The Performances and Challenges of Growth and Transformation Plan I in Ethiopia: the Case of Economic Growth and Social Development, Part I

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1. Introduction

Planning can be defined as "a continuous process which involves decisions or choices, about alternative ways of using available resources, with the aim of achieving particular goals at some time in the future. In another word it refers to deciding in advance what to do, how to do it, when to do it and who is to do it'. Therefore, development planning has become a necessary tool used by many governments and organizations to set their visions, missions, and goals. It has an effective means of realizing development through effective direction and control.

At the world level development plan became vital since great economic failure in the USA and post World War II (Marshall Plan-1948). The SSA African country had started to use development plan since their independence during the 1960s. Ethiopia is one the first African countries who started to use development plan. The country has implemented different types of development plan during the last fifty years. Currently the country is on the way to start its second Growth and Transformation Plan.

When GTP I started in 2011, some experts from the IMF and World Bank said that the GTP target would overheat the economy and erode disposable income. The Joint Staff Advisory Note (JSAN) calls for the government to scale down and redirect the GTP if it hopes to have any success. In contrast to this argument other scholars argue that the GTP target would facilitate the fast economic growth and structural transformation in the country. It is time to see the performances and challenges of Growth and Transformation Plan in Ethiopia.

Therefore, the general objective of this study was to analyze the economic growth and social development performances in Ethiopia during the first Growth and Transformation Plan. The specific objective of this study was: to highlight the evolution of the development plan in Ethiopia, to evaluate the performances of Growth and Transformation Plan I in terms of economic growth and social development and to suggest the possible solution to maintain higher economic growth and social development in the country. This brief study will be presented in two parts. The first part focuses on economic growth and the latter part deals with social development during the first Growth and Transformation Plan.

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2 It refers to the joint staff team of the International Monetary Fund and World Bank.
2. Brief Evolution of Development Plan in Ethiopia

The national development plan in Ethiopia was commenced in 1957 when the First Five Year Development Plan implemented between 1957 and 1961; the priority of the plan was to achieve education and infrastructure development. The Second Five Year Development Plan (1962-67) was given little attention to the agricultural sector with more attention given for infrastructure development. The Third Five Year Development Plan (1968-73) which focus on agricultural development was implemented a different extension package program to increase peasant productivity and modernize the agricultural sector. During the Third Five Year Development Plan, the Monarchy government has taken various activities for the development of manufacturing and service sector.

The Military government could not prepare any short and long term development plan until 1984/85. The government was using development campaign to provide social and economic service to the people. The ineffectiveness of the development campaign compelled the Military government to introduce the Ten Year Perspective plan (1984/85-1993/94). The objective of the Ten Year Perspective plan was to achieve 6.5 annual growth rate of the national economy. Since the new government takes the position in 1991, various developments and reform policy have been implemented in the country.

The comprehensive and broad base development plan was implemented in 2002. This plan was known as Sustainable Development and Poverty Reduction Program (SDPRP³). The objective of the plan was to realize sustainable development with poverty reduction in the country. Following SDPRP, the Plan for Accelerated and Sustainable Development to End poverty (PASDEP) was implemented between 2005 and 2010. The PASDEP involved wide-ranging discussion with Ministries, the Council of Ministers, Parliament, Regional State governments and civil society. The last plan following the PASDEP was GTP I with the objective of structural transformation and national food self sufficiency. This plan was implemented between 2011 and 2015.

3. Performances of Growth and Transformation Plan I

In order to realize the sustainable and fast economic development, the Government of Ethiopia has implemented the Growth and Transformation plan between 2011 and 2015. The fundamental principles of Growth and Transformation Plan were to sustain faster and equitable economic growth, maintaining agriculture as a major source of economic growth, creating favorable conditions for the industry to play key role in the economy, enhancing expansion and quality of infrastructure development, enhancing expansion and quality of social development, building

capacity and deepen good governance and promote women and youth empowerment and equitable benefit. This section resented the economic growth and its characteristics during the first GTP.

