

Economic Growth, Development and Poverty in Ethiopia

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1. Introduction

Any country or government in the world works day and night to achieve economic development to improve the welfare of its nation. Since the start of the modern economics in 1776, many countries used all their resources and efforts to realise their dream of economic development. This dream was successful in most of the developed countries that achieved economic development. Many of the developing countries in Latin America, Africa and Asian remain behind the developed countries. This happened due to lack of infrastructure, education, health services and higher poverty incidence in the developing countries. But after the 1970s some of the Asian countries showed remarkable economic growth that enabled them to reduce the incidence of poverty to 15.9 percent in 2008 as compared to percent in 77.1 in 1981. In the same period, in Sub-Saharan Africa (SSA), the percentage of poverty incidence only decreased from 53.7 percent to 44.3 percent (Evan Hillebr, 2008). The external influence and internal instability in these last four decades is considered a major factor for slow economic performance in SSA.

But, nowadays, the situation in Africa has been dramatically changing in terms of economic growth and economic development. It has been particularly dynamic for Africa. The continent has enjoyed unprecedented growth and a rapid fall in income poverty. In 2010, average African economic growth was 4.9 percent as compared to 1.6 percent growth in Europe and 1.7 percent growth in USA (OECD, 2011). These performances vary significantly from one country to another. Also expansion of developed economies is forecast at only 1.9 per cent in 2011, in contrast to developing economies' 6 percent (UNECA, 2011).

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Ethiopia is one of the SSA fast growing countries in the last eight years. In recent years, however, Ethiopia has become one of the fastest-growing non-oil economies in Africa, with double-digit average growth at just over 10 percent over the last six years. The main purpose of this article is to present the economic growth, development and poverty in Ethiopia between 1995 and 2010 or let me call it Africa's decade. The second section discusses the economic growth and poverty in Ethiopia. The third section highlights the economic growth and development in the country. The next section identifies the prospect of economic growth, development and poverty in Ethiopia. The last section is summary.

2. Economic growth and poverty in Ethiopia

Economic growth refers to an increase in the national income or per capita income². Poverty defined as the number of people unable to attain the minimum living standard³. In other words, it is the state of being below an arbitrary income level and regarded as poor by a particular society. The impacts of economic growth on poverty are determined by the quality of economic growth in the county. According to Simon Kozenet (1955), in the short run economic growth may not reduce poverty due to the following two factors. First, the economic growth can only be used by those educated and urban people who are involved in the production and distribution of goods and services in the economy. Secondly the depth and persistence of the poverty affect the impact of growth on poverty. In 1995/96, the economic growth was 10.6 percent. In 1999/00, the economic growth decline to 5.4 percent. In 2004/05 and 2010/11 the nation economy achieved 12.6 percent and 11.4 percent respectively.

² Per capita income is the ratio of national income per person. In other word it is the ratio of national income to total population

³ The traditional economics measure living standard by income or consumption spending.

Table 1: Economic growth, poverty incidence and number of people out of poverty in selected years in Ethiopia

