

Level 1: Development in Ethiopia

Ethiopia is without question one of Africa's high achievers, with a rapidly growing economy and falling poverty rates. It also faces some serious national development challenges. As one of Africa's largest and most populous countries, it has vast infrastructure needs. Continued dependence on rain-fed agriculture, in the face of increasingly variable rainfall, creates persistent problems of food security. The Government has a clear national development vision and a strongly pro-poor orientation to its national budgets and investments, but it still has some way to go to create an environment conducive to private-sector-led development.

This chapter takes stock of Ethiopia's recent achievements in national development and its efforts to address the outstanding challenges. The chapter is organised according to the five areas the AfDB identifies in its Strategy 2013–2022 as essential to inclusive growth: social, economic, spatial, and political inclusion, and building a competitive economy. Each of these areas is explored through indicators of progress, with a "traffic light" score showing Ethiopia's progress as compared to other recipients of African Development Fund (ADF) resources.

Economic inclusion

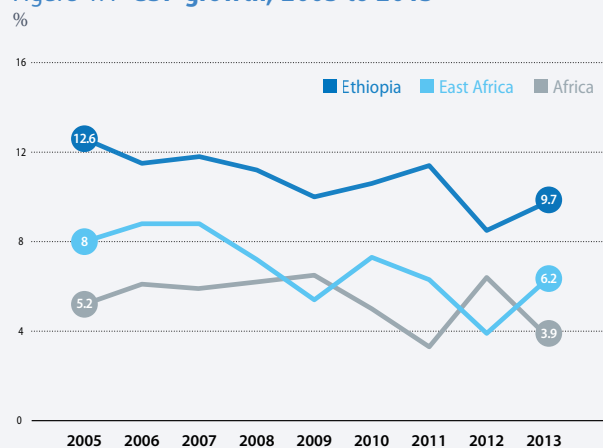
Ethiopia has one of the fastest-growing economies in the world. Its 2013 **GDP growth**¹ rate of 9.7% – and its average rate of 10% for the past decade – compares very favourably with the 6.2% average of the comparator countries² (see Figure 1.1). Despite high population growth, Ethiopia's **GDP per capita** has more than tripled over the last eight years, from \$171 in 2005 to \$550 in 2013.

This strong economic performance has given Ethiopia an excellent platform from which to pursue its national development agenda. Ethiopia's national development plans, including the current Growth and Transformation Plan 2010–2015 (GTP), have focused on delivering broad-based development, reducing poverty and achieving the Millennium Development Goals (MDGs) (see Box 1.1). The main driver of growth over the last decade has been large-scale public sector investment. From 2010 to 2013, total spending on the growth-oriented pro-poor sectors of education, agriculture and food security, water and sanitation, health and roads amounted to \$12.7 billion. In 2012/13 alone, the spending on these sectors accounted for over 70% of the general government spending. This allocation and spending pattern demonstrates the country's commitment to eradicate poverty in all its dimensions.

By 2013, **total investment** by the public sector reached 33% of GDP, as compared to 22.4% in 2005. Across low-income countries in sub-Saharan Africa, the public investment rate is just 22.8% of GDP. Some

70% of Ethiopia's public investment has had a pro-poor focus, with particular emphasis on infrastructure and commercial agriculture.

Figure 1.1 GDP growth, 2005 to 2013



This high rate of pro-poor investment has helped to ensure that Ethiopia's growth has been inclusive in nature, spanning different

1 A green bullet indicates that progress is strong and better than that of peers, a yellow bullet indicates that progress is positive but less than that of peers; and a red bullet indicates regression against the baseline.

2 Comparator countries are here defined as low-income countries in sub-Saharan Africa receiving support from the Bank.

Table 1: Development in Ethiopia (Level 1)

Table 1 summarises Ethiopia's development progress between 2005 and 2013. The indicators of the One Bank Results Measurement Framework have been complemented by country-specific indicators to capture areas in which AfDB provides support and advice. For each indicator, we compare Ethiopia's progress with that of its peer group of low-income countries in Africa, as follows:

- Progress is strong and better than that of peers
- Progress is positive but less than that of peers
- Regression against the baseline
- Data are not available to measure progress

INDICATOR	ETHIOPIA		LOW-INCOME AFRICAN COUNTRIES (ADF)	
	2005	2013	2005	2013
ECONOMIC INCLUSION: ACHIEVING THE TRANSFORMATION OF THE ECONOMY THROUGH ROBUST ECONOMIC GROWTH				
● Real gross domestic product (GDP) growth (%)	12.6	9.7	5.1	6.2
● GDP per capita (current \$)	171	550	417	818
● Total investment (% of GDP)	22.4	33.0	20.2	22.8
● Unemployment (%)	5.0	4.5	5.4	9.0
● Population living below the poverty line (%)	38.7	29.6	49.1	46.3
● Income inequality (Gini index)	30.0	30.4	42.0	42.5
● Agriculture, value added (% of GDP)	46.7	48.8	29.2	28.7
SPATIAL INCLUSION: INVESTING IN INFRASTRUCTURE AND SERVICES TO BOOST TRANSFORMATION				
● Road density (km/1000 km ²)	33	78	52	72
● Paved roads (% of total roads)	13.4	15.7	14.0	17.0
● Access to improved water source (% population)	38.1	68.5	57.0	62.0
● Access to improved sanitation facilities (% population)	8.0	76.0	24.1	25.1
● Access to electricity (% population)	16.0	53.5	25.9	32.0
● Internet users (per 1000 people)	2	48	19	85
● Mobile cellular subscribers (per 1000 people)	6	276	78	509
SOCIAL INCLUSION: IMPROVING HUMAN DEVELOPMENT				
● Life expectancy (years)	56.6	63.0	53.2	58.2
● Infant mortality rate (per 1000 live births)	77.0	59.0	80.4	65.2
● Maternal mortality (per 100 000 live births)	871	676	675	515
● Enrolment in primary education (% net)	74.9	85.7	72.9	78.6
● Primary completion rate (%)	34.0	52.8	57.0	67.3
● Girls/boys ratio in primary education	84.0	94.0	84.8	91.0
● Women in national parliament	21.4	27.8	14.6	20.8
● Global Hunger Index	31.0	25.7	22.4	20.0
POLITICAL INCLUSION: SECURING BROAD-BASED REPRESENTATION				
● Mo Ibrahim Index of African Governance (index)	45.2	47.6	44.8	48.0
● Tax revenues (% of GDP)	11.6	12.5	12.2	15
● Corruption perception score (1-10)	2.2	3.3	2.5	2.7
● CPIA Country Policy and Institutional Assessment (1=low to 6=high)	3.5	4	3.2	3.5

