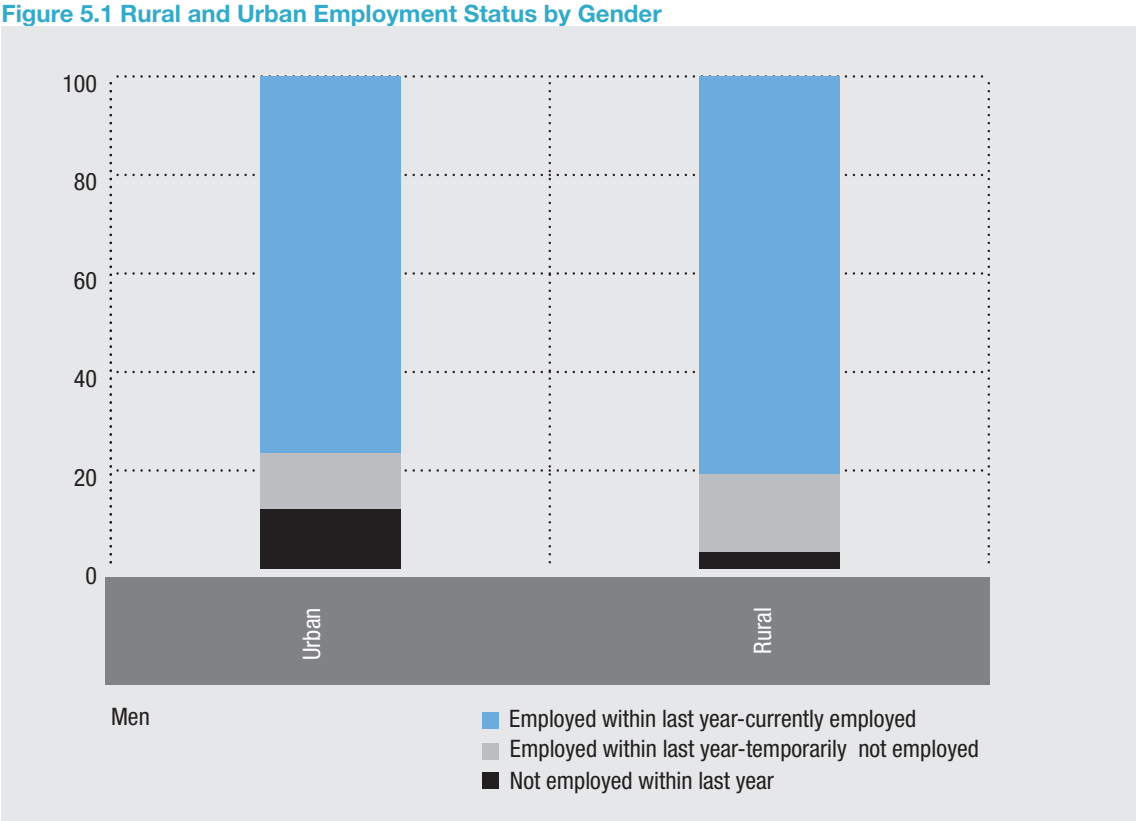
As noted by UNCTAD (2013), Ethiopia is one of the four countries in Africa where the working-age population will expand by more than one million people per year. This will pose a major employment and development challenge for Ethiopia. There were an estimated 1.4 million new entrants to the labour force in 2005 and their number will increase to 3.2 million per year by 2050. These are the number of productive and decent jobs and employment opportunities that must be created in Ethiopia each year assuming there is no backlog of unemployment. If they are not, poverty and international emigration rates will rise accordingly.

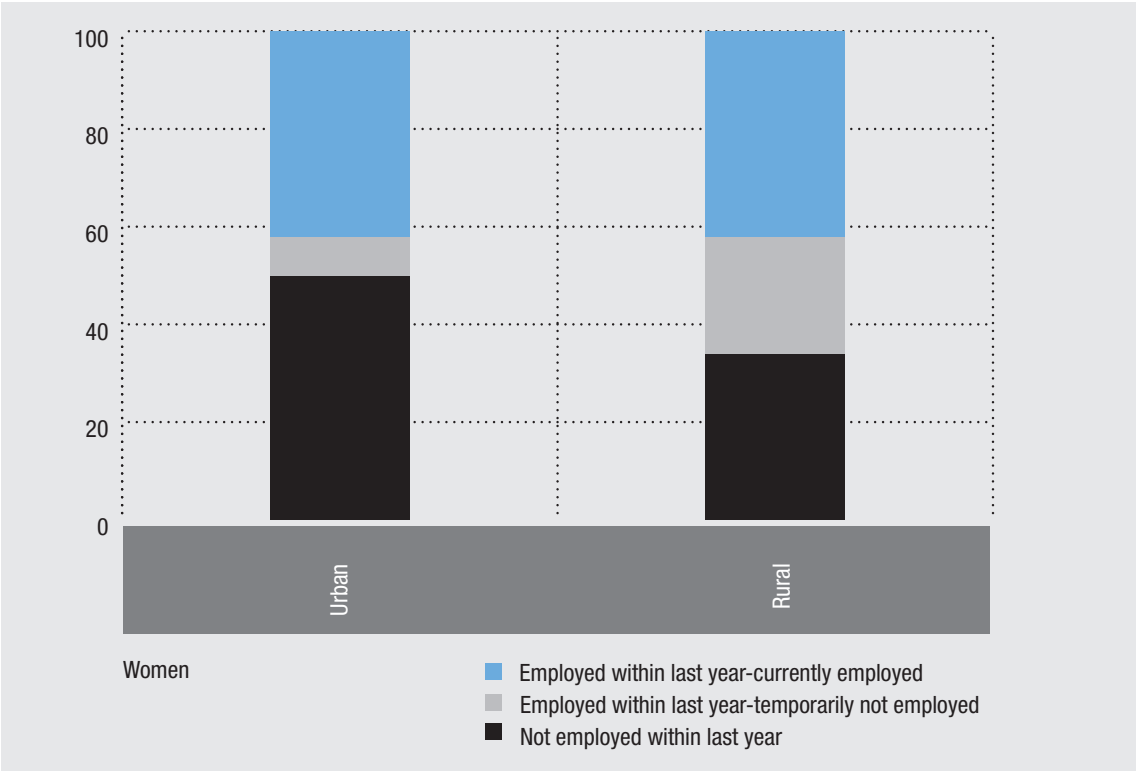
In Ethiopia's household survey data (MoLSA, 2012), "unemployed" work status is defined as not employed within the last 12 months, while "employed" means working within the last 12 months. Of those employed, a distinction is made between those employed and those who have not worked in the last seven days ("underemployed"). Figure 5.1 shows the shares of fully unemployed, underemployed and employed in rural and urban areas, by gender.

Of note is that a much higher percentage of men than women are employed (76 per cent of urban men versus 50 per cent of urban women, and 80 per cent of rural men versus 33 per cent of rural women). When the underemployed are included in the employed,, a lower share of urban men is unemployed (12 per cent) and an even lower share of rural men (2 per cent). This is in sharp contrast with women whose unemployment share is 42 per cent, both in urban and rural areas. The reason why unemployment is not higher for rural women is a high share of underemployment in rural areas.

From Figure 5.1, it is clear that although there is typically a gap between men and women with respect to unemployment, unemployment rates among Ethiopian women are much higher than expected, even when taking into account Ethiopia's income level. The unemployment rate of Ethiopian men is, on the other hand, in line with countries with similar incomes. Recently, there have been indications that urban employment has been decreasing for both genders (Gable, 2013).

Figure 5.1 Rural and Urban Employment Status by Gender





Source: CSA and ICF, 2012.

Rural youth unemployment and underemployment are largely driven by growing landlessness. As a result, Ethiopia's population is not only growing rapidly, but it is also quickly urbanizing. In most developing countries, the youth unemployment rate (i.e. those aged 15-24 years) is higher than the average developing-country rate for both men and women, usually almost twice that rate. These youth typically find work in the informal sector, where the jobs often do not pay reasonable wages, improve skills or offer much job security. More than 70 per cent of youth in Ethiopia, the Democratic Republic of Congo, Malawi, Mali, Rwanda, Senegal and Uganda are either self-employed or contributing to family income. If the growing youth population in developing countries could be provided with the necessary skills, education and decent jobs, they could become a major productive force and be a significant driver of local consumption and investment (UNCTAD, 2013).

Ethiopia is achieving substantial reductions in poverty because of the Government's priority focus on the agriculture sector. However, growing agricultural production and rural incomes should be accompanied by growing domestic manufacturing capacity to meet the demands of the rural population. Otherwise, this will lead to increased imports, which runs the risk of a widening the trade deficit, which will in turn stifle domestic production and limit local employment opportunities. Such a scenario has been played out in many of the countries that have based their growth solely on the agricultural sector.

As countries grow richer, the structure of the economy changes, and, with it, the number and nature of productive employment opportunities. Farm jobs give way to non-agricultural jobs, the share of wage employment in total employment rises, and the share of the informal economy declines. As new economic opportunities open up in different sectors, market prices and wages may change to signal where labour productivity is potentially highest and workers are most needed.

Expanding Opportunities for Productive Employment

The 2013 UNCTAD Report aptly summarizes the challenge of productive job creation for inclusive growth:

Creating employment opportunities is critical because of the fundamental role that work plays in economic development and in people's lives. Not only does it influence income, aggregate demand and investment decisions, it is also the best and most dignified pathway out of poverty.

With the focus on *productive* employment opportunities (waged or self-employment), UNCTAD's analysis shows that the growth process witnessed recently in Africa has not been satisfactory in terms of creating jobs and reducing poverty. Most Sub-Saharan countries are still dependent on a limited range of export commodities. UNCTAD argues for a strong policy focus on transitioning to the exporting of manufactured goods and value-added products, such as has been occurring in Cambodia and Bangladesh.

As noted above, Ethiopia's new pool of job seekers annually is estimated to be about 1.4 million. Even with Ethiopia's economy growing by about 10 per cent, growth in employment opportunities has not been keeping pace with growth in the labour force. In aggregate, the country's rapid economic growth is not yet sufficient to address Ethiopia's un(under)-employment problem.

Employment Created Through Public Investment

Government data suggest that over 2 million job opportunities were created in 2012/13 alone through its investments in infrastructure and construction activities. According to UNCTAD (2013), however, such employment opportunities are, by definition, not sustainable, since they generally represent temporary employment and may not fully embed employees in productive employment.

At the same time, the infrastructure that the Government is building - roads, power generation, railways and so on - can have a strong employment impact, provided that other policy and programme incentives encourage and promote private sector investment. The main employment dividend could then be expected to come through private sector investment leveraged on public infrastructure investments. Otherwise, the employment opportunities created during the expansion of infrastructure will not be able to absorb a growing working-age population.

Box: 5.4 Entrepreneurship Development for Inclusive Growth

One of the strategies identified to support the industrial sector specifically micro and small scale enterprises (MSEs) in the growth and transformation plan (GTP) is entrepreneurship development. It is recognized that nurturing entrepreneurial skills and developing entrepreneurial attitude not only facilitates job creation but also helps the modernization of the industry sector. A major step towards the implementation of this was the establishment of the Entrepreneurship Development Center (EDC) in February 2013. The center is a quasi-governmental entity supported by the United Nations Development Program (UNDP). The services provided by EDC include entrepreneurship trainings, business development services and technical assistance in business plan development. To date, the center has provided trainings to over 7500 entrepreneurs and potential entrepreneurs.

The entrepreneurship development programmes are linked to the small and micro enterprises development strategy and the industrial sector in general, thereby supporting employment creation, enhancing the productivity of the sector and contributing to the structural transformation of the economy. Furthermore, this can accelerate inclusive growth by creating productive economic opportunities, facilitating access to resources and enhancing individual and social capabilities for target group particularly women and youth.

***Sources:** MoFed (2010); www.edcethiopia.org.*

Small and Medium Enterprises

Most policymakers and economists would agree that small and medium enterprises (SMEs) represent the most viable and sustainable way to create productive employment opportunities for the poor and near-poor. Close to four million jobs were created across Ethiopia during the first three years of the Growth and Transformation Plan period (MoFED, 2014). This level of job creation, which exceeded the target by over a million, is attributed to the expansion of micro and small enterprises and a number of ongoing large (mostly infrastructure) projects. However, about one million of the jobs created during the reported period were temporary, and the Government is striving to make the jobs sustainable. Accordingly, the Ministry of Construction and Urban Development has been supporting town administrations in facilitating loan services, securing land for manufacturing and marketing, and providing technical and vocational training for micro and small enterprises. The Government has also decided to support construction of infrastructure facilities based on labour-intensive contracts as a means to create more jobs.

In the Ethiopian context, the main constraints for SMEs are access to finance and access to land, both of which are seen as significantly greater constraints than for the average Sub-Saharan SME firm. Access to finance through banks and/or micro-finance institutions encourages entrepreneurship and the development of small and medium enterprises, which are crucial for employment generation, especially for women. Of firms surveyed in Ethiopia, 86 per cent use internal finance for their investment, indicating that they have limited access to outside finance. This compares with 79 per cent for other Sub-Saharan countries and 69 per cent worldwide.

Data from the World Bank Global Competitiveness rankings further show that Ethiopia scores fairly well with respect to the soundness of banks and legal rights, but the cost of, and access to, financial services and loans place Ethiopia among the lowest ranked countries in the world. This trend is also true with respect to electricity, tax administration and tax rates. Ethiopian firms actually experience fewer electricity outages than a typical Sub-Saharan firm, but firms in Ethiopia expect to wait 112 days to be connected to the electricity grid after their service application, nearly three times longer than the average waiting time in other African countries (33 days) and the world average (34 days).

Finally, trade regulations and logistics seem to limit some firms. The average time to clear exports/imports through customs is 16-25 days in Ethiopia, about twice as long as the customs clearance time in other African economies (8-14 days) and worldwide (7-11 days). In general, small firms are affected by issues of access to land and finance as well as tax rates and ad-

ministration, while larger firms are more affected by electricity constraints and customs. The perceived constraints of female-headed firms are more or less in line with the perceived constraints for firms in general in Ethiopia, although access to land, tax administration and transportation stand out as even more constraining for female-headed firms than male-headed ones (Gable, 2013).

5.4. Role of the Private Sector in Inclusive Growth

Global experiences indicate that the private sector and markets should be central in driving growth, employment and development in emerging-market economies. The major question for Ethiopia is what should be the evolving role of the Government and the private sector in an economy which has made significant progress under a state-led developmental model, but still needs to promote a more dynamic and diversified domestic private sector that both serves local markets and seizes greater export opportunities.

An important supplementary approach, for example, is the pursuit of labour-intensive technologies. The Government's development policy framework accords emphasis to the role to be played by the private sector. In practice, however, private sector development has not yet started to play the crucial role it can have in ensuring inclusive growth.

The private sector and markets are potentially of crucial importance for sustainable growth and poverty alleviation through the creation of employment and income opportunities, the provision of goods and services and as a driver for the economic growth that is needed to enable countries to make investments in the public services and infrastructure that can further drive development.

The private sector can do business in a more inclusive manner by enlisting lower-income populations as suppliers, entrepreneurs or consumers in their value chains. Given that (i) the majority of private sector operators are smallholder farmers and (ii) the few modern private businesses that currently exist have a limited role in leading the economy forward, the state initially needs to play a key role in promoting and stimulating the economy and in laying the foundations for long-term growth. However, both theory and historical experience demonstrate that the major economic decisions concerning, for example, the production, distribution and consumption of most, if not all, goods and services are handled more efficiently by the private sector than by the state.

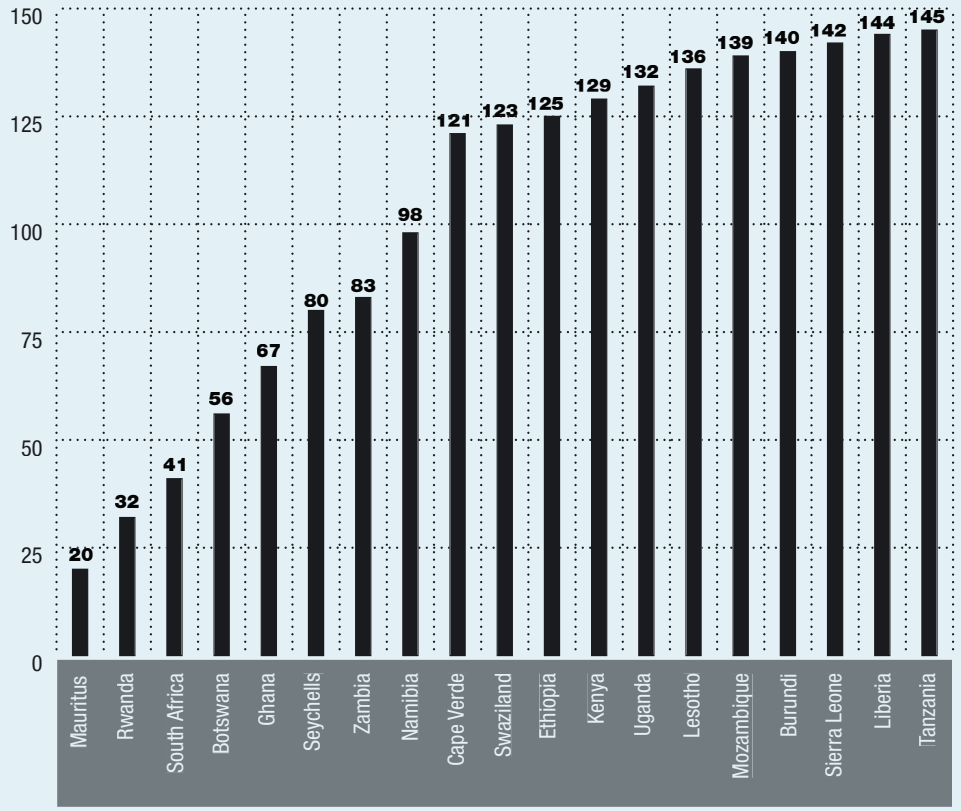
In Ethiopia, the private sector contribution to GDP through manufacturing value-added, employment creation and merchandise exports generated by medium and large-scale industries is still limited. Some 51 per cent of domestic private capital investment is in the services sector, followed by the industrial sector (32 per cent). Agriculture appears to be the sector least favoured by domestic investors, while foreign investors do put considerable amounts of resources both in the agricultural and services sectors. The private sector is also characterized by very low capacity utilization and lower productivity (EEA, 2013).

Most private sector operators are concentrated on local resource-based or light manufacturing enterprises with a very limited role for high technology and innovation. Taking this background into account, the Government has reiterated in its GTP the critical role that can and should be played by the private sector. On the other hand, the plan also envisages an active role for the Government in the form of significant involvement in direct investments in the industrial sector.

The Government has acted to remove market distortions and put in place some incentive systems to stimulate a market-based economy. Since 1991, the Government has embarked on a series of reform measures, including the removal of investment caps and other impediments to private sector development. Recent policy documents provide room for private sector development in the economy with the exception of some sectors that are reserved for the public domain. While essential and profitable industries remain under state ownership, a gradual privatization process is under way, and a number of public enterprises are in the queue to be privatized.

Box 5.5 Ease of Doing Business in the Top 20 African Countries

The chart below shows the ranking of the top 20 African countries based on the cumulative (aggregated) ranking for all countries in the World Bank's Doing Business survey. Ethiopia ranks 125th among all countries, but it ranks 11th among the top 20 African countries. The top three African countries, Mauritius, Rwanda and South Africa, rank in the top 50 of all 189 countries surveyed.



