Ethiopia's Progress Towards Eradicating Poverty

Paper to be presented to the Inter-Agency Group Meeting

On the

"Implementation of the Third United Nations Decade for the Eradication of Poverty (2018 – 2027)"

April 18 -20, 2018, Addis Ababa Ethiopia

UNDP Ethiopia

April 6, 2018

1. Economic Performance

Ethiopia has achieved strong economic growth and expanded social services over the past decade and half. According to official data, economic growth averaged 10.5 percent between 2003/04[1] and 2016/17[2]. Real per capita GDP more than doubled from $32 billion in 2010/11 to $81 billion in 2016/17 as a result per capita income also doubled from $396 to $862 in the same period. Domestic savings increased to 24 percent of GDP in 2016/17 from 17.2 percent in 2010/11. Domestic resource mobilization, particularly tax collection has been strong but tax to GDP ratio remains low hovering around 12.5% ODA inflows has increased from $2.8 billion in 2014/15 to $3.1 billion in 2015/16 but per capita ODA was $34.4 which is significantly below the Sub-Saharan African average of $43.

The main drivers of this strong growth were public investment and private consumption in the demand side and value added in agriculture, services and construction sectors in the supply side. Since 2008/09 the service sector has overtaken the lead from agriculture in terms of output or contribution to GDP. Currently the service sector contributes 39.3 percent of GDP while agriculture accounted for 36.3 percent and industry takes the balance.

There have been tremendous expansion in access to social services such as education, health, water and sanitation as well as infrastructure including roads, railways, telecom and power generation among others. Access to universal primary education reached 100 percent, health coverage 98 percent, access to potable water 65 percent, life expectancy reached 64.6 years and others. Ethiopia has achieved some of the MDGs well ahead of the 2015 timeline and the latest assessment on the MDGs indicated that six of the eight MDGs are either achieved or on track to be achieved by 2015. This robust economic and social performance helped to reduce the level of poverty. As a result the incidence of poverty markedly declined from 45.5 percent in 2000 to 23.5 percent in 2016[3]'. Income inequality measured by Gini coefficient remains low and stable over the past two decades[4] at around 30 percent.

The Government has been formulating and implementing ambitious and robust midterm plans since the mid-2000s, Plan for Accelerated and Sustained Development to End Poverty (PASDEP) has been implemented during 2005/06 to 2009/10 followed by the First Growth and Transformation Plan (GTP I) that was implemented from 2010/11 to 2014/15. Currently, the Second Growth and transformation Plan (GTP II) is in its third year of implementation whose major objectives include maintaining the strong growth averaged 11 percent achieved in the past, deepening economic transformation, and aiming to become a lower middle income and carbon neutral status by 2025.

There has been conducive macroeconomic conditions and policy environment. Fiscal policy was prudent and better coordinated with monetary policy and as a result inflation and fiscal deficit have been contained at single digit and below 3 percent of GDP, respectively. Despite this however, the saving-investment gap remains high at 15.3 percent of GDP which is a reflection of weak external sector performance. Export performance has been sluggish in the past few years while there has been a pressure for high demand for imports. Over 70 percent of Ethiopia's exports are primary agricultural products such as coffee, oil seeds, chat, cut flower, pulses and others which fetch low prices. Total value of merchandise exports stagnated at around $3 billion per annum since 2011/12 which can only finance less than 20 percent of the total merchandise imports. .

---

[1] Ethiopia's fiscal year runs from July 8to July 7

[2] Calculated from NPC National income accounts statistics various years

[3] National Planning Commission, interim poverty analysis report for 2015/16

[4] UNDP (2017), income inequality trends in Africa: Divergence Determinants and consequences "inequality and growth in an agriculture led development model: the case of Ethiopia 1995-2011