INDICATOR	ETHIOPIA		LOW-INCOME AFRICAN COUNTRIES (ADF)	
	2005	2013	2005	2013
SUSTAINING GROWTH: BUILDING A COMPETITIVE ECONOMY BY FACILITATING THE BUSINESS CLIMATE				
● Cost of trading across borders (\$) (s)	2037	2180	1656	2174
● Time to export (days)	47.0	44.0	40.7	31.8
● Global competitiveness (index)	3.3	3.5	3.1	3.5
● Time required for business start-up (days)	34	15	57	25
● Cost of business start-up (% of income per capita)	64.9	100.1	208	76.6
● Commercial bank branches per 100 000 adults	0.9	2.9	2.2	5
● Logistic performance index (0-5)	2.3	2.6	2.3	2.4

.. = data not available; ADF = African Development Fund; GDP = gross domestic product; \$ = United States dollars.

Notes: Where data are not available for 2013, the latest available values are used.

Source: African Development Bank, Ministry of Finance and Economic Development (MoFED), Central Statistical Agency, the World Bank Group, International Food Policy Research Institute, Transparency International, Inter-Parliamentary Union, International Monetary Fund, and the Ibrahim Index of African Governance.

economic sectors and benefiting both urban and rural communities. The massive boom in construction activity — from the major infrastructure works of new roads, railways and hydroelectric plants to major housing and commercial developments — and a huge expansion in public sector employment have provided many jobs, particularly in Addis Ababa and the country's major towns.³ At the same time, programmes to improve agricultural productivity and support small and medium-sized businesses have increased incomes more broadly. According to the Government, since 2011 the GTP has created about 1.6 million jobs through small and medium-scale enterprises.

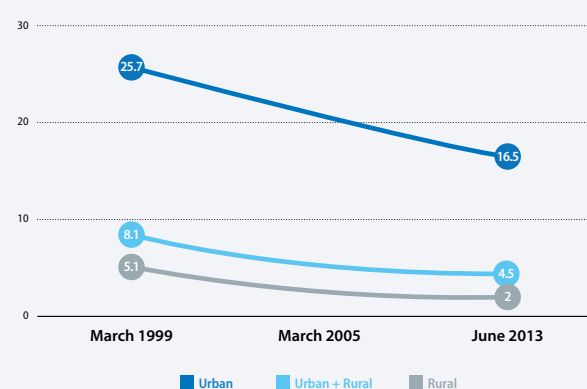
As a result, Ethiopia has reduced ● **unemployment** from 5% in 2005 to 4.5% in 2013 (see Figure 1.2) — a remarkable result, considering that in comparable countries unemployment increased from 5.4% to 9% over the same period. Ethiopia's middle class has expanded, increasing domestic demand for goods and services and helping to drive continued growth (see Box 1.2). It is expected that Ethiopia's middle class will be one of the most important in Africa by 2030.

Ethiopia has also continued to be a more egalitarian country than most in Africa. ● **Income inequality**, as measured by the Gini coefficient, has risen from 30.0 in 2005 to 30.4, yet it still compares favourably to the average of 42.5 in the low-income countries in Africa.

Overall, inclusive growth in Ethiopia has had a dramatic impact on poverty levels. From 2005 to 2013, despite strong population growth, the proportion of the ● **population living below the poverty line** fell

from 38.7% to 29.6%. This equates to lifting 2.5 million people out of poverty. By comparison, the poverty headcount figures for low-income countries in sub-Saharan Africa as a group fell much more slowly, from 49.1% in 2005 to 46.3% by 2013. Poverty remains higher in Ethiopia's rural areas than in urban centres, but, according to the last GTP report, the gap has narrowed considerably over the last decade.

Figure 1.2 Unemployment rate by place of residence, 1999 to 2013



Source: CSA, National Labour Force Survey (2013).

These achievements are all the more outstanding given Ethiopia's many development challenges as a landlocked country and the second most populous country in Africa. Much of the population is still dependent on rain-fed agriculture. Food insecurity remains high, and serious droughts led to famine in 2011/12. Ethiopia does not have oil, which has been the engine of growth in many other African countries. However, gold is one of the country's important products, with record exports worth \$602 million in 2011/12.

Box 1.1 From PASDEP to GTP: Ethiopia's planning strategies

Ethiopia's overriding policy agenda has been to fight and eradicate poverty. The five-year Plan for Accelerated Development to End Poverty 2005–2010 (PASDEP) was the main vehicle to scale up resources to tackle poverty and achieve the MDGs. It focused on infrastructure development, agricultural transformation and governance and promoted decentralisation to direct resources towards the poorest. It also embodied some bold new directions, including a major focus on commercialising agriculture and developing the private sector. Building on the PASDEP, the Growth and Transformation Plan 2010–15 places economic transformation and economic inclusion firmly at the centre of Ethiopian development policy. The GTP is an ambitious five-year growth plan to achieve GDP growth of 11-15% per year from 2010 through 2015. Its total cost is estimated at \$75-79 billion over five years.