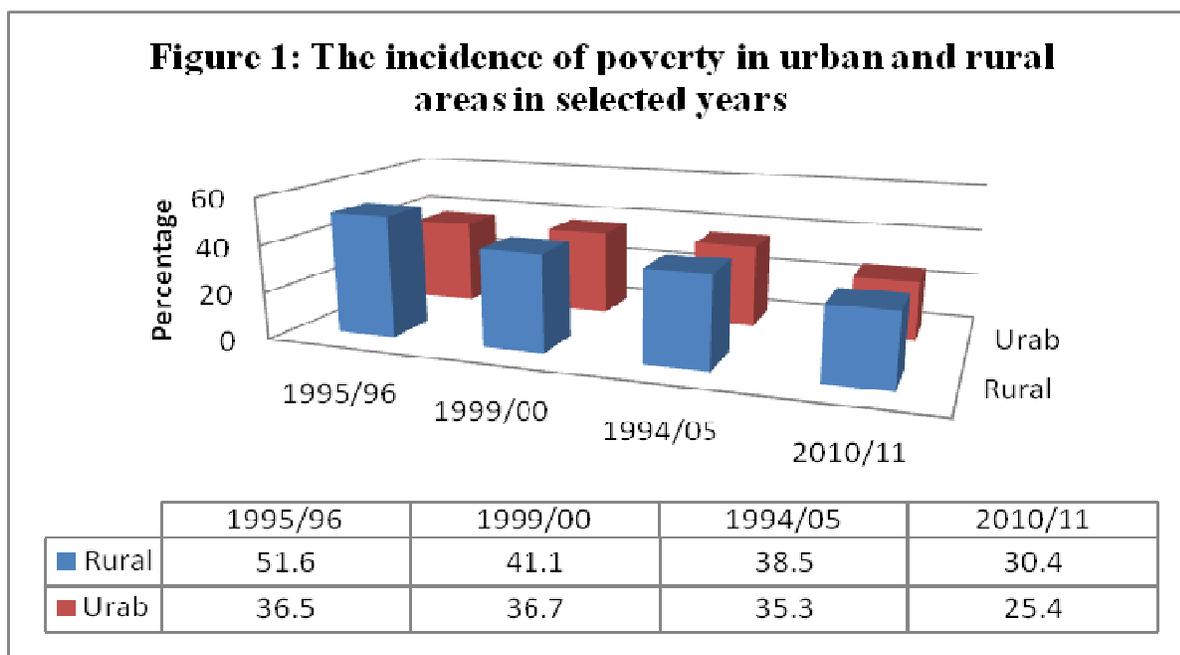
S. N	Year	Economic growth	Poverty incidence		No. of people out of poverty
			Percentage	Number	
1	1995/96	10.6	45.5	25	-
2	1999/00	5.4	44.2	28	1.1
3	2004/05	12.6	38.7	28	4.9
4	2010/11	11.4	29.6	24	13.7

Source: Various reports of MoFED and CSA

During the last ten years the country experienced continuous economic growth. In these years, the incidence of poverty and economic growth has negative relationship. When the country experienced a high economic growth, the incidence of poverty declined at a faster rate. In 1995, estimates put the number of poor—defined as people who cannot afford the minimum expenditure needed to guarantee an intake of 2,200 calories per day—at about 25 million, or about 45.5 percent of the total population. The slow economic growth between 1995/96 and 1996 reduced the incidence of poverty only by 1.3 percent. During these years, the number of poor people out of poverty was 1.1 million. The new additional 6.8 million people in the same year led to an increase in the number of poor people from 25 million in 1995/96 to 28 million in 1999/00. The immediate recovery of the economy during 2004/05 and 2010/11 significantly contributed for the decline in the incidence of poverty by 20 percent. In this period, the numbers of people out of poverty were around 14 million⁴. The decline in poverty incidence has been observed in both rural and urban areas. The incidence of rural poverty declined from 51 percent in 1995/96 to 38.5 percent in 2004/05. In the same year, in the urban areas, the incidence of

⁴ The Ethiopian government attaches great importance to fostering rapid economic growth with equity. Indeed, acceleration in Ethiopia’s growth has been a key factor in the reduction in the incidence of poverty (ADF, 2009/10).

poverty declined from 36.5 in 1995/96 to 35.3 percent in 2004/05. But between 2004/05-2010/11, the incidence of poverty declined by 10 and 8.1 in urban and rural areas respectively. The new urban development policy implemented since 2004/05 facilitated for higher decline in urban poverty.



Source: Various reports of CSA

The quality of economic growth⁵ in the country contributes for the decline in the incidence of poverty. The quality of economic growth includes the broad base sectoral growth, which continued to show a stable economic growth in the last ten years. Within the last ten years, the country's national output increased from Birr 68 billion in 2001 to Birr 157 Billion in 2010. Furthermore the government spending on social and productive activities in the non-productive areas contributed for the decline in the incidence of poverty. For instance the military spending declined from 3 percent of GDP in 2004/05 to 1.1 percent of GDO in 2010/11. At the same time the government implemented other parallel social development programs such as

⁵ This growth has emanated from the growth of smallholder private agriculture, resulting in significant reductions of poverty, particularly in rural areas (MDG report, 2010).

Food Security Program (FSP)⁶ and Protection of Basic Service (PBS) that has been benefiting the very poor people in the country. The government's emphasis on pro-poor expenditure is paying off in improved education and healthcare service (IMF, 2011). This indicates that in Ethiopia, the only way to reduce poverty is to achieve pro-poor economic growth that is currently being implemented in the country. The ill conceived argument of some people/writers in regards to the control of economic growth to stabilize prices in the country suggesting that it would have a devastating outcome in reducing poverty in Ethiopia has proven them wrong. No country has conquered poverty without sustained economic growth (ADB, 2011).

