

# The Impacts of Government Policies on Poverty Reduction; Experiences from Ethiopia

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## Abstract

*This paper presents a review of government development policies and their impact on poverty reduction in Ethiopia. In the paper an attempt is made to identify policies; especially with regard to Agriculture sector, as it is the back bone of the livelihood of the people more than 85 percent in Ethiopia. Due to this reason, every development policy in the country is devised in line with this sector so that technology transfer is possible from agriculture to industry. This is why the government of Ethiopia is following a policy known as ADLI, agricultural development lead industrialization. Since the over throw of the derg regime(1975-1991) and the introduction of EPRDF, Ethiopian People's Revolutionary Democratic Front, there have been achieved significant achievements in the service, agriculture, industry and other sectors and a great deal of poverty reduction. This is*

*because of the various successful, people centered and achievable development policies whose focuses is eradicating the worst aspects of absolute poverty that have been existed for centuries and bringing about significant social and economic transformation with in a shortest possible time. While devising the policies, the government made a turning point and total departure from the past in terms of market liberalization and a structural adjustment program reforms which enable to economy recover rapidly. Among others, tariffs have been cut, quota constraints relaxed, licensing procedures simplified, foreign exchange controls eased, compulsory cooperative membership and grain delivery discontinued, subsidized rationing of manufactured consumer goods and fertilizers have been discontinued, privatization of state-owned enterprises begun, private banks authorized, and*

*interest rates decontrolled and an inter-bank money market introduced, etc. In terms of the agriculture sector Capital investment, application of modern and improved agricultural production technology, secured landownership, and effective financial services are some of the factors that initiated and bringing improvement in productivity in agriculture which in turn enable the people to be food secured. Therefore, poverty reduction strategy in Ethiopia has been successful in many respects.*

**Key Words:** Government Policies, Agriculture, Poverty Reduction, Development, Ethiopia

### **1.1 Background**

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. While Ethiopia has been witnessed three major political regime changes in the recent history, the importance of agriculture has been recognized by each government in this period.

However, different policies pursued by the different regimes have resulted in very different outcomes in agricultural and rural development, particularly between the last two regimes in the past 35 years. In this period, the Derg regime (1975-1991) has been characterized as an agrarian socialist regime with widespread government controls in all economic spheres including agriculture. After overthrowing the imperial regime of Haile Selassie, the Derg announced an agrarian reform program to declare all rural land to be the property of the state, together with the nationalization of almost all other assets in the industrial and services sectors such as manufacturing factories, financial institutions, big hotels and many residential buildings. While the agrarian reform had prohibited all tenancy relations and provided a large number of rural households with equal access to cultivation land according to their needs, the restriction on plot size per family, the prohibition of hired agricultural labour, the intensification of collectivization, the establishment of large scale state farms, and a series of other anti-market and state-controlled economic instruments had not only significantly negatively affected the incentives of farmers but also distorted



the market mechanism in guiding land allocation and promoting productivity improvement. While central planning types of development strategies had identified agriculture as an engine of growth and targeted the improvement of food security through agricultural productivity, most growth targets became just a piece of paper and had never been able to achieve. Ethiopia suffered the worst famine on record in 1984 and the country's economy was in the dismal state at the end of Derg Regime.

Bad policies and brutal political repression during the Derg period generated disastrous economic outcomes and led to civil conflict. As a consequence the Derg regime collapsed in 1991 and the Ethiopian People's Revolutionary Democratic Front (EPRDF) assumed power. The years that followed witnessed a radical shift in overall government policy. Both the Transitional government (1991 -94) and the EPRDF government that followed initiated extensive economic reforms including significant market liberalization and a structural adjustment program. Tariffs have been cut, quota constraints relaxed, licensing procedures simplified, foreign exchange controls eased, compulsory cooperative

membership and grain delivery discontinued, subsidized rationing of manufactured consumer goods and fertilizers have been discontinued, privatization of state-owned enterprises begun, private banks authorized, and interest rates decontrolled and an inter-bank money market introduced. Consequently, the direct role of the state in economic activity has declined (MoFED 2002).

The most important development strategy under the transitional government is the adoption of Agriculture Development Led Industrialization (ADLI), which has been a central plank of the EPRDF government's development program until recent years. The ADLI focuses on productivity growth on small farms as well as labour-intensive industrialization. This strategy has been justified because agriculture is the largest sector in terms of output and, particularly, employment and exports; the bulk of the poor live in the agriculture-centered rural areas; considerable gaps exist between rural and urban across key dimensions of human well-being including health, education and income; and there exists substantial potential to raise agricultural productivity.

Consistent with the ADLI, in the mid-1990s, the government focus shifted from policy reforms designed to "get the prices right" to public investment in agricultural extension aimed at boosting productivity through the widespread introduction of modern technology (MoFED 2002). An extensive extension program called the Participatory Demonstration and Training Extension System (PADETES) had been implemented, and through this system, the government delivered off-the-shelf packages of fertilizer, improved seed and credit, as well as information on input use and better agricultural practices to vast majority of smallholders in the rural areas. The promotion of the credit-fertilizer package was accompanied by a further liberalization of the fertilizer market. By 1997, fertilizer subsidies were completely removed and retail prices were fully liberalized, which also resulted in higher fertilizer prices. The use of fertilizer increased, though diffusion and adoption rates remained. Disappointing despite strong-handed promotion of the credit-fertilizer packages existed at times. On average, agricultural output continued to fall behind population growth.

Acknowledging the limited success of PADETES, the government revisited the program and formulated an integrated rural and agriculture development strategy that was launched in 2002. The new development strategy, which is officially known as Sustainable Development and Poverty Reduction Program (SDPRP) (MoFED 2002), has centered on the principal goal of poverty reduction. In line with this program, the government has introduced fiscal decentralization, judicial and civil service reform, and public sector capacity building. After the continuing evidence of widespread food insecurity in the drought of 2002/03, the government also initiated a strong focus on safety nets, programs to build the assets of food insecure households, resettlement, and soil and water conservation (especially water harvesting).

The SDPRP, which covered the three years 2002/03-2004/05, was the first full Poverty Reduction Strategy Paper (PRSP) developed and implemented by the Ethiopian government. It was followed by the second PRSP titled Plan for Accelerated and Sustained Development to End Poverty (PASDEP). The Plan formed Ethiopia's guiding strategic framework for the five-year period

2005/06-2009/10 (MoFED 2005). PASDEP aimed to significantly accelerate growth via the commercialization of agricultural and the promotion of private sector development. It further focused on a number of areas/issues in setting targets and designing interventions -a geographically differentiated strategy, addressing the population challenge,

unleashing the potential of Ethiopia's women, strengthening the infrastructure backbone , managing risk and volatility, scaling up to reach the MDGs, and creating jobs (particularly in urban areas) (MoFED 2005).The following table shows the targeted plans and the performance level of which many are above the expected ones.

Table 1: Growth Targets and Performance under PASDEP

Sector	Average Growth Targets (2005/06-2009/10)		Average Growth Achieved (2005/06-2009/10)
	Base case scenario	High case scenario	
<b>Real GDP (%)</b>	7.0	10.0	11.0
➡ <b>Agriculture and allied activities</b>	6.0	6.4	8.0
➡ <b>Industry</b>	11.0	18.0	10.0
➡ <b>Services</b>	7.0	10.3	14.6

Source: MoFED, 2010

## 1.2 Statement of the Problem

Poverty is a multi-dimensional concept and phenomena. It generally refers to the inability of households to provide sufficient subsistence and to lead a decent economic and social life. The concept of poverty reduction, as currently used, has ambiguous features and imprecise meaning (World

Bank, 2004, Chen and Ravallion, 2001, 2004, 2007; Deaton, 2001, 2002; Kanbur, 2001). It is always necessary to precisely define what one means and intends to capture by the concept of poverty. When a nation declares poverty reduction is its policy objective, it involves different processes of identifying the poor, counting the number of poor people, putting this

figure in relation to the entire population, characterizing the nature, duration and causes of their poverty, and finally developing strategies to address the problem. It therefore becomes important to develop poverty elimination strategies that appeal both to the poor and the non-poor in society and emphasize the idea that eliminating chronic poverty is to the vested economic, social and political interest of the whole population in a nation. The implication of such a perspective is that poverty could be eliminated only if there is a national consensus and support for anti-poverty policies and strategies.