Box 1.2 Ethiopia's burgeoning middle class

Over the last decade Ethiopia has increased the ranks of its middle class—those earning between \$2 and \$20 day. Africa has the fastest-growing middle class in the world, and the expansion in Ethiopia's middle class matches that of Nigeria and South Africa. This is creating a vital structural change within the country, with internal demand becoming a source of growth in its own right and providing an increasingly attractive consumer market for domestic and foreign investors.

Source: The Middle of the Pyramid: Dynamics of the Middle Class in Africa, AfDB, 2011.


Agriculture is the largest sector of the economy, providing jobs for four-fifths of the workforce and earning 70% of export revenue. Rural areas have been a major beneficiary of public sector investment, much of which has been in infrastructure to enable farmers to access inputs and markets. Last year, the agriculture sector as a whole grew by 7.1%. Since 2005 the **value added from agriculture** has increased from 46.7% to 48.8% of GDP (see Box 1.3).

However, Ethiopia's agricultural productivity is still among the lowest in sub-Saharan Africa. Helping farmers move from subsistence agriculture to commercial farming is an urgent priority. This calls for more transport and marketing infrastructure, along with a raft of measures to raise productivity. Scaling up the use of modern farming practices, reducing

the cost of inputs, encouraging micro-irrigation schemes, providing access to credit and supporting farmers in producing high-value crops for export are all key priorities for the Government. Increased research into and dissemination of improved seed varieties, breeds and farming practices would also help to increase yields. Continued efforts need to be exerted to consolidate plots and encourage farmers to use improved technologies and farming methods to enhance land productivity. At the same time, given the alarming trend of increasing rural population density, more effort is also needed to open up alternative livelihood options for rural unemployed youths.

Diversification of the economy

Looking ahead, the Ethiopian Government will continue to promote the structural transformation of the economy, as set out in the GTP. By facilitating the shift of workers from low- to higher-productivity activities, including processed agricultural products and light manufacturing, Ethiopia is laying the foundation to achieve its aim of middle-income country status by 2025. The economy is increasingly linking in to global value chains and expanding its industrial sector — which currently represents 12.4% of GDP — by exporting textile and leather products and diversifying into new products for European markets (see Figure 1.3). Private sector investment remains low in Ethiopia compared to other countries in East Africa, and the financial sector is relatively undeveloped as yet, with the most strategic sectors remaining in public ownership. However, given the country's competitive production costs, including labour, the private sector could contribute much more in the future. Foreign direct investment into the country has been increasing, from \$150 million in 2005 to \$1.2 billion in 2012.

 *Agriculture is the largest sector of the Ethiopian economy, providing jobs for 80% of the workforce*

The Ethiopian Government has been very proactive in promoting green growth at both the country and the global levels. Ethiopia's 2011 Climate Resilient Green Economy Strategy sets out a comprehensive approach to mitigating the impacts of climate change on the country's development. The Strategy has been a valuable guide to other countries pursuing similar aims. It is closely linked to the GTP and provides compelling evidence on the value of investing in greener growth paths. Ethiopia focuses on reducing carbon emissions in agriculture by improving crop and livestock production, protecting and re-establishing forests, promoting renewable energy generation and leapfrogging to modern and energy-efficient technologies in infrastructure development.

Spatial inclusion

Infrastructure connections are key to ensuring that the benefits of growth are shared across Ethiopia's vast territory. The country has made major progress in expanding its road network, enabling the rural population to access inputs and markets and make use of health and education services. With more than 80% of Ethiopians living in rural areas, road development has been an important driver of poverty

reduction. Since 2005, infrastructure investment rates equivalent to 3% of GDP have more than doubled the ● **road density**, from 33.2 km to 78.2 km per 1000 km².

As a result, Ethiopia now has basic national and regional connectivity. Addis Ababa is linked to regional capitals, the ports in Djibouti and Kenya and international border crossings. Ethiopia is developing a major railway to the Djibouti port for passengers and freight, which will open the landlocked country to international markets. In addition, the substantial investment in the transport corridor connecting Addis Ababa and Nairobi will dramatically increase trade with Kenya by reducing transit costs, as well as making it cost-effective for Ethiopian businesses to use the Mombasa port—another way for the country to access international markets. (Box 1.4 discusses Ethiopia’s increasing air linkages to the rest of the world, and Box 1.5 discusses Ethiopia’s economic integration with East Africa.)

“Ethiopia’s abundant hydropower resources are providing energy both for national development and for export”

The quality of Ethiopia’s trunk road network is good, with 73% of asphalt road and 57% of gravel roads in good condition, reflecting appropriate attention to maintenance. Yet given the vast size of the country, the coverage and quality of rural roads remain poor, with only one-tenth of the rural population living within 2 km of an all-weather road. The share of ● **paved roads** has grown to 15.7%, but many communities remain isolated during the rainy season. There continues to be a strong focus on developing rural access roads under the Universal Road Access programme, which has built 35 000 km of roads since its launch in 2010.

Energy as a driver of growth

Renewable energy is a key driver of growth and poverty reduction in Ethiopia. Access to electricity transforms lives by enabling people to start businesses or gain access to health and education services. The country has an abundance of hydro resources, and although almost all of Ethiopia’s electricity comes from hydropower, much of those resources remain untapped. Generation capacity has almost tripled since 2005. This has led to dramatic benefits for the population, with 53.5% now enjoying ● **access to electricity** (see Figure 1.4), compared to just 16% eight years ago and to the average of 32% in low-income countries in sub-Saharan Africa. However, even if the efforts in the energy sector have been important, they still do not meet the needs of the cities and the industries; the country’s electrification (household connection) rate is still low.

