

Case Study Summary

*Material wellbeing, education
and employment*

ONE FOOT ON THE GROUND, ONE FOOT IN THE AIR

Ethiopia's delivery on an ambitious development agenda

Amanda Lenhardt, Andrew Rogerson, Francesca Guadagno, Tom Berliner,
Mulu Gebreyesus, Alebel Bayru



Woman in Lalibela. Photo: © Henrik Berger Jørgensen.

- Ethiopia has seen one of the largest declines in extreme poverty in the world – between 1995 and 2011, poverty fell from 63% to 37% – while maintaining a low level of income inequality.
- Ethiopia has expanded primary education at an extraordinary rate, focusing especially on girls, putting the country on course to achieve universal enrolment. Nearly four in five primary-school-aged children were out of school in 1992, but this has fallen to less than one in five.
- Urban unemployment fell by 10% between 1999 and 2013 and the share of people working in the informal sector nearly halved, although substantial challenges in achieving stable, high-quality employment remain.
- Ethiopia's planning has recognised the need for a multidimensional development approach. Poverty reduction has been at the core of government policy, with sectors such as education and employment seen as key drivers in achieving this goal.

This and other Development Progress materials are available at developmentprogress.org

Development Progress is an ODI project that aims to measure, understand and communicate where and how progress has been made in development.

ODI is the UK's leading independent think tank on international development and humanitarian issues. Further ODI materials are available at odi.org.uk

Why explore progress in Ethiopia?

Ethiopia stands out as one of the few countries in Africa on track to meet all of the Millennium Development Goals (MDGs). This is an impressive achievement for a country that started out with some of the lowest levels of human development in the world leading up to 2000.

This case study explores progress in material wellbeing in Ethiopia, measured by reduction in income poverty, and two key contributors to material wellbeing: education and employment. The case study begins with a description of the progress that has been made in Ethiopia in each dimension, followed by an analysis of how progress across these three dimensions has been mutually reinforcing, an investigation into the broad-based activities that have driven progress and an account of the remaining challenges

‘Incomes have improved; you can see this by the new houses in town, more vehicles, families sending their kids to school and people opening bank accounts’ – Farmer in Oromiya

Ethiopia is likely to face. The study recognises concerns of governance, but does not look at these in a concerted way.

While many challenges remain for this large and diverse country, the broad-based progress achieved in Ethiopia over the past 10-15 years offers some important lessons for countries looking to scale up the ambition of their development agendas, and it demonstrates how a multidimensional approach can begin to encourage development actors to work more comprehensively and consistently.

