

ETHIOPIA

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Edward BATTE SENNOGA / e.sennoga@afdb.org
Admit WONDIFRAW ZERIHUN / a.zerihun@afdb.org
James WAKIAGA / James.Wakiaga@undp.org
Haile KIBRET / haile.kibret@undp.org



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- Real GDP growth slowed to 8.0% in 2015/16¹ from 10.4% last year and is projected to remain stable at 8.1% in 2016/17 and 2017/18.
- Public protests disrupted the nation in 2016 in the Oromia and Amhara regions, with the protestors citing concerns about political and economic marginalisation. The authorities declared a six-month state of emergency in October 2016, enacting a variety of measures to restore peace.
- Ethiopia's national development plans place emphasis on promoting export-led industrialisation with a focus on light manufacturing. However, the contribution of the industrial sector to GDP, employment and exports remains low.

Overview

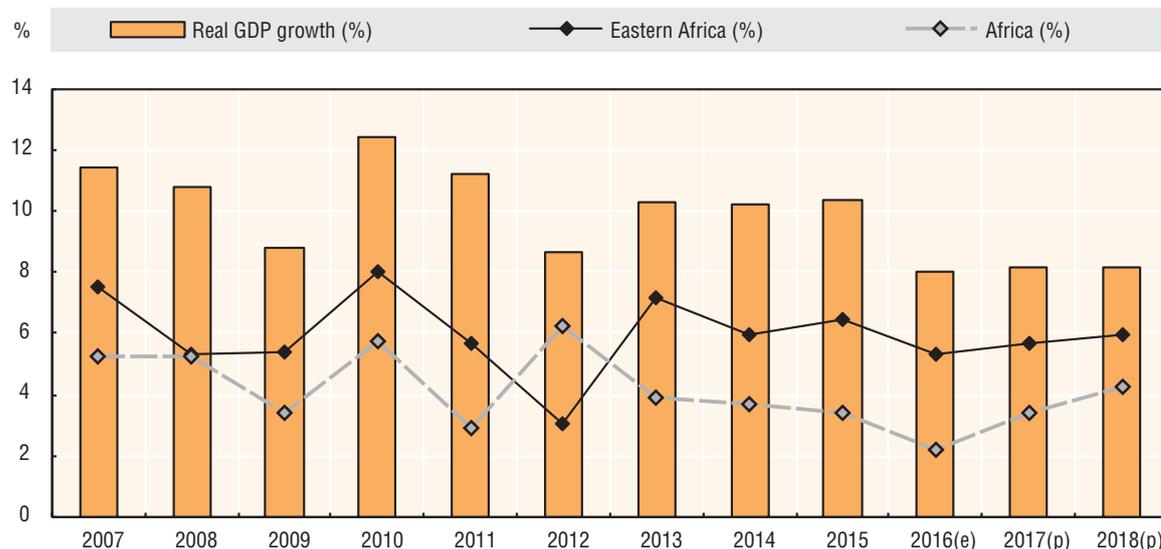
Real GDP grew by 8.0% in 2015/16, a slowdown from the 10.4% registered in 2014/15. The services and industry sectors led growth during this period. Growth in the agriculture sector was negatively affected by the El Niño-induced drought. For 2016/17 and 2017/18, investments in energy and transport infrastructure; on-going reforms to spur industrialisation, such as the development of industrial parks; and continued progression in services are expected to lead growth. Agriculture is projected to rebound and grow steadily.

Headline inflation is projected to remain consistent with the central bank's (National Bank of Ethiopia's [NBE]) price stability objective of single digit inflation in 2016/17. Inflationary pressures are expected to fall due to subdued food prices. Import-intensive public infrastructure investments are expected to continue in the near term as the government sustains the implementation of energy and road transport infrastructure projects to improve the business-enabling environment. The current account deficit is projected to remain in double digits in the short term as export earnings continue to account for about 30% of imports. Uncertainty about international commodity prices and weak global demand are key downside risks.