Source: World Bank, 2013c.

The major policy shift in the GTP has been the emphasis given to the industrial sector. Investment policy now provides many opportunities, especially for investment in productive sectors such as agriculture and manufacturing industries. Limits on private investment have been lifted. Investment regulations, business licensing and the process of leasing land have been streamlined and simplified. Nevertheless, reasons adduced for the low level of private sector participation in the manufacturing sector include lack of capital, poor infrastructure (in particular, energy), logistics challenges, lack of entrepreneurial capability, business and market uncertainty, and weak institutions.

As a result of conducive policy measures, private sector investment has been growing and the role of the private sector in manufacturing is gradually improving. For example, in the period 1997-2011, the number of large- and medium-scale manufacturing firms owned by the private sector (including international companies) trebled from 607 to 2,094 (EEA, 2013). Despite this expansion, the informal private sector, including smallholder farmers, provides the greater part, estimated to be over 80 per cent, of the overall private sector contribution to GDP.

In sum, there is still a huge opportunity for improvement because the share of the private sector in employment, production and investment remains low. The Government should continue investing in human capital to drive growth, innovation and productivity. At the same time, it should constantly provide greater policy space for the local private sector business associations to enable them to participate more constructively in policy dialogue and lobby for their interests.

There is a need to reorient the relationship between public and private sector actors to move towards coherence and partnership. Collective action should focus on where public and private interests overlap, such as in expanding markets and value chains, incubation of small businesses, support for new technologies, and targeted job creation in the private sector.

5.5. Chapter Summary

Despite the generally favorable policy and institutional framework for inclusive growth, the analysis in this Report suggests that inclusive growth is occurring but not at a rapid enough pace across the entire country and among certain socio-economic groups.

Some of the key findings include:

- The role of direct economic interventions such as the extension services, improved seeds and fertilizer, and in some places small-scale irrigation, has been mixed and has varied significantly between communities; current intervention models have resulted in highly differentiated community- and household-level outcomes.
- Given that the target date for the National Population Policy is 2015, reviewing the achievements and challenges encountered in its implementation and incorporating the lessons learnt from the implementation of the policy into the relevant policies and strategies is important. This will enable the country to benefit from the demographic dividend, and more successfully promote inclusive growth over the long term.
- Urbanization trends are another key factor. The level of urbanization in Ethiopia has started to create major income inequality challenges. The annual urbanization growth rate has been projected at 4.1 per cent between 2012 and 2030.
- The needs of young people, especially rural youth, remain largely unmet. A key problem related to rural youth is landlessness, which is a result of population pressure.
- Despite significant progress made, unemployment and underemployment are still a major concern for Ethiopian society.
- To date, private sector development has not played its full role in accelerating more inclusive growth. The private sector and markets are fundamental for sustainable poverty alleviation through the creation of employment and income opportunities, the provision of goods and services, and as a driver for the economic growth that is needed to enable countries to make investments in public services and infrastructure that can further drive development.
- The infrastructure that the Government is building - roads, electricity/ power generation, railways, etc. - can have a strong employment impact, provided that other policy and programme incentives encourage and promote private sector investment. The main employment dividend could then be expected to come through private sector investment leveraged on public infrastructure investments. Otherwise, the employment opportunities created during the expansion of infrastructure will not meet the longer-term needs of a growing working-age population.

6

Policy and Institutional Framework for Inclusive Growth

The previous chapters have analysed primary data and reviewed government and other reports and selected studies to explore the sources of Ethiopia's economic growth and the associated social changes, and to assess the progress it has made and the challenges it faces, as it seeks to accelerate human development and inclusive growth. This chapter considers the policy and institutional framework which has allowed Ethiopia to make such significant progress and which provides the foundation upon which any future adjustments and refinements in current policies and institutions will be built.

6.1. The Developmental State Model and Inclusive Growth

The choice of the Developmental State model for Ethiopia is the result of a long process of searching alternative development paths. The model aims to bring about structural change and transformation of the economy through prioritizing and modernizing agriculture and moving to industrialization, with the government a leading actor and moderator of the transformation process.

Based on the Developmental State paradigm, the Government has been able to design and implement a pragmatic developmental strategy which is tailored to fit into the country's socio economic structure. The efforts have resulted in an impressive economic performance and good social progress. As noted, growth averaged 10.9 per cent in the decade to 2012/13 and this helped to reduce the incidence of poverty from 38.7 per cent in 2005 to about 26 per cent in 2013. In addition to Ethiopia achieving the MDG 4 target of reducing child mortality in 2013, five of the eight MDG targets are well on track to be achieved by the end of 2015 and accelerated efforts are underway to bring back on track the two remaining MDG targets.

Box 6.1 The Developmental State Model

Although the term "Developmental State" has been used to refer to state-led economic planning as experienced in some of the countries of East Asia and elsewhere since the 1970s, serious attempts at conceptualizing it are said to have begun with the work of Chalmers Johnson in the 1980s. The Developmental State model is defined as an ideological orientation that promotes the ideal agenda of developmentalism and its institutional arrangements in the formulation and implementation of policies and programmes.

A Developmental State is one with sufficient organization and power to achieve its developmental goals, the ability to provide consistent economic guidance and rational and efficient organization and the power to back up its long- range economic policies. The standard description also maintains that such a state has the will to resist external demands and internal resistance. This requires the state to have the capacity to control domestic infighting and build consensus among the populace on the national developmental agenda by drawing attention to the long-term benefits to all. Ideally, therefore, a Developmental State needs to be a persuasive state with the competence to mobilize people and resources around its development plan, especially if it is to become a democratic state.

The Developmental State is also referred to as an emphatic state, a "hard state," relatively autonomous and with a decidedly interventionist bent, seeking not only to regulate, guide and shape but also to monitor and control the economy. A Developmental State (also referred to as "state development capitalism") is one that nurtures and thrives upon state-led macroeconomic planning. In this sense, it can even be viewed as a model of capitalism that nonetheless differs from a minimalist state or other species of interventionist state such as the regulatory state and the welfare state. In the literature, it is also contrasted with weak states (that bow to the pressure mounted on them by the business or political elite) or predatory states (that tends to be extractive and exploitative of public resources for private purposes).

A Developmental State, in simple terms, is a state that is and seeks to be a strong player in the economy of a nation with a view to enhancing economic development. It sets economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal.

Source: UNDP Ethiopia, 2012.

6.2. Macroeconomic Policy Environment

Ethiopia's macroeconomic policies are geared towards ensuring a conducive environment for sustained and broad- based economic growth. The Government is well aware that maintaining macroeconomic stability is a pre-requisite for sustainable and broad-based growth. As noted previously, Ethiopia has achieved an annual average economic growth rate of over 10 per cent in the past decade. All the main economic sectors played a part in this growth, which helped to reduce the incidence of poverty from 38.7 per cent in 2004/05 to 26 per cent in 2012/13.

A prudent fiscal policy stance has been pursued, focusing on reducing domestic borrowing while maintaining strong public investment in physical and social infrastructure, mainly on the basis of significant domestic resource mobilization. Domestic revenue collection has been improving in the past several years owing to vigorous tax reform, improved tax administration, and trade facilitation efforts. Tax collection has on average increased by 35.8 per cent annually since 2006/07 (MoFED, 2014). The fiscal deficit remains low, at below 2 per cent of GDP, but the tax revenue to GDP ratio also remains low at 12.5 per cent in 2012/13 in contrast to an average of over 20 per cent for Sub-Saharan African countries.

The principal objectives of Ethiopia's monetary policy are maintaining price and exchange rate stability. Ethiopia has been one of the low-inflation economies in Africa over the past decades; however, since the 2007 commodity price shocks, inflation has been a lingering challenge, threatening macroeconomic stability. Year-on-year inflation reached a record high of 64 per cent in July 2008 but fell to single digits in the 2009/10 fiscal year, due to tight macroeconomic policy and administrative measures taken by the government. Inflation re-emerged in 2011

and by July 2012 had peaked at 40 per cent caused by both monetary expansion because of an unanticipated build-up in international reserves and global commodity price shocks. By pursuing better-coordinated fiscal and monetary policies (in the wake of lower world commodity prices) and other administrative measures, inflation has been brought down to single digits as of March 2013, owing to improved terms of trade and a better coordinated fiscal and monetary policy stance. But the inflation rate is still above the minimum bank deposit interest rate, leaving the real interest rate negative, which in turn limits the effectiveness of monetary policy.

The trade deficit has continued to deteriorate as a result of the structure of exports and imports. Exports are dominated by agricultural products that generally fetch low prices, while imports are dominated by more expensive essential intermediate inputs, raw materials, fuel, and capital goods for developmental projects. The trade deficit is financed by remittances and other transfers, FDI inflows, ODA, and external public debt. There remains a significant gap between domestic savings and investment and there is an acute shortage of foreign exchange, leading to foreign exchange controls.

Ethiopia's currency, the birr, is pegged to the US dollar, and the Government pursues a managed floating exchange rate regime where the central bank is heavily involved in the market to avoid unwanted swings in the nominal exchange rate. The nominal exchange rate of the birr has been adjusted frequently since 2006 to maintain the competiveness of exports, attract FDI, and depress import demand, and depreciated by more than 100 per cent against the US dollar between 2006 and 2013.

Investment in the financial services sector is restricted to Ethiopian nationals. The sector remains dominated by state-owned banks, which account for two-thirds of the sector's market share. The Government directs credit from the private commercial banks to priority sectors in agriculture and manufacturing through directives to the commercial banks, at the same time instructing them to invest 27 per cent of their loan disbursements in the purchase of central bank bonds the proceeds from this is transferred to the Development Bank of Ethiopia (DBE) to be lent out to priority sectors. The objective of this directive is to channel credit to priority sectors that will support the transformation agenda of the country. However, this directive is prompting different assessments of its efficacy from stakeholders.

6.3. Governance in the Ethiopian Context

The Government's focus on governance and local decision-making has been integral to Ethiopia's progress in human development. As discussed earlier, considerable attention has been given to decentralization and the devolution of power to the regional governments. In line with current international norms, the Government has recognized that the basic prerequisites for development include peace and security, a good governance system that is based on accountability and transparency, popular participation, and a democratic system that ensures freedom as well as human and property rights. Emphasis is placed on the active participation of people, not only as beneficiaries of the development process, but also as the main actors in the design and implementation of development policies, strategies and programmes.

The Constitution of the Federal Democratic Republic of Ethiopia, drawn up in 1995, articulates, for the first time, an extensive set of rights for the Ethiopian people. The Constitution affirms the human, political, economic, cultural and environmental rights of groups and individuals along with the right to development. Under Article 9 (4) of the Constitution, all international agreements ratified by the Government are an integral part of the law of the land. Furthermore, the rights and freedoms acknowledged in the Constitution are to be interpreted in a manner that conforms to the principles of the Universal Declaration of Human Rights, various international covenants on human rights, and other international instruments adopted by Ethiopia.

Democratic Governance and the Institutional Architecture for Inclusive Growth

Since 1992, Ethiopia has put in place governance processes and initiatives to accelerate and facilitate inclusive growth. The Government has adopted a multiparty parliamentary system, devolved power to regional state and local governments and established norms and policy

Box 6.2 The Federal Ethics and Anti-Corruption Commission

The origins of the Federal Ethics and Anti-Corruption Commission (FEACC) go back to the early efforts by the Government at civil service reform when a special ethics sub-programme was established to examine the issues of unethical conduct and corruption in the public sector. When the FEACC was launched in 2001, a number of training programmes and workshops were held, drawing on international best practice and lessons. At this early stage, the Commission carried out assessments of needs and problems, developed an organizational structure, and conducted a national anti-corruption survey. Representatives of various stakeholders, including the media, civil society organizations, religious groups, professional associations, and federal and regional government departments were actively involved in the process.

The creation of the FEACC thus reflected the Government's view of corruption as a public policy problem that was impeding the country's development efforts. Accordingly, the FEACC's mission statement specifies that its mission is to ensure that the country's resources go to the desired development projects by:

- expanding ethics and anti-corruption education;
- examining the practices and working procedures in federal public offices and enterprises and thereby plugging loopholes that are believed to be conducive to corruption; and
- exposing, investigating and prosecuting alleged cases of corruption where they are committed in federal public offices and public enterprises, or in the regional offices when they relate to subsidies granted by the Federal Government.

The FEACC has three broad mandates: education and advocacy; research; and enforcement and prosecution. The FEACC is composed of nine directorates and two services. Among these are: Ethics Education and Communication Affairs; Corruption Prevention; Corruption Investigation and Prosecution; Asset Disclosure and Registration; Ethics Infrastructure Coordination; Research and Change Management; and other in-house management units. It should be noted that the mandate of the FEACC is limited to the public sector.

and institutional frameworks to promote and protect human rights. The Government has also embarked on a process of reforming the civil service and the justice sector and improving the processes and mechanisms for ensuring effective and efficient public service delivery.

Elections and Multiparty Democracy

Ethiopia has opened up its political space to competing political parties since the adoption of the 1995 Constitution, which assures the right to freedom of association. The conduct of relatively free and fair periodic elections has become a key feature of democracy in Ethiopia. The Constitution establishes a framework for multiparty parliamentary democracy and corresponding civil and political rights, guaranteeing Ethiopians, both women and men, the right to express political choice under a federal system. Drawing from the lessons of the previous elections, several measures have been adopted to improve the management and integrity of subsequent elections. Examples include the amendment of the Electoral Law, Amendment of the Political Parties Registration Proclamation, agreement on an Electoral Code of Conduct for Political Parties aimed at ensuring that elections are conducted peacefully, adoption of a formula for use of state media during campaigns, and the allocation of state funds for political parties. Despite the existence of a sound institutional and policy framework, there are evolving challenges which among others include: improved political space; access to media; weakness of opposition parties; the perceived bias of the Electoral Administration; and civic education.

Promotion and Protection of Human Rights

Ethiopia's Constitution contains a Bill of Rights, and the Government has established the Human Rights Commission to protect and promote these constitutionally-established human and legal rights. The Government has developed a national Human Rights Action Plan. The Plan elaborates comprehensive actions to promote and protect human rights. During the past decade, more than half of government expenditure has been geared towards securing the socio-economic rights of citizens. Cog-

nizant of the universality of human rights, the Government has domesticated and adopted the shared values encapsulated in many international human rights instruments, and Ethiopia has allowed periodic international reviews of its human rights record. Sustaining this strong progress demands a concerted effort to address some human rights challenges relating to freedom of expression, freedom of the media and assembly. Some of these challenges result from the way in which the Government balances interpretation and application of the anti-terrorism law, on the one hand, and human rights, on the other.

Civic Engagement

The Government is committed to wider participation and to the engagement of citizens in the management of their own development. It has put in place mechanisms to strengthen the structures of inclusive consultation with a view to stimulating broader participation in political processes and integrating a broader range of views on issues of national interest that could inform decisions. Nevertheless, civic participation in certain sectors and on certain issues has decreased since the enactment of the Charities and Society Proclamation (2009) (CSP); especially for Civil Society Organizations (CSOs) working on issues on governance and human rights. The law forbids CSOs from working on governance and human rights issues, if more than 10 per cent of their budget is donor funding. Data from the Charities and Societies Agency suggest that during the past five years there has been an 85 per cent increase in CSO registration. Over the same period, the operational focus and area of work have changed. For example, there were 3,056 CSOs registered by September 2014, but only 236 or about 8 per cent are permitted to work in advocacy, human rights and governance areas because of article 14 of the CSP. The remaining 92 per cent of CSOs are technically permitted to engage only in service delivery operations.

Rule of Law and Access to Justice

Progress has also been made on improving the administration and operational systems of judicial institutions, in particular the courts, through the implementation of the National Court Reform Programme. Improvements are evident in some areas such as computerization of the judicial database, which has reduced the backlog of court cases. Commendable progress has also been made in increasing access to justice, particularly for the vulnerable, through the establishment of more than 126 legal aid centers. However, there are challenges regarding the capacity of judicial actors (judges, lawyers, police and paralegals), the capacity of the police, and perceptions about the competence and independence of the justice system and there is a need to improve the quality of legal aid.

Federalism/Decentralization

The Government has adopted a federal governance architecture that recognizes the constitutive power of the Nations, Nationalities, and Peoples of Ethiopia. Responsibility and authority over development management is shared between federal government, regional states and local government entities *(woreda* and *kebele)*, thereby ensuring that people own and take control of their development trajectory. Such shared powers range from development planning to taxation and mechanisms to ensure and protect shared responsibilities, including fiscal equalization (grant-sharing formulas).

By and large, the Government's efforts over the past two decades to decentralize decision-making and give greater control and autonomy to local organizations, including CSOs, have been effective, albeit uneven in some respects. Empowering local communities and establishing a democratic system of government have supported the Government's objectives of economic growth and human development. The question facing the Government now is to consider how this process that is well under way can be further supported and deepened so as to help the country more effectively address continuing widespread poverty and chronic vulnerability.

While the Constitution provides a sufficient framework for a federal system, Ethiopia's African Peer Review Mechanism (APRM) Country Report (APRM, 2013) notes that, managing diversity and ensuring inclusive governance has to also be achieved through establishing and strengthening symmetrical relationships between federal government and the regional states and between regional states themselves so that regional inequalities and historical imbal-

ances among national groups can be effectively addressed.

Transparency and Anti-Corruption

The Government promotes zero tolerance of corruption in the public sector and has established the Federal Ethics and Anti-Corruption Commission (FEACC) to undertake prevention, investigation and prosecution measures (see Box 6.2). Other measures to improve standards of conduct in public and business affairs include the passing of laws on asset declaration and on regulation of the tenders for public contracts. Moreover, the Government has established the institution of the Ombudsman, who is charged with facilitating access to information on government actions and addressing instances of maladministration. Efforts to enhance government accountability and transparency are further pursued through the Office of the Auditor General, which is charged with ensuring value for money and monitoring the expenditures of government/public entities.

6.4. The Ethiopian Context for Planning

Ethiopia has a long tradition of development planning going back to the early 1940s. Similarly, Ethiopia has age-old institutions and good historical statistics that have set the context for the country to lay out long-term visions, goals and strategies. More recently, Ethiopia has been able to adapt with relative ease to many of the internationally agreed frameworks for donor cooperation. Ethiopia was successful in adopting and implementing the Poverty Reduction Strategy Paper (PRSP), which was already very much in line with government development policy and helped the country to become eligible for debt relief. Although PRSPs were externally driven, Ethiopia's approach to the initiative was to embrace its principles, while demonstrating strong national ownership at the same time.

Similarly, Ethiopia adapted the MDGs global initiative to serve as the basis for the country's locally owned development policies and strategies. Overall, during the last decade, Ethiopia has adopted long-term development visions and planning frameworks with far more ambitious growth and social development objectives and more detailed strategies and policies than those typically included in country-specific PRSPs and MDGs.

Long-term and Medium-Term Planning

The Government is known for introducing ambitious and bold development strategies and plans. Based on the Ethiopian Constitution and the long-term development vision, the government initially developed a series of 20-year, long-term plans focusing especially on the social sectors. These long-term plans in turn were used as the bases for developing a series of five-year, medium-term development plans. In turn, annual plans were developed for key sectors based on the five-year plans. The Government furthermore developed medium-term expenditure frameworks that linked available public finance and the plans.

From a national planning perspective, the Government is to be commended for its pursuance of carefully interlinked long-term strategic, medium-term and short-term plans, supplemented by appropriate institutional arrangements and strictly followed guidelines for implementation.