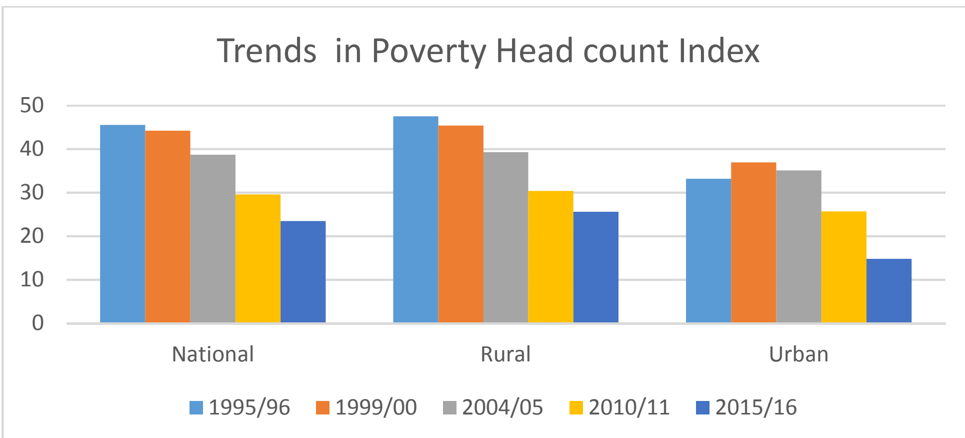
The strong economic performance has also been challenged by the recurring droughts and volatility in global commodity prices, which calls for building resilience of the economy.

2. Poverty reduction and human development

2.1 Trends in poverty reduction

Over the past fifteen years, the headcount poverty rate declined by about 93 percent from 45.5 percent in 2000 to 23.5 percent in 2016. According the recent Household Consumption Expenditure Survey report, between 2010/11 and 2015/16 about 5.3 million people are lifted out of poverty[5]. Poverty gap and poverty severity indices have respectively declined from 10.1 percent and 3.9 percent in 2000 to 3.7 percent and 1.4 percent in 2016. Nonetheless poverty is still a challenge in Ethiopia as over 22 million people are living below the national poverty line.

Poverty is predominantly rural phenomenon in Ethiopia. While urban headcount poverty declined from 36.9 percent in 2000 to 14.8 percent in 2016 rural poverty only declined from 45.4 percent to 25.6 percent in the same period.



2.2 Human Development

According to the 2015 UNDP Human Development Report, Ethiopia's human development index (HDI) value was 0.448 putting it in the low human development category and ranked 174th position out of 188 countries. The HDI value increased from 0.283 in 2000 to 0.448 in 2015 indicating 58.2 percent increase over the past 15 years. Between 1990 and 2015, life expectancy at birth increased by 17.5 years to 64.6 years, mean years of schooling by 1.1 years to 2.6 years, expected years of schooling by 5.3 years to 8.4 years and national income per capita by 134.7 percent to $1523 (2011 PPP$). The 2010 UNDP Human Development Report acknowledged Ethiopia as one of the top movers of human development in the world. In recent years however progress remains flat mainly due to sluggish performance in education particularly in mean years of schooling. The multidimensional poverty index which identifies multiple overlapping deprivations in three dimensions namely health, education and standard of living computed based on the 2011 household consumption expenditure survey indicated that 88.2 percent of the population is multidimensional poor.

2.3 Budget and resource allocation

---

[5] Interim poverty report 2017

The Government of Ethiopia (GoE) budget has three major components namely capital budget, recurrent budget and block grants or subsidies to reginal states. Given the policy imperative of accelerating the growth rate, the level of federal budget has been increasing over the past several years--average growth rate of the budget was 22.4% in the past decade. The levels of recurrent expenditure, subsidies to regional states and capital expenditure have respectively increased from Birr10.8 billion, Birr 14.2 billion and Birr 18.9 billion in 2007/08 to Birr 81.8 billion, Birr 117.3billion and Birr 121.7 billion in 2017/18, indicating over seven fold increase during the past decade. In terms of functional allocation, over 70 percent of the federal budget has been allocated to pro-poor sectors such as education, health, water and sanitation, roads, etc. Based on a budget formula developed and regularly revised by the House of Federation, the Federal Government transfers budgetary resources to regional states. This is a vertical (gap filling) equalization which helps to reduce fiscal disparities among regional governments.

Federal government make fiscal equalization payments to local governments with the stated goal of equalizing the fiscal capacity of local governments to provide services. It helps regional governments to provide similar sets of public services to their citizens with similar tax incidence. Fiscal equalization aims at reducing or eliminating differences in net fiscal benefits which is the difference between the utility that households derive from consuming public services and the taxes they pay for producing these services. It is a companion of fiscal decentralization which ensures economic governance such as equity, efficiency and stability of fiscal policy.

In the past ten years, additional budgetary support has been provided for regional governments to finance capital projects that help achieve the targets of the Millennium Development Goals and Sustainable Development Goals (SDGs). In 2017/18, Birr 7 billion has been budgeted to regional states as per the grant formula for the implementation of the Sustainable Development Goals (SDGs). This also aids to enhance fiscal equalization and narrow regional disparities in basic social services such as education, health, water and sanitation and others. While the percentage share of subsidies to regional states broadly remains the same the magnitude of the transfer has steadily been increasing particularly in recent years.