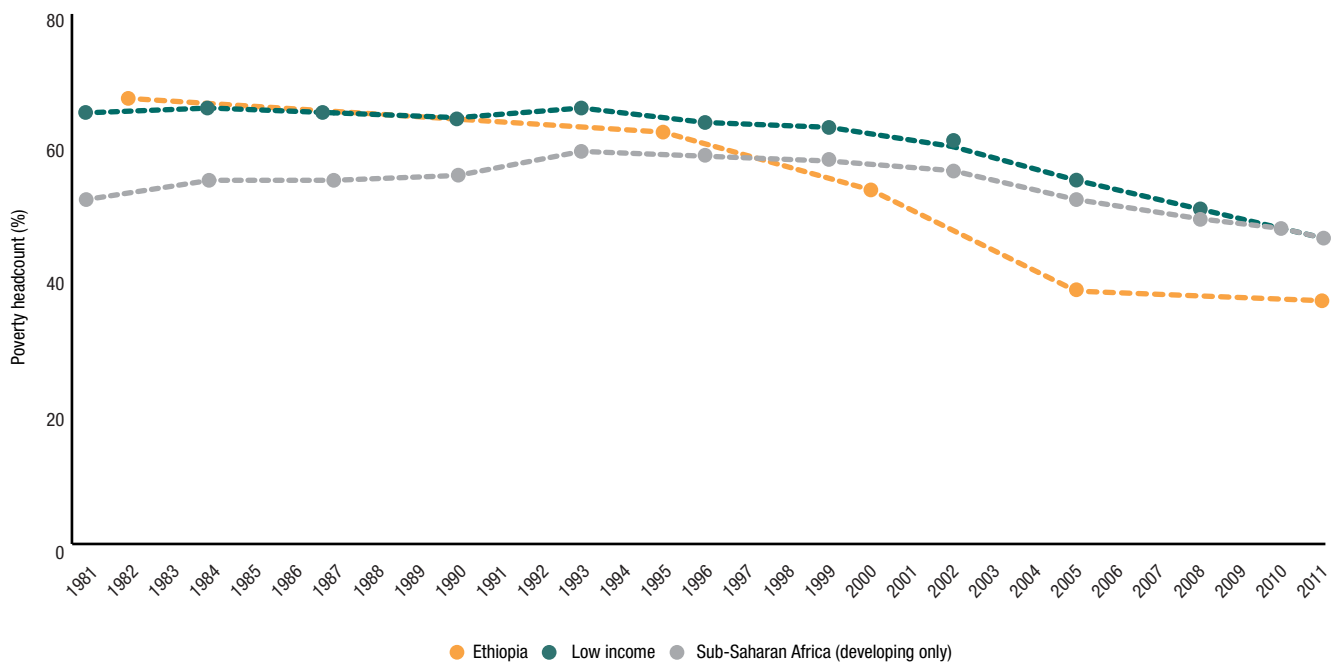
What progress has been achieved?

Material wellbeing

Ethiopia has experienced some of the fastest improvements in poverty reduction in the world, albeit from a very high base. Between 1995 and 2011, Ethiopia’s poverty rate fell from 63% to 37%, faster than both low-income-country and sub-Saharan African averages (Figure 1). Poverty reduction in rural areas has been particularly impressive: Ethiopia’s rural poverty rate is among the lowest in the East African region. Urban poverty reduction has lagged behind, however, increasing from 33% to 37% between 1995 and 1999 before declining to 26% in 2011 (World Bank, 2014).

While many other countries undergoing rapid poverty reduction and high economic growth have seen inequality increase, Ethiopia has maintained one of the lowest levels of income inequality among low- and lower-middle-income countries. It is ranked 12th among 84 countries with

Figure 1: Poverty Headcount ratio at \$1.25/day (PPP) in Ethiopia, low-income countries and sub-Saharan Africa, 1981-2011



(World Bank, 2014)

Note: PPP refers to purchasing power parity, a conversion of the number of units of a country’s currency required to buy the same amounts of goods and services in the domestic market as a \$1 would buy in the United States.

available data and third in sub-Saharan Africa according to World Bank Gini coefficient estimates.¹

The Ethiopian Rural Household Survey (ERHS) also reveals an increase in household assets in rural areas, perhaps indicating not only improved household welfare but also increased resilience in the face of shocks. Data from the ERHS show nearly 50% of households owning oxen in 2009, a near quadrupling from 13% in 1994, and 86% of households owning hoes, an increase from 59%.

Remaining challenges in getting to ‘zero poverty’ include the country’s vulnerable climate and high rate of population growth. Gains for the poorest have also been limited, which is discussed in the challenges section.

Education

Throughout the 1990s and early 2000s Ethiopia achieved an average annual increase in the net primary enrolment rate of 3.1%, the fastest of any country in Africa. Nearly four out of five primary-school-aged children were out of school in 1992, but today the number has fallen to less than one in five, a remarkable achievement. Ethiopia also displays one of the highest rates of improvement in gender disparity in primary enrolment globally as the ratio of girls to boys enrolled has improved from just 0.66 in 1991 to 0.94 in 2012/13 (Ethiopian Federal Ministry of Education (EFME), 2013).