Table 6.1 The Government of Ethiopia's Medium-Term Planning Frameworks (2002 -2015)

Time Period	Planning Document
2002/03-2004/05	Sustainable Development and Poverty Reduction Programme
2005/06-2009/10	Plan for Accelerated and Sustained Development to End Poverty
2010/11-2014/15	Growth and Transformation Plan

The Government generally follows a process of policy formulation and planning that is both bottom up and top down. Over the past decade, for example, the Government has prepared a number of strategic policy documents and national plans that sought to articulate national policies and priorities that would put Ethiopia on a solid human development trajectory. Of note was the Sustainable Development and Poverty Reduction Programme (SDPRP), 2002/03-2004/05, followed by the more substantial Plan for Accelerated and Sustainable Development to End Poverty (PASDEP), 2005/06-2009/10.

As the PASDEP was drawing to a close, the Government began a series of extensive consultations and meetings which sought to draw on the lessons of the PASDEP and resulted in the current national development plan, the Growth and Transformation Plan (GTP), 2010/11-2014/15.

These planning processes were complemented by decentralization, which transferred significant decision-making power from regional states to woreda (district) level administrations. This has helped the medium-term plans to incorporate the views from the grassroots level and promoted ownership of the development plans.

The Growth and Transformation Plan (GTP)

The five-year Growth and Transformation Plan (2010/11-2014/15) was formulated by both building on and benefitting from the lessons learned from the PASDEP. The preparation of the GTP gave high priority to consultations at the national, regional and local levels, involving governmental bodies, private sector organizations, higher-education institutions, professional associations, and religious and civil-society groups, as well as political parties. These consultations resulted in many issues being raised that were thought by the groups to need higher priority if there were going to be improvements in economic performance, social development and governance. During the consultations, strong media attention was given to the debate and issues being discussed, resulting in broad-based ownership at the end of the process.

During the process, special attention was given to those areas needing further refinement or more emphasis at the policy and programme level. With the overall goal of maintaining a strong economic growth rate, the GTP has thus given special emphasis to agriculture and rural development, industry, infrastructure, social and human development, and better governance through decentralization and local decision-making. Emphasis was given to increasing capital investment in infrastructure and the social and human development sectors. Given the focus on increased capital investment the mobilization of financial and human resources, in addition to increased domestic savings was considered critical.

The total cost of the GTP was budgeted at US$75-79 billion over five years.

In formulating the GTP, the Government refined and redefined the strategic pillars of the PASDEP. The GTP's core pillars are:

1. Sustaining rapid and equitable economic growth;
2. Maintaining agriculture as the major source of economic growth;
3. Creating conditions for industry to play a key role in the economy;
4. Enhancing the expansion and quality of infrastructure development;
5. Enhancing the expansion and quality of social development;
6. Building capacity and deepening good governance; and
7. Promoting gender and youth empowerment and equity.

Within these broad pillars, the GTP also established 85 targets covering all aspects of the economy as well as the social sectors and the environment. Some of the key targets directly related to human development and inclusive growth are detailed below (Table 6.2).

As this list indicates, the Ethiopian Government has given high priority (nearly 40 per cent of all targets) to achieving specific goals that directly affect human development and inclusive growth. These include primary health and education access and services, gender equality, job creation, "graduation" from social safety net programmes, and provision of basic economic and social infrastructure, such as electricity, roads, telecommunications and potable water. Table 6.2 shows some of the key targets affecting human development. It gives baseline data for 2009/10, targets for 2014/15, and actuals for 2012/13, as reported in MoFED's *Annual Progress Report* on the Growth and Transformation Plan (MoFED, 2014).

Table 6.2 Selected GTP Targets Related to Inclusive Human Development

Selected Indicators	Baseline 2009/10	Plan Target 2014/15	Actual 2012/13
Real GDP growth rate (%)	10.4	11.4	9.7
Per capita GDP (US$)	377	482-523	550
Total poverty head count (%)	29.2	22.2	26.0
Food poverty head count (%)	28.2	21.2	31.8
Annual growth of agriculture and allied activities (%)	7.6	8.7	7.1
Number of extension service beneficiaries (thousands)	5,090	16,210	11,660
Areas further than 5 km from all-weather roads (%)	64.0	29.0	45.8
Construction of new all-weather roads connecting all rural woredas with main roads (km)	0	71,522	27,628
Number of beneficiaries participating in the Productive Safety Net Programme (millions)	7.1	1.3	6.9
Electricity service coverage (%)	41	75	53.5
Mobile telephone subscribers (millions)	6.52	45.3	23.8
Overall potable water coverage (%)	68.5	98.5	68.4
Urban population with access to potable water within 0.5 km (%)	91.5	100	81.3
Rural population with access to potable water within 0.5 km (%)	65.8	98.0	66.5
Reduction of slum area (%)	60	30	45
Jobs created through SMEs (million)	0	3.0	1.2
Provision of housing and basic services (thousands of housing units)	213	370	24.1
Net primary enrolment rate –grades 1-8 (%)	87.9	100	85.7
Primary school male-female ratio	0.93:1	1:1	0.92:1
Primary school pupil-textbook ratio	1.25:1	1:1	1:1
Intake capacity for technical-vocational students (thousands)	717	1,127	338
Primary health services coverage (%)	89	100	96
Under five mortality rate (per 1,000)	101	68	88
Post-natal service coverage (%)	34.0	44.5	50.5
Infant mortality rate (per 1,000)	77	31	59
Maternal mortality rate (per 100,000)	590	267	676
Contraceptive prevalence rate (%)	32	66	29
Births attended by skilled health personnel (%)	25	66	23.1
HIV/AIDS incidence rate (%)	0.28	0.14	..

Source: MoFED, 2014.

Notable Investment and Infrastructure Targets

In addition to the human development indicators, the GTP acknowledged that maintaining a high growth rate was key to the overall success of the Plan. While maintaining a state-led development model for national planning, the GTP is notable for its emphasis on identifying investment opportunities and improving the business environment. Some notable targets include:

- Offering over 8 million acres of land to commercial farming investors;
- Promoting investors interested in high-value horticulture products, such as flowers, fruits, vegetables and herbs;
- Offering Incentives for the introduction of improved farming technologies including new irrigation technologies, improved seeds, increased fertilizer use, and the introduction of multi-cropping technologies;
- Establishing four industrial zone clusters;
- Introducing tax holidays and duty-free imports on goods for such items as textiles and garments, sugar, cement, metals and chemicals, engineering services and pharmaceuticals;
- Increased attention to the potential of extractive industries, such as oil and gas, gold, potash, and gemstones;
- Planning to quadruple electricity power generation capacity from 2,000 to 8,000 megawatts, as well as construction of 132,000 km of power distribution lines;
- Giving incentives and promoting renewable energy investments in hydro, wind, geothermal and biofuels;
- Increasing Internet service subscribers from 200,000 to 3.7 million.

Development Partner Support and Collaboration

The Government has played a lead role in working with the donor community to take effective ownership of the development planning process. Its ownership, resource mobilization and GTP implementation efforts also reflect its adherence to the aid effectiveness principles first pronounced in the Rome Declaration on Harmonization in 2003 and, most recently, in the communiqué on development effectiveness adopted in Mexico in April 2014[17].

Through multi-partner supported programmes such as the Protection of Basic Services (PBS) and the Productive Safety Net Programme (PSNP), the Ethiopian Government and its development partners have learned that strategies with clearly specified objectives and measurable indicators, including for strengthening public financial management and procurement systems, are essential to sustaining development outcomes. Sustainable development finance also relies on a consistent monitoring and evaluation system, as recent efforts to enhance the use of results-based management recognize.

Large, multi-partner programmes are designed with in-built coordination mechanisms to improve donor coordination, alignment, and harmonization as well as facilitate high-quality policy dialogue between development partner agencies and the Government. At a policy level, the annual progress review of the GTP is a regular forum where gaps and overlaps in GTP implementation are discussed and mutual accountability between the Government and development partners is reinforced. Development partners and the Government convene a High-Level Forum on a relevant topic at least once a year to discuss issues that may be beyond the scope of specific programmes in place.

Looking forward, Ethiopia is well-positioned to drive the Mexico agenda and reach towards even more inclusive partnerships for development, strengthen South-South cooperation, and increase domestic resource mobilization with the support and collaboration of its development partners. In these ways, Ethiopia has tailored the development effectiveness agenda to its particular context.

Through the SDPRP, PASDEP and the GTP, the Government has played the key role in formulating development policy and strategy, and has won the active support and collaboration of the donor community, which has dovetailed its own programmes with those of the GTP. As the World Bank noted in its 2012 report, *Ethi-*

17 See development effectiveness declarations at Global Partnership for Effective Development Cooperation, available from http://effectivecooperation.org/resources/

opia - Country Partnership Strategy (FY2013-FY2016), "[Ethiopia's] development partners have broadly endorsed the GTP as an appropriate, and GoE-owned, agenda in the coming years". As Ethiopia's largest donor, the World Bank further committed itself to helping the country implement the GTP, especially some of the GTP requirements for structural reforms.

6.5. Public Resource Allocation and Human Development

Ethiopia is a federal parliamentary republic, consisting of nine regional states and two city administrations. The collection of taxes is a shared responsibility between the Ethiopian Revenue and Customs Authority (ERCA), which collects federal taxes and has also taken over the collection of regional taxes in Addis Ababa, and the regional revenue authorities, which are responsible for collecting regional and local taxes. This system of decentralization results in both the federal and regional governments playing an important role in the administration and collection of taxes.

It is worth noting that both federal and regional taxes are enacted by federal proclamations, and as a result apply equally across all of Ethiopia. However, while the tax base and applicable rates are the same, each regional revenue authority is an autonomous tax administration, and there are often significant differences in how non-federal taxes are administered in each region.

Beyond the nationally-mandated federal and regional taxes, each regional state also has the power to raise taxes and exercises this right when it comes to local taxes, such as agricultural income tax, rural land use fees and municipal taxes. These local taxes are enacted by regional proclamations, local legislation and city proclamations, and as a result tend to vary between regions.

Ethiopia has managed to consolidate its strong track record on fiscal and public expenditure management. For example, the fiscal deficit declined from 3.7 per cent of GDP in 2004/05 to 2 per cent in 2012/13, while net domestic borrowing fell from 2.5 to 0.2 per cent of GDP during the same period. In line with the GTP, pro-poor sector spending as a share of the general government budget has increased steadily from 28 per cent in 1999/2000 to reach the target of 70 per cent in 2012/13, although it has stagnated as a share of GDP as a result of the containment of total public sector spending as a share of GDP (MoFED, 2014). The Government has also stressed that coordination between policymaking, planning and budgeting is crucial to raising the efficiency of public expenditure on poverty-oriented sectors. The fiscal deficit of 2.0 per cent of GDP in 2012/13 was kept at a low level as a result of cautious fiscal management. The deficit was largely financed by external borrowing supplemented by a small amount of net domestic borrowing, equivalent to about 0.2 per cent GDP (MoFED, 2014).

Trends in Public Finance

Ethiopia's public finance management can be characterized as having been prudent: it has kept the budget deficit low, while scaling up expenditures on critical sectors of the economy, particularly infrastructure and pro-poor sectors. Public resource mobilization and investment have increased significantly over the past years. Resource mobilization has been largely domestic-focused and supported by measures taken to improve the tax administration (see Tables 6.3 and 6.4).

Box 6.3 Revenue Assignment and Expenditure Allocation in Ethiopia

After having a centralized fiscal system for much of its history, Ethiopia currently has a decentralized system whereby regional governments have responsibility for raising revenue for their expenditure needs. Stable and meaningful decentralization requires an unambiguous and well-defined institutional framework for the assignment of expenditure responsibilities among the different levels of government, along with sufficient budgetary autonomy to carry out the assigned responsibilities (McLure and Martinez-Vazquez, 1998). Strengthening the fiscal capacity of local governments/municipalities is an integral part of the sustainable management of urbanization. Under multi-level government fiscal structures, it is important that different levels of government have the capacity to raise revenues that can be earmarked for key expenditures such as infrastructure (e.g. on water, energy, telecommunications, roads and so forth). However, when capacity is an issue and the assignment of revenue-raising and expenditure responsibilities between regional and federal level governments is unclear, increasing economic costs and inefficiency prevail.

Efficient fiscal systems strive to address both horizontal and vertical imbalances. When there is a mismatch between regions' expenditure responsibilities and their capacity to raise the required funds via various revenue-generating activities, there should be a system of intergovernmental transfers (e.g. subsidies). Fiscal independence has been found to be strongly associated with population density, which might be explained by urbanization, agglomeration effects and better capacity to raise revenues in dense cities or regions. In Ethiopia, even if regions have the independence to raise revenues and allocate them for infrastructure projects, revenues often fall short of expenditure needs. This is true of any of the regional states in the country and their fiscal imbalances are high and increasing. For instance, the combined share of revenue in all the regions in Ethiopia was 16.7 per cent for the period from 1993/94 to 2003/04, while the corresponding expenditure share was 34.2 per cent of total expenditures. For the period from 2004/5 to 2009/10, regions' revenue share rose to 21.1 per cent but the share of regional expenditures also increased, to 38.6 per cent (Moges, 2013). This could make sustaining infrastructure across all government levels in Ethiopia a huge challenge.

Source: Note derived from Kedir, 2014.

Domestic revenue collection and external grants (for the federal as well as regional governments) reached Br137.2 billion in 2012/13, from Br20.1 billion in 2004/05 indicating average annual growth rate of over 70 per cent. During the same period, domestic revenue grew on average by 87 per cent per year.

As indicated in table 6.3, the tax to GDP ratio rose from 11.8 per cent in 2004/05 to 12.5 per cent in 2012/13. The Government has been undertaking aggressive tax reform measures in the past decade in terms of institutional arrangements, tax administration and trade facilitation, which resulted in significant increase in tax revenue. Accordingly tax revenue increased ninefold between 2004/05 and 2012/13. However, the tax to GDP ratio remains low compared to the SSA average of over 20 per cent. The reason for the low tax to GDP ratio needs to be studied further.

Table 6.3 Key Public Revenue Indicators

	2004/05	2010/11	2011/12	2012/13
Revenue and grants (Br billion)	20.1	85.6	115.7	137.2
Domestic revenue(Br billion)	15.6	69.1	102.9	124.1
Tax revenue (Br billion)	12.4	59.0	85.7	107.0
Non-tax revenue (Br billion)	3.2	10.1	17.1	17.1
Federal tax revenue (as % GDP)	11.8	11.7	11.6	12.5
Budget deficit (as % GDP)	4.6	1.6	1.2	2.0

Source: Compiled by the authors based on MoFED data.

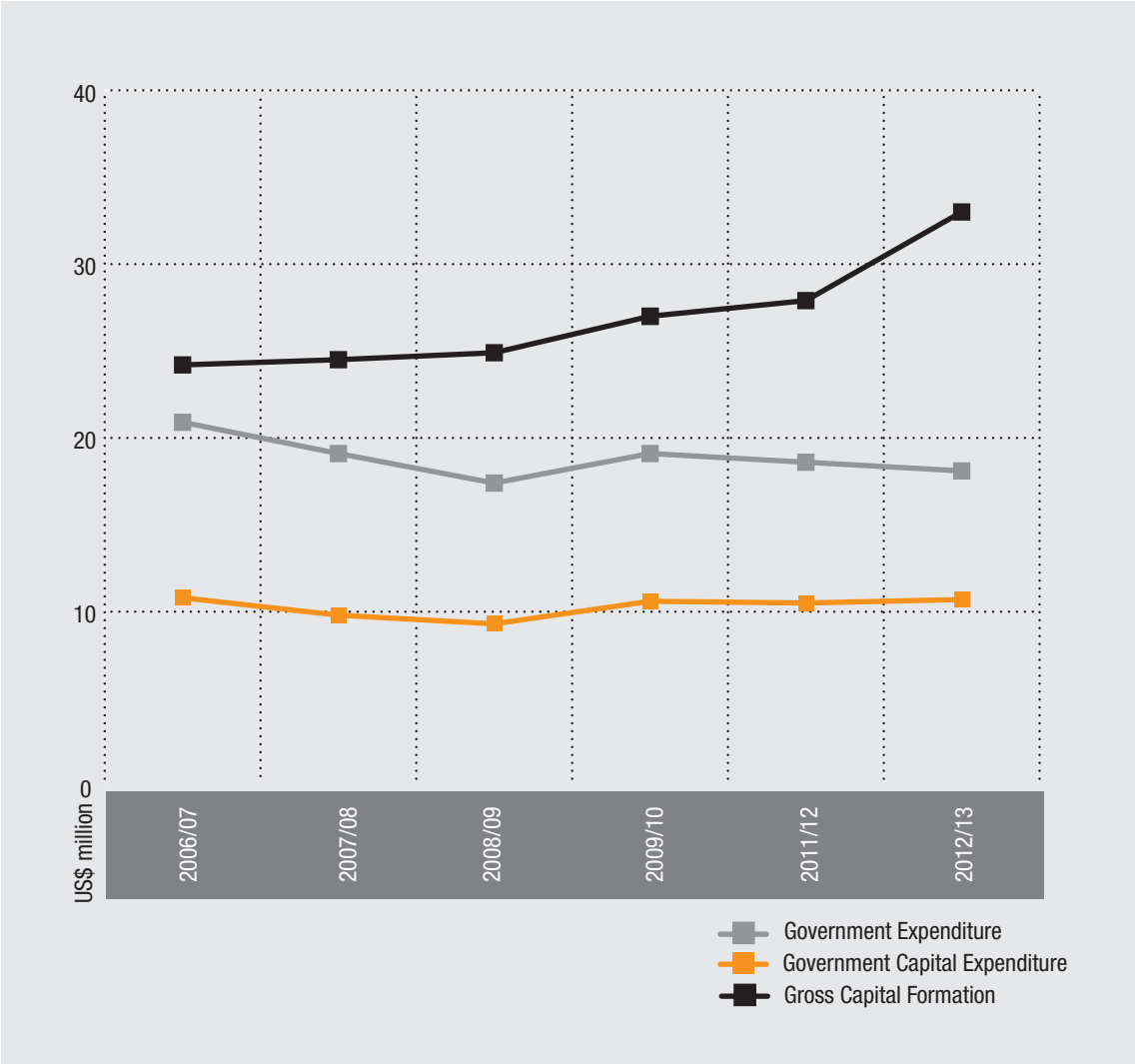
Figure 6.1 shows that the Government has restrained current expenditures to focus on productive investment, which is in line with its aim of promoting private sector led economic growth. However, the low level of current expenditures (lower than expected given Ethiopia's income level) may cause problems with capacity within the public sector.

Table 6.4 Key Public Expenditure Indicators

	2004/05	2009/10	2011/12	2012/13
Total Expenditure (Br billion)	24,994	71,155	124,417	153,929
Current expenditure (Br billion)	13,438	31,832	51,445	62,746
Capital expenditure (Br billion)	11,556	39,322	72,971	91,183
Total Expenditure (as % of GDP)	23.7	18.8	16.8	18.1
Current expenditure (as % of GDP)	12.7	8.4	7.0	7.4
Capital expenditure (as % GDP)	10.7	10.4	9.9	10.7

Source: Compiled by authors from MoFED sources.

Figure 6.1 Ethiopia's Public Expenditures vs Gross Capital Formation over Time (% of GDP)



Source: MoFED.