3. Accelerating structural transformation for sustainable and inclusive growth

3.1 The Second Growth and Transformation Plan (GTP II)

The GoE is implementing a series of ambitious midterm plans in the past fifteen years. The overarching objectives of the midterm plan is eradicating poverty and accelerating structural transformation with the vision of becoming middle income and carbon neural status by 2025. The first five year plan was "plan for accelerated and sustained development to end poverty (PASDEP)" which was implemented during 2005/06 to 2009/10. This was followed by the first Growth and Transformation Plan. Currently the Government is implementing the Second Growth and Transformation Plan (GTP II) that spans from 2015/16 – 2019/20 and one of its pillars is to make a breakthrough in light manufacturing so as to increase exports and the share of the industrial sector which aids the transformation agenda. Moreover one of the principal objectives of the plan is developing the domestic engineering and fabrication capacity and improve productivity, quality and competitiveness of the domestic productive sectors.

Countries experience suggest that there are minimum requirements to embark on the structural transformation process in terms of a) level of per capital income and its growth b) composition of the sectors in the economy with focus on manufacturing and urbanization c) accumulation which includes human capital development, research and development, infrastructure and other investments to raise the production capacity of the economy.

As indicated above Ethiopia's per capita income is $862 which annually grows by more than 8 percent but this is still low to enable embark on transformation. The threshold depends on size of the country and its performance, studies show that average performing country may undergo transformation at per capita income level of $850 and small country specializing in primary exports require $1,300 to embark on transformation. The service sector has taken over the lead from agriculture in terms of its contribution to GDP while the share of agriculture declines but it was simply a shift from low productivity agriculture to another low productivity service sector which is characterized by a good deal of informality Regarding infrastructure and human resources development there have been huge public investments in mega projects such as in power generation, roads, railways, sugar, fertilizers as well as expansion of access to education at all levels and health services with a focus on preventive health care etc. Nonetheless, both the quality and completion of these projects as well as the quality of education and health services were in adequate to bring about the required level of accumulation to trigger transformation. Thus, Ethiopia is moving in the right track towards structural transformation but still appears that doing the basic preconditions and appears to have embarked on the process.

3.2 Industrialization Strategy

Ethiopia has been pursing agricultural led industrialization (ADLI) strategy in the past two decades believing that investing in agriculture and increase in land yields to be precondition for successful industrialization, urbanization and development. In the Second Growth and Transformation Plan however the policy has shifted towards enhancing the industrial sector while continue modernizing and investing in agriculture. Ethiopia exemplifies a good case study of an African country that is aggressively pursuing an industrialization strategy to structurally transform the economy.

Under the Second Growth and Transformation Plan (GTP II) (2015/16-2019/20), industrial development strategy is set to ensure that the manufacturing industry becomes the main driver of growth to accelerate the structural transformation in the medium to long-term. The plan targets an average growth rate of 20 per cent per annum of an industrial output in value-added terms over the five year plan period and increases the static share of the industrial sector in the GDP from 15.1 per cent in 2015 to 22.3 per cent by 2020. In particular, the manufacturing sector is envisaged to grow annually at a rate of 21.9 per cent during the same period. The new policy drive towards manufacturing sector development is anchored on a number of imperatives aimed at increasing productivity, quality and competitiveness among both existing and upcoming manufacturing industries with a clear strategy on investing in labor intensive light manufacturing industries.

A key strategy for the fast-tracking of the industrialization drive in Ethiopia is the establishment of Industrial Parks. Under the “Made in Africa Initiative”, a project driven by Ms. Helen Hai, the CEO and UNIDO Goodwill Ambassador, Ethiopia became one of the early-starters of the initiative that aims at making Africa to become the next manufacturing hub for global markets. The Made in Africa Initiative aims to help the continent capture the window of opportunity for industrialization by creating success stories such as from China. The immediate success of Huajian Shoe Factory in Ethiopia’s Eastern Industrial Zone in 2012 and the inflow of foreign direct investment in light manufacturing into the new industrial park near Addis Ababa in 2013 show that such an approach can work in Africa. The Huajian shoe factory plans to invest US$2 billion over 10 years period in developing manufacturing clusters focused on shoemaking for export. The company produces shoes for brands such as Guess and Calvin Klein, and hopes to see its exports from Ethiopia reach US$4 billion within ten years.