### **1.3 Objectives of the Study**

The study has the following objectives

1. To explore the impacts of the Ethiopian government development policies on poverty reduction.
2. To assess the progresses and achievements obtained as a consequence of the introduction of development policies and the various strategies to implement it.
3. To provide compelling poverty reduction prospects for Ethiopia
4. To identify the challenges for poverty reduction policies and strategies.

### **1.4 Research Questions**

1. To what extent do the government policies impacted the current state of chronic poverty?
2. What are the achievements observed as a result of the government policies in terms of poverty reduction?
3. What are the future prospects for effective poverty reduction?
4. What significant challenges are there against the policies of poverty reduction and the adopted strategies in Ethiopia?

### **1.5 Significance of the Study**

First of all, the study is very much significant for the government and it's various agencies to see the fruits of the government policies whether they are going in the required pace or not; and to take necessary measures for further improvements in the quest of the nation for reducing the prevailed state of absolute poverty in the country. It is also important for those parts of the society who are criticizing the policies of the government without having a compelling and tangible evidence; the paper invites them to explore the progress and be the drivers of the change obtained as a consequence of the government development policies for the



promotion of real development and eradication of absolute poverty in Ethiopia. Furthermore, NGOs, Development partners, Interest groups and other stakeholders will find it helpful.

### **1.6 Constraints of the Study**

Besides the time and financial constraints faced in the entire course of the study, it was so critical bottleneck for the researcher to easily access recently recorded data in sector offices with regard to government policies and strategies to reduce poverty. Accordingly, most of the data used are of 2005 and 2010/11 time space. But the researcher strongly insists that the result provides insights for wide and deep investigation in the topic of accelerated development and poverty reduction in Ethiopia.

### **1.7 Scope of the study**

The study starts with the brief introduction of development policies of Ethiopia, assessing the progresses and achievements scored, challenges and prospects encountered and trend analysis with in the different sectors. When we talk about development policies of Ethiopia, we mean that the starting point for SDPRP and its official inception in 2002. Hence, the study describes the Plan for Accelerated and

Sustained Development to End Poverty (PASDEP), Ethiopia's guiding strategic framework for the five-year period 2005/06-2009/10. The PASDEP represents the second phase of the Poverty Reduction Strategy Program (PRSP) process, which has begun under the Sustainable Development and Poverty Reduction Program (SDPRP), which covered the past three years, 2002/03-2004/05.

## **2. Methodology**

The study is completely relied on secondary data sources. This is because of the nature and scope of the study to include the primary ones. The materials used for the study are found from Development Planning and Research Directorate Ministry of Finance and Economic Development, (MoFED 2002, 2003, 2004/05, and 2010/11), Ministry of Agriculture and Rural Development (MoARD Central Statistical Agency (CSA), Demographic Health Survey (DHS), Ministry of Health (MoH), Ministry of Education (Moe), Ethiopian Roads Authority (ERA), HIV/AIDS Prevention and Control Secretariat, Ministry of Water Resources and regional and international institutions like African Development Bank and World Bank. The method followed

throughout this paper is qualitative and descriptive in nature.

### 3. Poverty in Ethiopia

*“No society can surely be flourishing and happy, of which by far the greater part of the numbers are poor and miserable.”*

*—Adam Smith, 1776*

Poverty in Ethiopia has economic, political, demographic, geographic, environmental, and policy roots and causes. Ethiopia is one of the poorest countries in the world where low income and productivity, weak capital accumulation and investment, high levels of unemployment and underemployment are the main features of the economy. As argued by Moges 2013, the agrarian based subsistence economy has been subject to the vagaries of natural forces and it could not achieve sustained economic growth or structural transformation. When an economy finds itself in such a situation, chronic poverty and vulnerability defines life for the majority of the population. It takes structural change and fundamental reforms to enable economic agents realize their economic potentials and improve their productivity and generate improvement in living standards.

The Ethiopian economy could not achieve structural transformation and remains

largely subsistence oriented mainly because of misguided economic policy and autocratic political regime (Moges 2013:3). Agriculture generates less than half of the GDP while employing nearly 80 percent of the labor force and providing livelihood for more than 90 percent of the population. The central challenge of economic growth and poverty reduction in Ethiopia is essentially how to generate sustainable rise in the productivity of the labor force in agriculture, improve the application of modern technology and inputs in the sector, reduce its vulnerability to shocks, secure non-farm related activities to the rural residents and enable the sector play a leading role in growth process of the country. The agricultural sector is not capable of supporting a rapidly increasing rural population at its prevailing state of technology, labor productivity and policy environment. Productivity level of the peasants remain near subsistence level and



peasants work hard on their fragmented and ever dwindling plots and an emerging army of landless peasants has become a critical issue of concern. Capital investment, application of modern and improved agricultural production technology, secured landownership, and effective financial services are some of the factors that could initiate and sustain improvement in productivity in agriculture.

The main impediments to poverty reduction in Ethiopia emerge from a complex web of interaction of economic, political, demographic, social, geographic, and institutional factors and hence poverty reduction policies should address these underlying forces to develop strategies with lasting effect (Moges, 2006; 2013).

### **3.2 Rural poverty in Ethiopia**

Ethiopia has enormous potential for agricultural development. At present only about 25 per cent of its arable land is cultivated, and agriculture is dominated by subsistence rain fed farming, using few inputs and characterized by low productivity (IFAD 2012). The vast majority of farmers are smallholders. About 12.7 million smallholders produce 95 percent of agricultural GDP. These farmers are extremely vulnerable to external shocks

such as volatile global markets and drought and other natural disasters (ibid).

Smallholder farmers form the largest group of poor people in Ethiopia. More than half cultivate plots of 1 hectare or less and struggle to produce enough food to feed their households. A large number of poor households face a prolonged hunger season during the pre-harvest period. Herders, like farmers, are vulnerable to increasingly frequent drought, which can wipe out their livestock and assets and bring on severe poverty.

It has been discussed in the interview that the persistent lack of rainfall is a major factor in rural poverty. Drought has become more frequent and severe throughout the country over the past decade, and the trend shows signs of worsening. The impact of drought is most severe for vulnerable households living in the pastoral areas of lowlands and the high-density parts of highlands. It is for this reason that the government took irrigation as an alternative strategy for poverty reduction in settling pastoralists along the river banks. Success stories include Benishangul Gumz, Borena and settlements along Awash valley (MoARD 2012)

In addition to their vulnerability to climatic conditions, poor rural people lack basic social and economic infrastructure such as health and education facilities, veterinary services and access to safe drinking water. Among the more specific causes of rural poverty in Ethiopia are: An ineffective and inefficient agricultural marketing system; Underdeveloped transport and communications networks; Underdeveloped production technologies; Limited access of rural households to support services; Environmental degradation; Lack of participation by rural poor people in decisions that affect their livelihoods.

The intensity of poverty varies at the household level in relation to the land's size, quality and productivity, climate conditions and production technologies. Households headed by women are particularly vulnerable. Women are much less likely than men to receive an education or health benefits, or to have a voice in decisions affecting their lives. For women, poverty means more infant deaths, undernourished families, lack of education for children and other deprivations.

### **3.3 Poverty and Food Insecurity**

With gross national income per capita a mere US\$ 160 per year, Ethiopia's average

income is much less than \$1 per person per day, placing it 202nd out of 208 countries (World Bank 2006). It has a rapidly increasing population currently close to 84 million and yet about 40 percent of the population lives on absolute poverty of less than a \$1 a day poverty line (MoFED, 2006) while close to 80 percent falls below US \$2 a day poverty line (World Bank, 2005). Incidence of extreme poverty is higher in rural areas (39.3 percent) compared to urban areas (35.1 percent) MoFED, 2006).

In recent years, Ethiopia's economy has registered encouraging progress. Economic assessment reports by government (MoFED, 2006) indicate that the country has experienced promising economic growth in the past few years. Despite such improvements however, empirical evidences show that poverty decline is marginal. World Bank assessment on national poverty trend of the country for the past fifteen years between 1990 and 2004 indicates a slow pace of poverty reduction with only a decline from 38.4 percent to 36.2 percent of the population (WB, 2005).