Table 6.5 Trends in Pro-Poor Spending in Total Public Expenditure (%)

Sector	2004/5	2005/6	2006/7	2007/8	2010/11	2011/12	2012/13
Education	19.8	21.8	23.7	21.3	24.9	23.9	25.2
Health	4.9	4.6	6.6	7.3	6.7	6.2	7.4
Agriculture and food security[18]	15.0	15.2	12.9	11.7	8.8	8.9	9.5
Roads	11.3	12.4	14.1	17.7	19.7	23.2	22.4
Water and sanitation	6.0	6.1	5.7	6.1	6.3	8.2	8.2
Total	57.0	60.1	62.9	64.1	66.4	70.4	70.0

Source: Compiled from MoFED data.

Regional government spending (including by *woredas)* on pro-poor sectors has continued to increase in absolute terms and as a percentage of total expenditure, with regional spending on basic services rising to 67 per cent of total expenditure in 2012/13, up slightly from 66.6 per cent the previous year and above the 63.8 per cent registered in 2008/09. Aid flows to regions also increased significantly in 2012/13, rising to Br31.1 billion, from Br20.2 billion in the previous year.

Similarly, *woreda*-level spending continues to increase in absolute terms, while, as a share of total spending, it is expected to increase in the current fiscal year after a long period of decline. However, while the share of *woreda*-level spending in regional basic services continues to rise in several regions, it is declining in Afar, Benishangul-Gumuz, Dire Dawa, Harari and Tigray (MoFED, 2013a).

Pro-Poor Spending

Resource Utilization in Pro-Poor Sectors

Public expenditure on basic services has more than doubled in recent years, at the same time that the total amount of aid in the budget has also increased substantially. Whereas the proportion of pro-poor spending out of the total budget increased from 57 per cent in 2004/05 to 70 per cent in 2012/13, aid flows have also increased significantly as mentioned above. To ensure that provision of basic services is not dependent on external aid, the Government should mobilize more domestic resources.

The most challenging issue in this regard is the large proportion of total recurrent spending that is financed through foreign aid. This has resulted in Ethiopia depending on donor support to underwrite many of the pro-poor basic services. Currently, the salaries of primary school teachers, agriculture development agents, and health extension workers depend to a great extent on aid provided by donors (MoFED 2013a).

In line with its overall development policy goals, Ethiopia is investing heavily to reduce poverty and promote social development. The proportion of public spending on pro-poor sectors has increased from 57 per cent in 2004/05 to 70 per cent in 2012/13. Among these sectors education and roads are top- priority sectors, each receiving more than one-fifth of the government total budget.

Ethiopia needs to sustain this focus on poverty while ensuring the efficiency of resource utilization and its effectiveness in having the necessary impact. It is equally important to strike a good balance in intra-sectoral allocations in the health and education sectors to improve the quality of services. This includes having an appropriate balance between recurrent and capital spending in order to have optimal allocations that will promote both the physical expansion of facilities and sound quality of service delivery.

Public Infrastructure Investment

Ethiopia is pursuing a Developmental State model that promotes growth through high public investment, especially in infrastructure. Infrastructure development has led to progress in education and health services, the expansion of urban housing, roads and electricity, and the setting up of town centres (market centres). It has also led to greater mobility and increased urbanization.

18 The last three years, 2010/2011-2012/2013, refer only to agriculture, per se, and do not include spending on food security.

Table 6.6 Key Indicators in Road Expansion over the Past Decade

Year	Road Network (km)	Road Density (km/1000 km^2)	Proportion of Areas Further than 5 km from All-Weather Road (%)	Average Distance from Main Road, (km)
2013	85,966	78.2	45.8	6.4
2012	63,083	57.3	56.4	8.7
2011	53,997	49.1	61.2	10.2
2010	48,973	44.4	34.2	11.3
2009	46,812	42.6	65.3	11.7
2008	44,359	40.3	66.8	12.4
2007	42,429	38.6	68.0	13.0
2006	39,477	35.9	69.8	13.9
2005	37,018	33.7	71.4	14.9
2004	36,496	33.2	71.8	15.1

Source: Ethiopian Roads Authority.

Nowhere is the Government's focus on infrastructure more apparent than in road construction. The Government has recognized that the size and quality of the road network needs to keep pace with rising demand, and that lack of road infrastructure is a major constraint on economic growth and poverty reduction. As a result, road density has increased from 33.2 (km/1000 km^2) in 2004 to 78.2 in 2013. The average travel time to an all-weather road has declined from 2.9 to 2.1 hours. The percentage of rural roads in fair and/or good condition also rose from 86 to 90 per cent.

Over the past 16 years, Ethiopia has spent Br142 billion on road construction, of which 77 per cent was covered from internal sources and 23 per cent through externally-sourced grants and loans. It is believed that this rapid expansion has augmented employment opportunities. However, expanding the district-level road network has proved difficult, mainly due to capacity and budgetary constraints.

Overall, the Road Sector Development Programme (RSDP) has managed to expand the road network from 36,496 km in 2004 to 85,966 km in 2013. This has reduced the average distance from a main road from 15.1 km in 2004 to 6.4 km in 2013. The programme has also been successful in increasing the paved road network from 3,708 km to 11,300 km, increasing the roads in fair condition from about 22 per cent to about 70 per cent, while building the institutional capacity to manage the fast growing network. In addition, the urban road network has doubled to about 4,556 km. Some 100,000 km of local feeder roads were developed by local communities. However, because of low standards, poor maintenance and unclear ownership, most of the community roads do not provide all-year service. The expansion and improvement of the road network has facilitated the launching of mega development projects, as well as enhancing domestic trade and bringing improvements in the delivery of basic services to the rural poor.

Public Debt

The stock of Ethiopia's external debt has been increasing in the past decade and the debt-to- GDP ratio had reached 24.3 per cent by the end of 2012/13. Lately, the country has also been shifting slowly from concessional to market-based loans. MoFED data show that, over the period from the beginning of the 2008 world financial crisis until the end of 2013, Ethiopia's external debt grew by 157 per cent from US$4.35 billion to US$11.17 billion.

In 2013, government's total domestic outstanding debt was valued at US$4.9 billion, of which US$634 million was issued as government bonds. The total domestic debt consists of Treasury Bills, (US$1.37 billion, 27 per cent of the total) and Direct Advances (MoFED overdrafts from the central bank, US$2.9 billion, or 59 per cent of the total). The growing public debt borrowing could lead to a "crowding out

effect" on private sector funding, given that the Government is borrowing 31 per cent of its debt from domestic sources locally.

A Debt Sustainability Analysis conducted by the World Bank and the IMF in 2011/12 (IMF, 2013a) concluded that Ethiopia remained at low risk. However, the analysis indicated that overall borrowing from domestic sources is constrained and that public enterprises will continue to rely on external financing to underwrite the country's large infrastructure investments. The Government's policy decision in this regard represents a trade-off between maintaining a low debt-risk ratio and the pace at which GTP pro-poor infrastructure spending can be maintained or accelerated to ensure the pace of economic growth.[19] Thus, although the Government is to accommodate the current debt level, there are some worrying aspects of Ethiopia's debt composition.

While most of the country's external debt is on concessional terms, borrowing by large public enterprises is sizeable and market distorting. Such enterprises include the Ethiopia Electric Power Corporation and the Ethiopia Sugar Corporation, the two largest borrowers from the Commercial Bank of Ethiopia, followed by the Ethiopian Railways Corporation (borrowing about Br5 billion annually) and Ethio Telecom (borrowing mostly internationally). Hence, the consolidated public-sector deficit is much higher than the federal government's, and is roughly estimated at 10 per cent of GDP. It is important, therefore, that the Government keeps a close watch on both expenditures and borrowing by public enterprises, despite the fact that most of the borrowing is directed to boosting or building the productive sectors.

6.6. Institutional Framework for Inclusive Growth

While the GTP serves as the national "roadmap" for development planning, the key to its ultimate success is the way in which its stated goals and targets have been, and are being, addressed and implemented at the sectoral and programme level. Two areas are highlighted below. The first explores some of the systems and processes put in place to implement the GTP. The second involves institutional transformation and the creation of special-purpose institutions and agencies to meet key priorities and speed up the achievement of specific goals that were not being adequately addressed through existing organizations or institutions.

New Processes and Practices

Strong Commitment to Data Collection and Analysis

In keeping with the Paris Declaration, Ethiopia has given considerable attention to monitoring the performance of the GTP. The 80-plus development targets found in the GTP, 29 of which are listed in Table 6.2 above, would have little value if the Government did not have a plan for implementing them and could not monitor progress in achieving them. In this regard, the Ethiopian Government has developed an extensive oversight and monitoring system to track progress.

Given the high priority accorded to the objective of poverty reduction, the underlying foundation for the GTP's monitoring function is closely linked to the lessons learned from the Welfare Monitoring System (WMS). The Welfare Monitoring System was created in 1996 to monitor the impact of economic policies on social outcomes. The Welfare Monitoring Unit (WMU) was established within the then Ministry of Economic Development and Cooperation to follow up the activities of the WMS. During the Sustainable Development and Poverty Reduction Programme (SDPRP) (2002/03—2004/05), the WMS was revitalized to adequately respond to the monitoring and evaluation system of the medium-term development plan, and the Development Planning and Research Department was created under the Ministry of Finance and Economic Development. The WMS and later the Monitoring and Evaluation System of the medium-term development plans that Ethiopia implemented starting from the SDPRP in 2002/03 helped the Government understand the nature and distribution of poverty and monitor changes in the incidence, depth and severity of poverty. The WMU model demonstrated the importance of being able to track key indicators across multiple sectors that usually entailed inter-ministry responsibilities, either by sector, by

19 World Bank, 2012, p. 7.

function or geographically, i.e. federal, regional or local government.

As a starting point, the GTP includes for each sector not only an implementation strategy but also an explanation of the "means of verification" (i.e. indicators) to be used in tracking progress. In many instances, the approach designed for the GTP entails measuring and quantifying cumulative performance from a base year and setting annual targets to be achieved in each year leading up to the Plan's final targets for 2014/15.

The GTP is monitored by the annual progress review (APR) using input data sourced from line ministries (administrative data), the central bank and CSA (surveys). The GTP monitoring system is thus meant to provide the Government with reliable reporting mechanisms that measure the efficiency of government actions and the effectiveness of public policies in achieving GTP goals. Equally important, the monitoring process is meant to be as transparent as possible to inform not just the Government, but also development partners, the private sector, civil society organizations and other stakeholders about GTP performance outcomes.

Civil Service Reform and Business Process Re-engineering

As part of civil service reform, the Government introduced management practices associated with Business Process Re-engineering (BPR). BPR involves the fundamental "rethinking and radical redesign of business process to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service and speed."[20] BPR has generated greater clarity on the roles and responsibilities of government service providers, streamlined government processes and improved performance in terms of the cost, quality and timeliness of service delivery. It has also led to changes in government structure, shifting responsibilities, and changes in personnel, all of which have an impact on service delivery.

20 For a discussion of business process re-engineering in Ethiopia, see Debela, 2009.

Table 6.7 Selected Improvements in Business Procedures

	Type of Service	Steps before BPR	Steps after BPR
1	Issuance of new trade licence	14	6
2	Registration of trademark	23	12
3	Trade licence renewal	10	4
4	Principal registration	14	6

***Source:** MoCB, 2009.*

There were many reasons why the Government was driven to implement BPR. In particular, both the Government and the public were dissatisfied with previous business procedures. There was increased demand from the public/clients for efficient and quality service (demand-side accountability) and a mounting need to improve the country's global competitiveness. Tables 6.7 and 6.8 show some of the dramatic results achieved as a result of BPR.

Table 6.8 Selected Improvements in Customs Procedures

	Type of Service	Steps before BPR	Steps after BPR
1	Loading permit from Djibouti	43	6
2	Checking and fixing container by customer seal	8	3
3	Import clearance	29	6
4	Export clearance	8	3

***Source:** MoCB, 2009.*

Decentralization

Over the last 10 years, Ethiopia has continued its efforts to accelerate the pace of decentralization of government decision-making and service delivery. The Government's decentralization policy began in the 1990s with a transfer of powers from the federal to the regional level. This was followed by further decentralization of service delivery, first to the *woreda* (district) level and then the still ongoing decentralization to the *kebele* (village). *Kebele* councils have been strengthened, and *kebele* managers appointed to act as focal points for service delivery and address complaints. Most observers agree that decentralization to these levels has prompted a marked improvement in access to services and

contact with decision-making bodies. In addition, considerable attention has been given to reforming the local tax system, which has resulted in a major increase in the collection of local tax revenues. Many of the same kinds of decentralized systems and capacities have also been put in place in urban areas as well.

Pro-Poor Expenditures and Sound Financial Management

Both the PASDEP and the GTP have given high priority to pro-poor expenditures, especially with respect to the Government's capital budget. As highlighted earlier, spending on infrastructure, agriculture, health, education and other services that are targeted at the poor has increased significantly. While the effectiveness of those expenditures is discussed elsewhere, the large financing requirements for the GTP have nonetheless been managed, as noted above, in a way which has avoided placing Ethiopia at risk to external debt distress.

Institutional Transformation and Implications for Inclusive Growth

Rodrik (2004) has argued that institutional quality holds the key to prevailing patterns of prosperity. Countries that have done well and prospered in human development are those that have invested in the rule of law, have secured property rights, and have robust macro-economic institutions accentuated by good governance. In his seminal paper, Rodrik emphasizes the importance of policy reforms aimed at reducing corruption, improving the regulatory apparatus, rendering monetary and fiscal institutions independent, strengthening corporate governance, and enhancing the functioning of the judiciary, but stresses that these policy reforms must be grounded in institutional reforms in order to remain effective. Ethiopia has, in the last decade, initiated policy and institutional reforms aimed at boosting not only the quality of growth but also human development in the context of the Developmental State. Ethiopia now has an embedded bureaucracy, in which the outcomes of policy and institution building are seen as iterative and adaptive by nature.

Strong transformational progress has been made in establishing policy and institutional frameworks to provide and facilitate political, popular and legal restraints on the Government's discretionary power over development management. According to the World Bank's Worldwide Governance Indicators[21], over the period 1996-2012, Ethiopia made much progress in the areas of government effectiveness, regulatory quality, the rule of law, and the control of corruption. The World Bank also found that there had been incremental progress on voice and accountability, political stability, and absence of violence. Improved governance has resulted in improved policy interventions, thereby promoting human development, including property rights.

However, reform is still a work in progress. Concerted efforts are needed to strengthen the governance architecture, including by focusing attention on establishing strong feedback mechanisms through which citizens can directly and indirectly engage with government structures at all levels concerning service delivery. Therefore, a systemic approach to accountability and transparency that is grounded on improving integrity by mainstreaming accountability measures in policies and public service delivery at all levels needs strengthening.

Another key characteristic of the Government's transformational approach to institutional change and capacity is to create specific organizations or institutional responses to address specific types of policy or development challenges that were not being addressed. As a result, the Government has reorganized several ministries and created several new institutions to focus on specific problems. Several of these institutions have been deemed by many observers to have been successful, or to hold the promise of being successful. Examples of these include the Ethiopia Commodity Exchange, the Agriculture Transformation Agency (see Box 6.5), the Federal Ethics and Anti-Corruption Commission, the Civil Service College, the Small and Medium Enterprises Agency, the Merchandise Trade Enterprise, Ethiopian Tourism Organization (ETO) and the newly established Planning Commission.

21 The Worldwide Governance Indicators website is available at http://info.worldbank.org/governance/wgi/index.aspx#home.

Box 6.4 The Agricultural Transformation Agency

The Agricultural Transformation Agency (ATA) was established in December 2010 as a catalyst to promote agricultural sector transformation by supporting existing structures of government, as well as private-sector and other non-governmental partners to address systemic bottlenecks in delivering on a priority national agenda for achieving growth and food security. The ATA's formation resulted from two years of extensive diagnostic study across eight sub-sectors of Ethiopia's agricultural system in a highly consultative, multi-stakeholder process led by the Ministry of Agriculture. It was modeled after similar public-sector bodies in Asia that played important roles in the growth of those national economies. The Agency's structure and functions have been designed so as to enable it to offer nimble, innovative and results-oriented support to a range of partners in the agricultural sector.

More specifically, the Agency has been created to respond to a core set of needs identified by the Ministry of Agriculture and its governing Transformation Council. The ATA's programme work is initially focusing on value chains and agricultural systems and is supported by a set of cross-cutting Initiatives. Value chains link the crop and livestock products and services that are critical to increase the productivity of smallholder farmers and pastoralists. Systems are the building blocks that enable smallholder producers to adopt improved technologies, to strengthen their agronomic practices, and to access markets for surplus production in order to achieve household food security and increased incomes. Within these broad areas, the Agency has begun to set priorities for where it will focus its efforts during the initial years of operations. Each programme team will seek to identify interventions with the potential to make the greatest impact in addressing systemic bottlenecks.

A key organizational characteristic of the ATA is the multi-party partnership structure that is supporting the Agency's activities. In addition to the Ministry of Agriculture, other major partners include the Ethiopian Institute of Agricultural Research, the World Bank, UNDP, USAID, the Rockefeller, Gates and Nike Foundations, the International Food Policy Research Institute, and the Synergos Institute.

***Source:** http://www.ata.gov.et.*

6.7. Policy and Institutional Gaps for Inclusive Growth

Ethiopia has generally performed well in advancing inclusive growth and reducing poverty. It has successfully managed to create robust institutions and nurtured policies to enlarge people's capability and choices. The Developmental State model, which is the anchor of the policies enacted and institutions created, has largely served the country well. However, there are some areas where improvement is needed: (i) building capacity for domestic resource mobilization, (ii) creating an enabling environment for private sector development, (iii) spatial inclusion in the context of fiscal decentralization, and (iv) strengthening institutions and processes for wider citizen participation, accountability and transparency.

On capacity for domestic resource mobilization the chapter has demonstrated the need to undertake tax reforms in order to increase the revenue base. There is a need to build the capacity of the Ethiopian Revenue and Customs Authority (ERCA) to deliver services efficiently and effectively to taxpayers. Thus, efforts must also be directed towards building the capacity of the regional governments to estimate, collect and account for revenues in their respective regions.

The private sector is important in the creation of productive jobs. Government efforts to support the private sector are commendable, especially in expanding infrastructure which crowds in private sector investment, the development of industrial zones and business incentives. There is a need to enforce policies that will promote competition and discourage unfair business practices.

The Government has put in place a workable grant formula for the past several years. However, there is a need to review the revenue and expenditure assignments constantly, in order to ensure horizontal and vertical equity. This

will promote spatial inclusion and afford every citizen equality of opportunity, irrespective of where they live.

To sustain the progress already made in deepening democracy and the rule of law, concerted effort is needed to accelerate and fully implement some of the existing reforms. For example, efforts are needed to improve the capacity of the judiciary, to enhance access to justice, and to strengthen capacity for accountability, participation and transparency.