3.1 Economic Growth in GTP I

Economic growth refers to an increase in the national output/income or per capita income. During the first GTP, the country has achieved an average of 10.1 percent economic growth against the planned 11.2 percent. Except 2012, the country economic growth performances were close to the law base scenario which was above or equal to ten percent. In 2012 the economic growth was only 8.6 as compared to 11.1 percent of the GTP target. The low agricultural growth, which was only 4.9 percent, was the major reason for the poor performances of economic growth in 2012. In general the country was successful in achieving an average of double digit economic growth. During the first four years of GTP I period, the national output, which is measured by Gross Domestic Product (GDP) has increased from USD 30 Billion in 2009/10 to USD 55 Billion to 2013/14. Just within four year s the national output increased by 83 percent. According to the International Monetary Fund, among countries with over 10 million people, only China and India will have grown faster than Ethiopia between 2011 and 2015 (Belete Meshesha, 2015)

![Figure 1: Planned and Actual Economic Growth in Ethiopia between 2005 and 2014](image)

Sources: MoFED, 2015

3.2 Characteristics of Ethiopia Economic Growth

The economic growth in the country was characterized as sustainable, fast, broad based, pro-poor and slow structural change. This subsection explains in detail these characteristics of Ethiopia economic growth during the first Growth and Transformation Plan. Understanding the characteristics of economic growth in Ethiopia will enable us to know that impacts of the current economic growth on social development in the country.

\(^4\) For some countries, economic growth is the primary policy goal, and poverty reduction is to be achieved through measures complementary to growth. This is not the approach of the Ethiopian government. Poverty reduction is the core objective of the Ethiopian government. Economic growth is the principal, but not the only, means to this objective (MoFED, 2002)

\(^5\) GDP refers to the market value of all goods and service produced in the country in the given period. GDP used to measure the change in the national output in the given period usually one year.
Sustainable economic growth: The first characteristic of economic growth during the first GTP period was sustainable or continued economic growth. The country has accomplished stable economic growth with less irregularity. Ethiopia achieved above ten percent economic growth in all GTP year except the 8.7 percent economic growth in 2012. This was not the case in most of SSA countries. For instance, in 2010, both Ethiopia and Nigeria were achieved 10.6 percent economic growth. When Ethiopia maintained the higher economic growth, Nigeria economic growth was declined to 4.3 and 5.4 percent in 2012 and 2014 respectively. In the same way the Botswana economic growth was declined from 8.6 percent in 2010 to 4.3 percent in 2012 and 5.2 in 2014.

In the same period the South Africa economic growth declined from 3 percent in 2010 to 2.2 and 1.5 in 2012 and 2014 respectively. Figure 2 shows the economic growth in selected countries between 2006 and 2014. As you can see in the Figure 2, the economic growth irregularity was higher in most of African countries as compared to Ethiopia. In addition to higher economic growth, Ethiopia has achieved relatively stable economic growth during the GTP period. Further, such stable economic growth in Ethiopia was achieved with wide range land development activities and environmentally friendly development policies/activities. There are a number of positive developments that will help the current growth to persist well into the future (Alemayew Geda, 2014). The current economic growth in Ethiopia was not achieved by the cost of environmental degradation or future generations.

Fast economic growth: The second characteristic of Ethiopia economic growth was fast economic growth. As you can see in the Figure 2 below, the Ethiopia economic growth was higher than the SSA countries economic growth. Between 2006 and 2014, average Africa economic growth was 4.7 percent. During this period, Ethiopia economic growth was 10.6 percent. As compared to the average SSA countries, Ethiopia economic growth was twice higher than SSA countries. Even during the GTP I period the average economic growth in Ethiopia was 10.1 percent when SSA countries achieved only an average of 4.5 percent.

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6 Sustainable economic growth means a rate of growth which can be maintained without creating other significant economic problems, especially for future generations. There is clearly a trade-off between rapid economic growth today, and growth in the future. Rapid growth today may exhaust resources and create environmental problems for future generations, including the depletion of oil and fish stocks, and global warming.

7 During the last ten years the country achieved higher economic growth as compared to 7 percent required to reduce poverty by half in 2015.

8 The International Monetary Fund (IMF) ranks Ethiopia as among the five fastest growing economies in the world. After a decade of continuous expansion (during which real GDP growth averaged 10.8% per annum), in 2013/14 the economy grew for its 11th consecutive year posting 10.3% growth (Africa Economic Outlook, 2015).