### **3.4 Status of national, rural and urban poverty**

According to the 2010/11 HICES, the proportion of poor people (poverty head

count index) in the country is estimated to be 29.6% in 2010/11 (Table 3). In 2010/11, while the proportion of the population below the poverty line stood at 30.4% in rural areas, it is estimated to be 25.7% in urban areas. The poverty gap index is estimated to be 7.8% while it is 8.0% for rural areas and 6.9% for urban areas. Similarly, the national level poverty severity index stood at 0.031 with rural poverty severity index (0.032)

being slightly higher than that of urban areas (0.027). Between 2004/05 and 2010/11, income (consumption) inequality measured by Gini Coefficient has shown a slight decline from 0.3 in 2004/05 to 0.298 in 2010/11. Inequality as measured by the coefficient has declined in urban areas from 0.44 to 0.37, while rural inequality increased from 0.26 to 0.27 though inequality is still higher in urban than in rural areas.

Table 2: Poverty head count indices and inequality in 2010/2011

	Total poverty	Food poverty	Gini-Coefficient. (inequality)
<b>Urban</b>	0.257	0.279	0.371
<b>Rural</b>	0.304	0.347	0.274
<b>Total</b>	0.296	0.336	0.298

Source: HICE survey 2010/11

### 3.5. Trends in national poverty

Using real per adult consumption expenditure, the levels of total, rural and urban poverty indices for 1995/1996, 1999/00, 2004/2005 and 2010/11 are provided in Table 4. Compared to 2004/05, poverty has declined substantially, but limited to the incidence (head count) and depth of poverty (poverty gap). The 2010/11 poverty head count index (incidence of poverty) is lower than the index for 2004/05 by 24% while the poverty gap is lower by 5.5% indicating a substantial

decline in poverty during the five-year period ending in 2010/11 (Table4). Moreover, the decline in poverty is also much higher after 2004/05 (PASDEP period) than after 2004/05 (the SDPRP period).

### 3.6 Trends in rural and urban poverty

As shown above, Poverty has declined substantially between 2004/05 and 2010/11. In 2010/11, much of the decline in national poverty is attributed to a decline in urban poverty in contrast to the decline in poverty in 2004/05 which was mainly due to

a decline in rural poverty. The decline in rural and urban poverty is substantial; and the declines are much higher than during the SDPRP period. The 2010/11 rural poverty head count and poverty gap are lower than that of 2004/05 by 23% and 5.5%, respectively, but poverty severity of 2010/11 is higher than of 2004/05 by 17% indicating that inequality in rural started to rise. The preliminary analysis indicates that there has been a decline in the proportion of rural people who are below the poverty line and the average gap of the poor from the poverty line, but no improvement in the distribution of income among the rural poor. The decline in rural poverty can be attributed to the wide-ranging and multi-faceted pro-poor programs that have been implemented in rural areas such as extension of improved agricultural technologies and farming practices, commercialization of smallholder farming agriculture, rural infrastructural development and a range of food security programs (productive safety net programs, provision of credit etc).

Similarly, urban poverty declined substantially between 2004/05 and 2010/11, but only limited the incidence and depth of poverty. The 2010/11 urban poverty head

count and poverty gap are lower than that of 2004/05 by 27% and 10%, respectively, and poverty severity of 2010/11 is higher than of 2004/05 by 5%. The decline in urban poverty incidence and gap could be attributed to the pro-poor activities undertaken in urban areas since 2005 including the on-going efforts waged by the government to creating favorable environment for private sector investment, job creations and distribution of subsidized basic food items provided to the urban poor in times of inflation over the last five years.

Despite the substantial decline of poverty incidence and gap in both rural and urban areas, poverty is still more of a rural phenomenon. The gap in poverty between rural and urban areas was narrowing until 2004/05, but it slightly widened after 2004/05.

Through triangulating all available information on poverty and welfare (welfare monitoring survey, demographic and health survey and household income and consumption expenditure surveys as well as data of sector ministries), a full-fledged poverty analysis will be conducted subsequently. The determinants of poverty analysis work (as planned in the full-fledged

poverty analysis phase) would help flesh out the factors behind the observed trends in Table 3: Trends of national and rural/urban poverty

poverty from 2004/05 to 2010/11.

Poverty indices over time					Change in (%)	
	1995/96	1999/00	2004/05	2010/11	2004/05 over 1999/00	2010/11 over 2004/05
<b>National</b>						
Head count index	0.455	0.442	0.387	0.296	-12.4	-23.5
Poverty gap index	0.129	0.119	0.083	0.078	-30	-5.5
Poverty severity index	0.051	0.045	0.027	0.031	-39.8	14.4
<b>Rural</b>						
Head count index	0.475	0.454	0.393	0.304	-13.4	-22.7
Poverty gap index	0.134	0.122	0.085	0.080	-30.8	-5.5
Poverty severity index	0.053	0.046	0.027	0.032	-40.6	17.0
<b>Urban</b>						
Head count index	0.332	0.369	0.351	0.257	-4.7	-26.9
Poverty gap index	0.099	0.101	0.077	0.069	23.6	-10.1
Poverty severity index	0.041	0.039	0.026	0.027	33.5	5.1

*Source: HICE survey of 1995/96, 1999/00, 2004/05 and 2010/11*

### 3.7 Food poverty status till 2010/11.

The achievement of food self-sufficiency is one of the key objectives of the government as articulated in its GTP and rural development policies and strategies, which is also consistent with the MDG goal of eradicating extreme poverty or hunger. As for total poverty, the various aggregate poverty measures are also computed for

food poverty. The food poverty index measures the proportion of food-poor people that fall below the food poverty line.

The proportion of food poor people (food poverty head count index) in the country is estimated to be 33.6% in 2010/11 while it stood at 34.7% in rural areas and 27.9% in urban areas. The food poverty gap index is estimated to be 10.5 % while it is 11.1 % for

rural areas and 7.3 % for urban areas. Similarly, the national food poverty severity index stood at 0.046 with rural food poverty severity index (0.05) being slightly higher than that of urban areas (0.029). The overall result indicates that all kinds food poverty indices (incidence, depth and severity) is higher in rural than in urban areas.

### **3.8 Trend in food poverty**

The national food poverty index declined from 38% in 2004/05 to 33.6% in 2010/11 while it declined from 42% in 1999/00 to 38% in 2004/05. This showed that the food poverty index declined by 12% from 2004/05 to 2010/11 while it declined by 9% from 1999/00 to 2004/05 (Table 5).

When food poverty is decomposed in to rural and urban areas, we see more decline of food poverty in urban areas (by 21%) than in rural areas (by 8%) between 2004/05 and 2010/11. Despite the huge decline in rural food poverty incidence and gap between 2004/05 and 2010/1, no decline has been observed in the severity of food poverty (squared poverty gap) during the same period in rural areas. Given the food inflation and droughts since 2004/05, it is very encouraging to witness a reduction in food poverty

incidence and gap in rural and urban areas of Ethiopia. This resilience of people can be attributed to the broad based economic growth, the ability of the Ethiopian government to manage crisis and protect the vulnerable people from economic shocks.

### **3.9 Status of regional poverty**

The regional distribution of total and food poverty in Ethiopia and trends in this distribution are shown in Tables 7 and 8. In 2010/11, poverty head count index is the highest in Afar (36.1%) followed by Somali (32.8%) and Tigray (31.8%), while poverty estimates are lowest in Harari (11 percent) followed by Addis Ababa (28.1 percent) and Dire Dawa (28.3 percent). In terms of food poverty, the highest poverty is observed in Amhara (42.5 percent) followed by Tigray (37.1) and Benishangul Gumuz (35.1%). The lowest food poverty is found again in Harari (5%) followed by Dire Dawa (21.7%) and SNNP (25.9).

The 2010/11 poverty results indicate that total poverty is much lower than food poverty in all regions and both total and food poverty have decline over the past five years in all regions despite the occurrence of frequent domestic economic shocks such as inflation and drought and worldwide shocks that hit many of the rural and urban



population in the country. Registering substantial poverty reduction in times of such domestic and global crisis show the appropriate policies put in place and the

capability of the Ethiopian Government to protect its vulnerable people from the economic crises.