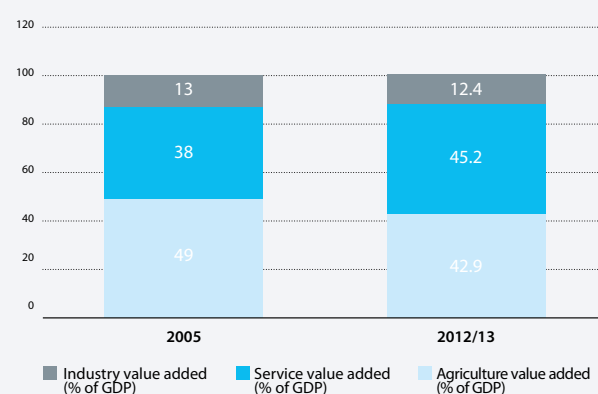
The Ethiopian Government is now constructing the largest hydropower plant in Africa, the Grand Renaissance Dam. It will have an installed capacity of 6000 MW, providing energy not just for national use but also for export to neighbouring countries. In addition, the Government has recently completed a restructuring of the power sector, creating two holding companies for generation and transmission and allowing for

multiple distribution companies. This will open up the power sector to private investors, increasing efficiency and reducing the costs of energy supply. (Box 1.6 discusses Ethiopia’s efforts in renewable energy.)

Improving access to water and sanitation

Ethiopia has made considerable progress in improving access to water and sanitation facilities. The Government has been implementing an ambitious “Universal Access Plan” that seeks to provide 98.5% of the population access to safe water by 2015. As a result of determined efforts, the proportion of the population with ● **access to improved water sources** has increased from 38.1% in 2005, which was well below the average in low-income countries in sub-Saharan Africa, to 68.5%, which is now ahead of the comparator countries. Access in rural areas stands at 66.5%, while in urban areas it has reached 81.3%. At the current rate of investment, nearly 1.9 million Ethiopians gain access to

Figure 1.3 The evolving composition of the GDP



Ethiopia has traditionally relied heavily on agricultural production but has been diversifying its economy. In recent years the part of agriculture has decreased as the shares of services and industry have increased. In particular, the contribution of industry to the gross national product grew by 18.6% in 2013; under the GTP, industry’s share should increase to 18.8% by 2015.

Box 1.3 The diversification of agriculture: the example of the roses

In recent years Ethiopia has developed a profitable export market in roses, following Kenya’s successes in this area. Ethiopia’s dry climate and high altitudes are well suited to flower cultivation, and the sector has grown rapidly. The Government has supported the industry by making thousands of hectares of suitable land available for foreign investors. In 2013, Ethiopia exported more than 2 billion stems of flowers at a value of \$212 million, making it the fourth-largest rose producer in the world. For Valentine’s Day 2014, 70% of the roses sold in France came from Ethiopia. In recent years, rose production has created 50 000 jobs, of which 70% were for women.

improved water every year. However, the costs are increasing as Ethiopia deals with the challenge of variable rainfall and recurrent drought. To maintain its progress, it will need more investment and stronger delivery capacity.

Hygiene promotion efforts have been central to promoting better sanitation. The “Universal Access Plan” adopted the challenging target of access to better sanitation facilities for 100% of the population. Households have invested in traditional latrines on a huge scale, and this has achieved remarkable results. In 2005, the proportion of the population with ● **access to improved sanitation facilities** was just 8%, compared to an average of 24.1% across low-income countries in sub-Saharan Africa. By 2013, this had increased to 76% of the population, compared to 25% in comparator countries. Together with greater access

to clean water, this is making a huge difference to people’s health and their ability to work and contribute to economic development.

Boosting ICT development

Ethiopia has seen major expansion in information and communication technology (ICT) over the last few years. However, the use of mobile phones and the Internet is not yet as widespread in Ethiopia as in other comparable countries. In Ethiopia, 276 people per 1000 are ● **mobile cellular subscribers**, compared to just 5.6 in 2005. Fewer than a million people subscribe to landlines, as Ethiopia leapfrogs straight to mobile networks. Access to the Internet is low in most of the country, although it has increased considerably since 2005. Only 5% of the population are ● **Internet users**, compared to 8.5% in comparator countries. The 2013 Web Index, which scores levels of access and freedom and the relevance of content of the Internet, rates Ethiopia very low in the international ranking (80th out of 81 countries).

Box 1.4 Addis Ababa, future hub of East Africa?

Ethiopian Airlines has risen quickly to become one of Africa’s top three international carriers, known for its international safety record and extensive network across the world. The airport at Addis Ababa has become one of the three main international hubs in sub-Saharan Africa, with the number of transit passengers reaching 5 million in 2013. In addition, Ethiopian Airlines has recently expanded its domestic network, bringing the number of local destinations to 20. This not only contributes to tourism development, but also makes better connections with more isolated parts of the country, allowing easier trade and communication.

The Ethiopian Government has recognised the transformative potential of ICT as a gateway to the financial system, government services and of course the wider world. It is expanding its rate of investment and, through initiatives such as the 200 hectare Ethio-ICT-Village, is trying to attract major interest from communication companies. At the same time, it is promoting and modernising the institutional and regulatory framework. These crucial efforts should facilitate ICT uptake across the country and help introduce competition to the ICT sector—Ethiopia’s central challenge in this area.

Box 1.5 Ethiopia’s integration with East Africa

Regional economic integration is key to inclusion, allowing the benefits of growth in East Africa’s rapidly growing urban centres to be shared more broadly across the region.

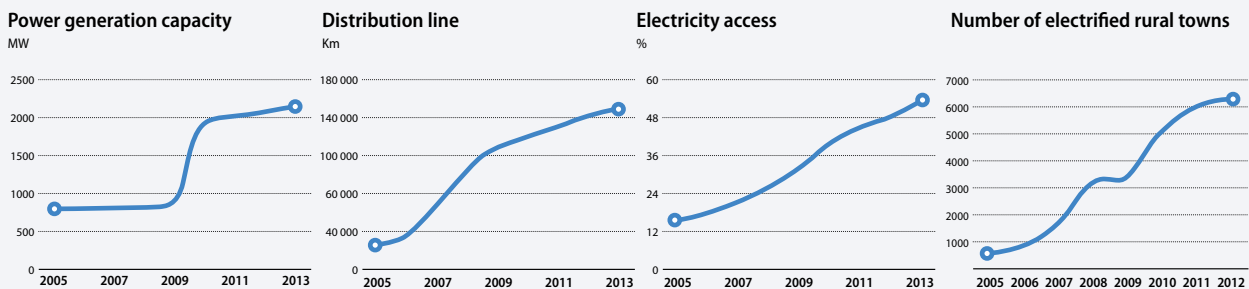
Ethiopia is a member of several regional economic communities and intergovernmental bodies. In 2008, the East African Community and the Common Market for Eastern and Southern Africa (COMESA) joined with the Southern African Development Community (SADC) to establish a Tripartite Arrangement, with a view to working towards an eventual single regional economic community.

