Disparities in Rural and Urban Incomes in Ethiopia: 1981-2011

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Introduction and Background

This is an investigation of the disparities between rural and urban incomes in Ethiopia over an extended period of time using real gross domestic product (GDP) figures. GDP is the most commonly used measure of countries’ economic progress\(^1\). In practice, there are three methods of arriving at such an aggregate number. The Ministry of Finance and Economic Development (MOFED) reports that it estimates GDP based on a combination of the production and expenditure approaches\(^2\). Whichever method is used, the Circular Flow of Funds attest that GDP measured via the production or expenditure approaches is equivalent (with some errors) to the aggregate income generated in the economy; that is the sum of all factor payments (wages and salaries paid (monetary and in-kind), rent, interest and proprietor’s income (profit), including income of those in the informal sector).

This study divides GDP into two components; namely rural and urban (non-rural). It takes real agricultural GDP as the rural income. To the extent that there is non-agricultural GDP originating from rural areas such as flour milling, oil pressing, spinning and weaving, etc. as well as expenditures in health, education and other public services catering to the rural population, which are missing in the agricultural GDP measure, real agricultural GDP under-states rural income. On the other side, the real urban income is measured as the difference between real GDP and real agricultural GDP. Again here, to the extent that there is some urban farming and market gardening\(^3\), the figures under-state urban income as the income from these mainly agricultural sources may have been added to the real agricultural GDP instead. On the other side, the figure over-states urban income to the extent that expenditures on education, health, and other public services destined to rural areas, as alluded to above, are added in the non-agricultural GDP. The GDP data are obtained from the African Development Indicators\(^4\). The population data are obtained from the Central Statistical Agency (CSA) which provides a series for urban and rural population for the period between 1998 and 2007, and a projection for the period beyond 2007. The urban-rural population for the period 1981 to 1997 is estimated by disaggregating the total population into urban and rural by fitting a smooth curve.

Findings

Graph 1 below shows the trend in real urban and rural per capita incomes. Urban per capita income declined steadily from a high of about Birr 11800 in 1981 to about Birr 3100 in 2004 – a contraction of almost by 300 percent (at prices 2000). Urban per capita income started to recover

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after 2004 and increased steadily to reach Birr 4100 in 2011, just back to the level reached in 1994. While rural per capita income also showed a similar decline between 1981 and 2004, the decline however had not been as dramatic as the urban income. Rural per capita income exhibited some fluctuations corresponding to the weather swings but in the long-term declined from Birr 617 in 1981 to Birr 492 in 2004. Just like urban income, it started to recover steadily and reached Birr 752 in 2011.

Graph 1: Real Per Capita Urban & Rural Income

Graph 2 below plots the ratio of urban income to rural income -- a measure of the disparity in urban and rural incomes -- between 1981 and 2011. The ratio declined steadily from 19.1 in 1981 to 5.4 in 2011. The sharp fall in the average real income per capita in urban areas compared to rural areas attests to the popular perception of urban dwellers regarding the deterioration in their welfare.

It is indeed risky to make generalizations based on such aggregate nation-wide data. Surprisingly, however, the findings here are corroborated by findings based on both macro- as well as micro-level data. For instance, writing about the 1970s and 1980s, Ofcansky and Berry state that “…the salary freeze affected the real income of many workers. For instance, the starting salary of a science graduate in 1975 was 600 birr per month. In 1984 the real monthly income of a science graduate had dropped to 239 birr. Similarly, the highest civil servants maximum salary in 1975 was 1,440 birr per month; the real monthly income of the same civil
servants in 1984 was 573 birr. For the mid-1990s, Bigsten and Shimeles based on household budget panel data put the head count poverty index for urban areas for 1994, 1995, 1997, 2000 and 2004 at 41 percent, 39 percent, 33.6 percent, 45.2 percent, and 40 percent, respectively. Essentially, the percentage of poor in urban areas in 2004 was only slightly lower than the corresponding figure for 1994. Kedir and McKay indicate the median consumption expenditure per adult declined for his total sample of urban households from 100.46 Birr in 1994 to 73.4 birr in 1997. They state that “Overall, the results suggest that household welfare deteriorated in urban Ethiopia between 1994 and 1997 even if it is believed that the period 1994-1997 was a period of economic recovery driven by peace, good weather and much improved macroeconomic management.”

Furthermore, according to a study by IFPRI and EDRI national and regional trends in daily laborers’ wage (2006 ETB), deflated by the poor person’s food CPI showed a steady decline between 2001 and 2011. This period overlaps with the last decade of the period covered by this study.

Several changes have taken place in the last few years that affect the labor market and labor income. The large investment in construction has raised the demand for unskilled labor considerably. Conversations with construction managers in Addis Ababa indicates that nominal daily wages for the lowest strata of construction workers (stone deliverer) has more than doubled in the last three years or so to reach about Birr 65 a day in early 2014. The tightening situation is alluded to in common conversation as house wives complain about the shortage of housemaids and the quick turnover experienced in the market. In addition, the large pay increase for public servants announced recently changes the welfare situation to some degree although there are no data to confirm the situation.
Summary and Conclusion

Based on real urban and rural income computed above, it is evident that both urban and rural households sustained significant deceleration in their income between 1981 and 2004. The drop in urban income, in particular, has been dramatic. Incomes both in urban and rural areas have started to recover since 2004 but urban income has not yet regained the level reached in the mid-1990s. Information and data pieced together from desperate sources based on micro- and meso-level data reinforce the aggregate (macro) level findings. For readers in urban Ethiopia, this is not new. The numbers only confirm their experience.

Notes

1 Of course there are several competing measures that aim to take account of human capital development as well as environmental impacts. The interested reader may review the literature on the Human Development Index (UNDP); the Quality of Life Index (The Economist); The Genuine Progress Index (Center for Sustainable Economy); The Happy Planet Index (The New Economics Foundation).


3 Although there are no estimates of its contribution to GDP, urban agriculture plays an important role in people’s livelihood (Review the references cited here). Yet, it is not as significant as in urban areas in other African countries such as Zambia. Thomas P. Z. Mpofu, An evaluation of the performance of urban agriculture in Addis-Ababa City, Ethiopia, Research Journal of Agricultural and Environmental Management Vol. 2(2), pp. 051-057, February, 2013; Messay Mulugeta Tefera, Food Security Attainment Role of Urban Agriculture: A Case Study From Adama Town, Central Ethiopia, Journal of Sustainable Development in Africa (Volume 12, No.3, 2010); Girma Kebbede, Farmers in the City: The Case of Addis Ababa, Ethiopia, Mount Holyoke College, South Hadley, MA, USA; No Date; https://www.mtholyoke.edu/sites/default/files/acad/geography/docs/FarmersinAddisAbaba.pdf

4 The World Bank, African Development Indicators, 2012-13, February, 2013


