

Lessons learned in developing productive capacities

The case of Ethiopia

By

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An overview of most important achievements of Ethiopia's economic development model 1991-

2014:

- **long term 10% rate of growth of GDP** over the last decade with investment rate of about 40% of GDP.
- **Real GDP growth per capita averaged 8.0** percent per year with population growth at 2.4% per year.
- **Income per capita has doubled** from US\$270 in 2006/7 to US\$550 in 2012/3.
- **Inclusive growth.** The poverty rate declined from 60.5% in 2005 to 30.76 in 2011, and **Gini coefficient of 33.6** indicates that **inequality has been contained.**

- **In child and infant mortality and life expectancy**, Ethiopia surpassed other low income and Sub-Saharan Africa averages, and has **attained most of the Millennium Development Goals**, especially on extreme poverty, undernourishment, gender parity in primary education, infant and child mortality, maternal mortality, HIV/AIDS, malaria and water access.
- the **average household has better health, education and living standards** today than in 2000. The country **moved from being the 2nd poorest in the world by 2000 to the 11th poorest in 2014;**
- The prognosis (if these trends continue) is that the country **could achieve its goal of becoming middle income country by 2025**

What has been her economic model?

**How Ethiopia became one of the top 10
fastest growing economies in the world,
while growth has been admirably inclusive?**

MAIN CONTRIBUTING FACTORS:

1. The **government** has been (leadership) **clear** about how it **wants to grow the economy** – reduction of poverty and shared growth (commitment to both growth and lifting many people out of poverty).
2. The **government** and the **people** took the **ownership of the process of development** in their own hands and **opted** for its **own way** that is **reflected** in its long-term **economic development strategy** and its five-year Growth and Transformation Plans (**GTP1 and GTP2**). **Implementation** of economic development strategies has been a **concentrated effort by all the players**, governments, farmers and others and even donors. A kind of **national movement** for long-term development and transformation of Ethiopia, **mobilizing people in a positive way** (for example citizens contributing to the construction of dam through the purchase of bonds).

3. The **ownership of the process of development** is reflected in the **choice of policies** that supported the achievement of outstanding socio-economic results: a) **rejection** of the “key recommendation of the Growth Commission of ‘letting markets allocate resources efficiently’. **Instead** has designed its **own policies** (unorthodox):
 - i) **macro/finance policies** to finance high rated public investment, the main fuel behind its economic strategy
 - ii) **vertical** (sectoral) and **horizontal** industrial policies.
4. **Remarkable government’s ability to attract private FDI and ODA** that has been spent to accelerate growth. During 2010-14 about 29 % of domestic investment was financed by foreign aid compared to 50 % during 2000-04.

5. Development of **institutional framework** for the implementation of the long-term economic development strategy and its 5-year growth transformation plans. Again, what is **remarkable** is that **institutional arrangements** have been the **result of development** not the cause of development, demonstrating the **advantage of evolutionary** approach to building development.
6. Development of **organically strong bureaucracy**; commitment to **disciplining the system of rent-seeking** over the long term and **directing rents to increasing productivity** against the individual rent seeking.

This is what I understand as a good development governance.

4. Structural Change – sectoral contributions:

Agriculture: Average **growth rate/year**– 8% . Main factors contributing: development of the largest **extension system** with the highest **extension agents** to farmer ratios in the world during 2010-14, **Farmer-Training Centres, Agricultural Technical and Vocational Training**. Establishment of **support institutes** – rising productivity, bringing in new technology, R&D... seeds.. etc.

Construction: **Key structural drive of growth** (19% of GEDP, 2011): **expansion of physical infrastructure** and the provision of rural public services, **telecommunication** infrastructure, of **power generation** capacity, **investment** in dam, water, sanitation, an on-going **housing** development programme, establishment of **institutional support** (Ethiopian Construction Industry Development Policy Framework, Construction Management Institute etc.)

Education: **significant increase of government spending on primary and higher education, increased share of female students, emphasis on science and technology programmes, increase in the number of universities, educational level of women rose by 0.8 % per year, free schooling, lunches provided in rural areas, classes allowed to be taught in local languages.**

Health: remarkable **achievements**: building **health posts and centres**, deployment of “**health –extension workers**”, one for every 2.500 people, attained health coverage of 98%, increased **contraceptive prevalence rate**, increased **deliveries attended by skilled health personnel**, increased **postnatal care coverage**, decreased **mortality rate of children and maternal mortality**. Important role played by **participative governance**, community engagement and **particularly** participation of women –mobilization of citizens in the implementation of development goals.

Services: the **largest contributor to economic outcome**, absorbing most of migrating rural population from agriculture (17% employment) and half of economic growth - '**premature deindustrialization**'. Modest contribution to poverty reduction compared to agriculture. Modern and **traditional** services, the later **dominate**. Plagued by **rent seeking behaviours** and other **administrative** obstacles, **underdeveloped** market centres, **poor infrastructure**, etc. in spite of several government measures undertaken to increase competitiveness of this sector.

Manufacturing: not significant in driving economic growth during 2001-20014. Accounts for 4 percent of GDP, 7.5% employment (2013), industry 13% (manufacturing and construction). **Legacy** of ADLI/PASDEP that **simulated** development of **rural industry** that brought about positive externalities from-sectoral linkages both to agriculture and manufacturing.

Government policy measures during GTP1: horizontal and vertical (improvement in business environment and sector specific – those with estimated comparative export advantages), building industrial zones for attracting FDI, public private partnership for transfer of technologies, skills...privatization of state companies, etc.

What has been lagging behind: the growth of **enterprise** with the **prospects of competing on the world market** (Asian model), **too little** exposure to **global competition**. It is expected that **GTP2** will put priority on improving quality of production and stimulating competition in the economy by opening to global competition.

Expanded activities from the **private sector** will need to be coupled with the public sector for continued growth.

What can other African countries learn from the 'Ethiopian Way' – worth picking up?

- The strong role that the state plays in charting the course of development and how it succeeded to find a clue how to lead development process by utilizing all levers, government, available domestic and foreign expertise (pick and choose what makes sense for them), support of businesses and citizens.

Ethiopians are the primary drivers of their development process.

- Stable leadership/government from 1991, strong, organically developed bureaucracy, effectively isolated from changes in political leadership, enabling embedding of policy-making, taking ownership of the process of development in their own hands.
- The process by which Ethiopia identified its development model and followed through to make it happen – worth looking at, however, each country needs to design development model that best suits its dynamics.

- The primary drivers of the economic models are the Ethiopian themselves, and they have to decide what works best for them.