9 Ethiopia has registered remarkable economic performance with annual growth averaging 10.9% over the past ten years. This is double the Sub Sahara Africa and triples the world average growths over this period and has led to Ethiopia being rated as one of the fastest growing economies in the world (UNDP, 20114).
The International Monetary Fund (IMF) ranks Ethiopia as among the five fastest growing economies in the world. After a decade of continuous expansion (during which real GDP growth averaged 10.8% per annum), in 2013/14 the economy grew for its 11th consecutive year posting 10.3% growth (Africa Economic Outlook, 2015). This showed that Ethiopia has achieved the faster or higher economic growth. The growth record in Ethiopia is the highest not only in the long history of the country, but also is the highest even by world standards (Alemayew Geda, 2014). Such higher economic growth in the country during the first GTP I period has raised the per capita income from USD 301 in 2010 to USD 630 in 2014. According to IMF (2015), Ethiopia average annual per capita income growth was 7.6 percent between 2011 and 2014. This was higher than the 1.8 percent of the middle income and the 2.2 percent the oil export countries in the same period.

Source: OECD, 2015

**Broad based economic growth**: The third characteristic of Ethiopia economic growth was broad based economic growth. During the GTP I period the average agriculture, service and industrial sector were growing by 6.6 percent, 10.7 percent and 20 percent respectively. Annually the higher (9 percent) and lower (4.9 percent) agricultural growth was achieved in 2010/11 and 2011/12 respectively. The industrial sector grows was 24.1 percent in 2012/13 which is above the GTP target. During the last five years the annual growth rate of the service sector was between 9.9 and 12.2 percent. Figure 3 below show the higher growth of agriculture, industry and service sector. When we observe sub sector wise, from the agricultural sector the crop production like cereal and pulses has increased an average of 8.5 and 11.1 percent between 2010/11 and 2013/14. During

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11 The main reasons for the increase in the agricultural productivity and production were favorable weather and good rainfall, strengthened agricultural extension services, better access to agricultural inputs, improved access to market and pursue of enhanced policy and advocacy (UNDP, 2014).

12 Recent report released from the MoFED indicates that the cereal production has reached 270 million quintal as compared to 177 million quintal t the beginning of the GTP I.
the same period, the industrial\textsuperscript{13} sub sector like manufacturing and construction has also increased by 13 and 25 percent respectively.

Regarding the service\textsuperscript{14} sub sector, most of the components of the service sector have achieved the positive growth during the last five years. Trade, transport and communication and hotel and restaurant increased by 12, 13 and 18.5 percent respectively, during the first four years of GTP I. Therefore the higher economic growth in the country during the first GTP is the outcome of multiple growth of sub sector in the country. Looking at the major sectoral classifications the growth remained robust and broad based as all sectors registered positive and significant growth (UNDP, 2014). According to Africa economic outlook (2015), Ethiopia economic growth has been inclusive and widespread and a large number of new jobs have been created in both the public and private sectors, particularly through a boom in construction (covering infrastructure, housing and commercial developments). The broad base natures of economic growth in Ethiopia\textsuperscript{15} will promotes the sustainability of the economy and enhance the structural transformation in the future.

\begin{figure}[h]
\centering
\includegraphics[scale=0.7]{chart}
\caption{Agricultural, industrial and service sector growth between 2009/10 and 2013/14}
\end{figure}

Source: MoFED, 2015

Despite this broad based economic growth during the first GTP, there was wide variation on the growth of each sector or sub sectors. In 2012, 2013 and 2014, the agricultural sector was in short, of the targeted GTP I by 3.6, 1.2 and 3, 2 percent respectively. The average planned agricultural growth was 8.6 but the performances during the GTP I period was only 6.6 percent. The low agricultural productivity, depending on limited types of agricultural productions and absence of modern technology has contributed for the low performances of the sector as compared to the plan.

\textsuperscript{13} The industrial sector grew by 21.2\% (14.4\% of GDP, up 1.3 percentage points year on year) driven by construction, mining and manufacturing.

\textsuperscript{14} The service sector grew by 11.9\% in 2013/14, mainly driven by an expansion in hotels and tourism (up 26.4\%), financial intermediation (17.8\%), wholesale and retail trade (14.9\%), and transport and communications (13.7\%).