Table 4: Trends of regional poverty headcount indices

Region	1995/96			1999/2000			2004/05			2010/11		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
<b>Tigray</b>	0.579	0.457	0.561	0.616	0.607	0.614	0.510	0.367	0.485	0.365	0.137	0.318
<b>Afar</b>	0.518	-	0.331	0.680	0.268	0.56	0.429	0.279	0.366	0.411	0.237	0.361
<b>Amhara</b>	0.567	0.373	0.543	0.429	0.311	0.418	0.404	0.378	0.401	0.307	0.292	0.305
<b>Oromya</b>	0.347	0.276	0.340	0.404	0.359	0.399	0.372	0.346	0.370	0.293	0.248	0.287
<b>Somali</b>	0.346	-	0.309	0.441	0.261	0.379	0.452	0.353	0.419	0.351	0.231	0.328
<b>B.B.G</b>	0.476	0.345	0.468	0.558	0.289	0.54	0.458	0.345	0.445	0.301	0.213	0.289
<b>SNNP</b>	0.565	0.459	0.558	0.517	0.402	0.509	0.382	0.383	0.382	0.300	0.258	0.296
<b>Gamb.</b>	0.418	0.244	0.343	0.546	0.384	0.505	NA	N.A	N.A	0.325	0.307	0.320
<b>Hariri</b>	0.133	0.291	0.22	0.149	0.35	0.258	0.206	0.326	0.270	0.105	0.117	0.111
<b>AA</b>	0.404	0.300	0.302	0.271	0.362	0.361	0.299	0.326	0.325	...	0.281	0.281
<b>DD</b>	0.366	0.246	0.295	0.332	0.331	0.331	0.398	0.329	0.352	0.142	0.349	0.283
<b>Total</b>	0.475	0.332	0.455	0.454	0.369	0.442	0.393	0.351	0.387	0.304	0.257	0.296

Source: HICE survey of 1995/96, 1999/00, 2004/05 and 2010/11; N.A =Not Available

#### 4. Overview of Agriculture and Poverty Reduction in Ethiopia

Ethiopia's economy is predominantly agrarian where agriculture plays a key role in the social and economic development. The sector employs more than 83% of the population, accounts for 46.3 % of the

national gross domestic product (GDP) and is the source of over 90 % of the export revenues (MoFED, 2006). Smallholder agriculture is the dominant sub-sector accounting for 95% of the total cultivated land and production (CSA, 2008).

Agricultural production is characterized by subsistence orientation, low productivity, low level of technology and inputs, lack of infrastructures and market institutions, and extremely vulnerable to rainfall variability. The economy of Ethiopia is based largely on low productive rain-fed agriculture where production heavily depends on rain for its success or failure. According to recent reports by MoARD (2008), crop land under irrigation is only 5 percent of the total cultivated area in the country. The greatest challenge in the country has been the prevalence of deep rooted and multidimensional poverty and food insecurity. Because of its structurally food deficit for many decades, Ethiopia has been persistently exposed to food aid dependency to feed millions of its people (MoFED 2006).

It has been nearly three decades since the government of Ethiopia had formally adopted Agriculture Development Led Industrialization (ADLI) as its development strategy in 1994. The main goal of this strategy is to attain fast and broad-based development within the agricultural sector and to make this sector's development to power broad economic growth. ADLI had been further rationalized as the basis of the

poverty reduction program subsequently adopted by the government in 2002 (MoFED, 2002), a program is officially known as Sustainable Development and Poverty Reduction Program (SDPRP).

Given that 85% of Ethiopians live in the rural area and more than 90% of the poor are in the rural, agricultural growth direct transfers into poverty reduction if the growth is significant. While income generation role of agricultural growth is important for poverty reduction, as many poor in rural Ethiopia either mainly produce for own consumption need or are the net buyers of cereals, the direct consumption effect of agricultural growth is equally important in poverty reduction in the country. While the country has conducted agricultural production sample survey almost in each year, the national representative household surveys in income, consumption and expenditure (HICES), which can provide a poverty measure, have been conducted only in each five years in the recent 15 years. Moreover, the HICES is only available publicly for the two runs of 1995/96 and 1999/2000, which have been widely used in poverty assessment in the literature. The most recent HICES was conducted in 2004/05, but the survey data is

not available for analysis, besides the poverty rate reported by the government.

#### **4.1 Opportunities for Poverty Reduction in Ethiopia**

##### **4.1.1 Agriculture and Irrigation Policies**

Since the change of military regime in 1991, the government of Ethiopia has formulated policies and strategies to guide over all development with focus on rural and agricultural development. The fundamental development objectives are to build a free-market economic system in the country, which will enable it develop rapidly, extricate itself from dependence on food aid and poor people to be the main beneficiaries from economic growth (MoFED, 2002).

The agricultural strategy focuses on commercializing subsistence agriculture through capacity building of various actors, development and adoption of high yielding technologies, diversification of high value commodities, establishment of marketing system, development of irrigation and water harvesting technologies, and sustainable use of natural resources (Deressa, 2008). Irrigation development is one of the major pillars of the rural development strategy. In more recent years, the strategy of irrigation has shifted from large-scale approaches to small-scale and household level

intervention. Following the new policy, most regional states including the study area, Tigray, have introduced household level irrigation schemes at massive scale aiming to achieve food security. For instance a report by the ministry of agriculture and rural development (MoARD, 2007) indicates that in 2007 alone about 952,000 households have built small water harvesting ponds to promote irrigation at farmer level.

##### **4.1.2 Trends in Growth and Poverty: Poverty Reduction Prospects during the Period of the PASDEP**

Based on a relatively strong economic growth, and especially the recovery of food production, it could be expected that there has been significant improvement in the poverty situation of many households since the 1999/00 HICE Survey, especially in those localities most affected by the drought in 2002/03.

The outcomes of the analysis based on the 2004/05 HICES as outlined above have confirmed the potential decline in the head count ratio from its level in 1999/00(44%). According to the HICES 2004/05, poverty head count at national level has declined from 44% in 1999/00 to 38% in 2004/05. Although poverty is still a rural

phenomenon, poverty incidence as measured by the poverty head count index has shown a significant decline, by 12% during the period (from 45% in 1999/00 to 39% in 2004/05) while urban poverty has shown a marginal decline from 37% in 1999/00 to 35% in 2004/05. The encouraging trends in the outcomes of the non-income dimension of poverty as indicated by increased access in primary education, the significant decline in stunting and wasting (improved nutritional trends), increase in literacy rates complements the outcomes in income poverty as described above.

If such a trend in poverty reduction continues over the PASDEP period, the national poverty head count index will further decline to 29% and the national food poverty head count index to 28%. However, the country now being on a fast growth trend, it is expected that income/consumption poverty will further decline during the PASDEP period faster than that of the SDPRP period. Therefore, the projected poverty head count index for 2009/10 was less than or equal to 29%. If the inflation rate present is maintained with in single digits food poverty head count index is projected to decline to less than or equal to 28%.

This outcome has also been supplemented by trends in relevant macroeconomic indicators such as per capita GDP and per capita private consumption expenditure. Real Per capita GDP has been increasing at 2.8% on average over the period. At the same it is worth examining the trend in per capita Private Final Consumption Expenditure (PFCE), which is a more proximate proxy indicator of the possible decline in income/consumption poverty since 2000.

Per capita PFCE on average showed an annual increase of over 3 percent during the SDPRP period. Attempts have also been made to document the outcomes of independent research works on trends in income poverty. Independent small-scale studies/surveys, such as those conducted by the Economics Department of the Addis Ababa University, have also been consulted. The Rural Household Survey conducted during almost the same period by the Economics Department of the Addis Ababa University has shown that rural poverty has declined significantly while trends in income poverty in urban areas sent mixed signals, a decline in some and stagnation in others with increases in income inequality in urban areas.

#### **4.1.3 Eradicating rural poverty in Ethiopia**

The Government of Ethiopia has made – and continues to make – significant efforts to address poverty in rural areas. Its five-year Growth and Transformation Plan (GTP) for 2010/11 through 2014/15 carries forward the successful strategies of the previous Plan for Accelerated and Sustained Development to End Poverty. The GTP emphasizes the importance of promoting rapid and broad-based economic growth through seven strategic objectives:

- Sustaining equitable economic growth;
- Maintaining growth focused on agriculture and rural areas;
- Developing industry
- Expanding infrastructure;
- Enhancing the expansion and quality of social development;
- Building capacity and promoting good governance;
- Promoting empowerment of women and young people.

During the last seven years, Ethiopia has made substantial economic progress, with sustained growth at an average rate of more than 11 per cent (MoFED 2012). This progress is complemented by the strong

performance of the agricultural, industrial (construction and manufacturing) and service sectors, which have seen average growth rates of 10percent, 10 per cent and 13.2 per cent, respectively. The construction sector has been stimulated by public sector investment in infrastructure (Ibid).