Ethiopia is also one of the member states of the Inter-Governmental Authority on Development (IGAD), one of the regional integration arrangements in Eastern Africa. Political instability and conflicts remain the major constraints to bringing member states together for their mutual benefit. These challenges are exacerbated by periodic drought and poor economic and physical infrastructure. Following the severe drought in 2011, the Bank is the leading institution supporting IGAD and its member states with a long-term investment in a drought resilience and sustainable livelihoods programme. As part of this programme, the Bank provided resources to build the capacity of the IGAD Secretariat to coordinate all drought-resilience initiatives in the region.

Most member states, including Ethiopia, are also benefiting from Bank-financed initiatives. These projects are strongly aligned with the IGAD framework for collective engagement, with strong regional dimensions in the areas of cross-border rangeland management, livestock trade, trans-boundary water resources and livestock disease control and knowledge sharing.

There are a number of substantial challenges to effective economic integration across East Africa. First, transport infrastructure is underdeveloped and often in poor condition, leading to long transit times and to freight costs that are twice those in the USA or Europe. For landlocked countries like Ethiopia, transport costs can account for 75% of the price of exports. Energy is another major challenge: power shortages are a significant brake on productivity and competitiveness. When fully operational, the East African power pool will allow trading of electricity across national boundaries, making a major contribution to affordable and reliable energy. The region also has extensive shared water resources, including Lake Victoria and the Nile Basin. Intergovernmental cooperation is essential to managing these resources effectively.

Figure 1.4 Investment in electricity, 2005 to 2013



Source: GIP report 2012/2013.

Social inclusion

Ethiopia has made tremendous progress in reducing extreme poverty and is on track to achieve five of its MDGs—those covering poverty reduction; universal primary education; reduction in child mortality; combating HIV/AIDs, malaria and other diseases; and developing a global partnership for development (see Figure 1.5). In spite of the important efforts over the past decade, however, the country is still ranked at just 173 out of 186 countries on the Human Development Index 2014, reflecting the persistence of poverty and malnutrition, inadequate health and education services and a lack of opportunities for advancement. The Government has made improving human development central to its development strategies and has achieved some major breakthroughs in recent years.

From 2005 to 2013, more than 2.5 million Ethiopians have been lifted out of poverty, as Ethiopia has adopted policies to promote inclusive growth through agriculture and other labour-intensive sectors. There have been major efforts to improve the coverage of health services across the country: the number of health posts more than tripled between 2005 and 2013, while the number of health centres increased more than fivefold and the number of public hospitals increased by 40%. These measures have contributed to steady

“The government’s ambitious investment programme has lifted 2.5 million Ethiopians out of poverty over the past eight years”

progress on a range of health indicators.

Impressive progress in the social sectors

Most notably, ● **life expectancy** has increased from 56.6 years in 2005 to 63 years in 2013, exceeding the average life expectancy of 58.2 in low-income countries in sub-Saharan Africa. There have been successes in reducing the prevalence of infectious diseases—of

malaria through the widespread use of insecticide-treated bed nets, and of tuberculosis through treatment. Over the same period, the ● **infant mortality rate** has fallen from 77 to 59 deaths per 1000 live births, and there has been a steady decline in maternal mortality, from 871 to 676 deaths per 100 000 live births; however, ● **maternal health** still lags behind comparator countries. Neonatal mortality has remained at constant levels since 2005. Thus, despite some good progress, too many mothers and infants are still dying.

Box 1.6 Leading the development of renewable energy

Ethiopia aims to become the region’s leading producer of renewable energy.

The country has huge potential for generating wind power; it has recently opened its largest wind farm (costing \$290 million) and plans further investment in this area. The current capacity of Ashegoda Wind Farm is 120 MW, but there are plans to increase it by 40 MW. In addition, the Adama-I wind plant has a capacity of 51 MW, and construction is under way on Adama-II, with a capacity of 153 MW. Wind energy will be used to complement the country’s hydropower resources and help stabilise the national grid during the dry seasons, when low water reservoirs can limit hydro generation and wind speeds are high. Increased use of wind power gives opportunities for economies of scale, reducing unit costs and achieving greater efficiency.

Renewable energy technologies such as mini-grids and home systems allow people in remote and dispersed locations to use electricity. Solar and geothermal projects are also in preparation for the future in Ethiopia. For instance, with private sector involvement, Ethiopia is actively developing its geothermal resources through the Corbetti Power Project, which is expected to add 1 GW of capacity over the next decade.

These initiatives all help Ethiopia continue its drive to expand access to electricity across the country to benefit households and promote private sector activity.

Figure 1.5 Progress towards the Millennium Development Goals in Ethiopia

Goals	Ethiopia
 Goal 1: Eradicate extreme poverty and hunger	●
 Goal 2: Achieve universal primary education	●
 Goal 3: Promote gender equality and empower women	●
 Goal 4: Reduce child mortality	●
 Goal 5: Improve maternal health	●
 Goal 6: Combat HIV/AIDS, malaria and other diseases	●
 Goal 7: Ensure environmental sustainability	●
 Goal 8: Develop a global partnership for development	●

● On track
● Likely to be on track

Source: <http://www.et.one.un.org/>

Box 1.7 Gender equality in Ethiopia

In mid-2015, the African Development Bank launched the first-ever Gender Equality Index for 52 African countries. The index measures gender gaps across three dimensions: economic opportunity, social development, and laws and institutions. Countries are scored in each of the three dimensions and overall, on a scale from 0 to 100, with 100 representing perfect gender equality.