The industrial parks development strategy in Ethiopia which UNDP supported to design is proving to be a success story worth emulating in Africa. It is being implemented by the Industrial Parks Development Corporation (IPDC) and has the sole purpose of attracting foreign direct investment (FDI) in key strategic manufacturing industries, which in turn, would assist transfer technology to the local entrepreneurs, diversify the structure of the country's export, and generate employment. The IPDC is mandated to activate both pre and post investment servicing, availing land, and pre-built sheds equipped with all-encompassing utilities and infrastructural facilities with international standards of quality of service, labor security, and environmental safety. It offers a number of fiscal incentives including 100% duty exemption for imports and investors engaged in manufacturing, agribusiness, generation, transmission and supply of electrical energy; and ICT are entitled to income tax exemptions for a period ranging between 1 and 9 years, depending on the specific activity and the location of the investor.

About 12 industrial parks for export processing have been identified across the country based on proximity to market outlets, infrastructure, economic potential, and regional balance in development. The parks are dedicated for specific sectors such as textile & apparel, leather & leather products, pharmaceuticals, agro-processing etc. and aimed at coordinated production along value chains. Some of the operational ones include the Hawassa Industrial Park, Eastern Industrial Zone (Dukem, Bole Lemi Industrial Park, Ayka Addis, Hujian Industrial Zone and George shoe.-- The Hawassa Industrial Park is a flagship Eco-industrial park with zero liquid discharge (ZLD) facility and located approximately 275 kilometers south of Addis Ababa. In terms of production, 100% production within Industrial Parks is for export with United States, Asia and Europe being major destinations.

The regional Industrial Parks Development Corporation (RIPDC) are responsible for developing regional small and medium scale enterprises (SMEs) clusters to be linked to the Industrial zones. The program targets the youth, in particular, graduates from technical schools and colleges and provides them with financial and technical support in cluster sheds along the various regional states to start up small scale manufacturing industries.

3.3 Investment in human capital and the demographic challenges

Human capital development has been one of the key priorities of the government and hence there has been aggressive investment in primary and tertiary levels of education. Over the past decade, one-fourth of government budget has been allocated to education sector. While there has been aggressive expansion in access to education for example net primary enrolment reached 100 percent and secondary school enrolment has also increased significantly, the number of universities in the country reached 45 compared to only two twenty years ago, the quality of education has not been improved. The long term trends in health access and health gains indicate that there has been impressive improvement in the past decade owing to strong efforts in expanding health facilities but likewise the quality of services has not been improved.

With estimated population of about 100 million, Ethiopia is the second populous country in the continent. Growing at 2.5 percent per annum Ethiopia's population will reach 112 million by 2025 and 137 million by 2037 (CSA 2013). Moreover, Ethiopia is a country of young population with over 70 percent of the total population below the age of 30 and about 45 percent of the population below 15 years of age.

Ethiopia's growing population risks jeopardizing the tremendous social and economic gains that have been achieved over the past decade. The high population rate will place increasing pressures on the country's natural resource base and significantly expand the numbers of young Ethiopians needing educational services and basic health care, not to mention straining the labour market which already fails to provide the young with sufficient employment opportunities. Thus reducing fertility rates and expanding contraceptive coverage to more Ethiopian women in socially responsible ways should be a high priority of the Government. In order to reap the demographic dividend there is a need to create a favorable policy environment in human capital development through strengthening educational and skills development, creating decent jobs, investing in infrastructure that promotes labor productivity, enabling economic efficiency and accumulation of physical capital.

4. Investing in reducing poverty

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 percent in 2004/05 to two-third in 2016/17. 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. Balance needs to be achieved between spending within a sector, such as between primary education and secondary education, primary health care and hospital care, and rural roads and major highways. An appropriate balance should also be maintained between recurrent and capital spending. Most importantly, the balance between quality and physical expansion should be maintained. Ethiopia has done better on the latter and needs to focus on the former.

The government is also implementing a huge social protection program to help the poor maintaining their livelihood. The Productive Safety Net Program (PSNP) is the largest social protection program in Africa which support close to 8 million chronically food insecure people and it has been implemented since 2005.

5. Governance and institutional policy

Since taking power in 1991, 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 programs. The Constitution affirms the human, political, economic, cultural and environmental rights of groups and individual along with the right to development. In addition 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. The Government has made significant efforts to encourage local decision-making and accountability.