In this same period, health service coverage and school enrolment at all levels improved remarkably across the country, and access to potable water increased, as human capital development also received significant consideration from the government.

As part of the country's infrastructure expansion, high-quality asphalt roads and rural community roads have been constructed all over Ethiopia. This expansion has increased road density from 29 km per 1,000 km<sup>2</sup>, according to official figures for fiscal year 2000/01, to 44.5 km in 2009/10. As a result, the average time it takes to reach all- weather roads has been reduced from about 7 hours in 2000/01 to 3.7 hours in 2009/10. Meanwhile, hydroelectric power generation capacity has brought electricity access to 41percent of the population in fiscal year 2009/10, up from 16 per cent in 2004/05. And the proportion of the population with access to telecommunications services within a 5km

radius has reached 50 per cent.(MoFED 2012)

By committing more than 60 per cent of its total expenditures over the last seven years to poverty-oriented sectors – such as agriculture, education, health, water and road development – the government has maximized its efforts to bring about pro-poor economic growth. Despite this impressive record, however, major challenges remain, including low levels of income, savings and productivity in the agricultural sector, limited implementation capacity, unemployment and a narrow modern industrial base.

Growth efforts have also been threatened by the twin challenges of inflation and pressure on the balance of payments. In addition, development finance had been a critical constraint on the implementation of programmes articulated in the country's development plan. And while the macro-economic situation has been stabilizing, close monitoring and prudent management will be required to sustain that stability.

Ethiopia has been exposed to weather-induced challenges as well. Climate change is a key emerging factor, with adverse effects on the ecological, social and

economic fabric of society. Therefore, addressing climate change has important implications for poverty reduction, equality and human rights. The various impacts of climate change may well have a dampening effect on Ethiopia's economic growth rates, adversely affecting prospects for achieving its national development and Millennium Development Goal targets.

In response to the severity of chronic food insecurity in the country, the government, together with development partners, has launched a Programme helping nearly five million people emerge from dependence on food aid. The Programme aims to increase demand for domestic grain purchases, thus reducing the volume of imported food aid and contributing to stabilization of domestic grain prices – and encouraging private-sector investment in agricultural marketing.

## **4.2 Progresses and Achievements under the Sustainable Development and Poverty Reduction Program (SDPRP)**

### **4.2.1 Macroeconomic Performance**

As indicated by the successive Annual Progress Reports (APRs) in the past three years, the Ethiopian economy had registered encouraging but mixed results, with negative real Gross Domestic Product (GDP) growth



rate of 3.3% in 2002/03 as a result of drought, followed by strong positive performance of 11.9% and 10.6% during the subsequent two years, 2003/04 and 2004/05 respectively. Consequently, during 2002/03-2004/05, annual real GDP growth averaged 6.4%. All economic and social sectors have contributed to the growth achieved in overall GDP. The registered GDP growth rate, in comparison with the population growth rate of an average of 2.75%, implies that the average annual per capita income growth rate was 3.65%.

Although the growth of agriculture value added declined by 11.4% following the

drought in 2002/03, due to the prevalence of favorable conditions including adequate rain and provision of adequate supply of agricultural inputs, agricultural production increased by 17.3% and 13.4% in the following years (2003/04 and 2004/05), respectively. During the same period, the industrial sector has also registered 10.0% and 8.1% growth rate, and distribution and service sectors registered 7.3% and 8.4%, respectively. Inflation, which stood at 15.1 in 2002/03, declined to 6.8% by the end of 2004/05. Indicators of macroeconomic performance for the SDPRP period are provided in the Table 5 below.

Table 5: Trends in Macroeconomic Performance Growth Rates (%)

S.N	Description	2001/02	2002/03	2003/04	2004/05
1.	GDP in 1999/00 prices	1.0	-3.3	11.9	10.6
1.1	Agriculture	-2.1	-11.4	17.3	13.4
1.2	Industry	8.3	3.0	10.0	8.1
1.3	Distributive services	3.3	2.9	8.2	7.6
1.4	Other services	0.3	6.1	6.4	9.1
2.	Private consumption expenditure	-0.2	8.6	12.5	23.1
3.	Gross domestic investment	10.9	4.5	17.3	15.5
4.	Food production (1994/95)	33	35	39	67
5.	Inflation	-8.5	15.1	8.6	6.8
6.	Domestic Revenue	1.2	6.4	24.8	12.0
7.	Tax revenue	14.8	4.0	32.3	13.7
8.	Total government expenditure	-1.4	24.1	0.0	20.9
9.	Recurrent expenditure	-4.1	28.3	-11.6	10.5
10.	Capital expenditure	6.4	3.0	31.0	37.1
11.	Pro-poor sectors expenditure	37.1	13.8	18.4	37.6
12.	Export (goods and services)	0.6	21.8	18.8	34.2
13.	Import (goods and services)	9.4	13.7	25.7	33.3

Source: MoFED, 2006

Fiscal development in the past three years supported the overall macroeconomic stability. Appropriate policy measures were introduced to encourage taxpayers through facilitating the tax collection system and its revenue generation. Measures taken include: income tax streamlining and closing of loopholes, improving the incentive system, strengthening tax administration, overhauling the income tax law and regulations, introducing a broad-based Value Added Tax (VAT) and tax identification numbers, and rationalizing tariff rates. As a result, tax revenue is estimated to have increased to 13.7% of GDP in 2004/05 from nearly 12% of GDP in fiscal year 2002/03. Following from the registered trend, in subsequent years, revenue from income taxes is expected to increase.

Domestic revenue mobilization efforts have been supplemented by increased external resource flows, which has increased from US\$693.6 million in 2002/03 to US\$937.5 million and US\$1055.9 million in the fiscal years 2003/04 and 2004/05, respectively. The Government has signed project program agreements worth US\$841.5 million in 2002/03 with development partners and US\$826.7 million was allocated for new

development projects during fiscal year 2003/04. Out of the total flow of external resources, direct budget support in the past three years had shown a significant increase from 309 million Birr in 2002/03 to 2.9 billion Birr in 2004/05. Viewed against the reform undertaken by the Government, external loans and grants were more focused to direct budget support instead of program and project support. The utilization of resources mainly on infrastructure and human resource development has greatly contributed to the achievement of growth and macroeconomic stability.

The main reason being the increased expenditure allocated for most development as well as pro-poor sectors, especially on capital expenditure, government expenditure, during the last three years, has also registered substantial increase. Defense budget has been maintained constant not to exceed 3 billion Birr per year. For example in the fiscal year 2004/05, actual defense expenditure was reported to be 2.4 billion Birr, 6% less than the figure in 2001/02. Total government recurrent expenditure declined from 19.7% GDP in 2002/03 to 13.5% of GDP in 2004/05 while capital expenditure increased from 9.2% of GDP to 11.5% of GDP in the same period.

In general, encouraging achievements were registered during the last three years with regard to fiscal management. The share of fiscal deficit amounted to 5% of GDP on average including grants. Out of the total deficit, 2.6% on average was covered through domestic borrowing.

During the SDPRP period, government resource allocation and implementation was geared towards investments on development and pro-poor sectors (agriculture and food

security, education, health, Human Immune Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS) and provision of clean water supply) as well as on infrastructure development, particularly in road construction.

In general, from the total government expenditure, spending on poverty-oriented sectors has increased to 56.5% in 2004/05 from 43% in 2001/02. (Table 4)

Table 6: Trends in Pro-Poor Sectors Allocated Budget out of Total Government Expenditure (%)

Sector	2001/02	2002/03	2003/04	2004/05
Education	14.2	16.1	20.4	19.7
Health	5.9	4.9	4.3	4.8
Agriculture and food security	9.2	8.1	13.4	16.3
Road	10.7	9.9	9.6	11.2
Water and sanitation	2.8	2.9	2.0	4.5
Total	43	42	50	57

Source: MoFED, 2006

With regard to the external sector, exports registered substantial growth in recent years, owing to both increase in volume and revival in the prices of major exports in the international market. In 2003/04 and 2004/05, the total value of exports grew by 25% and 41.6%, respectively. Imports also surged in 2004/05, reflecting a general rise

in private sector investment and consumption demand, and government spending on capacity building and poverty-reduction projects, in addition to escalating prices of basic imports such as fuel and construction materials. The unparalleled increase in imports of goods was reflected in a widening trade and current account deficit



of the balance of payments. The external current account deficit (excluding official transfers) widened to 15.3% of GDP in 2004/05 from 11.3% of GDP in 2003/04. However, the increase in inflows of long-term official loans served as a cushion, protecting the country's reserves from declining. At the end of 2004/05, foreign exchange reserves stood at 4.5 months of import coverage.