Secondary education has been slower to develop: in 2012/13 the gross enrolment ratio for secondary education (Grades 9 and 10) was still just 38.4%. In absolute terms, however, Ethiopia has managed to increase enrolment from less than half a million in 1996/97 to almost 22 million in 2012/13, and girls actually outnumber boys, thanks to better primary school completion rates (EFME, 2013).

In keeping with the greater numbers leaving Grades 11 and 12, technical–vocational education and training (TVET) and university education systems in Ethiopia have expanded rapidly. In 2012/13, more than 700,000 students were enrolled in university undergraduate programmes, though enrolment was highest among men (70%), and there were more than 300,000 TVET students in the country, with enrolment largely equal between men and women (EFME, 2013).

There is wide consensus that improved access has not been reflected in similar improvement in attainment. In fact, rising enrolment rates are seen by many to have led to a decline in the quality of education provided in Ethiopian schools. This is discussed later as a major challenge to further progress in the country.

Employment

High labour force participation (LFP) rates² (and corresponding low unemployment rates) are common in developing countries. However, LFP rates were high in Ethiopia, at 74% in 2007, compared with the 2009 average for sub-Saharan African countries of 71% (Broussard and Tekleselassie, 2012).

‘The turning point was an attitude change that we are a people able to tackle poverty. We have the confidence and the power’ – Senior government official

Wage employment in Ethiopia increased from 5.7% in 1994 to 10% in 2013, but still represents a very small share of total employment. In urban areas, employment is equally divided between wage employment and self-employment. The persistence of low rates of wage employment nationally is mainly due to extremely low rates in rural areas, as the vast majority of the population are engaged in their own farming activities.

Data on unemployment, the share of employment in the informal sector, and the share of working poor (those employed but still falling below the \$1.25 or \$2 a day poverty lines) all show positive trends in Ethiopia. Informal employment in urban areas decreased from 51% in 1999 to 26% in 2013, and the share of extremely poor workers dropped from 52% in 1999 to 35% in 2005.³ Youth unemployment – which, like overall unemployment, is greatest in urban areas and has consistently declined – has fallen, from 38% to 21.6% between 1999 and 2013, as has formal youth underemployment, which halved between 1999 and 2005 from 50% to 25%. However, overall underemployment increased from 30% in 2005 to 47% in 2011 in urban areas, and informal employment is still high, especially in rural areas.

What are the factors driving change?

High and sustained economic growth, particularly in agriculture

Ethiopia’s near unprecedented growth rate of 11% over the past 10 years can be attributed to a number of factors, including the country’s social and political stabilisation in the mid-1990s, a favourable investment climate relative to many neighbouring countries, and conducive government policies facilitating this growth while also encouraging diversification with an eye towards structural transformation (African Development Bank, 2010).

In line with the Ethiopian government’s overarching goal to reduce poverty, much of its growth strategy has been centred on agricultural development. The efficacy of this strategy has been shown in a recent World Bank study, which estimates that between 2005 and 2011 the sector’s performance alone led to an overall decline in poverty levels of 7% (World Bank, 2015).

1 The Gini coefficient is an imperfect measure of inequality, in particular it is not sensitive to extremes in the income distribution.

2 LFP rate is defined as the ratio of the labour force (employed plus unemployed) to the working-age population.

3 The informal sector is defined as units of production within unincorporated enterprises owned by households.

A suite of government policies have targeted agricultural productivity while also facilitating the flow of benefits from agricultural growth towards the poor. Construction of rural roads that allow farmers to access markets is one of the main pillars of Ethiopia's agricultural development strategy. The country's road density increased from 29 to 44.5 km per 1,000 km² between 2000/01 and 2009/10. The government has also invested heavily in its agricultural extension/advisory programme. Between 2004/05 and 2009/10, 61,785 extension workers were trained and 9,265 farmer training centres were established, one in every village (GRIPS Development Forum, 2011).