The 2004 Industrial Development Strategy guides Ethiopia's ambition of achieving agricultural- and export-led industrialisation. However, the share of the industrial sector in GDP remains low, averaging 12.2% between 2006/07 and 2015/16. The expansion in industry has been led by construction, while the contribution of manufacturing to GDP remains small at 5.4% in 2015/16. The second Growth and Transformation Plans (GTP II) 2015/16–2019/20 prioritises export-led industrialisation. The approach to promoting industrialisation under GTP II is consistent with the Inclusive and Sustainable Industrial Development (ISID) framework. Ethiopia, as one of the three pilot countries under this framework, has developed a Programme for Country Partnership (PCP) in collaboration with other partners, including the United Nations Industrial Development Organization (UNIDO). The PCP is a vehicle for implementing the ISID framework. The Micro and Small Enterprises Development Strategy (2011) was developed to increase the contribution of Ethiopia's entrepreneurs to the country's industrialisation ambitions. This strategy focuses on improving the business-enabling environment, access to finance and market linkages. Measures to promote private sector development have also been implemented such as privatisation of state-owned enterprises, business regulatory reforms and infrastructure development.



Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators

	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Real GDP growth	10.4	8.0	8.1	8.1
Real GDP per capital growth	7.9	5.5	5.7	5.7
CPI inflation	10.1	6.9	8.4	11.6
Budget balance % GDP	-1.9	-2.4	-3.7	-3.3
Current account % GDP	-10.4	-10.6	-11.3	-11.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent economic developments and prospects

Real GDP grew by 8.0% in 2015/16, lower than the 10.4% growth registered in 2014/15. The expansion in 2015/16 was driven by the services and industry sectors, which grew by 8.7% and 20.6% respectively. The service sector remains the leading contributor to real GDP growth, although its growth rate was lower than the 11.2% registered in 2014/15. Trade, hotels, transport and communications led growth in the services sector, which accounts for the largest share of GDP. Public administration, real estate activities and financial intermediation also propelled the services sector. Domestic credit increased by an estimated 27.1% in 2015/16, slightly below the 31.5% recorded in 2014/15, also boosting the services sector.

Growth in the rain dependent agricultural sector slowed due to the induced drought in 2015, decreasing from 6.4% in 2014/15 to 2.3% in 2015/16. However, the impact of the drought was mitigated by strong crop production during the *Belg* (March-August) harvests, with production increasing by 113.8% compared to a decline of 1.3% during the *Meher* (September-February) harvests. Crop production remains the leading driver of growth in the agriculture sector. Animal farming and hunting experienced negative growth in 2015/16 because of the drought. The weather phenomena experienced during the period October-December 2016, particularly affected the southern and eastern parts of the country. The changing rainfall patterns caused by La Niña are expected to reduce agricultural productivity during 2017, especially if the March-May 2017 rains



are also negatively affected. Ethiopia's 2011 Climate Resilient and Green Economy (CRGE) Strategy and GTP II are being implemented to increase resilience to climate change.

Industrial sector value added increased by 20.6% in 2015/16, up from 19.8% the previous fiscal year. Construction and manufacturing led the expansion in industry, increasing by 25% and 18.4%, respectively, in 2015/16 compared to 31.6% and 18.2%, respectively, the previous fiscal year. Construction benefited from public infrastructure investment, notably in transport, energy, water and sanitation. Investments in industrial parks, to reduce the cost of doing business, contributed to the steady manufacturing growth. Growth in mining, although still negative, recovered to 3.3% in 2015/16 relative to the 25.6% reduction recorded in 2014/15. Gold exports accounted for 10% of total exports in 2014/15 and 2015/16, but the share of mining in GDP remains low at about 0.8%. GTP II is placing emphasis on high value-added production to promote export-led industrial development and to reduce reliance on weather dependent agriculture and unprocessed export commodities.

Merchandise export revenues decreased by 5% to USD 2.9 billion in 2015/16. This is in part due to reductions in receipts for key exports of coffee (-7.4%), oil seeds (-6.4%) and gold (-8.8%) following a decrease in prices. Growth in the volume of coffee and oil seed in 2015/16 – relative to 2014/15 – was inadequate to offset the reductions in prices for these two commodities. Gold exports were affected by a reduction in both volume and prices. Exports of coffee, oil seeds and gold accounted for 52% of total export earnings in 2015/16, a percentage point lower relative to 2014/15.

The value of merchandise imports increased by 1.6% during 2015/16 to USD 16.7 billion due to growth in imports of semi-finished products (chemicals, fertilisers and textile materials) and consumer goods, which jointly accounted for 48.8% of total imports. The rise in imports of food items due to the 2015/16 drought also contributed to the growth in merchandise imports. Cereals and other food items accounted for 9.9% of total imports in 2015/16 compared to 6.4% the previous fiscal year. On the other hand, imports of raw materials, fuel, capital goods and miscellaneous imports, which jointly accounted for 51.2% of total imports, were lower in 2015/16 compared to 2014/15. Lower international oil prices reduced the cost of fuel imports while the subdued cost of raw materials and capital goods imports could, in part, be explained by the appreciation in Ethiopia's real effective exchange rate. The trade deficit, as ratio of GDP, remains high, but was slightly lower in 2015/16 relative to the previous fiscal year.