With regard to the financial sector, there have been encouraging achievements during the last three years particularly with the deepening of financial sector reform. The market share of private banks has been steadily increasing in terms of all banking operations. For example, by the end of 2004/05, their share in total banking system deposits had reached 25.3%, and they accounted for 49% of new loan disbursements. Domestic credit increased by 31.5% by the end of 2004/05 as claims on the non-government sector increased by 58.5%. The latter was largely attributable to the increase in claims of commercial banks on public and private enterprises. As a result, the 19.6% growth in broad money supply is solely attributed to substantial growth in domestic credit, as NFA are estimated to have decreased by 0.7% in

2004/05. The growth in domestic liquidity was 10.9 by the close of 2003/04 (MoFED, 2006:5).

All banks including the Development Bank of Ethiopia (DBE) disbursed 52% more fresh loans reaching 9.4 billion Birr in 2004/05 compared to 6.2 billion Birr a year earlier - reflecting the continued strong economic growth. Nearly 86% of the fresh loans went to the private sector. Despite these developments, however, commercial banks have been still faced with excess liquidity (ibid, 6).

Commendable progress has also been made in the restructuring of the Commercial Bank of Ethiopia, improving its service delivery and further reducing its non-performing loans (NPLs), which had declined from about 37.7 % in June 2004 to 27.2% by the end of June 2005.

#### **4.2.2 Performance of Economic and Social Sectors**

During SDPRP, implementation of programs under the major economic and social sectors was encouraging. During the SDPRP period, increased efforts have been made to provide the public with improved services in poverty-oriented sectors (education, health, provision of clean water



supply, and HIV/AIDS), infrastructure (roads, telecommunication, and power), and in agricultural development and food security. The most notable successes during this period in the implementation of economic and social sector programs and strategies are outlined below:

#### 4.2.3 Agriculture and Rural Development

The Agricultural Development Led Industrialization (ADLI) Strategy is among the pillars of SDPRP. In order to accelerate and expand industrial development and increase overall economic growth, it is essential to develop the agricultural sector which is crucial to ensure the provision of inputs for industries as well as to fulfill food requirements. Furthermore, the sector is the subdivision of the economy where the major human power required for development is engaged in addition to being the foundation for major growth in value added registered/achieved in the last three years and the source of foreign exchange earned during this period. Moreover, program achievements under SDPRP include:

- At the end of 2004/05, a total of 23,378 Development Agents (DAs) were trained through the agricultural Technical Vocational Education and Training (TVET) initiative which is

designed to train DAs and farmers in leadership skills. 5,493 Farmers Training Centers (FTCs) have been completed and are ready to begin service as well. Assisted by DAs, several farmers were trained and encouraged to shift to small-scale modern farming practices;

- Improved extension package services were implemented in accordance with the existing environmental and market conditions and were geared towards addressing problems of production and productivity as well as to respond better to farmers' needs;
- The launch of the National Food Security Program that seeks to attain food security for five million chronically food insecure people; and another 10 million who are badly affected by food shortages in drought years. This is referred to as Productive Safety Net (PSN). The major components involve:
  - (a) Grants to the regions to be used for:
    - Enhanced agricultural production packages (seeds and extension) in food insecure areas,



- Small-scale irrigation and water harvesting; and,
  - Voluntary resettlement out of food insecure areas.
- (b) A productive safety net program that includes:
- A public works program to employ the poor in building roads and other infrastructure during difficult times; and,
  - Free distributions to orphans, the elderly, the disabled, and others who cannot work
- The size of irrigated land and the number of farmers using irrigation have increased significantly. In this regard, currently over 200,000 farmers practice water harvesting;
  - A new land proclamation system and program of issuing over 4 million certificates in the four regions (Amhara, Oromya, Southern Nations Nationalities and People's Region (SNNPR), and Tigray) of the country put in place to increase security of tenure among farmers;
  - Special programs designed to support the pastoral areas in Afar, Somali, Oromya and SNNPR. The program include provision of clean water supply, livestock development, and provision of marketing through improvements in infrastructure and social services;
  - Improving grain marketing and introducing the warehouse receipt and inventory control system to address problems of high seasonal price variability, poor storage and infrastructure. This is believed to contribute to stabilization of current grain prices fluctuation;
  - Restructuring and strengthening cooperatives in urban and rural areas. In this regard, it is planned to increase the beneficiaries from such services from 30% in 2004/05 to 70% by the end of the PASDEP period;
  - Support to Micro Finance Institutions (MFIs) as well as to intensify and improve financial services in rural areas;
  - Development of livestock through improved breeds, forage development, and veterinary service;
  - Facilitating in terms of producing export-oriented agricultural products that takes into consideration improved quality and recent market information; and,





- Implementation of the national environmental program that initiated the establishment of regional environmental agencies and institutions by developing the necessary guidelines and laws those promote proper land use and soil conservation, water resource management, forest resource management as well as wild life and biodiversity utilization and conservation.

#### 4.2.4 Health

Recognizing the low level of health development in Ethiopia and to improve the services in this sector, the Government's health strategy has targeted the most common poverty-related diseases including malaria, Tuberculosis (TB), childhood illnesses, and HIV/AIDS. It has also been shifting services to improve the health needs of rural people, who make up 85% of the population. In line with this, the Government launched the Health Extension Worker Program (HEWP), to move services out from facilities to the household and village level. So far, 3,000 women workers have been trained to deliver basic sanitation, immunization, and other health services. Besides, over 7,000 additional health workers are being trained to be deployed to

expand the service of the program nationwide. New health centers and institutions have been established as well.

The steps taken and results achieved during SDPRP period include the following:

- Training of over 10,500 new nurses, technicians, and front-line health workers;
- Increased health budget from 12 Birr per person in 2001/02 to about 19 Birr per person today (by the end of 2004/05);
- Built over 1,900 new health posts and centers, increasing the share of the population living within a radius of 10 km from 51% to 64%;
- Developed and put into effect a Multi-sectoral HIV/AIDS Plan, along with a Social Mobilization Strategy against HIV/AIDS which is a policy for supplying Anti-Retroviral Treatment (ART) to advanced AIDS cases in addition to expanded service delivery facilities and better tracking, measurement, and prevention programs;
- Immunized over 3 million additional children;
- Introduced a new system of health care financing, where the private

sector and donors are encouraged to participate in generating additional income in the form of drug donation; and,

- Meet all targets set for malaria control, child immunization, and family planning programs as well as establishment of health centers.

#### **4.2.5 Education**

With regard to education, during SDPRP, efforts were made to increase primary school coverage in line with the Second Education Sector Development Program (ESDP II). During this period, the number of children in primary school increased from 8.1 million in 2001/02 to 11.4 million in 2004/05 taking the gross enrolment ratio (GER) from 61.6% to 79.8% (70.9 female and 87.3 male). GER for females has increased from 52.2 % to 71.4 %. As for primary school GER for those children aged 7-14, the rate has increased from 51.2% to 67.8% (female 62.9% and male 72.5%). Both the gross and the age based enrolment ratios do not include those attending informal education.

Among the factors that contributed to the accelerated progress achieved in this period is the significant increase in the number of primary schools from 11,780 in 2000/01 to

16,513 in 2004/05. The progress is supplemented by the fact that 80% of the constructed schools are located in rural areas and by the increased awareness of the community towards girls' education. Whereas enrollment ratios show overall increasing trend, it is necessary to note that there is disparity among regions. In particular, the enrolment ratio of Afar and Somalia regions are found to be low. Hence, special programs were initiated to respond to the needs of rural and pastoral areas where it is more difficult for children to go to school in the abovementioned regions and in South-Omo, Oromya and Benshangul-Gumuz regional states. For example, the Government has started the implementation of mobile education system in line with the formal one in Afar region.

