

# Ethiopia's Pro-Poor Growth Trajectory

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Ethiopia's GDP growth of the past decade has become an internationally recognized fact. It has in fact started to change the image of the country.

As the prominent founder and former CEO of Microsoft Bill Gates put it last year, in his acceptance speech of an Honorary Degree from Addis Ababa University:

*"Ethiopia has made enormous improvement.....With per-capita income comparable to many other African nations – and considerably smaller than some – Ethiopia is putting itself on a path to the global middle class.*

*If this proud country – which 30 years ago was seen by many as the world's most extreme example of poverty and malnutrition – can put itself on this trajectory, there's no good reason why other African countries can't do the same.*

However, development is not just a growth in GDP and average increase in per capita income. It should reduce poverty, create opportunities and go along with fair distribution of wealth.

Indeed, that is the direction of Ethiopia's development paradigm as enshrined in the Constitution of the Federal Democratic Republic of Ethiopia. In Article 43 and Article 90 of the 1995 Constitution, it has been clearly stipulated:

*Article 43. The Right to Development*

*1. The Peoples of Ethiopia as a whole, and each Nation, Nationality and People in Ethiopia in particular have the right to improved living standards and to sustainable development.*

*2. Nationals have the right to participate in national development and, in particular, to be consulted with respect to policies and projects affecting their community.*

*Article 90. Social Objectives*

*1. To the extent the country's resources permit, policies shall aim to provide all Ethiopians access to public health and education, clean water, housing, food and social security.*

These principles had been translated into actions since the early 1990s. In deed, Ethiopia has undertaken a far-reaching program of economic reforms, which have delivered strong economic growth.

The main development agenda of the Ethiopian government has always been poverty eradication. All the country's development policies and strategies have been directed towards that goal.

Ethiopia's vision, which guided the development plans for more than a decade, states:

" 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 2020-2023."

The country's vision, specifically on economic sector, includes:

"building an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy, sustaining economic development and securing social justice and increasing per capita income of the citizens so as to reach the level or those in middle-income countries."

The Sustainable Development and Poverty Reduction Program (SDPRP), which covered the years 2002/03 -2004/05) and A Plan for Accelerated and Sustained Development to End Poverty (PASDEP), that ran from 2005/06 to 2009/10 have been directed towards that goal. During these plan periods remarkable achievements of economic growth, social development and good governance were registered.

From 2003/04, the economy shifted to a higher growth trajectory and the growth momentum was sustained during the PASDEP period. Infrastructure development and social services have expanded. The participation of private investors and the community in general was very substantial. Domestic resource mobilization increased the capacity of the country to finance development projects itself. The process of laying-out a foundation for democracy and good governance was given due attention in reform programs undertaken during the PASDEP period.

As the recent National Human Development Report 2014 attested:

*The incidence of poverty declined markedly between 2004/05 and 2010/11. The headcount poverty rate fell from 38.7 percent in 2004/05 to 29.6 percent 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 percent 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 percent in 1990. Over the same period, the poverty gap was also reduced but not the severity of poverty. Head -count poverty fell in all regions of the country.*

These achievements, the country's vision, the achievements of PASDEP as well as the lessons drawn from the previous developmental works were all used as inputs and basis for formulation of the five year Growth and Transformation Plan (GTP) for the years 2011-2015. Factors which constrained growth and external shocks were taken into account in the formulation of the GTP.

Indeed, Ethiopia had a clear understanding of not only the challenges but also the resolution and the possible solutions when it crafted the GTP. The late Prime Minister Meles Zenawi said at the UN General Assembly Meeting in September 2010:

*"We in Ethiopia have made substantial progress on all fronts towards achieving the Millennium Development Goals. We have taken full charge of our destiny, devised our own strategy and maximized the mobilization of our domestic resources to achieve the MDGs. We made the best use of the limited available international assistance to supplement our own efforts. We made sure that all our development plans were consistent with achieving all the developmental goals. The results so far have been very encouraging. Over the past seven years, the Ethiopian economy has performed well, having achieved 11.6% annual average growth rate. The robust economic growth we have achieved has created the basis for a similarly robust growth in social indicators and hence we are on progress in achieving the MDGs.*

*We have now developed our plans for the next five years, which are based on the progress we have made so far and are intended to help us achieve all the MDGs by the target date of 2015. We are keenly aware that our goals are ambitious and may not be achieved without significant external assistance. But we are determined to do what we can on our own while seeking support to supplement our own effort. The achievements of the past seven years give us the confidence to move forward with a realistic chance of achieving all the MDGs in time."*

Indeed, Ethiopia set ambitious goals and worked day and night in the past five years.