Private transfers remain a significant foreign exchange earner. Net private transfers increased from USD 4.9 billion in 2014/15 to USD 6 billion in 2015/16, with remittances increasing from USD 3.8 billion (5.1% of GDP) to USD 4.0 billion (5.8% of GDP). The deficit on net services exports widened to USD 721.5 million in 2015/16 from USD 341.4 million the previous year. Thus, the current account deficit – including transfers – remains high due to the persistent trade and services account deficits.

The balance on the capital account, while lower in 2015/16 compared to the previous fiscal year, remains high at 8.8% of GDP (USD 6.2 billion) mainly due to the continued growth in foreign direct investment (FDI). FDI has increased since 2010/11, reaching USD 3.0 billion (about 4.6% of GDP) in 2015/16. The positive balance on the capital account was inadequate to offset the high current account deficit, leading to a rise in the overall balance of payments deficit from USD 521 million (0.8% of GDP) in 2014/15 to USD 830.9 million (1.2% of GDP) in 2015/16. As a result, gross official reserves remained low at 2.7 and 2.6 months of imports in 2014/15 and 2015/16.

The major downside risks to the economic outlook include the negative impact of weather fluctuations on the rain dependent agriculture sector and the reduction in prices and global demand for commodities. The ongoing implementation of the CRGE and GTP II is expected to increase Ethiopia's resilience to climate change and droughts. Structural reforms to improve



export competitiveness and diversification are underway under GTP II and are expected to reduce the external sector vulnerabilities. Investments in transport, energy and water infrastructure, particularly in the industrial zones, are expected to reduce the costs of doing business, promote export-led industrialisation and boost structural transformation and economic growth. Real GDP is projected to increase by 8.1% in 2016/17 and 2017/18.

Table 2. GDP by sector (percentage of GDP at current prices)

	2010/11	2015/16
Agriculture, forestry, fishing and hunting	44.7	37.2
of which fishing	0.0	0.1
Mining and quarrying	1.4	0.4
of which oil
Manufacturing	4.0	4.3
Electricity, gas and water	1.0	0.6
Construction	4.0	15.9
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	18.5	19.2
of which hotels and restaurants	3.6	5.3
Transport, storage and communication	4.2	4.6
Finance, real estate and business services	11.1	7.6
Public administration and defence	5.4	4.3
Other services	5.7	5.7
Gross domestic product at basic prices / factor cost	100.0	100.0

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The medium-term fiscal policy stance aims to achieve macroeconomic stability while supporting economic growth. This is through prioritising public spending on pro-poor and growth enhancing sectors and improving revenue mobilisation. The public expenditure policy is a key vehicle for delivering the GTPII objectives. The key objectives are improving infrastructure to increase productivity, private sector development and export-led industrial development. This is expected to contribute to the overarching goal of structural transformation.

The government's budget execution in 2015/16 was consistent with these fiscal objectives. The higher recurrent spending in 2015/16 relative to the previous fiscal year was in part due to the higher expenditure in sectors with large potential for poverty reduction (health, education, agriculture, roads and food security), which increased to 5.1% of GDP in 2015/16 from 4.8% previously. In particular, drought-related food imports helped to mitigate the social impact of the 2015 drought and also ensured macroeconomic stability by reducing food inflation. Capital spending remained stable reflecting the prioritisation of import-intensive public investments to ensure alignment with foreign exchange inflows.

Strengthening domestic resource mobilisation is a key objective of the government's fiscal policy. Tax revenue collection has been increasing over the past years owing to the improvements in tax administration and trade facilitation. However, the tax-to-GDP ratio is still low. Over 87% of the budget is funded from domestic resources, including domestic debt financing. The prudent fiscal policy stance contributed to low and stable fiscal deficits.

Revenue-enhancing measures have been adopted to increase public revenues. For instance, the income tax legislation was amended in July 2016 to simplify tax procedures, revise the tax brackets and improve efficiency of the tax appeals processes. The adoption of invoice-based import taxation is also expected to improve customs processes and trade facilitation. However,



further reforms are necessary to improve revenue yield and efficiency of the tax system. These include expanding the tax base, such as through property taxation, and rationalisation of the tax expenditures and incentives.