6.8. Chapter Summary

One of the chief reasons for Ethiopia's achievement of high rates of economic growth and the rapid expansion of basic infrastructure and human services over the past decade has been the policy and institutional framework deployed by the Government. This policy and institutional framework has had a number of key features. These include:

- The Government has given high priority (nearly 40 per cent of all GTP targets) to achieving specific goals that directly promote human development and inclusive growth.
- These include primary health and education access and services, gender equality, job creation, "graduation" from social safety programmes, and provision of basic economic and social infrastructure, such as electricity, roads, telecommunications and potable water.
- The Government has been investing heavily in economic and social infrastructure, streamlining the public service, revamping the tax collection system, and supporting small and medium enterprises.
- In keeping with the Paris Declaration, Ethiopia has given special attention to taking ownership of its own development process and monitoring the performance of the GTP. In this regard, the Ethiopian Government has developed an extensive oversight and monitoring system to track progress, including performance-based monitoring and business process re-engineering.
- Over the last 10 years, Ethiopia has continued its efforts to accelerate the pace of decentralization of government decision-making and service delivery. Most observers agree that introducing these decentralized levels has prompted a marked improvement in local communities' access to services and contact with decision-making bodies.
- The Government has created a range of special organizations or agencies to address specific policy or development challenges that were not being addressed through existing ministries or institutions. Most of these new institutions have been deemed by many observers to have been very successful, or to hold the promise of being successful.

7

Strategic Challenges and Proposed Directions for Accelerating Inclusive Growth in Ethiopia

The previous chapters have examined various aspects of Ethiopia's human development performance, including both its economic and social components and the policy and institutional framework in which Ethiopia has undertaken to achieve its long-term vision of becoming a middle-income country no later than 2025. The analysis in the previous chapters demonstrates that Ethiopia has made remarkable progress in moving the country forwards along several dimensions—in terms of economic performance, social progress, and governance and stability. Still, Ethiopia faces formidable challenges if it is to sustain and accelerate the gains made so far, ensure more inclusive growth, promote good governance, and improve the quality of its rapidly expanding physical infrastructure. As the Government and Ethiopia's development partners are aware, some policy changes and shifts in budget allocations will be necessary to achieve the long-term vision. The question, however, is not whether policy and budgetary changes are necessary, but which ones would have the most impact and what are the trade-offs that such changes would involve.

This chapter therefore turns to the broad issue of what strategic shifts need to be made to accelerate human development and inclusive growth. The chapter considers options for possible policy and institutional shifts in the areas of macroeconomic policy, social policy and programmes, and governance.

Before looking at these three areas, it is important to emphasize the opportunities and challenges facing the country in the context of the prevailing demographic outlook, including the potential to harness the demographic dividend, a window of opportunity for accelerated economic growth that may result from a decline in a country's two main demographic indicators—mortality and fertility—and the subsequent change in the age structure of the population, particularly with an increase in working age population.

Despite the existing opportunities for Ethiopia to reap the demographic dividend, there are challenges that could undermine them. Such challenges include a high fertility rate, (though declining), which will prolong the time it will take for Ethiopia to complete the demographic transition. The increasing population will raise demand for social and economic services, which will affect the degree to which the observed growth is inclusive. The low level of savings, despite recent improvements, the result of a high dependency ratio, is another challenge that needs to be addressed if the country is to reap the demographic dividend and promote inclusive growth.

7.1. Macroeconomic Policy and Employment Creation

Ethiopia's Developmental State model clearly created the initial conditions for the country's strong economic growth and mirrors the approach followed in many Asian economies. Ethiopia has maintained a stable macroeconomic environment, as evidenced by broad-based and sustainable economic growth over the past decade. The country has successfully managed to contain inflation, made progress towards meeting most of the MDGs, and achieved significant reduction in poverty incidence. At the same time, efforts need to be accelerated to increase domestic resource mobilization, create productive jobs, enhance the role of the private sector and deepen financial services.

Creating Stronger Linkages across Economic Sectors

The linkages between agriculture and the manufacturing and services sectors should be more actively supported. Given the historically low levels of productivity in Ethiopian agriculture, which is still based on subsistence farming and pastoralism, the Government faces a Herculean task as it seeks to raise non-farm and off-farm rural incomes through increased productivity and vibrant market linkages both for farm inputs and post-harvest value-added processing, marketing and sales. The challenge is compounded by the spectre of increasing land fragmentation and landlessness and the potential marginalization of larger numbers of rural households. This issue cannot be solved by overreliance on commercial farming. An important source of income and employment for the poor in Ethiopia, and for women in particular, is found in rural non-farm economic activities. These activities are closely linked to farming, the food supply chain, and the production of goods and services for local rural markets.

Moreover, despite the current GTP strategy of making industry and agriculture the driving forces of the economy, GDP growth is being driven mainly by the services sector. Historically in many of the industrialized countries, structural transformation occurred through the shift from agriculture to an industry-led economy. The relatively dominant role of the services sector comes only at a very high level of economic development, not at the initial phase of economic transition that Ethiopia is aiming to achieve. Hence, the next phase of the GTP could play a critical role in guiding Ethiopia's structural transformation by accelerating the contribution of industry to overall growth through stronger forward and backward linkages with a rapidly growing agriculture sector.

Reducing Private Sector Transaction Costs

The discussion of Ethiopia's global competiveness and business climate in earlier chapters demonstrated that the Government needs to support and help incubate micro, small and medium enterprises (MSMEs) and move them into the formal economy. The reduction of transaction costs incurred by the private sector will accelerate employment creation, encourage strong domestic production and foster the adoption of new technology driven by private sector investment.

Ensuring Financial Services Better Serve Small Businesses to Support Job Creation

While reform has begun, the financial services sector is generally not perceived as being supportive of, or responsive to, the needs of small businesses and start-up enterprises - precisely the kinds of companies that have the highest likelihood of providing jobs for the un- and underemployed.

Recommendations

- Investment in infrastructure should be accompanied by enabling policies and strategies aimed at building local production and technological capabilities so as to encourage and support more sustainable and long-lasting employment creation.
- To maintain a proper balance in the inter-temporal allocation of resources, the Government focus on infrastructure investments should be accompanied by due attention to those investments that directly augment current production capacities. It is crucial to ensure that output of industrial and agricultural products is growing rapidly to meet the rapidly growing needs of the population.
- The Government should continue to promote the emergence and growth of agro-processing industries through direct support for technology transfer and strengthening production

capacities in the private sector. The Government should identify specific commodities22 in each region, zone and possibly woreda level that have potential for value-chain linkages and processing, as well as commission value-chain studies and support the establishment of processing businesses. In some of the key high export-value commodities, the Government could consider public-private partnership ventures.

- With Ethiopia's increasing urbanization and improvements in rural-urban transport networks, the potential to strengthen rural non-farm activities that produce goods and services for distant markets is strong. Given that some or most of the products would be perishable items, the Government could consider direct involvement in spreading basic technologies for pasteurizing and packaging processes.
- The Agriculture Transformation Agency model should be strongly supported and greatly expanded so as to promote more actively inter-sectoral linkages and more robust and market-oriented supply and value chains.
- The Government should consider ways of strengthening its commitment and support for the private sector in ways that build greater collaboration and partnership and promote a level playing field.
- The Government should look at South-South examples of Asian, Latin American and other African countries that have designed effective policies supporting and encouraging inclusive markets and the local private sector, while still allowing effective government oversight.
- Given the rapidly changing operating environment for the private sector resulting from new regulations in licensing, tax, land, labour, credit, etc., the Government should consider options for "door-to-door" advisory support and guidance to ensure compliance with these government regulations, including possibly hands-on support in financial accounting and marketing.
- As part of the next medium-term plan, the Government should place considerable emphasis on further streamlining the financial-services sector by promoting greater private sector participation in the provision of micro financial services, along with a more effective regulatory function, and thereby giving small business greater access to finance.
- The Government should undertake studies to determine some of the policy options and incentives used by Asian countries to encourage high saving rates by individuals, as well as entrepreneurs and the private sector, and thereby increase liquidity and the flow of capital into the financial sector.
- The Government should continue providing concessional loans to businesses that enter such strategic areas as horticulture and floriculture.

7.2. Social Policies and Programmes

In line with global trends of climate change, population pressure and dwindling natural resources, Ethiopia is also facing similar trends and growing stresses on people's livelihoods. The periodic inflationary episodes that have occurred over the past few years have also aggravated vulnerabilities, especially among low-income groups.

Enhancing Social Protection

The Government has managed to achieve impressive growth in expanding social infrastructure. There has been a significant increase in access to education and the number of children enrolled at all levels of schooling has risen. Access to health services has shown significant improvements. The country has implemented various programmes aimed at protecting the poor from shocks, such as periods of volatility in prices and weather shocks. Despite these improvements, challenges remain in terms of achieving equity and quality in the provision of services. This could potentially negatively affect the very purpose of the high emphasis given to expanding the physical availability of services.

Removing Budget and Capacity Constraints in Education

There have been sizeable increases in budget allocated to the pro-poor sectors, particularly education. Despite this, inadequacy, inequity and inconsistency in educational budgets represent serious obstacles to improved educa-

22 Examples include the processing of coffee, sesame, honey, hides and skin, and livestock products.

Social development is thus very closely tied to the concept of human development.

2.5m

People have been lifted out of poverty since 2005.

According to the Selected Key Health Indicators the national water supply coverage was at 36.0 6 in 2004/05 and has increased to 68.5 percent in 2012/13.

tional outcomes. These problems are associated with recurrent budgets (i.e. running costs) for the sector as a whole, as well as at the regional level and down to individual schools at the *kebele* level. Significant funding is also allocated to the sector from grants and loans in the financing of recurrent expenditures. In the long-term, there is a need to decrease dependence on foreign budget sources and to enhance domestic revenue mobilization. The budget constraints manifest themselves in multiple ways throughout the educational system. For example, capacity constraints are prevalent in both supervisory and administrative positions as well as actual teaching positions. High pupil-teacher ratios at all levels, along with inadequate teaching materials, limited in-service training and the lack of career development opportunities are all commonly identified issues. Low teacher salaries are also seen as a deterrent to improved educational outcomes. These capacity constraints are mirrored in the indicators measuring the quality of education, such as high dropout rates, in grade repetition and absenteeism.

Achieving Balance among Educational Levels

Many governments face the difficult trade-offs associated with allocating funding among the four levels of education - primary, secondary, tertiary and vocational-technical. To these four could be added adult education programmes for the rural and urban poor, who often lack the literacy and numeracy needed for more skilled employment. Historically in Africa, budget allocations have generally favoured tertiary education at the expense of primary and secondary schooling. While Ethiopia has examined this issue in some detail in its current education sector plans, there is still a clear need to re-examine the budget allocation among the different levels and to identify where cost savings could be made and inefficiencies rooted out.

Addressing the Country's Population Challenge

It is important to emphasize the opportunities and challenges facing the country in the context of the prevailing demographic outlook, including the potential to harness the demographic dividend, a window of opportunity for accelerated economic growth that may result from a decline in a country's two main demographic indicators—mortality and fertility—and the subsequent change in the age structure of the population, particularly with an increase in working age population. The fertility rate, though declining, is still high and this might delay the period for Ethiopia to complete the demographic transition, as the increasing population exerts pressure on social and economic services, which will in turn affect the degree to which growth is inclusive. High dependency ratio contributes to low level of savings, which in turn translates to low level of investment. The large working age population, favorable policy environment, human capital, and expansion of infrastructure will not yield meaningful results if the demographic challenges are not addressed. Similarly, if the country is to reap the demographic dividend, boost labor productivity, boost accumulation of capital, realize economic efficiency and promote inclusive growth, addressing demographic challenges is of paramount importance.

Addressing Youth Unemployment

The Government has put in place several initiatives aimed at enhancing employment opportunities, particularly for youth. But the high proportion of the working age population who are young makes creating employment opportunities for youth a daunting task. Youth unemployment is a major problem, not just for school-leavers and the poor, but also for recent university and technical graduates. Rural youth unemployment in particular is largely an invisible problem that has received relatively little policy attention. Designing targeted programmes for youth employment should therefore be given much higher policy consideration.

Redressing the Mismatch between Capital and Recurrent Health Spending

The problem of balancing the competing requirements of capital investment in infrastructure and recurrent expenditures is clearly visible in the health sector. Despite rapid expansion in the availability of health facilities, problems related to quality, logistics, medical supplies, the availability of drugs, etc. have prevented the full utilization of the facilities that have been constructed.

Giving Priority to Preventive Health Care

Ethiopia has made significant improvement in the provision of health services, and has in fact achieved MDG 4, (by reducing child mortality significantly). The country has also managed to curb the incidence of HIV/AIDS. Despite these significant improvements, maternal health care represents one of the critical areas where health services have fallen short of their intended targets. The shortcomings in addressing this public health-problem are also one of the reasons for Ethiopia's low HDI ranking. In countries transitioning to middle-income status, improved maternal and child health is both a cause and effect of enhanced family well-being and is closely correlated with lowering fertility rates over time.

Finding an Ethiopian Definition of Universal Access to Health Care

Despite the precise language and targets of the MDGs and national health policies, it would be very useful for the Government to articulate more clearly explicit universal access and coverage goals as a policy direction, with targets for enlarging populations to be covered, services to be provided, and reductions in out-of-pocket payments by users. There is still some ambiguity at the federal, regional and local levels about the content and quality of services that are offered to, and expected by, patients. A well-articulated definition of universal access further lends itself to applying the kinds of performance-based monitoring and evaluation systems discussed above.

Recommendations

- Stronger government attention is needed to better understand which groups of people find it difficult to take advantage of income-generating opportunities and access to basic public services. These groups would include the disabled, the chronically food insecure, the unskilled and the aged, who may need carefully designed social protection schemes.
- Unexpected factors, such as economic and natural shocks, increase the vulnerability of some sections of the population to periods of food insecurity. The use of adequate socio-economic studies, needs assessments, including participatory assessments, should be encouraged and carefully implemented as part of arranging alternative livelihoods for such categories of people.
- There is still a need to strengthen the linkages between the different programmes of the Disaster Risk Management system and the Productive Safety Net Programme by, for example, strengthening the existing DRM tools, such as the Woreda Disaster Risk Profile, the Woreda Contingency Plan, or the Woreda Risk Mitigation/Adaptation Plan, and incorporating them into the PSNP.
- While construction of school infrastructure is still needed to increase access to education, especially regarding those above the primary education level, it is important that existing facilities function at their full capacity and provide services adequately. It is therefore important to look at the balance between the capital budget and the recurrent budget. To achieve this, there is need for intra-sectoral reallocations among primary, secondary and tertiary education, so as to promote an even stronger pro-poor focus.
- The Government should also consider gradually reducing dependence on external aid in financing elements of the recurrent education budget.-
- Special attention needs to be given by the Government to exploring new ways of financing education without disproportionately affecting poor households.
- Government attention is needed to more fully understand and link labour market projections and employment opportunities with the skills development actually being offered and taught at all levels of the educational system.
- Continuity of education should be ensured so that students have un-interrupted opportunities to continue their education. Hence, the balance between levels of education needed to ensure that continuity is achieved
- Ethiopia needs to review its population policy to manage national demographic trends in order to safeguard the country's significant human development gains.
- The Government should establish a high-level, perhaps inter-ministerial, commission to develop a more proactive youth employment policy to be incorporated into the successor to the GTP.
- As an interim measure, the Government may wish to explore options for a youth "cash

for work" programme that would focus on labour-intensive infrastructure projects and technologies targeted at areas of the country with the highest youth unemployment.

- It is important that health facilities are fully functional with the development and implementation of fully costed operating plans and a resource mobilization strategy, including provision of water and electricity.
- The Government could consider implementing a "health service quality improvement programme" similar to that in which it has addressed quality problems in the education sector through the "general education quality improvement programme."
- The surveillance and awareness systems for tracking communicable diseases and outbreaks of highly infectious diseases need to be strengthened.
- The maternal mortality rate has remained high and multi-front interventions addressing cultural barriers through education, providing necessary facilities, and ensuring adequate provision of medical equipment and supplies as well as skilled professional attended births, should be promoted.
- The Government may wish to consider increasing the number of health workers per health post to three, and providing bicycles for health workers to increase their mobility and access. Similarly, the Health Development Army should be expanded and its operations adapted to specific social contexts, especially in emerging regions.
- The Government should explore options for bringing the various priority programmes under a single leadership structure to improve coordination and implementation.

7.3. Governance Issues

Deepening and Broadening Local Governance and Decision-Making

The Government has made significant efforts to encourage local decision-making and accountability in ways that promote human development and inclusive growth; but there is room for further support. Community organizations, for example, can contribute to bridging the gap between people and government, by highlighting key societal problems and thereby improving the effectiveness of policies and development strategies. Encouraging community-level advocacy on specific issues such as the nature and composition of public services, gender issues, HIV and AIDS, and employment options, can enhance support for government development programmes and services. By the same token, the Government should come to understand the actual long-term benefits of allowing open discussion and advocacy on what are sometimes seen as politically sensitive issues. And societal-level advocacy about issues such as human rights, media independence, and democracy should be seen as healthy signs of good governance and a precondition for sustainable development. In many cases, the end result would be community groups augmenting and strengthening the same causes and policies which the Government itself is also trying to promote.

Recommendations

- As part of the next medium-term plan, the Government should consider additional ways of expanding the role of NGOs and CSOs in improving the delivery of, social and economic services, thereby promoting a governance framework that is even more inclusive and participatory.
- By the same token, greater attention is needed to enhance implementation capacity at the woreda level of administration.
- Corruption is still a major bottleneck in government efforts to transform the Ethiopian economy and social well-being. The factors contributing to this problem, including its scale and the environment in which it operates, should be carefully studied and its root causes addressed.

7.4. Summary Reflections

This report has sought to explore the challenges facing the Government of Ethiopia in moving toward the nation's goal of becoming a middle-income economy by 2025, while assuring, at the same time, that the benefits of economic growth promote human development and inclusive economic, social and political participation by all Ethiopians. By any measure, Ethiopia's achievements over the past decade have been impressive: average annual economic growth rates of 10.9 per cent, major investments in economic and social infrastructure, notably high

pro-poor expenditures for social services; and corresponding improvements in a number of social and other indicators, including a reduction in the poverty headcount from 38.7 to 26 per cent between 2004/05 and 2012/13.

Despite these positive outcomes, Ethiopia still faces many daunting human development issues: some 25 million Ethiopians remain trapped in poverty, and these and the many Ethiopians just above the poverty line are vulnerable to shocks and food insecurity. Maternal-child health care has lagged well behind other health statistics, and the availability of effective health care is inconsistent across the country. Educational indicators suggest ongoing problems with the quality of education, as shown by retention rates and educational performance markers. Perhaps most worrying from the standpoint of inclusive growth are the high rates of un- and underemployment in urban and rural areas, especially the shortage of productive jobs for the poor and near-poor that are needed on current and projected labour market trends, particularly for the young. Economic growth over the past decade has generally led to enhanced productivity and output levels in some parts of the economy, even though accompanied by pockets of growing income inequalities.

Linked to inclusive growth is the related question of sustainability. According to standard economic theories, there are strong linkages between a country's capacity to harness its natural resources, undergo structural transformation, and achieve poverty reduction. Most growth theories predict that long-term economic growth is determined by the accumulation of factors of production, physical and human capital, along with the increasing productivity of these factors. This typically entails effective use of natural resources through efficient labour and capital allocations, thereby accelerating structural transformation, which requires skilled labour that is the means to sustained poverty reduction.

Beyond economic theory, for Ethiopian policymakers the fundamental questions remain: What changes or adjustments are needed to address more forcefully the challenge of making Ethiopia's growth more inclusive and more supportive of accelerated human development? What short-term and medium-term adjustments could be helpful in improving the livelihoods of the poor and vulnerable, in ways that would expand their opportunities and individual capabilities?