Although some finance for agricultural development has been contributed by donors, the Ethiopian government has maintained a large share of investment. Ethiopia has consistently allocated over 15% of total national expenditure to agriculture, which is impressive compared with the rest of Africa, where public spending on agriculture averaged 2.7% in 2013.

Social protection

Ethiopia's Productive Safety Net Programme (PSNP) is the largest social protection programme in Africa and a key driver of poverty reduction. The PSNP was introduced in 2005 as a response to the inefficient use of food aid, which was then being used to resolve periodic crises resulting in food shortages, and also to address chronic food deficits in the country's poorest areas.

The programme targets the most vulnerable areas and households in order to increase poor rural families' long-term resilience to food shortages. The programme provides unconditional, predictable transfers (in cash or food) in periods of food deficit and requires adult able-bodied household members to participate in communal productive activities, for example rehabilitating land and water resources and developing community infrastructure such as roads, schools and clinics. The programme is mainly donor-funded, and its budget represents 1.2% of Ethiopia's GDP.

The public works component of the PSNP has also served to reduce unemployment by creating numerous job opportunities (albeit low paying), with an estimated 1.2 million workers employed annually. By ensuring monthly salaries, public works programmes also contributed to the large reduction seen in the proportion of the working poor population.

A recent World Bank study (2015) estimated that PSNP transfers have reduced poverty by 7% since 2005. Graduation from the PSNP is the long-term goal of the programme and is measured by food security and household asset indices (set at the community level). According to these criteria, around 500,000 people have graduated from the PSNP since 2005. However, improvements in food security have tended to lag behind improvements in asset holdings (Hoddinott, 2014).



Pupils playing volleyball. Photo: © UNICEF Ethiopia/Ose.

Scale of ambition and investment in education

The close linking of education planning to successive development strategies for nearly two decades was both deliberate and consistently implemented. Ethiopia needed citizens able to solve problems, adopt new technologies, become entrepreneurs, take on civic responsibilities and unite under a common language, and the key route to this from the outset has been mass education. Unlike in many other countries, the expansion of education infrastructure and teacher training and deployment has not been a siloed initiative, in competition with other resource and planning priorities.

The sheer scale of national ambition and implementation, particularly for universal basic education, is hard to overstate. Working from an extremely low base towards the goal of achieving 100% net primary enrolment meant that new or expanded schools had to be built in virtually every village cluster (*kebele*). A massive school-building programme across the country has acted both as an enabler of increasing enrolment, providing the facilities to educate and sometimes house students, and as an influence on demand, inspiring more and more parents to send their children to school.

This massive effort has been nested within a long-term commitment to spend 60% of the national budget (including aid, which has been very high for basic services over the past decade) on investments and just 40% on recurrent costs – proportions likely to require rebalancing gradually in future.⁴ Moreover, 70% of the capital spend has been deliberately concentrated in just five sectors (education, health, water supply, transport infrastructure and agricultural inputs and services), of which education has systematically been among the three largest components.

Support to private sector development

Urban employment has been stimulated by private sector support programmes implemented since the 2003 Industrial Development Strategy. Recognising that limited access to finance is a prominent barrier to entrepreneurship, the Ethiopian Development Bank offers foreign exchange and fiscal and financial incentives to large firms in the manufacturing industries targeted by the Growth and Transformation Plan.

The Ethiopian government, with the support of several donors (e.g. the United Nations Industrial Development Organization and the United Nations Development Programme), is also building a number of industrial and

‘The government has a developmental framework that it follows religiously and it has agencies work in priority areas’ – Senior international official

agro-processing parks. These are considered a cornerstone of the industrial strategy to stimulate exports and manufacturing growth. They are intended to attract foreign direct investment (FDI), and so spur investments and exports, and to create additional and higher-quality employment opportunities. FDI can also be an important channel of knowledge and technology transfer for domestic firms.

What is behind the multidimensional nature of Ethiopia’s progress?