\textsuperscript{15} Over the past decade, the public-sector led development strategy with its focus on heavy investment in infrastructure has underpinned the country’s strong economic growth. This high rate of growth has been inclusive, spanning different economic sectors and benefiting both urban and rural communities(Africa Economic Outlook, 2015)
According to Ethiopia Economic Association report (2015), the crop sub sector takes around 86.4 percent of the total agricultural production which hinder the higher growth of the sector. The crop production that mainly produced by small holder farmers with more household consumption has contributed to the low growth rate of the agricultural sector. Both the industrial and service sectors have achieved a relatively average growth rate of the GTP target which was 20 percent and 10.6 percent respectively.

**Pro-poor economic growth:** The fourth characteristic of Ethiopia economic growth was pro-poor economic growth\(^\text{16}\). The economic growth in the country was accompanied by higher pro-poor spending. During the last five years, the government spending\(^\text{17}\) on poverty and social spending was significantly increased. The poverty reduction expenditure increased from Birr 47 billion in 2009/10 to Birr 126 Billion in 2013/14. In 2013/14 the poverty reduction spending was 68.2 percent of the national total government spending. The high economic growth in the country boosts government expenditure on poverty related activities which enhanced human development in the country. Such government efforts have increased the human development index from 0.284 in 2000 to 0.435 in 2013.

According UNDP (2015), the annual growth rate of human development index in the country was 3.35 percent between 2000 and 2013 which make the country the fast human development growth in the world. In 2000, Ethiopia HDI rank was 171 out of 174 countries. During this year, the Ethiopia human development index was better than Niger, Sera lion and Burkina Faso. In 2013, the HDI rank of the country was 173 out of 187 countries. After thirteen years (2013), Ethiopia human development index was better than fourteen African countries\(^\text{18}\) which was impossible before. This indicates that life quality of the population has been improved through increasing life expectancy, education and health service provisions. Further the fast growth rate of human development in Ethiopia has also maintained the lowest income inequality\(^\text{19}\) which is 33.6. Ethiopia income inequality is less than South Africa (63.1), Kenya (47.7) and Nigeria (48.8) in 2013.

**Slow structural transformation:** The fifth characteristic of recent economic growth was the slow structural transformation. Structural transformation is defined as the reallocation of economic activity across three broad sectors (agriculture, manufacturing, and services) that accompany the process of modern economic growth. In another word, structural transformation is a shift of

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\(^{16}\) The proportion of poor people has significantly decreased and the depth and severity of poverty has also declined. Ethiopia has also made significant progress towards the Millennium Development Goals, increasing access to, and quality of, services, particularly in the education sector and to a lesser extent in the health and water sectors (Africa Development Bank Group, 2011).

\(^{17}\) Huge public investments with focus on infrastructure and pro-poor sectors explain much of the economic performance from the expenditure side (UNDP, 2014).

\(^{18}\) These fourteen countries include Malawi, Liberia, Mali, Guinea Bissau, Mozambique, Gine, Brundi, Burkina Faso, Erteria, Sierra Leon, Chad, Central Africa, Congo and Niger.

\(^{19}\) Income inequality was measured by Gini Index/Coefficient.
resources and policy focus from traditional sectors to modern sectors, from the traditional activities to modern activities and from low productivity and limited technology for high productivity and advanced technology. The sustainable economic development in the given country should be dominated by industrial which increase the productivity of agriculture and the service sector. In Ethiopia, in contrast to this, structurally the service sector has slowly taken over the lead from agriculture in terms of its contribution to the gross national product.

Source: MoFED, 2015

As you can see in the Figure 4 above, the government was planned to increase the GDP share of the industry from 11 percent in 2010 to 15.6 percent in 2015. At the end of the plan period the country only has managed to increase the GDP share of the industrial to 14 percent. During the last plan years the GDP share of manufacturing sector remains stagnant as compared to the other sub sectors. In the plan period the agriculture was expected to decline to 38.8 percent at the end of 2015. Today, the actual share of the agriculture is around 40 percent of the national output.

During the first Growth and Transformation Plan, the agricultural sector was declined from 45 percent to 40 percent, the share of industry sector was increased from 11 to 14 percent and the service sector also increased from 45 to 46 percent. The economy still dominated by the service like trade sub sector that does not add more assets in the national economy. The fast and sustainable economic growth during the GTP period was not supported by the increase of the manufacturing sector in the economy. This indicates the slow structural transformation in the economy. The low share of the industrial sector or the manufacturing sector in the economy would slow down the structural transformation of the economy in the country.

God Bless Ethiopia

Part II will follow soon!!!!!