Ethiopia is ranked 31st, with an overall performance of 51.0: 67.7 for economic opportunity, 33.1 for human development and 52.1 for laws and institutions. Women play a major role in the agricultural economy. They make up two-thirds of the agricultural labour force and produce the majority of Ethiopia's food. In terms of social development, the expansion of social development services has led to many improvements in health care for Ethiopian women. Legal reforms in Ethiopia boosted women's productivity fairly rapidly. In 2000 the country introduced a package of reforms to its Family Law, raising the minimum marital age for women, removing the husband's ability to deny the wife permission to work outside the home, and requiring the consent of both spouses to manage marital property. While the reform is now applied across the country, it was first introduced in three of Ethiopia's nine regions. A study five years later found that those three regions were well ahead in terms of women's labour participation and level of vocational skills.

By devoting 28% of its public expenditure to the education sector, Ethiopia has achieved major improvements in the coverage and quality of services. ● **Net enrolment in primary education** increased from 75% of all children in 2005 to 85.7% in 2013, and the ● **primary completion rate** increased from 34% to 52.8% over the same period, although many pupils still repeat years or drop out of education. The Government is working closely with regional authorities to improve the quality of education by targeting support to teaching and learning.

By allocating 28% of its public expenditure to education, Ethiopia improved the primary education completion rate by about 20% in eight years

Nearly three-quarters of Ethiopians are under 30 years of age. Young adults are more likely to be unemployed than older adults, and one-fifth of unemployed youth are uneducated and unskilled. The rate of youth unemployment declined from 11.1% in March 1999 to 6.8% overall (but 21.6% in the urban areas) by June 2013. Because lack of education is a major barrier to securing jobs and livelihoods, the Government is expanding technical and vocational training and higher education to help create competent and self-reliant citizens and transfer technological abilities that will contribute to the country's economic and social development. This investment will ultimately contribute to improving the livelihoods of Ethiopians and to reducing poverty.

Ethiopia has made considerable effort to improve girls' access to education. The ● **girls/boys ratio in primary education** has improved from 84% in 2005 to 94% in 2013. At secondary level, the ratio of girls to boys reached 82% in 2013. This progress is key to promoting gender equality across Ethiopia (see Box 1.7).

One illustration of the gender disparity is that women's literacy levels are just 47%, compared to men's 63%. Women are less involved in public life, including in business and decision-making roles. Unemployment is also more common among women, particularly younger women based in towns, where 23% are unemployed. Women are, however, slowly becoming more involved at the political level: ● **women's representation in national parliament** has risen to 27.8% in 2013, from 21.4% in 2005. As a result, Ethiopia ranks 40th out of 188 countries in the Inter-Parliamentary Union international ranking.

Women's participation in the economy has also increased during recent years. For instance, the proportion of Women Land Certificate Holders (joint with husbands and sole) increased from 19.4% in 2000 to 60% in 2011—a very important change, considering the importance of access to land in a predominantly agrarian society like Ethiopia. In terms of access to finance, nearly half of the clients (48%) of the 28 registered microfinance institutions in the country are women. In the meantime, in 2013 6.9 million women benefited from savings and credit services.

At present, Ethiopia's gender performance indicators remain low by sub-Saharan African standards, with Ethiopia ranked 118 out of 136 countries.

Ensuring food security for all

Food security remains a critical problem in Ethiopia. Many of Ethiopia's 12.7 million smallholder farmers continue to be vulnerable to changing rainfall patterns and land degradation, exacerbated by climate change. With the growing population and land fragmentation, low yields, and poor seed production, recent cereal deficits have been 600 000 tonnes a year. This causes scarcity of food and high cereal prices, contributing to widespread hunger and malnutrition in affected areas (in both the sedentary mixed crop-livestock areas of the highlands and the mostly pastoralist lowlands).



Ethiopian farmers remain vulnerable to variable rainfall, which continues to threaten food security

There have been some important achievements in reducing hunger and malnourishment in Ethiopia. The **Global Hunger Index**, which gives equal weight to malnourishment, proportion of underweight children and child mortality, declined from 31 in 2005 to 25.7 in 2013, compared to an index of 20 across the comparable countries. In addition, the number of stunted children under the age of five declined from 57.8% in 2000/01 to 40% in 2013, and the number of underweight children decreased from 41% to 25% over the same period. Nevertheless, in 2013/14, 2.7 million people were dependent on emergency food aid and another 7 million were chronically food-insecure. Modernising and investing in the agriculture sector, developing the road network to enable better access to inputs and food aid, and improving access to water and irrigation are all key elements in tackling the continuing food insecurity many Ethiopians face.

Political inclusion

Ethiopia has seen a steady increase in political stability since the crisis around the 2005 elections. National elections in 2010 were peaceful, and a smooth transition followed the death of the former Prime Minister, Meles Zenawi, in 2012. Achieving the peaceful transfer of power through the ballot box is evidence of democratic consolidation in Ethiopia.



