

**Structural Transformation & Inclusive
Development in Ethiopia: Results from GTP1
Implementation**

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Introduction

- Ethiopia—one of the fastest-growing economies in Africa---***double digit GDP growth rate for more than a decade;***
- Initially led by agriculture, growth has become more broad-based, with manufacturing, services generating an increase share of output;
- Accelerated industrialization being laid by increased educational attainment, improved health outcomes, and quantum increases in infrastructure capacity;
- Industrial parks are starting to spring up across the country, echoing China's development experience 20 years ago.

Real GDP growth and sectoral distribution, 2009-2013

	2004-2008 Average	2009/10	2010/11	2011/12	2012/13	2014/15 target
Real GDP growth (%)	11.0	10.5	11.4	8.8	9.7	11.4
Agriculture	8.4	7.6	9.0	4.9	7.1	8.7
Industry	10.0	10.8	15.0	17.1	18.5	23.7
Manufacturing		13.6	14.1	15.9	14.5	--
Services	14.6	13.2	12.5	10.6	9.9	9.0
			% Share			
Agriculture	44.6	41.6	45.6	44.0	42.9	36.9
Industry	13.1	12.9	10.6	11.1	12.4	18.8
Manufacturing		2.6	2.6	2.8	2.9	--
Services	43.3	45.6	44.5	45.6	45.2	44.3

Trends in Poverty Reduction 2000-2011

	YR 2000	YR 2011
% of population living below national poverty line	44	30
Population living on less than U\$1.25 PPP a day	56	31
% of population without education	70	50
% of population with electricity	12	23
% of population with piped water	17	34
% of children under 5 years that are stunted	58	44
% of rural women receiving an antenatal checkup	22	37
Life expectancy (years)	52	63
Total fertility rate	6	4

Social development before and after developmental state

Indicator	Before developmental state		After developmental State	
	1995	2002	2005	2010
Health Sector:				
Health coverage	40	60	71	89
No. of health centers	246	412	644	1,787
Maternal mortality rate/100,000	1400	--	871	590
Child mortality rate/1,000	161.3	--	121	105
Education Sector:				
Primary school enrollment (%)	36.6	61.6	69	88
No. of students in higher educat.	30,538	77,077	91,655	260,241
Total no. of teachers	105,892	146,626	194,459	323,566
Drinking water supply:				
National (%)	19.1	34	35.9	68.5

Plan for Accelerated and Sustained Development (PASDEP): 2005-09

AIM: transforming Ethiopia from dependence on subsistence agriculture and towards industrialization and export of value-added products under the guidance of a developmental state.

FOCUS: on smallholder agriculture only;

APPROACH: investment in infrastructure, extension, credit, training; agro-processing & the leather industry.

OUTCOME: mixed results...food production increased but overall productivity and diversification was not commensurate with resources invested by government

Growth & Transformation Plan (GTP), 2010-15

- The 1st Five-Year Plan, *Growth and Transformation Plan (GTP)*, outlines an ambitious development strategy to transform the country into 'middle-income' status by 2025 under the guidance of a strong developmental state.

**NOTE: Implementation of GTP1 end in July 2015 & will be replaced by GTP2 which is under finalization.

The main pillars of the GTP

Pillar 1: rapid and equitable economic growth

Pillar 2: transforming agriculture

Pillar 3: creating conditions for industrial growth

Pillar 4: infrastructure development

Pillar 5: quality of social development

Pillar 6: deepening good governance

Pillar 7: gender and youth employment & equity

(1) Drivers of Transformation:

1. **AGRICULTURE:** Agricultural Development-led Industrialization (ADLI) expanded support to small farmers credit; training, etc. **ADLI is both a growth strategy as well as a redistributive vehicle to empower small farmers.**
2. **INVESTMENT IN INFRASTRUCTURE:** to overcome binding constraints in agriculture and manufacturing. (only the state can do this).
3. **SELECTIVE INDUSTRIAL POLICY:** Leather, textile, cement, floriculture, agro-processing.
4. **SOCIAL PROTECTION:** Heavy investment in education and health and ensuring the redistributive aspect of ADLI. Supplemented with the PSNP as an integral part of the government plan.
5. Increased investment in **SCIENCE & TECHNOLOGY EDUCATION** and innovation systems