The progress made so far is recognized in National Human Development Report 2014 which was released by the United Nations Development Program (UNDP) last month.

It has been over 15 years since the last National Human Development Report for Ethiopia was published and since then much has changed. Therefore, the Report analyzed the socioeconomic strides made in the past two decades.

UNDP's National Human Development Report for Ethiopia confirmed that:

*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.*

These progresses had been achieved across sectors.

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 percent 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.

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 Program, the Government has been making strong efforts to provide health services for local communities, achieving impressive 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 immunization, coverage at the national level in 2012/13 was 87.6 percent for Pentavalent3. This compares with 70.1 percent for Pentavalent3 and 44.5 percent for full immunization in 2004/05

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 percent in 2004/05 to 26.0 percent in 2012/13 (using a poverty line of US\$0.60/ day).

With regard to rural-urban equity of the poverty reduction works, the National Human Development Report stated that:

*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 percent to 30.4 percent between 2004/05 and 2010/11. Urban poverty experienced a similar trend, with urban poverty rates falling from 36.9 percent to 25.7 percent.*

*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 percent nationally, with a fall of 50 percent in urban areas and a fall of 36.3 percent in rural areas.*

As economists and development researchers emphasize, regardless of sound economic performance, progress in 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.

Ethiopia has performed well in this regard, as the National Human Development Report's assessment has confirmed:

Between 2004/05 and 2010/11, income (consumption) inequality measured by the Gini Co-efficient has shown a slight decline from 0.3 in 2004/05 to 0.298 in 2010/11.

Inequality as measured by the coefficient declined in urban areas in this period from 0.44 to 0.37.

With regard to poverty and inequality in urban and rural areas, the headcount poverty rate fell in rural areas from 39.3 percent in 2004/05 to 30.4 percent in 2010/11. Over the same period, in urban areas it declined, from 35.1 percent to 25.7 per cent.

Indeed, significant decline in the poverty gap and in poverty severity was observed:

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 percent of the urban level in 2010/11 compared with 48 percent in 1995/96.

Indeed, all these progress were direct outcomes of a government that is committed to poverty eradication. The main evidence for this is the commitment to allocate most of the resources to pro-poor sectors and keep on increasing it.

As studies conducted in 2010 had shown:

The government has been prudent in its fiscal management by closely monitoring revenue performance and adjusting its spending in line with its development priorities during the PASDEP period.

In 2004/05 the share of total and poverty oriented expenditures as a percent of GOP were 23.5% and 13.2%, respectively.

By 2009/10 the figures for each expenditure item are 18.6% and 12.4%. Further, the proportion of budget deficit, including grants, to GOP had declined from 4.2% in 2004/05 to 1.3% by the end of 2009/10.

That was reaffirmed in the new National Human Development Report which stated that:

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 percent 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.

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.

Indeed, Ethiopia's war against poverty is far from won. More hard work and leadership is needed to sustain the socio-economic stride. As the National Human Development Report underlined:

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 centers, 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.

The government needs to focus on addressing these gaps and ensuring the entire population benefits from the economic stride.

Nonetheless it is undisputed that Ethiopia's growth is not just a GDP growth rather a pro-poor growth that changes the lives of millions.

As the National Human Development Report acknowledged the pro-poor character of Ethiopia's growth:

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. This implies that a one percent growth in income (consumption) growth results in 1.94 percent reduction in poverty incidence. This places Ethiopia at the world average, but significantly higher than other countries in the region.

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 percent 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.