An ambitious multidimensional approach centred on poverty reduction

One of the key factors contributing to Ethiopia’s progress in multiple dimensions of wellbeing has been the unifying principle of poverty reduction that is at the core of government planning. The government made a strong statement on poverty reduction in the 2002 Sustainable Development and Poverty Reduction Programme (SDPRP), and it resonates through all subsequent government strategies:

‘For some countries, economic growth is the primary policy goal, and poverty reduction is to be achieved through measures complementary to growth. This is not the approach of the Ethiopian government. Poverty reduction is the core objective of the Ethiopian government. Economic growth is the principal, but not the only, means to this objective.’

Ethiopia’s development planning has consistently recognised the need for a multidimensional approach to policy formulation and implementation, and poverty reduction has been at the core of government policy, with sectors such as education and employment seen as key drivers in achieving this goal. The SDPRP 2002/03-2004/05 explicitly cites sectoral linkages such as human capital development, agricultural productivity and economic growth as goals with common ends, therefore requiring complementary planning.

The subsequent Plan for Accelerated and Sustained Development to End Poverty 2005/06-2009/10 pursued eight ‘pillar strategies’, which put economic growth and private sector development alongside the social aims of the MDGs as part of the same inclusive national drive. The plan pushed for stronger links between agriculture and industry. This was repeated by the subsequent Growth and Transformation Plan (GTP) 2010/11-2014/15.

Decentralisation and the delivery of services

This period of progress in wellbeing coincides with Ethiopia’s transition to a more decentralised governance system, devolving powers from central government to regions and *woredas* (districts). As the country emerged from civil conflict in the 1990s and power was consolidated by the opposition forces to the former Derg dictatorship,

⁴ Interview, Finance Ministry.

the 1995 constitution introduced a unique ethnic federalist system with devolved political, fiscal and administrative powers to nine regions (based on ethnic nationalities), and the Ethiopian People's Revolutionary Democratic Front (EPRDF) took control of central government.

Decentralisation has sought to bring decision-making power on social and economic affairs to local areas, though like any transition to a more decentralised system, it has not been evenly rolled out. There are concerns that the system does not devolve enough power to the *woreda* level, particularly in terms of fiscal powers, and the EPRDF maintains considerable political authority.

Overall, however, with its decentralisation 'experiment', Ethiopia has fared quite well compared with other countries (USAID, 2010). Some interviewees for this paper noted that one purpose of maintaining central power was to ensure that the broader national objective of poverty reduction filtered through all levels of government. Many cited the policy performance matrix, which forms part of the GTP strategy, as an effective feedback mechanism for all levels of government to ensure that policy outcomes contribute to the national poverty-reduction agenda.

Harnessing education to improve agricultural productivity and reduce poverty

Successive phases of the government's GTP, centred on 'agriculture-led industrialisation', were intended to boost land productivity through an integrated, multi-pronged approach. This would involve a massive injection of the traditional mechanisms of agricultural extensions and inputs and rural infrastructure development, but also, and crucially, universal education.

There are a number of channels through which additional education can credibly improve farm productivity and thus lead to higher rural incomes and poverty reduction. Education of the farming family head or 'manager' enables and allows for better choices of output and input mix, the confidence to opt for a higher-value crop mix and the adoption of improved soil- and water-conservation practices. Education of other ex-student workers on the farm assists managers in their choices and can also enable these workers to source non-farm income to pay for farm improvements and act as a risk buffer.

Weir (1999) finds in a study of 14 Ethiopian villages producing cereals using traditional methods that there are significant positive returns to additional years of schooling in terms of crop output. The same study also found that social benefits of schooling – raising the average additional attainment in the village rather than the individual household – have an even greater effect on farm productivity, primarily through the spread of better knowledge.

What are the challenges?