#### **4.2.6 Energy**

In the past three years, with regard to electric power generation, the total power generated from the inter-connected and self-contained systems (ICS and SCS) has increased from 473 Mega Watts (MW) in 2001/02 to 768.5 MW and 791 MW in 2003/04 and 2004/05, respectively. During the same period, the power generated from self-contained systems increased from 19.99 MW to 22.78 MW. Total length of high

voltage transmission lines (230 kilo volt, 132 kilo volt, 66 kilo volt and 45 kilo volt) has increased from 6,304.22 km in 2000/01 to 6,534.04 km and 7,927 km in 2003/04 and 2004/05, respectively. The length of distribution lines has increased from 9,512.9 km in 2001/02 to 13,798 km in 2003/04 and 25,000 km in 2004/05 as well.

#### 4.2.7 Gender and Development

Since the SDPRP pursued by the Government has placed a strong emphasis on the participation of women in the development process, policies and strategies have been formulated to integrate and mainstream the gender dimensions in economic, social, and political decisions. Hence, the Government has taken strong measures in placing gender responsive goals and targets to reduce the workload of

women so as to enable them to participate in political and socio-economic decision-making. Furthermore, progress has been made in the adoption of a new Penal Code, which contains strong measures in support of women's rights. Protective legislations have been passed in terms of women's access to land, credit facilities, and productive resources as well.

Encouraging results have been achieved in conducting awareness creation workshops to introduce gender dimensions in budgetary processes and resource allocation as well as in building the capacity to implement strategies. Table 1.3 below describes SDPRP pro-poor sectors and corresponding indicative targets and outcomes against the set targets.

Table 7: Outcomes Against Selected Thematic/Sector Targets for the Period of SDPRP

S.N	Indicators	Targets for SDPRP Period(2002/03-2004/05)	Status Beginning of SDPRP Period	Outcomes by the end of SDPRP 2004/05	Source
1	Agriculture				
	Growth of agricultural value added (%)			13.4	
	Cumulative number of households who benefit from the extension package (in million)			6.9	
	Cumulative number of cooperatives engaged in the distribution of improved seeds and			4092	Ministry of Agriculture and Rural Development (MoRAD)

	fertilizer				
	Cumulative number of farming households who receive joint certificates (in million)			4.1	
	DAs that receive extensive technical and vocational training in agriculture			23378	
	Cumulative number of FTCs			5493	
<b>2.</b>	<b>Education</b>				
	Number of students in primary school (in million)		8.1	11.44	
	Gross Primary Enrollment (%)	66	61.6	79.8	Ministry of Education (MoE)
	Male			88	
	Female			71.5	
	Gross primary enrolment between the age of 7 to 14 (%)		52.2	67.8	
	Male			72.5	
	Female			62.9	
	Number of primary schools		11780	16513	
	Literacy rate (%)		29.2 (1999/00)	37.9 (2004/05)	Central Statistical Agency(CSA)
<b>3.</b>	<b>Health</b>				
	Contraceptive prevalence rate (CPR) (%)	24	8	15	Demographic Health Survey (DHS)
	Pre-natal care coverage (%)	45	30	42	Ministry of Health (MoH)
	Infant mortality rate	85/1,000	97/1,000	77/1,000	
	Under five mortality rate		140/1,000	123/1,000	CSA
	Dephteria Pertusis and Tetanus (DPT3) coverage (%)	70	50	50	
	Measles vaccination (%)		41	61	
	Number of health stations	2,667	1,311	4,211	
	Number of health centers	585	412	600	
	Number of hospitals	117	115	131	
	Usage of health services (%)	50	27	30	
	Heath coverage (%)	65	52	72	
<b>4.</b>	<b>Roads</b>				
	Road density (km/1,000 km2)	32.3		33.6	Ethiopian Roads Authority (ERA)
	Road density (km/1,000	0.49		0.51	

	people)				
	Total road network (km)	35,693	33,297	37,018	
	New road construction (km)	5,561		5,561	
<b>5.</b>	<b>HIV/AIDS</b>				
	HIV prevalence among pregnant mothers age 15-24 (%)	10		8.6	HIV/AIDS Prevention and Control Secretariat
	Overall HIV/AIDS Prevalence Rate (%)	7.3		4.4	
	Percentage of HIV positive pregnant women receiving a complete course of ART prophylaxis	15		42	
	Number of patients taking ART	24,00		21,120	
	Orphans who receive support	200,000		69,000	
	Preparation of directive/guideline for orphans	1		1	
<b>6</b>	<b>Water</b>				
	Rural (within distance of 1.5 km)		23 (1999/00)	35	Ministry of Water Resources
	Urban (within distance of 0.5 km)		74 (1999/00)	80	
	Cumulative farm land developed with irrigation (ha)			62,057	

Source: MoFED 2006

Projects: 16

Total cost: US\$1.004 billion

Total financing from IFAD: US\$388 million

Directly benefiting:

10,400,000 households

#### 4.3 IFAD's strategy in Ethiopia

IFAD, IFAD is an international financial institution and

a specialized UN agency, works with poor rural people

to enable them to grow and sell more food, increase their

incomes and determine the direction of their own lives.

Since 1980, IFAD has invested a total of US\$388 million in

16 programmes and projects in Ethiopia that have an overall cost of more than US\$1 billion. IFAD has also provided US\$28 million in debt relief to the country under the Heavily Indebted Poor Countries Debt Initiative.

IFAD's strategy in Ethiopia is well aligned with the government's GTP strategy. This approach focuses on supporting investment programmes with the greatest potential impact on sustainable household food security, and on the incomes of poor people. The IFAD strategy is to improve poor rural people's access to natural resources such as land and water, improve agriculture and livestock production technologies and support services, and develop reliable financial services. IFAD-supported projects particularly target women, small-scale farmers and herders.

IFAD has taken the lead role, together with its partners, in the development and expansion of rural finance, small-scale irrigation and support systems for pastoral communities. To provide increased support to these interventions efficiently and effectively, IFAD signed a host country agreement with the Government of the Federal Democratic Republic of Ethiopia in July 2010, and appointed an out posted Country Director and Representative with a fully fledged country office in Addis Ababa. This country presence has enabled IFAD to strengthen engagement with the government, programmes, projects and development partners.

## **5. AREAS FOR FUTURE POLICY INITIATIVES TOWARDS POVERTY REDUCTION IN ETHIOPIA**

Addressing existing problems and promoting economic progress require initiatives in five areas:

### **5. 1 sustaining growth in crop and livestock production**

Model simulations suggest that if agricultural growth can be maintained at 6 percent per year, an additional 3.7 million people would be lifted out of poverty by 2025, as compared with a business-as-usual scenario. Achieving this high rate of agricultural growth will require considerable effort, however. Land and water constraints will make it difficult to achieve either crop or livestock production gains in the highlands regions, where most Ethiopians live, without major investments in productivity-increasing technologies such as improved seeds and veterinary services, extension, and small-scale irrigation.

In drought-prone highland areas, promoting nonfarm activities may be the best way to increase food security. Newly cultivated lands in non-highland rainfall-sufficient areas offer some prospects for national production gains, but infrastructure and marketing constraints must be overcome, and great care will be required in those areas to avoid environmental degradation.



### 5.2. Increasing market efficiency

Domestic markets for agricultural commodities have grown exponentially over the past two decades. Efficient market functioning depends on the adequacy of infrastructure, information, and institutions, though, and Ethiopia's record in these areas is mixed. Physical infrastructure has improved significantly between 1991 and 2008: expansion of the road network and moderate growth of cities has increased the share of the population that lives within five hours' travel time of a city of at least 50,000 people, from 33 percent to 62 percent. Electricity generation capacity more than doubled between 1991 and 2009. Telecommunications still lags behind, however. Despite increases in cellular phone ownership over roughly the past 10 years, only 2 percent of Ethiopians owned a cell phone in 2008, compared to over 40 percent of Kenyans. Institutions can also benefit from further development. One important market institution, the Ethiopian Commodity Exchange (ECX), was launched in 2008. Almost all of Ethiopia's coffee exports flow through the ECX, but the ECX has not yet fostered the desired cereal market development. Consistent government policies to enable the private sector to thrive alongside public sector market institutions

and cooperatives could help accelerate agricultural development in Ethiopia as it did in many of Asia's most successful countries (ifpri 2013).

### 5.3. Providing effective safety nets

Increasing food security for many asset-poor households requires effective disaster response policy and safety nets. Successful responses to past food emergencies have included early warning systems, well-managed grain reserves, and distribution of food and cash in ongoing safety net programs.