This chapter has identified a number of policy areas and made recommendations for acceleration of inclusive growth. Underlying all the recommendations is the need to focus policy attention on three key areas:

- Expand and deepen the provision of the basic social services, especially focusing on the quality of service provided, that have the most long-term benefits for the poor. Infrastructure investments are a necessary but not sufficient condition to achieve this objective.
- Further nurture and promote the positive trend of supporting decentralization and local governance so as to provide greater choice, latitude and accountability at the *kebele* (community) level;
- Promote and encourage greater collaboration and support for the expansion of the private sector in the overall economy in ways that foster more productive employment for the urban and rural poor, especially through targeted interventions that reach the most vulnerable.

Another conclusion emerging from this study is that the Ethiopian Government has consistently demonstrated the political will to address the myriad and competing interests associated with formulating a consensus-driven development agenda, and then rigorously following through on the implementation of that agenda. A key element in this process has been the Government's ability to change policies and programmes as needed to meet overall national goals. This model of adaptation and re-examination, rather than rigidity, will provide the underlying dynamic needed for Ethiopia to achieve the national vision of becoming a middle-income economy by 2025, while significantly accelerating human development and inclusive growth for all Ethiopians.

ANNEXES

Annex 1: Human Development Index Technical Note

The Human Development Index (HDI) is a summary measure of long-term progress in a country along three key dimensions: a long and healthy life, access to knowledge, and a decent standard of living. The HDI is the geometric mean of normalized indices measuring achievements in each of these three dimensions. Methods of tracking and measuring progress along the dimensions have been evolving through time, depending on availability of data and changes and on improvements in the way progress in human development are generally measured.

Using the 2010 Human Development Report HDI computation methodology, we have calculated Ethiopia's HDI as follows:

- Life expectancy at birth is used to capture progress towards achieving a long and healthy life;
- Expected years of schooling and mean years of schooling are used to measure access to knowledge; and
- Gross National Income per capita is used to track the standard of living.

There are two steps in calculating the HDI:

Step 1: Creating the dimensions.

α) Life Expectancy index
Where is life expectancy index; minimum value is set at 20 years and maximum value is the highest observed value during 1980-2013.

β) Education Index
Where is education index, and and are as defined below. The minimum value for education variables is zero and the maximum is the highest observed value

ι) Expected years of schooling

ιι) Mean years of schooling

χ) GNI index
Where per capita is the standard of living index. The minimum value is the subsistence level set at US$100.00 and the maximum is the highest value observed.

Step 2: Aggregating the sub-indices to produce the HDI.

Data and sources

1. Data for life expectancy are taken from CSA, 2013a.
2. Data on education (primary and secondary school enrollment ratios, number of students enrolled in colleges and universities (undergraduate and masters level in regular programmes) are taken from MoE, Annual Education Statistics Abstracts (2004/05-2012/13)
3. Net tertiary enrolment is calculated based on number of students using data from MoE Annual Education Statistics Abstracts and the number of people below age 25 based on DHS, 2010/11
4. Expected Years of schooling:
5. According to UNESCO Expected years of schooling refers to the number of years of schooling that a child of school entrance age can expect to receive if prevailing patterns of age-specific enrolment rates persist throughout the child's life.

Because of lack of availability of data on age specific enrolment, the calculations used proxy indicators. Calculation of EYS is based on net enrolment rates (NERs) of primary and secondary (upper and lower) and tertiary education. Again the enrolment rates used are aggregate instead of grade specific the net enrolment rates are multiplied with maximum attainable grades in each category to account for the missing grade levels (MoE, 2005 and MoE, 2013).

$EYS = \sum xi*Yj$

Where xi is the net enrolment rate for each category; Y_j is the maximum attainable grade in each category (8 years for primary, 10 for lower secondary, 12 for upper secondary and 14 for tertiary).

The expected years of schooling for regions is calculated with primary and secondary enrolment rates, as enrolment in tertiary education is not available by region.

Table 1: Ethiopia: Expected Years of Schooling (2004/05-2012/13)

	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Primary Net Enrolment (%)	68.8	77.5	79.1	83.4	83	82.1	85.3	85.4	85.9
Lower secondary net enrolment (%)	11.8	13.2	14.7	13.8	13.5	16.4	16.3	17.3	19.4
Upper secondary net enrolment [23]	..	2.3	3.0	2.9	2.8	2.4	4.2	4.8	5.3
Primary Net Enrolment *8	5.504	6.2	6.328	6.672	6.64	6.568	6.824	6.832	6.872
Lower secondary net enrolment*10	1.18	1.32	1.47	1.38	1.35	1.64	1.63	1.73	1.94
Upper secondary net enrolment*12	0	0.276	0.36	0.348	0.336	0.288	0.504	0.576	0.636
Tertiary net enrolment *14					1.35	1.59	1.70	1.65	1.57
Expected Years of schooling	6.7	7.8	8.2	8.4	9.7	10.1	10.7	10.8	11.0

23 Until 2005/06 there was no distinction between upper and lower secondary.

Sources: MoE, 2012; MoE 2013.

Table 2: Ethiopia: Distribution of Regional Expected Years of Schooling (2012/13)

	Net Primary Enrolment Rate	Net Lower Secondary Enrolment Rate	Net Upper Secondary Enrolment Rate	Expected years of schooling
Tigray	92.0	45.4	9.9	13.1
Afar	41.5	2.5	1.2	3.7
Amhara	91.7	19.4	5.6	9.9
Oromiya	83.9	16.9	3.7	8.8
Somali	81.8	3.4	1.9	7.1
Ben. Gumuz	91.6	20.1	7.2	10.2
SNNPR	88.9	21.9	4.9	9.9
Gambella	98.0	15.9	4.9	10.0
Dire Dawa	85.9	15.9	4.9	10.2
Harari	74.8	22.7	7.8	9.2
Addis Ababa	69.4	31.6	20.8	11.2

Sources: MoE, 2012; MoE 2013.

1. Mean Years of schooling (MYS)

Calculation of MYS is based on the educational attainment of the population of 25 years old and over, using the demographic health surveys (DHS) of 2005 and 2011. The survey gives the educational attainment of the population according to the following categories: no education, some primary, completed primary, some secondary, completed secondary and more than secondary. Since the DHSs do not provide information on the educational attainment of the population aged over 49 years old, the educational attainment of those between 45 and 49 years was applied to the population above 49 years old.

Table 3: Ethiopia: Percentage of Population by Educational Attainment (2005 and 2011)

Educational attainment	DHS, 2005			DHS, 2011		
	Women	Men	Total	Women	Men	Total
No education	65.9	42.9	54.4	50.8	32.6	41.7
Some primary	19.2	30.5	24.85	34	45.5	39.75
Completed primary	3	6.8	4.9	4	5.5	4.75
Some secondary	8.2	14	11.1	5.9	8.2	7.05
Completed secondary	2.3	3.3	2.8	0.9	1.2	1.05
More than secondary	1.4	2.4	1.9	4.4	7	5.7

Sources: CSA and ICF 2012; CSA and ORC 2006.

$MYS = \sum x_i * y_j$

Where x_i is educational attainment in per cent and Y_j is the maximum number of grades in each category. Maximum grade in primary school is 8 years, maximum grade in secondary school is 12 years and maximum grade in more than secondary is 16 years.

Table 4: Ethiopia: Regional distribution of mean years of schooling (2005 and 2011)

	Mean Years of Schooling	
	2005	2011
Tigray	2.3	2.8
Afar	1.1	2.0
Amhara	1.4	2.0
Oromia	2.1	2.6
Somali	0.8	1.9
Benishangul-Gumuz	1.5	2.4
SNNPR	1.8	2.7
Gambella	2.5	3.9
Harari	4.6	4.9
Addis Ababa	6.6	6.3
Dire Dawa	4.3	4.8
National	2.0	2.6

Sources: Derived from MoE 2012 and MoE 2013.

Notes

1. Educational attainment of the population 25 years and older is taken from DHS 2005 and 2011 and the mean years of schooling is calculated using 4 years for "some primary education", 8 years for "completed primary", 10 years for "some secondary", 12 years for "completed secondary" and 14 years for "more than secondary".
2. Educational attainment improved between 2005 and 2011, leading the catvegory "some primary school" to be considered to be 2 years in 2005 and 3 years in 2011; and the category "some secondary school" to be raised from 9 years in 2005 to 10 years in 2011.
3. The range of schools in the "more than secondary" category with different maximum grades makes the aggregation of this category less consistent. A maximum grade of 14 is used for this category.
4. Gross National income per capita adjusted to purchasing power parity (PPP) (at 2011 international US dollars), taken from World Bank sources, is used for national-level analysis.
5. For calculation of the regional HDI, real consumption per capita is used as a proxy for real income per capita. The income index is calculated based on the lower middle- income threshold of Br 18,959 ($1,036) as the maximum and Food Poverty Line of Br 1,985 from HICES 2011 as the minimum.

Annex 2: Ethiopia NHDR Team Members

Core Team

1. James Wakiaga, Economics Advisor, UNDP
2. Haile Kibret, National Economist, UNDP
3. Roza Mamuye, Economics Associate, UNDP
4. Getahun Tafesse, national consultant
5. Thomas Stephens, international consultant
6. Temesgen Walelign, Director, Development Planning and Research Directorate, MoFED
7. Solomon Alayu, Senior Expert, Development Planning and Research Directorate, MoFED

Technical Working Group

1. Temesgen Walelign, Director, Development Planning and Research Directorate ,MoFED
2. Solomon Alayu, Senior Expert, Development Planning and Research, Development Planning and Research Directorate, MoFED
3. Heyeru Hussien, Planning Specialist, Planning, Project and Business Development Department, Ethiopian Chamber of Commerce and Sectoral Association
4. Gebreegzabihere Gebru, Senior Expert, UN Agencies and Regional Economic Cooperation Diirectorate, MoFED
5. Wondwosen Damte, Poverty Action Network (PANE)
6. Teshome Adno, Central Statistical Authority
7. Daniel Mengistie, Director, Plan and Programme , Ethiopian Road Authority
8. Nurmeded Jemal, Director Plan and Programme, Ministry of Environment and Forestry
9. Eliyas Girma, Ministry of Education
10. James Wakiaga, Economics Advisor, UNDP
11. Dillip Kumar, DRR programme Associate, CO/ET
12. Dassa Bulcha, Governance Programme Analyst
13. Edda Zekarias, Communication Analyst
14. Haile Kibret, National Economist
15. Getahun Tafesse, national consultant
16. Thomas Stephens, international consultant

Other UNDP Team Members Contributing to the NHDR

1. Eugene Owusu, Resident Representative/Resident Coordinator
2. Samuel Bwalya, Country Director
3. Samuel Choritz, Policy Advisor
4. Eyob Tesfaye, Team Leader, Economic Growth and Poverty Reduction
5. Chrysantus Ayangafac, Governance Advisor
6. Bettina Woll, Deputy Country Director
7. Selamawit Alebachew, Programme Analyst
8. Sinkinesh Beyene, Team Leader, Climate Resilience Green Growth Unit
9. Emily Bosch, Policy Specialist (Aid Effectiveness) , DAG Secretariat
10. Soria Sewasew, Administrative Assistant, Policy Advisory Unit (PAU)

Annex 3: Qualitative Survey of Senior Policymakers and Managers

Perceptions of Inclusive Growth and Human Development in Ethiopia

The Government of Ethiopia and the United Nations Development Programme are in the process of preparing Ethiopia's National Human Development Report. As part of this process, we are seeking your help in completing this survey.

Your assistance in answering the questions below would be very useful in understanding the perceptions and viewpoints of key stakeholders and opinion-makers about the country's progress in supporting inclusive growth and improving the quality of life for all Ethiopians.

Your answers will remain strictly confidential and not shared with any outside source. The survey should take no more than 5 minutes to complete.

Thank you very much for your help in taking the time to complete this survey

Respondent Background Information

1. Age
   _____ 20-29
   _____ 30-39
   _____ 40-49
   _____ 50-59
   _____ 60 +
2. Sex:
   ____ male
   ____ female
3. Residence:
   ____ Addis Ababa
   ____ other urban area
   ____ rural
4. Level of education (highest level attained)
   ____ primary
   ____ secondary
   ____ vocational/technical
   ____ university or polytechnic
   ____ post-graduate (Masters/Ph.D.)

5. Occupation ____ national government

____ regional or zonal government

____ private business

____ state-owned enterprise

____ university or research organization

____ trade or labor organization

____ Non-governmental organization

____ civil society organization

____ other (please specify)

Your Opinions and Perceptions of Ethiopia's Socio-Economic Development

6. Are you directly involved in formulating or implementing the government's policy for economic and social development?

____ yes

____no

7. In light of the tremendous economic and social changes that have occurred over the past 10 years, overall how would you rate the government's handling of economic and social policy? (With 5 being excellent to 1 being marginal)

____ 5

____ 4

____ 3

____ 2

____ 1

8. On a scale of 1-5, do you feel that the overall economy has been stable and growing over the past decade (with 5 being high stable and growing to 1 being very unstable and not growing)?

____ 5

____ 4

____ 3

____ 2

____ 1

9. On a scale of 1-5, do you feel that the levels of poverty have been decreasing over the past decade (with 5 decreasing significantly to 1 being not decreasing at all)?

____ 5

____ 4

____ 3

____ 2

____ 1

10. In what areas do you feel the government has been the most effective over the last 10 years in improving people's lives? (check all that apply)

____ support to smallholder farmers and agricultural production

____ encouragement and support to woreda-level organizations and village associations

____ support to private sector development including small and medium size enterprises

____ provision of basic infrastructure such as roads, water, electricity, telecommunications, and access to potable water

____ protection of the vulnerable and handicapped

____ famine relief and prevention

____ providing improved health services for all income levels

____ providing improved educational opportunities at the primary and secondary levels for all income groups

____ providing jobs and skills training for those entering the labour market

____ simplifying the ease of conducting transactions or interactions with the government, such as obtaining business licenses, paying taxes, applying for benefits

____ other [please specify_____]

11. In what areas do you feel the government has been the least effective over the last 10 years in improving people's lives? (check all that apply)

____ support to smallholder farmers and agricultural production

____ encouragement and support to woreda-level organizations and village associations

____ support to private sector development including small and medium size enterprises

____ expanding basic infrastructure such as roads, water, electricity, telecommunications

____ assuring the quality and reliability of basic infrastructure, such as road, water, electricity, telecommunications

____ protection of the vulnerable and handicapped

____ famine relief and prevention

____ providing improved health services for all income levels

____ providing improved educational opportunities at the primary and secondary levels for all income groups

____ providing jobs and skills training for those entering the labour market

____ simplifying the ease of conducting transactions or interactions with the government, such as obtaining business licenses, paying taxes, applying for benefits

____ other [please explain_____]

12. What do you feel are the major policy challenges facing the government -- and more generally Ethiopian society -- in the coming years? [Select no more than three.]

_____ Supporting jobs creation for the large number of young people entering the labor market

_____ Improving the quality of life for the poor and disadvantaged in terms of improved health care, access to education and social services, etc.

_____ Expandingthe coverage and quality of basic infrastructure – water, electricity, roads telecommunications, etc.

____ Providing easier access to financial services and credit for all income groups, especially the rural and urban poor

____ Providing more opportunities for women and girls to benefit from education services and find productive employment

____ Expanding local participation in economic and social matters at the woreda and kebele level

____ Protecting and rehabilitating Ethiopia's endangered environment and natural resource base, including adaptation to climate change

13. Do you feel the government has been successful in controlling inflation and the cost of living over the last 10 years (with 5 being highly successful and 1 being not at all successful)?

____ 5

____ 4

____ 3

____ 2

____ 1

14. Do you feel that corruption in the public and private sectors is impeding the ability of Ethiopia to achieve faster and more sustained economic and social development (with 5 being a major problem to 1 being not a problem)?

____ 5

____ 4

____ 3

____ 2

____ 1

15. In what areas do you feel that government capacity needs improvement if it will be able to address current and future development challenges that result in more opportunities and a higher quality of life for all Ethiopians? [Select no more than three]

____ streamlined processes and procedures (less "red tape")

____ expanded training opportunities for civil servants

____ better working conditions and a better incentive structure for civil servants based on job performance

____ greater flexibility in adapting and modifying government programmess at the regional and zonal level to address local conditions and problems

____ simplified rules and regulations for the users of government services

____ greater reliance on the private sector and NGOs to deliver programmes and services that have historically been provided by government

16. On a scale of 1-5, how confident are you that overall human well-being in terms of available choices to improve the quality of life (such as access to education and health, job opportunities) are available now, so that all Ethiopians can engage in, and benefit from, the development process (with 5 being highly confident to 1 being not at all confident)?

____ 5

____ 4

____ 3

____ 2

____ 1

17. Broadly speaking, do you feel that today's youth and future generations will have a better life and more opportunities than you have now? (With 5 being highly likely to have a better life to 1 being highly unlikely to have a better life)

____ 5

____ 4

____ 3

____ 2

____ 1

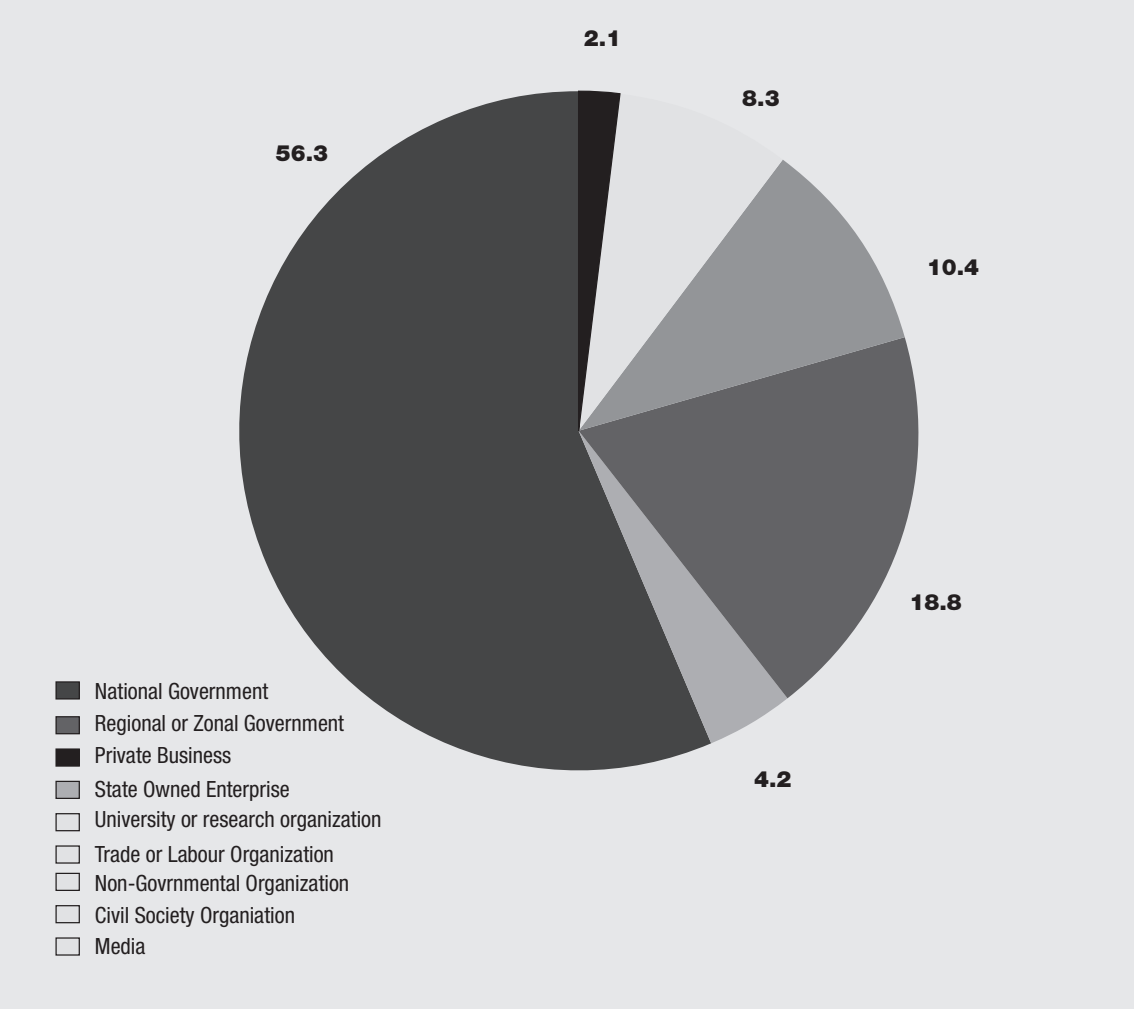
18. Do you have any final comments on Ethiopia's progress in achieving inclusive human development and addressing the country's development challenges? Please use the box below to briefly share your opinions.