1. Selective Industrial Policy as a process, not a document

LEADING 'THE MARKET'

- Government encourages investment decisions that private actors would not make (i.e., ***infrastructure***).
- Seeks to create new comparative advantage in certain products (e.g. leather) ***by building technological capacity at firm level***

FOLLOWING 'THE MARKET'

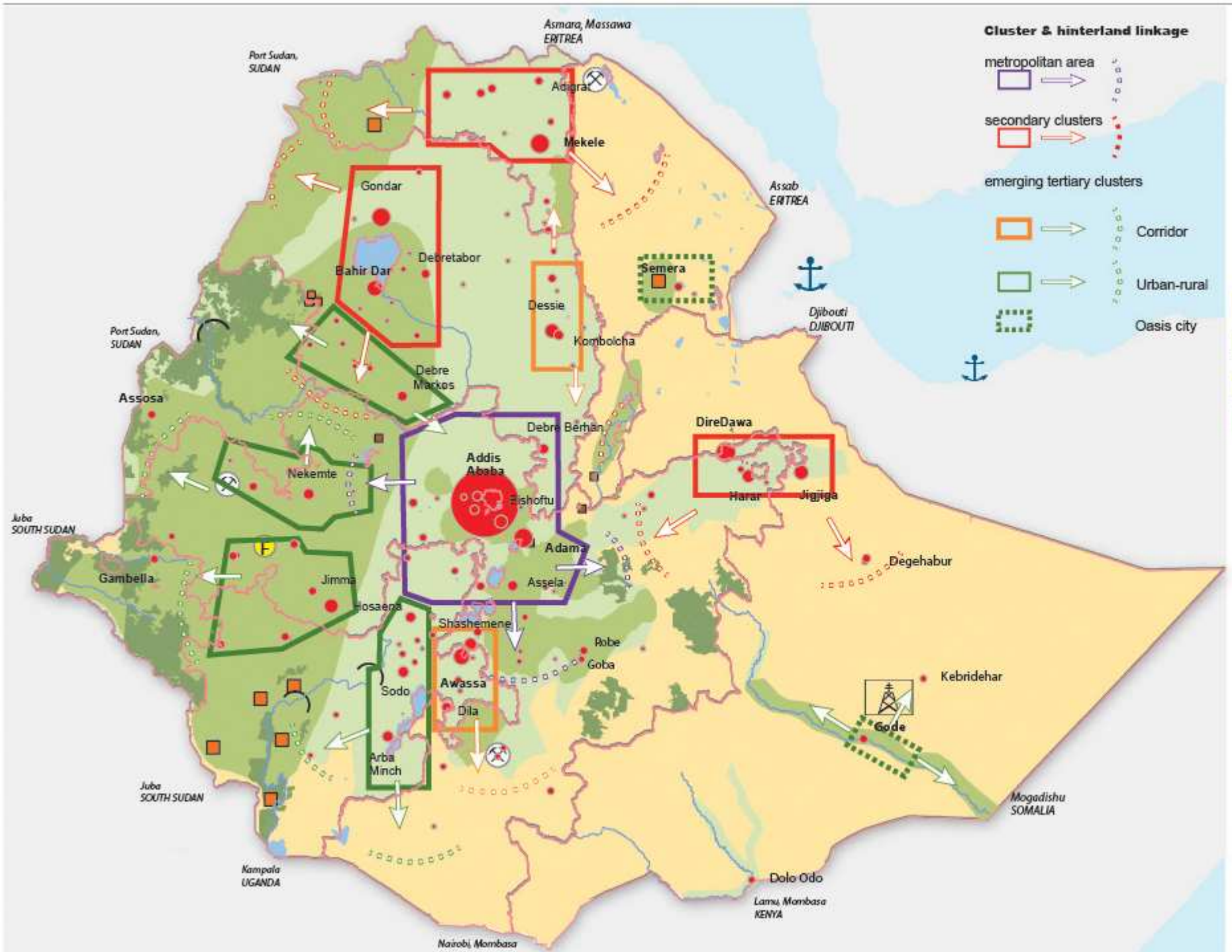
- Government support ***the innovation of private firms*** to encourage marginal extension of the production frontier in the specific areas of production (e.g. leather, cut flower industry)