Table 3. Public finances (percentage of GDP at current prices)

	2007/08	2012/13	2013/14	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Total revenue and grants	16.3	15.8	14.9	15.4	15.1	15.0	14.6
Tax revenue	8.6	12.3	12.5	12.7	12.5	12.4	12.0
Grants	4.3	1.1	1.0	0.9	0.9	0.8	0.7
Total expenditure and net lending (a)	16.8	17.8	17.5	17.3	17.5	18.7	17.9
Current expenditure	7.7	7.7	8.1	7.5	7.9	9.3	8.8
Excluding interest	7.3	7.3	7.7	7.0	7.2	8.7	8.3
Wages and salaries	4.8	3.6	4.3	4.7	4.6	4.4	4.0
Interest	0.4	0.4	0.4	0.5	0.6	0.6	0.5
Capital expenditure	9.1	10.1	9.4	9.8	9.6	9.4	9.1
Primary balance	-0.2	-1.6	-2.2	-1.4	-1.7	-3.1	-2.9
Overall balance	-0.5	-2.0	-2.6	-1.9	-2.4	-3.7	-3.3

Note: a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The monetary policy stance has focused on maintaining price stability while ensuring steady expansion in credit to the private sector. The central bank's primary monetary policy target, base money, increased by 16.3% in 2015/16 compared to 14.7% in 2014/15 but remains in line with the central bank's 16% target. The government's limited recourse to the central bank for financing the budget contributed to the realisation of this monetary policy objective. Prudent monetary policy and drought-related food imports, which reduced food inflation, helped to reduce the inflationary pressures. Headline inflation is expected to converge around the central bank's 8% target in 2016/17.

Reforms are being implemented to strengthen the monetary policy framework. For instance, capacities have been strengthened to improve liquidity monitoring and forecasting. Efforts are also underway to develop a secondary market for government securities. This will increase the use of indirect monetary policy instruments and thereby enhance monetary policy and liquidity management. Domestic credit growth at 24.6% in 2015/16 remains strong, although it was lower than the 31.1% recorded the previous fiscal year.

The central bank also intervenes in the foreign exchange market to ensure stability of the exchange rate. The real effective exchange rate is estimated to have appreciated by 1.1% in 2015/16, which is lower than the 11.9% appreciation recorded in 2014/15. The central bank is expected to implement a gradual depreciation of the Ethiopia Birr to ensure alignment of the exchange rate with market fundamentals.

Economic co-operation, regional integration and trade

Ethiopia is a member of various regional economic communities, particularly the Common Market for Eastern and Southern Africa (COMESA) and the Inter-Governmental Authority on Development (IGAD). The country has ratified several regional integration protocols. Ethiopia is yet to sign the COMESA Free Trade Area protocol, although key milestones, such as the establishment of the trade-data-basis for tariff reductions, have been completed. Negotiations to join the World Trade Organization and the Economic Partnership Agreement with the European Union are underway.

Merchandise exports totalled USD 2.9 billion in 2015/16; posting a 5% decline from the previous fiscal year. Coffee is the leading export accounting for 25.2% of total exports earnings, followed by oilseeds (16.6%), gold (10.1%), *chat* (also known as *khat*) (9.2%), pulses (8.1%) and flowers (7.9%). The leading six exports account for over 77.1% of total export earnings, indicating the need to enhance export diversification, notably into high value exports. For instance, secondary sector exports, such as manufacturing, are still low and account for less than 10% of export receipts. However, non-traditional exports have increased, with the share of non-coffee exports rising from 40% in 1997 to 74.8% in 2015/16. Ethiopia's imports from and exports to African countries account for 3.9% and 20.8%, respectively. The largest share of this trade is with Eastern Africa countries, most of which are also members of IGAD and COMESA.

Imports increased by 1.6% to USD 16.7 billion in 2015/16 compared to 2014/15, increasing the trade deficit to USD 13.8 billion in 2015/16; this is a slight increase from a deficit of USD 13.4 billion in the previous fiscal year. As a result, the overall balance of payments deficit in 2015/16 widened to USD 830.9 million compared to a deficit of USD 521.4 million in 2014/15.

Ethiopia's cross-border trade and logistics indicators are among the lowest in sub-Saharan Africa. For instance, Ethiopia ranked 167 out of 190 countries in the World Bank 2017 *Ease of Doing Business* report on trading across borders, a slight improvement from the 2016 rating of 168 out of 189 countries. In addition, it takes 148 and 246 hours to export and import goods, respectively. The cost to export and import is also high at USD 319 and USD 1 418, respectively. The electronic Single Window (e-SW) system was launched in September 2015 to facilitate electronic customs clearances and is expected to improve efficiency in customs. Ethiopia ranks 126 out of 160 countries on the World Bank 2016 *Logistics Performance Index*, indicating the need for further improvements in trade logistics.