Ethiopia's progress over the past two decades has been remarkable, but has it been transformative? Can we expect this rate of positive change to be sustained? Ethiopia's low baselines in per capita income and human development in the mid-1990s meant that the task of transforming the country would be phased and measured over decades, not years. While progress in the three dimensions considered – material wellbeing, education and employment – has been significant, there remain some important milestones to meet in the coming years to achieve transformation.

Improvements in wellbeing for the poorest are limited

Between 1996 and 2005, growth in consumption among the bottom 10% of the income distribution was higher than for the rest of the income distribution, meaning that the chronically poor benefitted proportionally more than the average. However, this trend reversed between 2005 and 2011, and the poorest saw consumption losses of 0.5% per year (World Bank, 2015). The latest World Bank (2015) Poverty Assessment found that some households today are substantially poorer than any household in 2005. Further evaluation of the effects of policies is needed to identify persisting barriers for the poorest households.

Quality of education and the sustainability of education expansion to higher levels

In 2010, fewer than half of the minority of students who proceeded beyond Grade 5 completed primary education. Of those who went on to take the Grade 10 national learning achievement exams, 77% failed to achieve the prescribed minimum benchmark of 50% in each test. In Grade 12, the corresponding proportion was between 38% and 64% (depending on the subject). Given that Grade 12 is already a highly selected group, failure on this scale is disappointing. There are also large gender disparities – boys tend to outperform girls in testing by some margin.

Furthermore, the financial burden of attaining (near) universal secondary education by 2025, the current strategic objective, is huge. Ethiopia already devotes 25% of all government expenditure to education. Yet fewer than 4 in 10 secondary-age students are currently enrolled. At present, 95% of provision is governmental, with any alternative secondary schooling (fee-paying and charitable initiatives) mostly based in Addis Ababa.

Incomplete transformative change limiting progress in material wellbeing

Ethiopia has made progress in employment quantity and quality, but unemployment in urban areas and low-quality employment in rural areas are limiting the extent to which this progress has contributed to material wellbeing for the poor. These patterns are related to limited structural change in the economy due to low levels of manufacturing growth along with inefficiencies and limited competition.

These challenges are extremely difficult to tackle and require a threefold strategy that combines further support to agricultural productivity, expansion of labour-intensive manufacturing industries and creation of additional sources of skilled labour (e.g. higher-value manufacturing

niches). This strategy would allow rural workers to move to the expanding manufacturing sector, maintain competitive labour costs and at the same time create new job opportunities for both low-skilled and higher-skilled workers in urban areas.

Lessons learned

Ethiopia's stability and consequent ability to make long-term plans and investments in education, agriculture and infrastructure over the past 20 years has allowed the country to make great leaps in development. Granted, some critics consider this very stability a by-product of repressive practices, or at least of the restricted contestability of national and local politics. Nonetheless, Ethiopia's experience over the past two decades contains significant lessons that can be applicable in different country contexts.

- **The integration of sectoral policies can be facilitated through a clearly stated overriding goal of broad-based poverty reduction.** Successive national development plans have targeted rapid mass improvement in rural income and related social indicators, supported by huge investments in education, health, rural roads, input supply and agricultural extension. Such interventions, and the large-scale infrastructure projects which followed, were always framed as means to the end of broad-based poverty reduction through rural income growth. Distributional concerns were, and remain, centre stage, allowing Ethiopia to become a regional exemplar of relatively stable, low levels of inequality, despite over a decade of extremely fast income growth.
- **A consistently implemented series of economic development plans is needed to support this goal, with priority for public investment in pro-poor sectors.** The national economic strategy has consistently relied on relatively high levels of public investment, with a small number of 'priority sectors' (including health, education, rural roads, agricultural support and electrification) given absolute priority, receiving allocations of up to 70% of this substantial public investment budget. This very high investment share may have to be progressively reduced as recurrent cost requirements to support prior investments inevitably rise.

However, this deliberate concentration on pro-poor investments and massive intensification of rural infrastructure has been a powerful and consistent plank of Ethiopia's economic strategy.