Proper identification of the sources of growth: concentrated efforts on a few sectors with growth potentials: leather, cement, floriculture, textile, agro-processing

The next step: Cluster Development, Urbanization and Industrial Zones

- Until recently, the role of urbanization in the industrialization process was little understood. Since GTP1, urbanization is given high priority.
- The government's plan—Vision 2025—sees manufacturing expanding 25% a year and creating 200,000 jobs annually.
- \$10 billion investment in industrial parks over the next decade is planned.

Industrial Parks: Bole Lemi; Hawassa; Dire Dawa; Adama; Kombolcha and Mekele.---all connected with rail network.



Key elements of the Industrial Policy

- Targeted financial support, subsidies & loans from domestic policy banks;
- Setting up state-owned enterprises to address market failures;
- Trade policies that favor export-oriented & import-substituting industries;
- Tax incentives, import duty exemptions to promote priority sectors (e.g. leather, cement)
- Investment in specific supporting economic infrastructure to remove binding constraints;
- Regulatory exemptions to attract, preserve, or foster the growth of particular industries, and attract FDI.

Social Protection: the Productive Safety Net Program (PSNP)

Promoted by the drought of 2002-03, the government mobilized a New Coalition for Food Security involving 9 donor governments.

- The donors committed US\$1.2 billion (2005-09) – Multi-year planning & financing
- Program combine transfers with asset building – Public Works plus direct support
- Program integrated with broader development agenda of the government
- High level coordination among donors, donors and government, within government.

Social Protection: the PSNP...

IMPACT: Beneficiaries: up to 8 million people, nearly 300 districts (40%) of all districts in the country

- US\$ 2.1 billion committed for 2010-14
- Food gap declined on average by 1.3 month between 2006 and 2012
- Increased use of fertilizers;
- Higher medical expenditure
- Investment in soil conservation
- Complimentarity: addressing emergency, enhancing resilience, and promoting development;

(2) Drivers of Transformation: The Role of the Developmental State

- A strong '*developmental state*' with long-term, *inclusive and unifying national vision* around income growth, poverty reduction, within a context of **disciplined planning**.
- A state that *supports a vibrant market economy* with major public investment in 'hard' and 'soft' infrastructure.
- A state that *fosters the emergence of dynamic competitive firms* with the learning culture and capacity for continuous up-skilling and innovation across all sectors. Focus on *industrialization and technological innovation* which enables countries to move out of subsistence production to more dynamic industrial production.

(2) The Developmental State....

4. A state that is ***flexible and adjust policies and incentives pragmatically*** over time in a progressing manner using evidence and experimentation, responding to new challenges and recognizing and correcting distortions;
5. A state that actively ***stamps out corruption and predatory behavior*** that threaten the sustainability of the national project.

Pathways to 'inclusive development': politics, institutions, and policies

Growth Drivers (sources of growth)	Growth Supporting Platforms	Growth enabling 'policy conditions'	Growth & the sustainability dimension
<ul style="list-style-type: none"> •Light & heavy manufacturing •Construction •trade & services •agriculture & agro-processing 	<ul style="list-style-type: none"> •Infrastructure •Knowledge/info. •Enabling macro-policy platform •Financing platform •Government effectiveness 	<ul style="list-style-type: none"> •governance & civic engagement platform •city capacity in strategic planning •business-govt. strategic alliance •social inclusion & safer cities 	<ul style="list-style-type: none"> •reducing ecological footprint of cities •reducing environmental risks •solid waste management •reducing carbon emissions •urban green space •preserving cultural heritage

Concluding note---

Five factors for Ethiopia's success:

- 1. *Proper identification of the sources of growth***
- 2. *Redistributive policies***: ALDI is both a growth strategy and a redistributive vehicle
- 3. *Macroeconomic prudence***: low inflation; reduced budget deficit; increased domestic resource mobilization; protected pro-poor elements of public spending.
- 4. *Visionary leadership*** and a focus on results
- 5. *Selectivity, pragmatism & learning by doing.***