Table 4. Current account (percentage of GDP at current prices)

	2007/08	2012/13	2013/14	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Trade balance	-18.0	-18.3	-21.2	-20.1	-20.1	-20.7	-20.8
Exports of goods (f.o.b.)	5.9	5.7	4.7	4.1	3.7	3.5	3.2
Imports of goods (f.o.b.)	23.9	24.0	25.8	24.1	23.8	24.2	24.0
Services	-1.7	1.2	-0.1	-0.7	-0.5	-0.5	-0.4
Factor income	-0.1	-0.3	-0.4	-0.4	-0.7	-0.6	-0.5
Current transfers	12.1	9.6	10.0	10.7	10.7	10.5	10.3
Current account balance	-7.7	-7.7	-11.6	-10.4	-10.6	-11.3	-11.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

The 2013-17 Medium Term Debt Strategy provides the framework on public debt. The government applies the international system to record and manage domestic and external public debt. All debt agreements are registered and debt balances are reconciled with creditors on a quarterly basis. A quarterly bulletin covering debt service, debt stock and operations is also published.

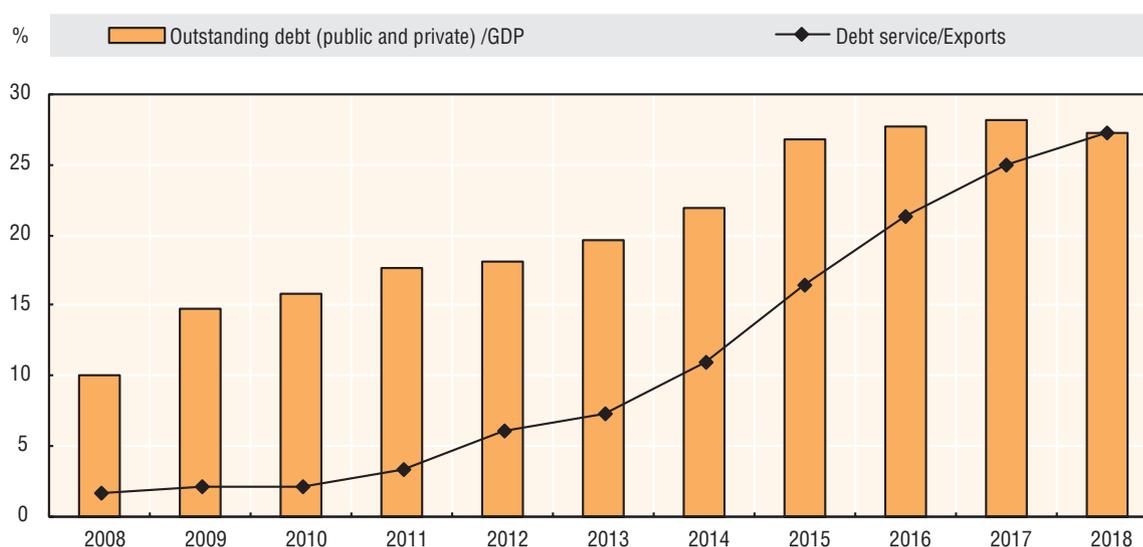
The 2016 World Bank/ IMF Debt Sustainability Analysis (DSA) rates Ethiopia's external debt distress at "moderate" as was the case in 2015. The 2016 DSA notes that while external debt distress is vulnerable to export performance, the risk of external debt stress is mitigated by a number of factors. For instance, largely concessional official bilateral and multilateral external debt accounted for 68.9% of total external debt as of March 2016. In addition, external debt has been used for export-enhancing investment projects such as the Ethiopia-Djibouti railway and industrial parks with projected high returns. These investments are expected to boost exports and increase the debt-servicing capacity.



Public and publicly guaranteed debt is estimated to have decreased slightly from 55.3% of GDP in 2014/15 to 54.2% in 2015/16. Domestic public debt remained stable at 24.3% of GDP in 2015/16 and about 45% of the domestic debt is short-term. State-owned enterprises (SOEs) hold 55% of total domestic debt, which is issued in the form of bonds and loans provided by the state-owned Commercial Bank of Ethiopia. Financial soundness and stability indicators do not point to domestic debt servicing difficulties by SOEs.