3. Economic growth and development in Ethiopia

Economic development refers to the multidimensional process of reorganization and reorientation of the entire economic system for improving living standard. It is something beyond economic growth. Economic growth indicates the change in the quantities of goods and services. But economic development shows the change in quantity of output and at the same time change in the living standard. Economic growth is one component of economic development. The major indicators of economic development include increase in productivity, decline in social inequality⁷, change in attitude and institution and increase in modern knowledge. One of the measurements of economic development is Human Development Index (HDI). According to the various reports published by UNDP, the HDI in Ethiopia increased from 0.250 in 2000 to 0.287 in 2005. Between 1995 and 2000, the HDI increased by 14 percent annually. During the next five years that is between 2005 and 2010 the HDI increased from 0.287 to 0.328. The 2011 UNDP report indicates that, the HDI in Ethiopia reached to 0.363. Such fast growing HDI changed the rank of the country in terms of human development as compared to some of the developing countries. The other

⁶ As at 2009, the FSP covered 7.56 million chronically food insecure people in eight regions and 290 districts. This constituted about 10% of the total population. It provides predictable cash and/or food transfers for six months each year. Each household receives up to US\$ 137 in transfers per year, based on 2009 prices.

⁷ As a nationwide program, the Protection of Basic Services (PBS) project has helped improve the lives of more than 70 million rural Ethiopians

indicator of economic development is an improvement in productivity. This brief article takes the cereal productivity to show the change in national productivity. The cereal productivity in the country increased from 1,033 kilogram in 1995 to 2,160 kilogram per hectare.

The economic growth achieved in the country has been accompanied with broad base infrastructure and social development. Just to mention few them, I used some indicators of infrastructure and social development. The road network, Internet and number of mobile subscribers are used as a proxy for infrastructure development. At the same time the under five-child mortality rate, infant mortality rate and primary school enrolment is used as a proxy for social development. During the fast growing years, between 2000 and 2010 the provision of infrastructure and social development amazingly improved in the country. For instance the road network at the national level increased from 23 thousand kilometres in 1995 to 49 thousand kilometre in 2010. The 80 percent of the road net work construction undertaken between 2000 and 2010 at the time of higher economic growth. In the same way, the number of Internet users increased from 10 in 1995 to 622 thousand. More than 79 percent of Internet users increased just within five years that is between 2005 and 2010. As you can see in the table below, the number of mobile subscribers also enlarged from non-existence in 1995 to 6.5 million in 2010. Between 2005 and 2010, the number of new mobile subscribers was 6 million that is 94 percent of the total mobile subscribers between the study years. Massive public infrastructure investments are set to deliver a wide range of public goods—roads, railways, power plants, schools, and clinics—while simultaneously propping up thousands of private sector companies involved in building and maintaining these brand new public facilities (Acesscapital, 2010/11).

Table 2: Economic growth and selected indicators of economic development in Ethiopia

Year	Eco. Gro.	HDI	Cereal Yield	Infra. development			Social Deve't		
				R.N.W	Int. Us.	Mobi.sub	UFCM	IMR	GPE
1995	10.6	-	1033	23,442	10	0	161.3	98.4	30.9
2000	8.3	0.250	1124	28,652	8010	6740	144.5	89.2	50.3
2005	10.8	0.287	1362	42,370	163,270	410,630	121.0	76.7	68.0
2010	10.6	0.328	2160	49,000	622,121	6,517,292	105.9	-	102.0

Source: The various annual reports of UNDP, CSA, WB

Note: RNW: Road Net Work, Int.Us: Internet users, Mobil. sub.: Mobile subscribers, UFCM: Under five child mortality, IMR: Infant mortality rate, GPE: Gross primary enrolment

Social development is the other indicator of economic development. The modern economics consider the social indicators as an important requirement for economic development. In this regard, the fast pro-poor economic growth provides an opportunity for an improvement of well being by providing education and health services. The Table 2 above presents a decline in under five-child mortality from 161 children per 1000 children in 1995 to 105.9 children per 1000 in 2010. In the same way, the primary school enrolment increased from 30.9 percent to 103 percent in the study period. Such social development realised with higher economic growth in the country. That is why in Ethiopia economic growth is an instrument or means to achieve sustainable development in the country. Without economic growth nobody should expect any prosperity in the country.