There is a need to transfer more significant decision-making power from regional states to woreda level administration, while balancing the need for wider decentralization without sacrificing financial accountability and programmatic effectiveness. 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 carefully be studied

During the last two years, Ethiopia faced serious governance challenges. In 2016, the country experienced unprecedented and widespread public protests in Oromia and Amhara regions demanding social, economic and political rights. The political protests led to the declaration of a State of Emergency (SoE) on 9th October, 2016 and which has been stayed for ten months. In addition, the recent Oromia-Somalia region border clashes have claimed lives and displaced over 600,000 people creating a new problem to an already complex governance environment. A six month state of emergency has also been declared in March 2018 due to a new public protest.

Some of the root causes for the political protests, as diagnosed by the government, include weak accountability mechanisms, marginalization and social exclusion, lack of public engagement and the growing challenge of youth unemployment. Overarching governance challenges include enhancing space for political electoral competition while sustaining internal stability, deepening the process for independent domestic electoral observation, broadening space for civil society and the media and improving access to information and data, enhancing public accountability and efficiency in the delivery of policies, services and development results.

The government has recently demonstrated greater openness to address a variety of governance -related issues. The first-ever National Conference on Peace and Reconciliation was organized by the Inter – Religious Council of Ethiopia (IRCE) in partnership with UNDP in January, 2017 which provided the platform for open and constructive dialogue on conflict resolution, peace and stability, and also on a broad range of issues of national concern. The Government in collaboration with UNDP also organized a National Dialogue Forum for Civil Society Organizations under the theme: "Fostering Participation of Civil Society for Sustainable Development and Democracy "in April 2017. The Forum was intended to create the platform for civil society and government to reflect on civil society role and participation, as well as on the policy and legal frameworks for the operation of civil society. To address the human rights deficit, the Government has launched a successor National Human Rights Action Plan, which is going to be the government's key document and a framework of action regarding the promotion and protection of human rights.

Since early 2017, the ruling Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) and opposition political parties have started to engage in a political dialogue, which is a step in the right direction. In a recent meeting the political parties (including the incumbent) have agreed on a 12 points political agenda that have been agreed through extensive consultations. From the declarations, it looks almost all issues of national concern are now on the table for debate, including review of the Electoral Legal Framework, and some of the most controversial laws such the Anti-Terrorism Law and the unpopular Charities and Societies Proclamation.

The ruling party ERPDF is currently undertaking a deep reform to avert the situation and including changing the leadership of the party and the PM and hence a new Primie Minster has sworn on April 2, 2018

6. Conclusion

Ethiopia'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 2025, the Government has been investing heavily in economic and social infrastructure, streamlining the 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.

Ethiopia has created an enabling policy environment to effectively implement the SDGs at national and sub-national levels. Ethiopia was among the 44 voluntary countries to undertake Voluntary National Review (VNR) in 2017 and presented to the High Level Political Forum in New York in July 2017. During the first half of 2017, the Government with the support of the United Nations prepared the VNR report that involved wider consultations both at national and federal levels including with political parties and parliamentarians. The SDGs are mainstreamed into the Second Growth and Transformation Plan (GTP II) has targeted to attain a national poverty level of 16.7 % by 2020 and the country has embarked on an SDGs needs Assessment and Costing exercise with the support of the UN. The study will further help to integrate the SDGs in the 15-year Perspective Plan of the Government.

The emerging policy issues in Ethiopia focus around the acceleration and achievement of the Agenda 2030 on SDGs as an overarching framework that could holistically address development deficits. In this regard, a ~~centre~~center- piece of this policy discourse for Ethiopia is the sustenance of the impressive economic growth and promotion of a conducive political and economic environment. This entails creating the space for dialogue and public participation in policy discourse, and promoting national cohesion, peace and stability. Secondly, given the country's proclivity to climatic shocks, it's imperative to invest in building resilience to the various stressors including climate change and recurring droughts, underpinned by the new way of working using the mosaic approach/humanitarian-development nexus. The country's population that is expected to reach 150 million by 2030 could be harnessed into a dividend. This has policy implications on the demographic transition, particularly the youth bulge, and creation of decent jobs for the youth by transforming the structure of the economy. Finally, and critically important, is the imperative of building human and institutional capacity which is critically important to transfer knowledge and effectively deliver on public goods.