Ethiopia has doubled its tax revenues in recent years, providing more resources for public services

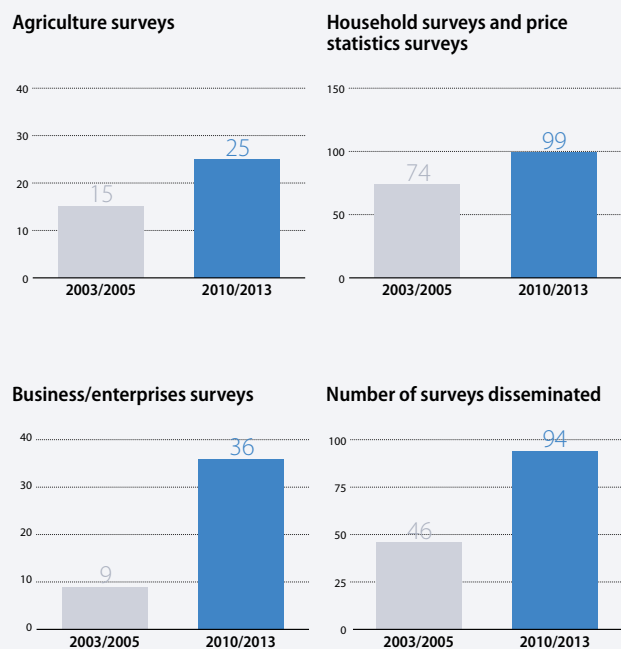
Alongside Ethiopia's success in promoting inclusive growth, there has been good progress in improving economic governance. The Government has pursued prudent macroeconomic policies,

ensuring that high-priority infrastructure spending for poverty reduction was protected whilst a tighter fiscal stance and careful monetary policy tackled the high levels of inflation caused by droughts and high cereal prices in 2011 and 2012. Ethiopia has steadily improved its score on the AfDB's **Country Policy and Institutional Assessment**, from 3.46 in 2005 to 4.01 in 2013 (on a scale of 1 to 6), which puts it on par with the average in the low-income countries in Africa.

In particular, the Government has taken measures to improve its tax administration, almost doubling its tax revenues since 2008/9.

● **Tax revenues** as a proportion of GDP rose from 11.6 % in 2005 to 12.5% in 2013. Further efforts are planned, including strengthening the enforcement of tax laws, widening the tax base, reducing exemptions, and improving tax collection capacity, especially at regional level.

Figure 1.6 Improving the policy-making process through statistics



Source: Central Statistical Agency (CSA).

Reinforcing transparency and fighting corruption

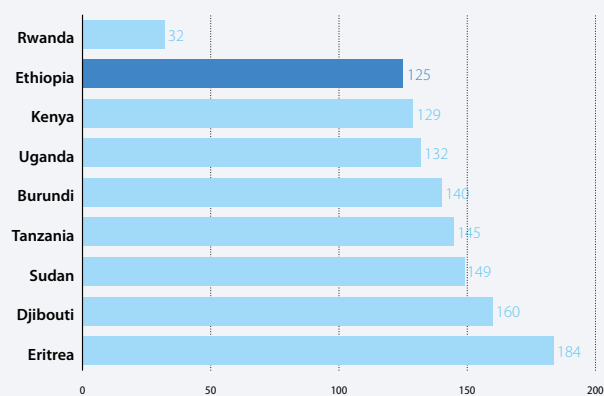
On public expenditure, the Ethiopian Government is tackling concerns about a lack of transparency by publishing more information about its spending at the national and regional levels. New legislation in 2008 gave citizens the right to access expenditure plans, and budget data are now regularly published on Government websites. District budgets

are disseminated through local newspapers and in such public places as markets, government offices, and community meetings.

Ethiopia is making progress in tackling corruption, performing better than the average low-income sub-Saharan country. The ● **corruption perception score** has improved from 2.2 in 2005 to 3.3 on a scale of 1-10, whilst comparator countries average 2.7. A commission was established in 2001 to raise awareness of corruption and to take action to prevent and investigate corrupt practices. Since then a number of senior government officials and private businesses have been successfully prosecuted. According to a recent report of the commission, petty corruption remains widespread across various government institutions, with the power, tax, investment and transport sectors having the highest corruption levels.

Overall, progress on governance in Ethiopia has been mixed. The country's ranking on the ● **Mo Ibrahim index of African Governance** rose from 45.2 in 2005 to 47.6, with Ethiopia at 33 out of 52 African countries. This recognises the Government's considerable success in promoting economic opportunity and human development. However, the index continues to show very low scores in other areas. The indicators on safety and rule of law are also low, although there has been some slight improvement over the past three years.

Figure 1.7 Doing business in the East Africa region (ranking 2013–2014)



Source: The World Economic Forum.

Another area where Ethiopia has done very well is in generating reliable and timely statistics that help improve the policy-making process and the dialogue with civil society. The National Strategy for the Development of Statistics has led to increases in the number of agricultural, business and household surveys over the last few years (see Figure 1.6). To promote transparency, the micro data from these surveys are available to the public, with mapping and data visualisation tools to provide a friendlier user interface. The Central Statistical Agency is leading on this work and is setting up branch offices in the regions to bring statisticians and data closer to the users.

Building a competitive economy

To sustain the remarkable growth of the last decade, Ethiopia's GTP sets out the Government's strategy for the structural transformation of the economy. The plan has as its central focus expanding the manufacturing and processing sectors, to facilitate more private sector activity and improve efficiency so that products can be competitive in local, regional and international markets.

In 2013, Ethiopia's manufacturing sector grew by 18.5%. There is a strong potential for Ethiopia to rapidly transform its economy, link into global value chains and become the African manufacturer of the future. Because of the opportunities to expand into large-scale cotton production—an estimated 3 million hectares are available for cotton farming in Ethiopia—a particular area for potential development is the textiles and garment industries. Ethiopia could be very competitive in this area: wages are considerably lower than those of qualified Chinese manufacturers, and geographically the country is well positioned—it is estimated that shipping from Ethiopia takes about one-third the time required to ship from far Eastern destinations. The leather industry is also very promising, as the country has the largest cattle population in Africa; this would be an attractive sector for foreign investors, especially shoemakers. The furniture industry, drawing on sound forestry management, has a big potential; and Ethiopia's land and lakes also provide resources for a significant increase in agro-processing activities.