4. Prospect of economic growth, development and poverty in Ethiopia

Recently, the strong commitment of the government on reducing poverty reflected in its Growth and Transformation Plan (GTP). The plan is expected to reduce the incidence of poverty from 29 percent in 2010 to 22 percent in 2015. During the plan years, the country is expected to achieve an average of 11 percent economic growth with low base scenario and 14.9 percent with high base scenario. The government has plans to allocate more resource on

accelerating economic development. For the five-year GTP period as a whole, the sum of budgetary government spending and off-budget spending by public enterprises is programmed to reach Birr 1.26 trillion, or an average of 41 percent of GDP per year over five years (Access capital, 2010/11). The objectives of the plan are to

- Attain high growth within a stable macroeconomic framework;
- Achieve the MDGs in the social sector; and
- Establish a stable democratic and developmental state.

To accomplish these objectives, the GTP identifies the following strategic pillars: (i) sustain rapid growth; (ii) emphasize agriculture; (iii) promote industrialization; (iv) investment in infrastructure; (v) enhance social development; (vi) strengthen governance; and (vii) empower youth and women. The following are the major activities planned during GTP.

- **Roads:** Building 71,000 kilometers of new roads, including all-weather roads to virtually all kebele administrations and a modern Birr 6 billion eight-lane expressway linking Addis Ababa to Adama (a key route to facilitate export and import trade);
- **Railways:** Constructing 2,395 kilometers of new railways linking Addis Ababa with Djibouti, linking selected domestic cities, and within Addis Ababa itself.
- **Air Infrastructure:** Raising Ethiopian Airlines' air fleet by 35 additional aircraft, including 4 new cargo carriers, and building a huge new cargo hub at Bole Airport with a capacity to handle 125,000 tons per day in perishable export commodities, such as high-value fruits and vegetables.
- **Power:** Generating 8000 MW of new power generation capacity;
- **Electricity distribution:** Laying 132,000 kms of new electricity distribution lines and the expansion of electricity coverage to 75 percent of the country;

- **Telecom:** Raising mobile phone accessibility to 45 percent of the country's population, and mobile phone users from 10 to 40 million.
- **Housing:** Building 157,000 new condominium-housing units.
- **Water Supply:** Expanding the water supply infrastructure to 99 percent of the population and the drilling of some 3,000 water wells per year;
- **Irrigation:** Increasing in irrigation coverage from 3 to 16 percent of total farmland.
- **Industry:** Developing new or additional capacity in sectors that include textiles, metals and engineering, cement, fertilizers, and sugar production.
- **Education:** Increasing (net) primary enrollment to 100 percent; raising the number of students at government universities to near half a million students (from 185,000 at present); ensuring universal education to 8th grade; raising the number of students at Technical and Vocational schools to above 1 million (from 717,000 at present); establishing a public university student body that will have 40 percent of students in science/engineering fields; ensuring 9,000 new medical school entrants on an annual basis.
- **Health:** Reaching a 100 percent primary health services coverage (from 89 percent) through large-scale expansions in public health centers and hospitals, and ensuring large reductions in infant and maternal mortality as well as in the incidence of various diseases.

5. Summary

This brief article tried to show how economic growth in Ethiopia has been contributing for the decline of poverty and the growth of economic development in Ethiopia. The latest report published by CSA has confirmed the decline in poverty at the time of high economic growth than low economic growth before 2000. At the same time the country achieved wide range of social-economic change that indicates the emergence of economic development. In other words,

the quality of economic growth realised in the country during the last ten years has played a major role in economic development and decline in poverty.

But in most cases the effort for economic development in developing countries is much more difficult than developed countries. For developing countries the fragmented nature of their economy would be the major obstacle for development. Ethiopia achieved the recent economic growth and decline in poverty with many challenges. Still the country has been facing various challenges in realising the GTP. The slow increase in agricultural productivity, higher inflation, shortage of foreign reserve, absence of strong institutional set up, slow sectoral transformation and imperfect market structure are the major obstacles of economic growth and development in the county.