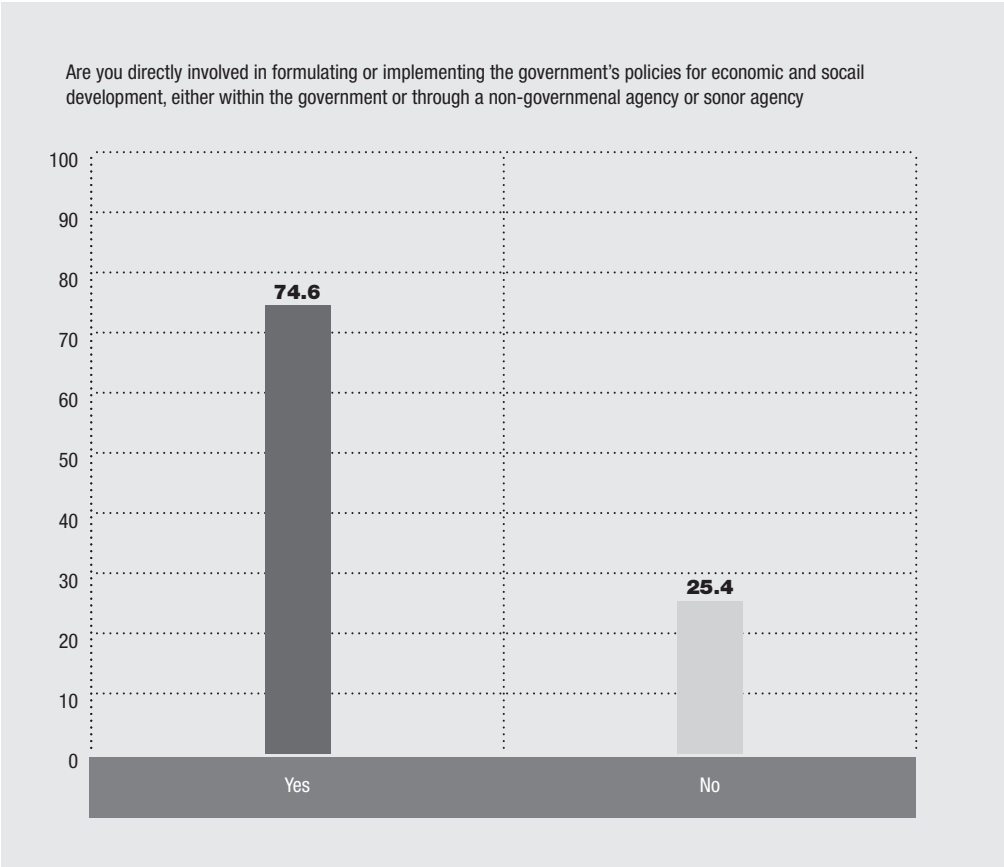
Annex 4: Qualitative Survey Results

The survey shown in Annex 3 was sent out to a broad range of Ethiopian policymakers, parliamentarians, senior professionals, managers, executives and opinion-makers. The survey sought to capture their opinions and perceptions about present Government policy and the state of Ethiopia's current development paths and future needs. The survey is not statistically significant given the small sample size (approximately 65 respondents), as well as the fact that it was administered online, thereby limiting participation to those with Internet access. Still, it is useful for understanding the insights and opinions of senior Ethiopian managers, officials and policymakers working on the frontline of Ethiopia's economic and social development, and how they view the future of the country.

Given below are some of the findings from the survey that have not been presented already in some of the earlier chapters.

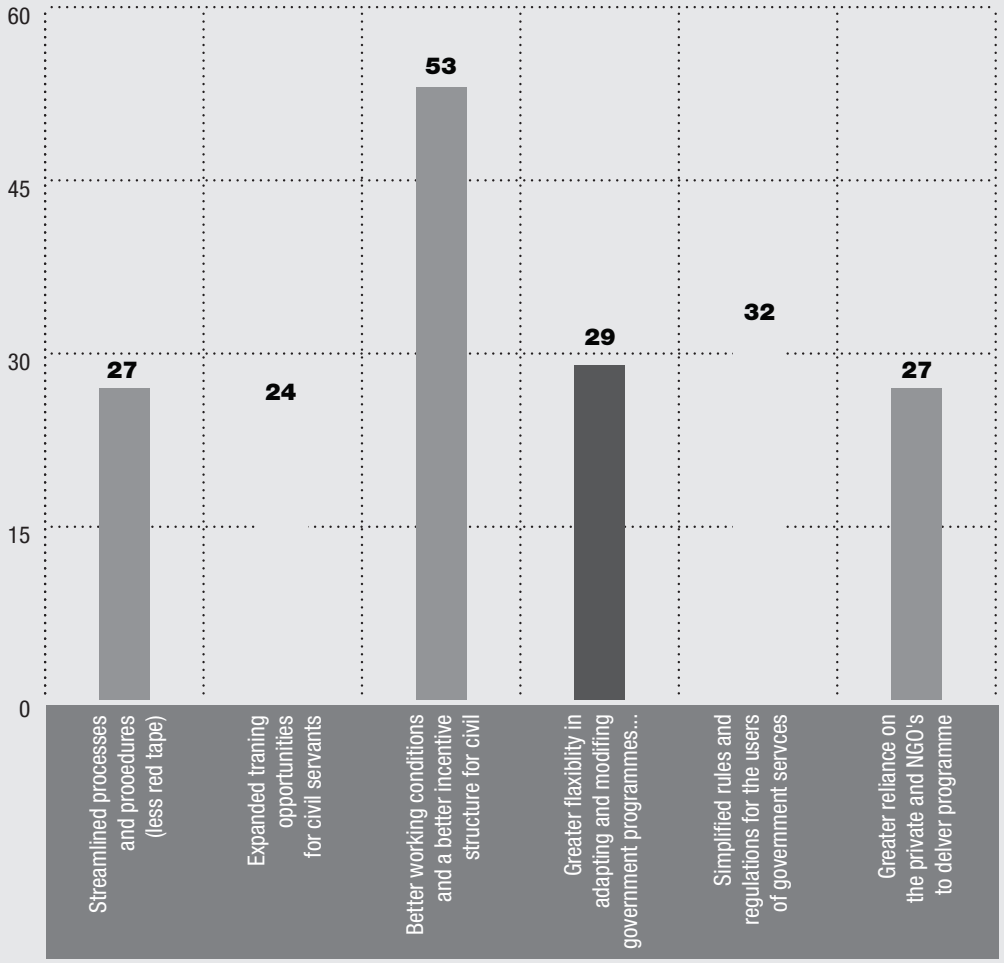
Respondent Background



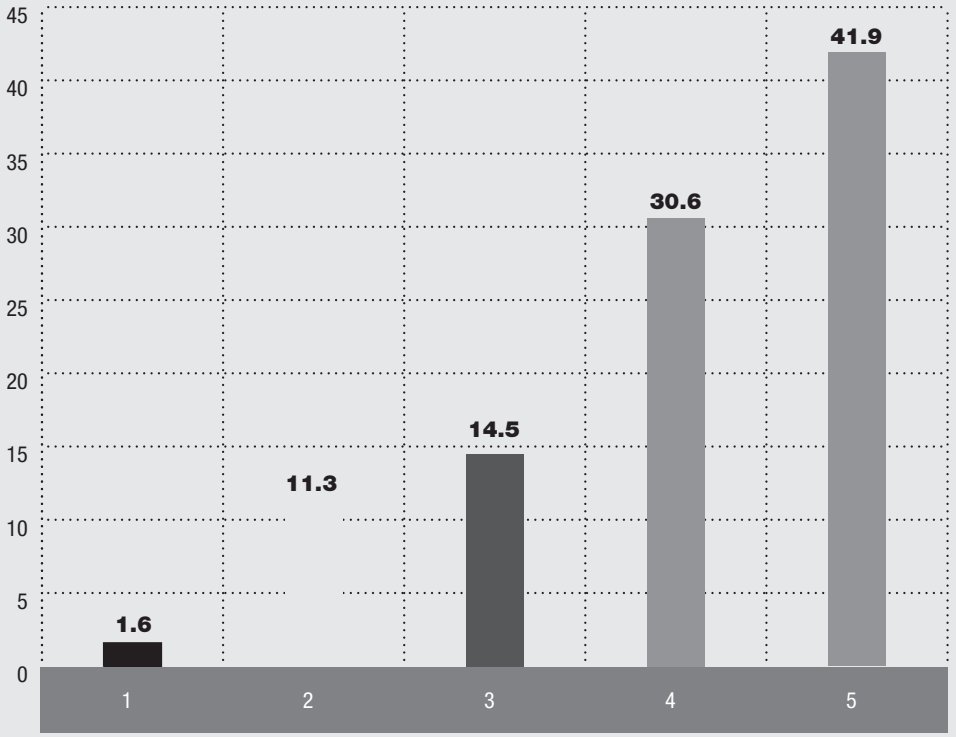

Are you directly involved in formulating or implementing the government's policies for economic and socail development, either within the government or through a non-governmenal agency or sonor agency
100
90
80
70
60
50
40
30
20
10
0
74.6
25.4
Yes
No

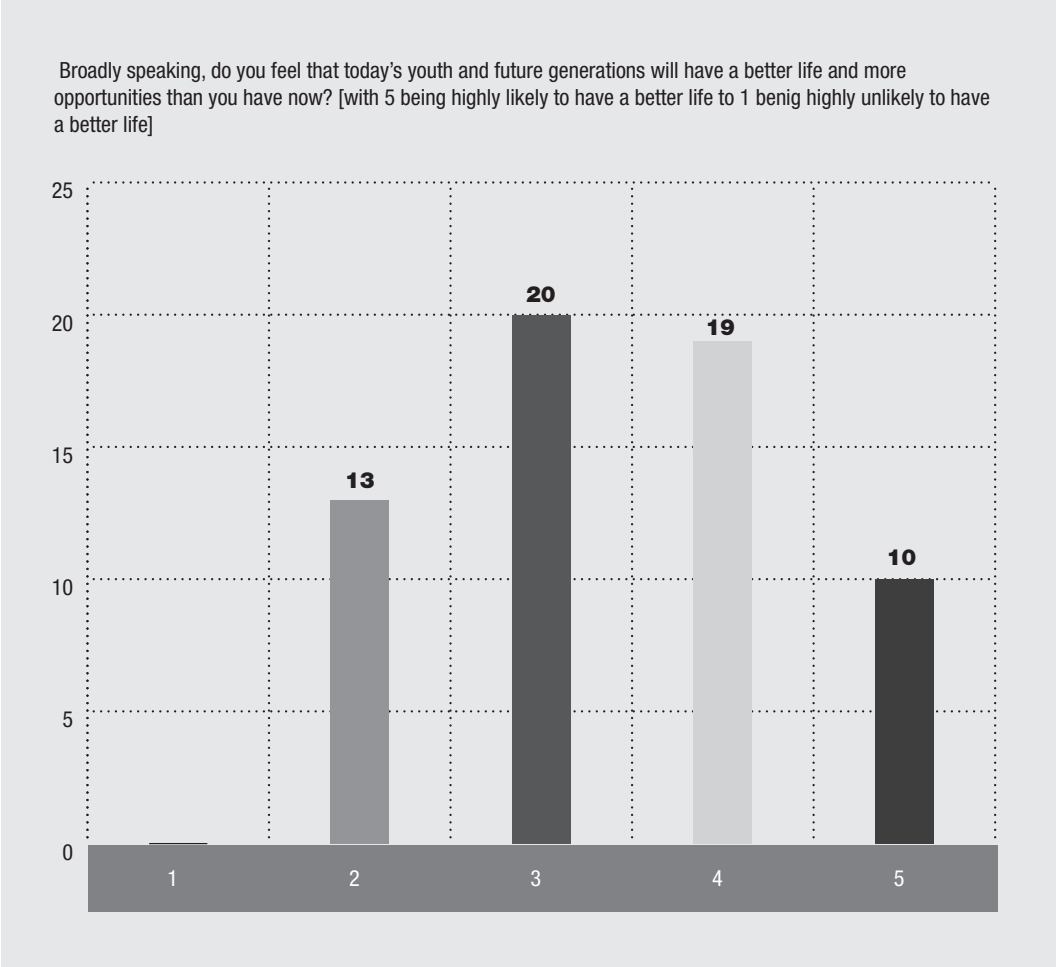
Policy Challenges and Expected Outcomes

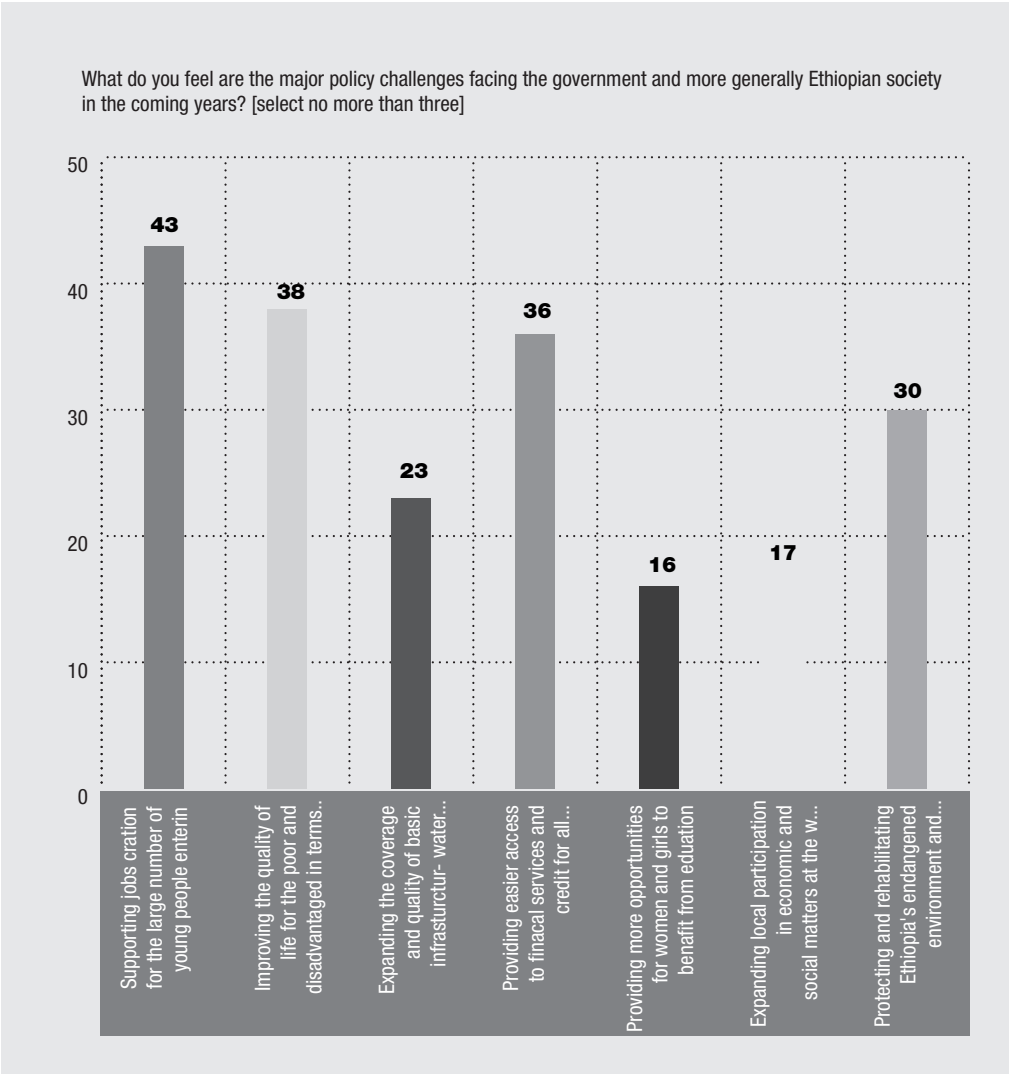
In what areas do you feel that govermment capacity needs improvement if it will be able to addrees current and futhre development challenges that result in more opportunities and a higher quality of life for all Ethiopians? [select no more than three]



Do you feel that corruption in the public and private sectors is impeding the ability of Ethiopia to achieve faster and more sustained economic and social development [with 5 being a major problem to 1 benig not a problem]

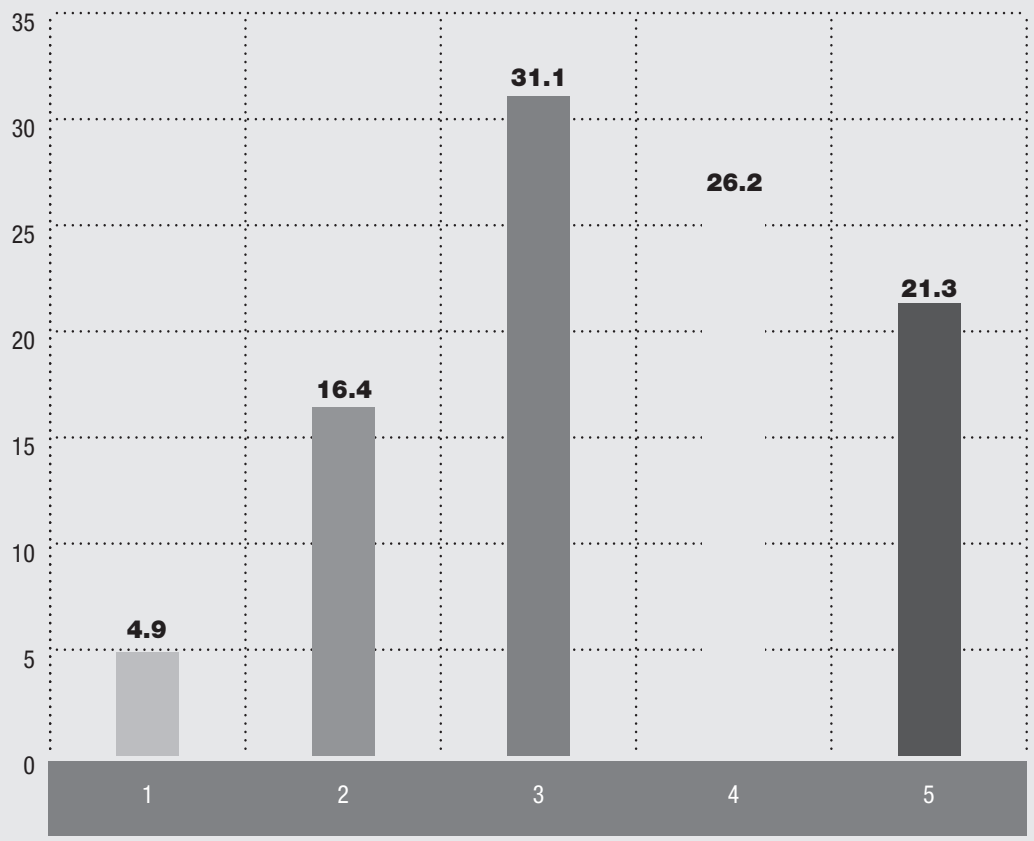



Broadly speaking, do you feel that today's youth and future generations will have a better life and more opportunities than you have now? [with 5 being highly likely to have a better life to 1 benig highly unlikely to have a better life]
25
20
15
10
5
0
13
20
19
10
1
2
3
4
5