An improved business environment will enable more people to become entrepreneurs, to start up and grow their businesses. This will create a more dynamic and thriving private sector in which products are traded and jobs are created. Some improvements to the business context have been made. In particular, the ● **time required for business start-up** fell by more than half, from 34 days in 2005 to 15 days in 2013, compared to an average of 25 days for the comparator countries. However, the ● **cost of business start-up** has increased from 65% of income per capita in 2005 to 100%. Overall, in 2014 the Doing Business survey ranks Ethiopia as 125th out of 189 countries, a deterioration from its ranking of 102nd of 178 in 2008 (see Figure 1.7).

In 2013, Ethiopia's manufacturing sector grew by 18.5%

Barriers to international trade increase operational costs and reduce competitiveness, thus discouraging entrepreneurship and private sector investment. The ● **cost of trading across borders** has increased somewhat to \$2180 in 2013 from \$2037 in 2005, although this is a lower increase than the average in comparable countries. The ● **time to export** has been reduced from 47 days in 2005 to 44 days, but this remains well behind the 31.8-day average across comparable countries. On the positive side, there has been an improvement in the ● **logistic performance index** from 2.3 in 2005 to 2.6, on a 5-point scale. These factors are critical to the competitiveness of business.

Overall, Ethiopia has seen an increase in competitiveness, with its position on the **global competitive index** rising from 3.3 in 2005 to 3.5. The specific indices for the quality of institutions, size of market and labour market efficiency have improved, whilst those for technological readiness, education and training, and financial market development have fallen back and remain very poor. Overall, Ethiopia's score on the index is higher on health and primary education and the macroeconomic environment than on the effectiveness of institutions and infrastructure. Tackling the three challenges of access to finance, bureaucracy and inflation will be important to facilitate business development in Ethiopia.

Access to affordable finance is critical to enable entrepreneurs to invest and grow their businesses. In Ethiopia, access to finance is primarily through the banking system and to a lesser extent through microfinance institutions, which serve 2.6 million borrowers. From 0.9 **commercial bank branches per 100 000 adults** in 2005, the coverage has now reached 2.9 in 2013, compared to an average of 5 in low-income countries in Africa. Nonetheless, barely one in 10 Ethiopians makes use of financial services. Capital markets and a stock exchange have yet to be developed, so companies and entrepreneurs access finance primarily through the banking system. Last year, just one-fifth of bank credit went to the private sector.

Private credit represents only 15.9% of Ethiopia's GDP, compared to 30% across sub-Saharan Africa. The 2014 Doing Business report underlines a range of constraints on the business environment: poor access to credit and foreign exchange, poor telecommunications services, frequent power outages, and the absence of competition in such major sectors as telecommunications and banking.

Foreign direct investment is another key element in a dynamic private sector. Ethiopia is making significant efforts to attract foreign direct investment, which has grown to \$1.2 billion each year over the last three years, compared to just \$150 million in 2005. Ethiopia is now the third-largest recipient of foreign direct investment and has attracted resources into a range of manufacturing areas—leather shoes and products, textiles and garments, coffee, and horticulture. A mix of industries are investing in Ethiopia's industrial zone development, with investors from the USA, China and India as well as the European Union and the Middle East. The growing domestic market, competitive labour prices and proactive industrial policies to attract investment make Ethiopia an increasingly attractive place for investors (see Figure 1.8). A significant amount of new investment now in the pipeline will contribute to further employment creation, expansion into global value chains and Ethiopia's economic transformation.

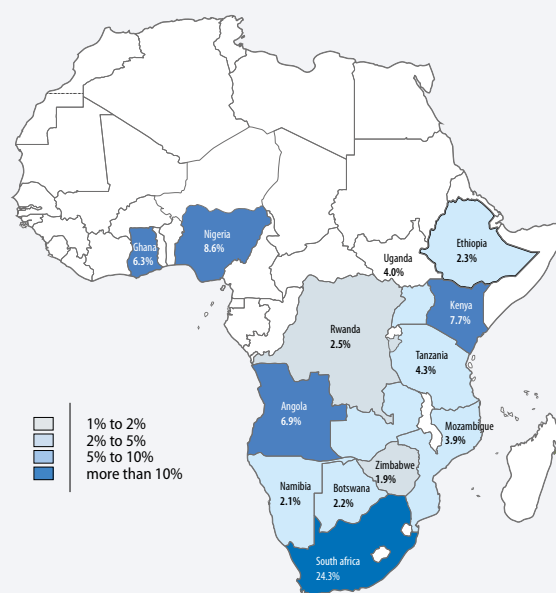
Conclusion

Ethiopia has achieved some outstanding successes in recent years. Its impressive growth rates, sustained over a decade, have been achieved without the oil and other mineral resources that have driven growth in some other countries. High growth has

led to declining unemployment and a steady fall in the poverty headcount. This growth has been supported by extremely high rates of investment in infrastructure and public services, with a strongly pro-poor focus. In recent years, the road density has more than doubled, and access to electricity and clean water has increased dramatically. In the social sectors, life expectancy is well above the African average and infant mortality has fallen, although maternal health still lags behind comparator countries. Access to basic education has increased, although quality and gender equality remain a concern.

Figure 1.8 Sub-Saharan Africa's most attractive countries for foreign investment

Top countries by share of FDI projects in SSA region (2007–13)



Source: EY's 2014 Africa attractiveness survey (total respondents:503), FDI Intelligence.

Despite these successes, Ethiopia remains a poor country with some serious challenges to meet. Food security remains a challenge, particularly with the variable rainfall created by climate change, and agricultural productivity has also remained at a relatively low level because of the lack of investment and the need to modernise farming practices. While there have been some improvements to the business-enabling environment and prospects for developing a dynamic industrial country are high, Ethiopia needs to undertake additional measures to create many of the conditions for a competitive private sector.

In the next chapter, we turn to what the AfDB is doing to help Ethiopia address these challenges. ■



The Koga Irrigation and Watershed Management Project has eased the irrigation of 7000 hectares and contributed to important additional production of maize, potatoes, onions and wheat. As a result, the annual average household earnings in the region have risen from \$135 to \$260.