The Productive Safety Net Programme (PSNP), introduced in 2005 as an alternative to annual emergency food-aid distribution, has proven very effective in targeting poor households with food and cash transfers, as well as building local infrastructure through a work requirement for those recipients who are able to work.

Econometric estimates derived from household surveys indicate that households in the poorest 40 percent of the household expenditure distribution receive more than 60<sup>1</sup> percent of total PSNP transfers. Research has also shown that programs to offer credit, skills training, and other

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<sup>1</sup> IRPRI 2013. [www.ifpri.org](http://www.ifpri.org)

services have been effective as complements to cash and food transfers in building participant households' assets and livelihoods.

While it may not be the dominant policy instrument to address major production shortfalls, emergency food aid likely will still be required in some years. A decentralized public response system is also necessary to ensure timely responses to serious hunger threats before dire famine conditions emerge. Along with such public support, commercial imports can make a major contribution to the food supply, provided that government policies on the timing and levels of food-aid inflows and distribution are transparent, so as to provide clear signals to the private sector.

#### **5.4. Maintaining macroeconomic incentives and stability**

Ethiopia has enjoyed significant macroeconomic stability over much of the past 20 years, particularly during the 1990s. In more recent years, however, agriculture and food security have suffered from two episodes of macroeconomic instability. The first episode was a period of high domestic inflation in 2007–09 that affected prices of major food staples. The rate of food price inflation increased from only 2 percent

during fiscal year 2003/04 to 78 percent during 2007/08. The second episode was a foreign exchange shortage in 2009–10 that led to foreign exchange rationing, major disincentives to production of agricultural export crops, and lower real incomes for farmers.

Ethiopia restored broad macroeconomic stability by late 2009 through fiscal and monetary measures that included sharp restrictions on domestic credit and a gradual devaluation of the Ethiopian birr relative to other currencies. Domestic inflation increased again in 2010, however, as credit increased rapidly. Preventing further crises and achieving sustained macroeconomic stability will be crucial to the success of Ethiopia's growth and poverty-reduction efforts.

#### **5.5. Managing the rural–urban transformation**

Ethiopia is one of the least urbanized countries in the world: urbanization stands at 16 percent, well below the regional average of 30 percent for Africa south of the Sahara. This low urbanization rate may inhibit overall economic growth, however, because urban areas can foster productivity gains by facilitating flows of information, allowing firms to increase their scale of operation,

and providing larger and potentially more efficient labor and product markets.

The low urbanization rate is partly due to government land policy. For almost 40 years, the government has owned all Ethiopian land and has attempted to provide the people with free and equal access to land usage. Land policy (under which land users cannot sell, exchange, or mortgage their land-usage rights) discourages urbanization because households stand to lose a major asset if they leave rural areas. Moreover, lack of secure land rights can discourage productivity increasing investments in land.

Measures that facilitate sale of land or avoid loss of land usage rights for those who migrate could accelerate rural-urban migration and potentially increase economic growth. For example, providing farmers with legal certification of their rights can decrease farmers' perceived risk of eviction and encourage investment in soil and water conservation and land productivity. Ultimately, an appropriate balance is needed between rural and urban public investments so as to facilitate both economic growth and overall poverty reduction.

## 6. FINDINGS OF THE STUDY

The principal findings of the analyses are the following.

- ➡ The incidence of poverty declined markedly between 2004/05 and 2010/11. The headcount poverty rate fell from 38.7 % in 2004/05 to 29.6 % in 2010/11. This implies that Ethiopia is on the right track to achieving the MDG target of reducing poverty by half. Over the same period, poverty gap is also reduced, but not the severity of poverty. Headcount poverty fell in all regions of the country.
- ➡ The headcount poverty rate fell in rural areas from 39.3 % in 2004/05 to 30.4 % in 2010/11. Over the same period, in urban areas it declined substantially, from 35.1 % in 2004/05 to 25.7 % in 2010/11.
- ➡ Nationally, the Gini coefficient for per adult equivalent consumption remained constant. In urban areas there was a substantial decline in inequality from 44 % in 2004/05 to 37.8 % in 2010/11 while it was increasing until 2004/05 at an alarming rate.



- ➡ The outcomes of the analysis based on the 2004/05 HICES have confirmed the potential decline in the head count ratio from its level in 1999/00(44%).
- ➡ According to the HICES 2004/05, poverty head count at national level has declined from 44% in 1999/00 to 38% in 2004/05.
- ➡ Although poverty is still a rural phenomenon, poverty incidence as measured by the poverty head count index has shown a significant decline, by 12% during the period (from 45% in 1999/00 to 39% in 2004/05) while
- ➡ urban poverty has shown a marginal decline from 37% in 1999/00 to 35% in 2004/05.
- ➡ The fruits of the national policies for sustainable development and poverty reduction along with the IFAD's contribution are bringing about a compelling prospect in the reduction of the worst aspects of absolute poverty in Ethiopia.
- ➡ Among the major causes of poverty in Ethiopia are: An ineffective and inefficient agricultural marketing system; Underdeveloped transport and communications networks;

Underdeveloped production technologies; Limited access of rural households to support services; Environmental degradation; Lack of participation by rural poor people in decisions that affect their livelihoods.

- ➡ The challenges for sustainable development and poverty reduction policies are found to be very much seasonal and unreliable rainfall experienced over the centuries in the highland areas of the country, inconvenient topography of the vast highland and low land areas for irrigation and modern agriculture, lack of awareness and too small donor participation in the area of sustainable land management technologies, very small capacity of the farmers to afford for significant amount of modern fertilizer and improved seeds.

## 7. CONCLUSION

It is found that the central challenge of economic growth and poverty reduction in Ethiopia is essentially how to generate sustainable rise in the productivity of the labor force in agriculture, improve the application of modern technology and inputs

in the sector, reduce its vulnerability to shocks, secure non-farm related activities to the rural residents and enable the sector play a leading role in growth process of the country. In the long history of poverty in Ethiopia, till very recently, Agriculture losses its dominance through its success, not its weakness, for problems in the primary sector could prevent the economy from launching sustainable structural transformation. When we see the development trend in the republic of Korea, a nation which scored a spectacular rise in social and economic transformation, the agricultural sector has been assisted by research and training with the significant financial support for such a purpose from the various institutions. However, though, agriculture has a huge potential for transforming the country to a stage where everyone enjoys the fruits of development, this has been remained history for a century.

With the regime change and the advent of EPRDF, many changes are being seen among others, in terms of poverty reduction, a policy area in which the country is known for many centuries in the international community. Surprisingly, it was in the last five years that the name, Ethiopia has been erased from being used to be the example

given for famine in the great oxford dictionary! This was due to the results of the transformation and poverty reduction policies and strategies of the government in power. Now a days, as discussed above, Educational revolution is exploding and consequently the number of higher education institutions has been increased from 2 in 1995 to 33 in 2014. The implication of such a proliferation of higher education institutions is that it is bringing a significant impact on the agricultural sector by carrying out demand driven action researches and disseminating to the users. Haramaya, Jima and Ambo universities are counter examples.

The paper provides the status and trends of national, rural, urban and regional level poverty incidence, gap and severity as well as income inequality measured by Gini coefficient. Household Income and Consumption Expenditure Surveys (HICES) conducted by Central Statistical Agency (CSA) of Ethiopia in 1995/96, 1999/00, 2004/05 and 2010/11 have been used to analyze poverty.

The significant decline in rural and urban poverty ensures that Ethiopian will reach the MDG goals of eradication extreme poverty. Such achievement in the reduction of

poverty can be attributed to the wide-ranging and multi-faceted pro-poor programs that have been implemented in rural and urban areas such as intensification of agriculture, infrastructural development, food security programs, the pro-poor urban development activities (such as development of micro and small scale enterprise development and use of cobblestone in urban road construction, housing construction, etc), the on-going efforts undertaken by the government to create favorable environment for private sector investment and job creations, and the distribution of subsidized food items to the urban poor over the last five years. Despite the substantial declining of poverty over the past five years, poverty remains high at 29.6 percent. Therefore, the past and on-going government efforts resulting into the huge reduction of poverty must be strengthened. Especially the urban focused development activities that have created job opportunities for the urban people and youth with additional means of livelihood must be sustained

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