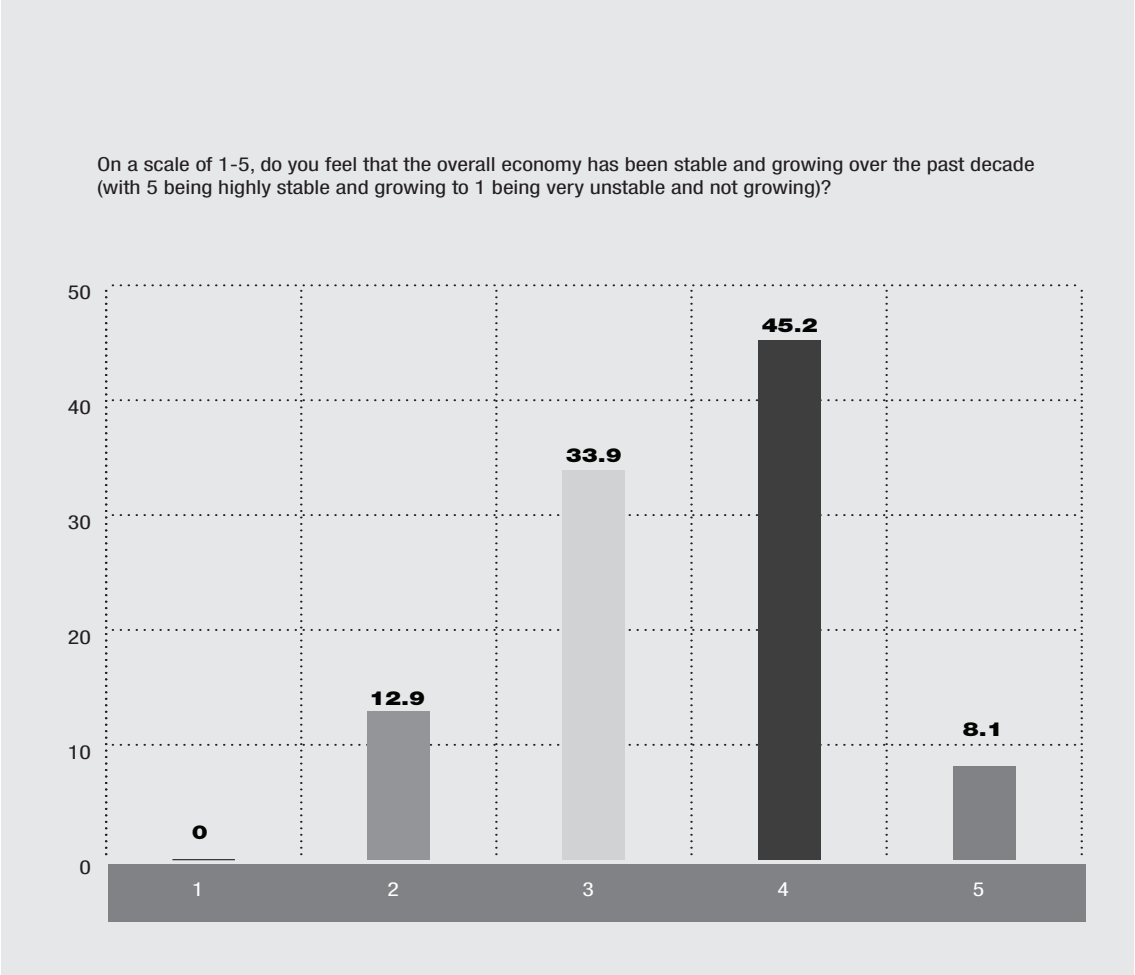

What do you feel are the major policy challenges facing the government and more generally Ethiopian society in the coming years? [select no more than three]
50
40
30
20
10
0
43
38
23
36
16
17
30
Supporting jobs cration for the large number of young people enterin
Improving the quality of life for the poor and disadvantaged in terms..
Expanding the coverage and quality of basic infrasturctur- water...
Providing easier access to finacal services and credit for all...
Providing more opportunities for women and girls to benafit from eduation
Expanding local participation in economic and social matters at the w...
Protecting and rehabilitating Ethiopia's endangened environment and...

Qualitative Survey of Senior Policymakers and Managers

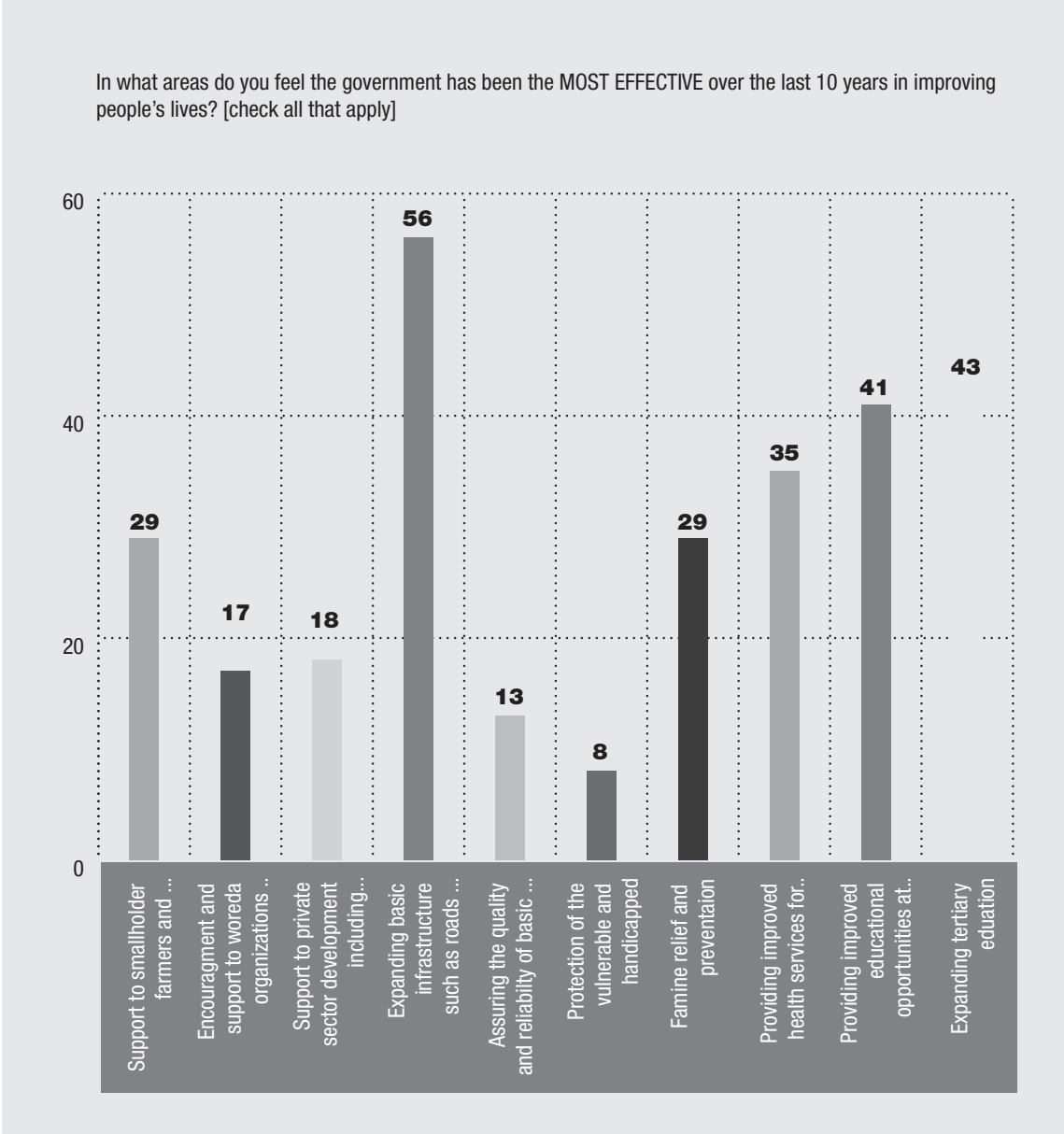
Do you feel the government has been successful in controlling inflation and the cost of living over the last 10 years? [with 5 being highly successful and 1 being not at all successful]



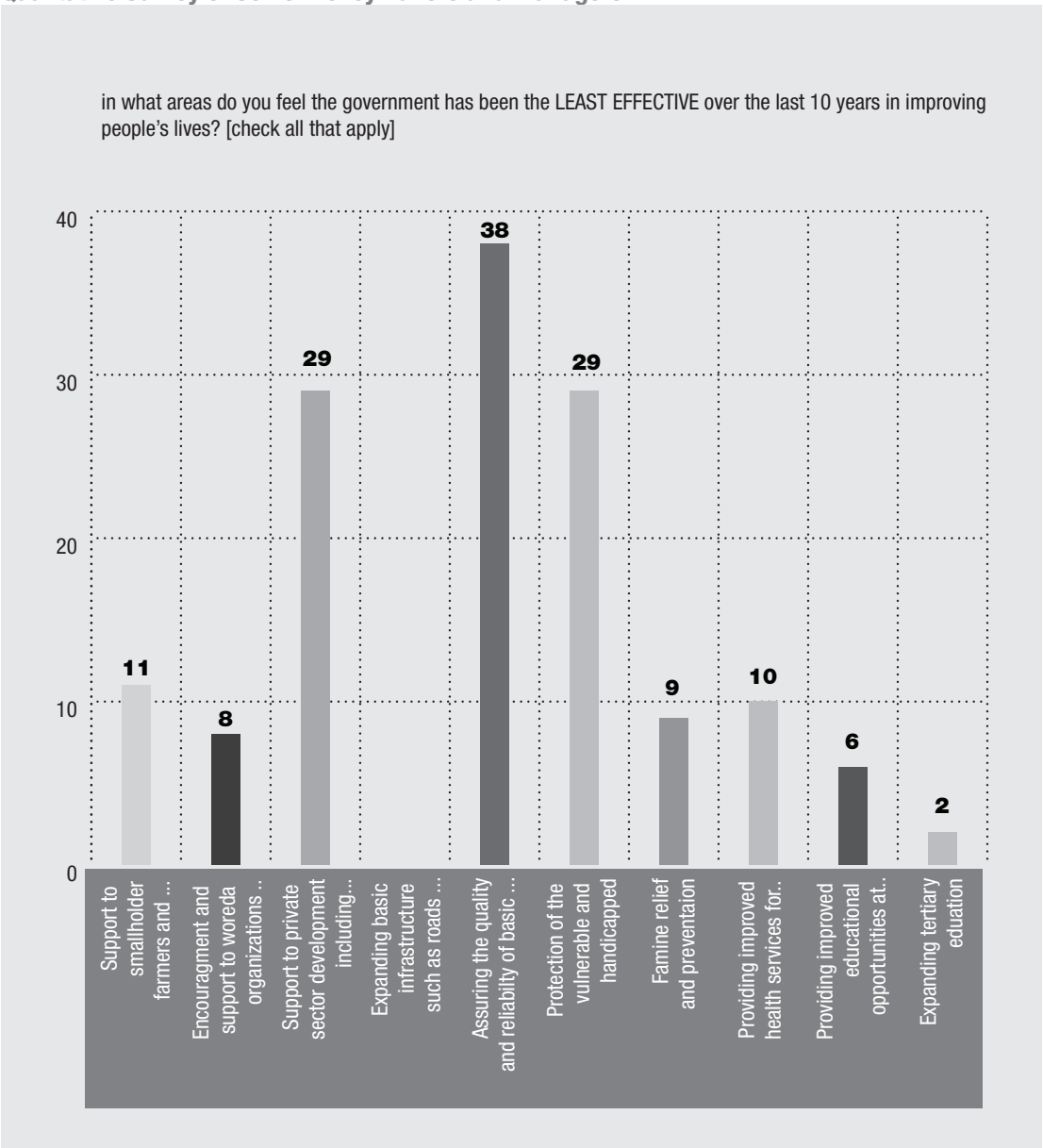
Qualitative Survey of Senior Policymakers and Managers



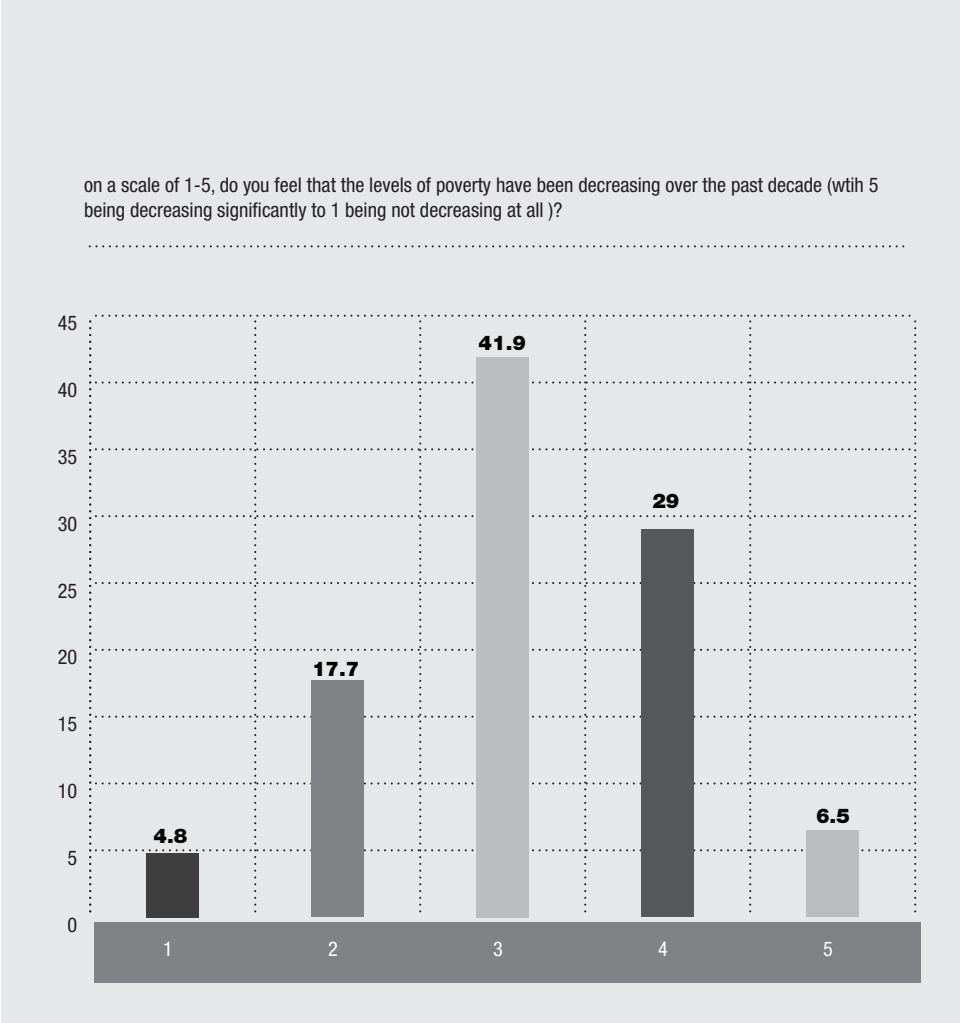
Qualitative Survey of Senior Policymakers and Managers



Qualitative Survey of Senior Policymakers and Managers

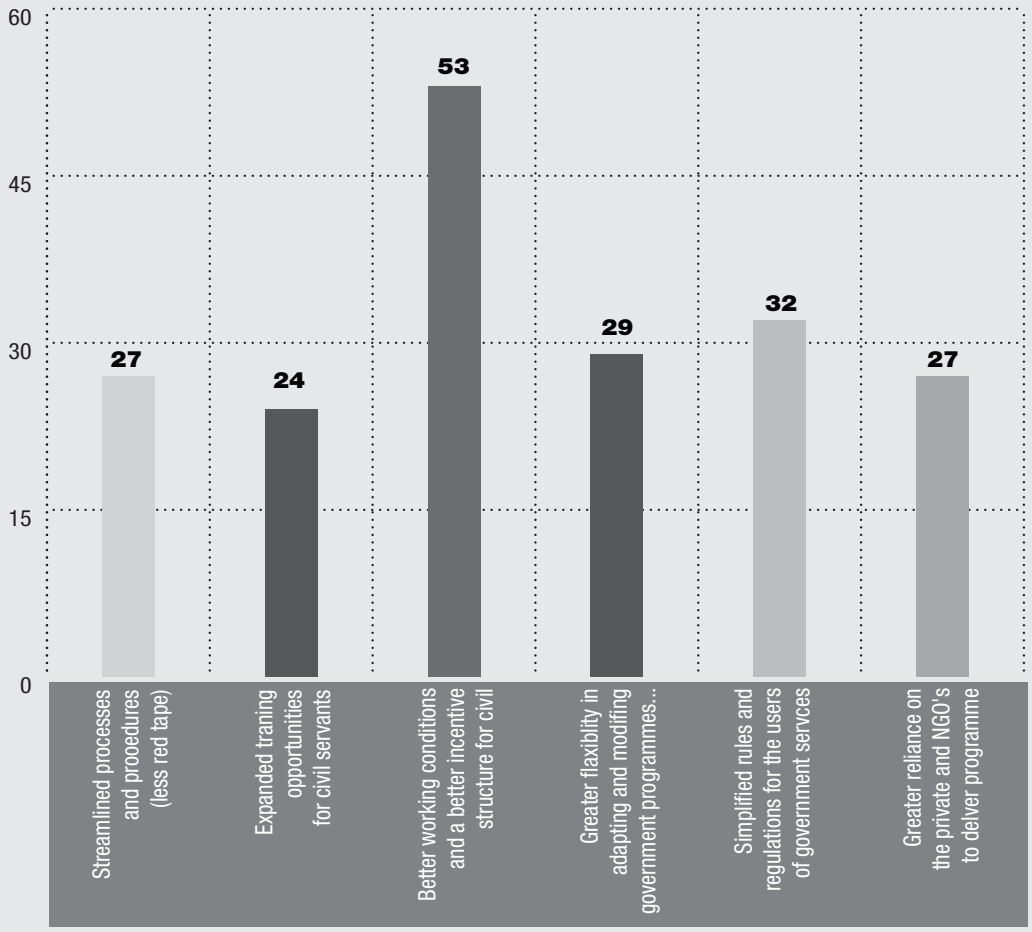


Qualitative Survey of Senior Policymakers and Managers



Qualitative Survey of Senior Policymakers and Managers

In what areas do you feel that govermment capacity needs improvement if it will be able to addrees current and futhre development challenges that result in more opportunities and a higher quality of life for all Ethiopians? [select no more than three]



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