- **Long-term planning with a clear division of responsibilities can build foundations for broader transformation.** During interviews, frequent reference was made to 'stepping stones': think big for the long term (as in, 'become a middle-income country by 2025'), but set clear intermediate targets (usually over five years) and then build momentum to carry from one phase to the next. Intervening setbacks are considered, corrective action is taken and, where necessary, enabling policies are altered without deflecting from the ultimate goal. Decentralisation is governed by clear, explicit processes, including a devolved budget formula that includes built-in correctives for regions that are measurably disadvantaged in terms of service coverage. This allows an element of local flexibility while reinforcing the strong emphasis on achieving and maintaining equity across regions.
- **Continuous debate and coordination between sectoral policies and levels of government are required to address multidimensional challenges.** The national GTP includes a policy performance matrix with key deliverables by all relevant central and regional authorities, with explicit benchmarks. Ministers with widely different portfolios (such as agriculture, higher education, finance and planning), when interviewed, were able to refer in consistent language to benchmarks in each other's areas and explain how these efforts fitted together. Similar feedback loops occur across different levels of government through the systems established to monitor activities within the decentralised system.

This summary is an abridged version of a research report and one of a series of Development Progress case studies being released at developmentprogress.org

Development Progress is a four-year research project which aims to better understand, measure and communicate progress in development. Building on an initial phase of research across 24 case studies, this second phase continues to examine progress across countries and within sectors, to provide evidence for what's worked and why over the past two decades.

This publication is based on research funded by the Bill & Melinda Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the Bill & Melinda Gates Foundation.

Overseas Development Institute

203 Blackfriars Road
London SE1 8NJ

The Institute is limited by guarantee
Registered in England and Wales
Registration no. 661818
Charity no. 228248

Contact us

developmentprogress.org
developmentprogress@odi.org.uk
T: +44 (0)20 7922 0300

Sign up for our e-newsletter

developmentprogress.org/sign-our-newsletter

Follow us on Twitter

twitter.com/dev_progress

Disclaimer

The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI.

© Overseas Development Institute 2015.
Readers are encouraged to quote or reproduce material for non-commercial use. For online use, please link to the original resource on the Development Progress website. As copyright holder, ODI requests due acknowledgement and a copy of the publication.

References

- African Development Bank (2010) 'Ethiopia's economic growth performance: current situation and challenges', *Economic Brief* 1(5), September.
- Broussard, N.H. and Tekleselassie, T.G. (2012) *Youth unemployment: Ethiopia country study*. London: International Growth Centre.
- EFME (Ethiopian Federal Ministry of Education) (2013) *Education statistics annual abstract 2005 E.C. (2012/2013 G.C.)*. Addis Ababa: Government of Ethiopia.
- GRIPS Development Forum (2011) 'Democratic developmentalism and agricultural development led industrialization'. *Intellectual partnership for Africa: Industrial policy dialogue between Japan and Ethiopia*. Japan International Cooperation Agency (JICA) and National Graduate Institute for Policy Studies (GRIPS) Development Forum.
- Hoddinott, J. (2014) 'Operationalising graduation in Ethiopia's Productive Safety Net Programme'. Washington, DC: International Food Policy Research Institute. <https://www.ids.ac.uk/files/dmfile/5.1.Hoddinott2014-OperationalisinggraduationinEthiopiaPSNPpvt228-apr-14.pdf>
- USAID (2010) *Comparative Assessment of Decentralization in Africa: Final report and summary of findings*. Burlington, VT: USAID. http://pdf.usaid.gov/pdf_docs/PNADX211.pdf
- Weir, S. (1999) *The effects of education on farmer productivity in rural Ethiopia*. Oxford: Centre for the Study of African Economies.
- World Bank (2015) *Ethiopia Poverty Assessment 2014*. Washington, DC: World Bank.
- World Bank (2014) *World Development Indicators*. Washington, DC: World Bank.