To boost domestic resource mobilisation, and thus enhance debt sustainability, the government is developing a regulatory framework for public private partnerships. A new ministry has been created with the mandate to streamline public enterprises and improve their governance, efficiency and thus, fiscal sustainability.

Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

The investment legislation and institutional capacity of the Ethiopia Investment Commission have frequently been improved as necessary to enhance the investment climate and promote private sector development. Nevertheless, the sector's contribution particularly to the industrial sector remains low, in part due to inadequate business management skills, particularly for the small- and medium-sized enterprises (SMEs). The private sector plays an indispensable role in driving sustained growth and creating productive jobs. GTP II seeks to position the private sector as a leading engine of transformative and job-intensive growth through reforms to improve the business-enabling environment.

Business regulations have been simplified and institutional capacities for institutions that support businesses have been strengthened. For instance, licencing requirements for most activities have been streamlined and a robust legal framework is in place to address anti-competition behaviour of firms. In addition, a Public Private Dialogue Forum was established in 2010; it facilitates dialogue on the constraints to private sector development. The prime minister also participates in this quarterly forum, which then informs the required remedial actions.

Ethiopia's *Doing Business* overall ranking remained stable at 159 out of 190 countries in the 2017 and 2016 World Bank *Doing Business* reports, indicating the need to fast track the implementation of business regulatory reforms. In particular, concerted efforts are required for several variables, including starting a business, dealing with construction permits, protecting minority investors and getting credit. The World Economic Forum 2016/17 *Global Competitiveness Report* reveals that Ethiopia's ranking of 109 out of 138 countries was also changed from the previous year. Improving competitiveness will require improving access to finance, foreign currency regulation, tax rates, efficiency in government bureaucracy and infrastructure supply and services.

Financial sector

The formal financial sector in Ethiopia includes 17 commercial banks (one state-owned and 16 private), a state-owned development bank, 17 insurance companies and 35 microfinance institutions. The banking sector dominates in terms of value and services offered. The total number of bank branches reached 3 187 in 2016, up from 2 693 the previous year, reducing the bank branch-to-population ratio from 33 448 to 28 932. Addis Ababa accounts for the largest share of bank branches and private banks at 34.4% and 60.5%, respectively. The total capital of the banking sector reached ETB 43.1 billion (USD 1.9 billion) in 2016, with private banks accounting for 51.1% of this capital. The Commercial Bank of Ethiopia accounted for 31.5% of the total capital of the banking sector.

The financial sector remains sound and stable. The capital adequacy ratio of the commercial banking sector stood at 15% as of March 2016, slightly below the 16.4% recorded in June 2015. The return on assets and return on equity, which indicate the level of earnings and profitability, were also largely stable at 2.8% and 44.2%, respectively in March 2016. Asset quality in the commercial banking sector is strong. The non-performing loans ratio at 3.5% in March 2016 was below the statutory 5% benchmark. The central bank regularly monitors banks' adherence to Basel I capital adequacy requirements, and virtually all commercial banks' risk adjusted capital adequacy ratios are well above the 8% threshold.

Annual growth in deposits has been robust at 19.3%, mainly due to strong branch expansion and growth in economic activities. However, the financial sector remains shallow, with a limited range of financial instruments. The financial sector is closed to foreign investors and capital markets are non-existent. Lending is mainly collateral based which constrains access to finance since most of the small entrepreneurs lack the necessary collateral. According to the 2016/17 *Global Competitiveness Report*, Ethiopia scored 3.5 out of 10 and ranked 102 out of 138 countries in terms of financial market development. The 2017 *Doing Business* ranking on getting credit is also low at 170 out of 190 countries.

Public sector management, institutions and reforms

Government policies and strategies place emphasis on the expansion of basic services and poverty reduction. As a result, budget allocations to these sectors have been increasing steadily during GTP I and II. The government and development partners are increasingly collaborating and forming partnerships for the provision of basic services. Recent assessments, such as the Joint Review and Implementation Support, indicate that strong progress has been made, particularly with respect to access to basic services. However, more needs to be done to improve the quality of basic services and the information management system.

Most of the public financial management (PFM) reform activities have been progressing well. These include the rollout of the Integrated Budget Expenditure, the establishment of Auditors and Accountants Board, operationalisation of the PFM and procurement-certificate training programmes. However, there is need to strengthen the accountability of institutions and to ensure that recurring audit and fund utilisation issues are addressed. Anti-corruption campaigns



have been intensified and government officials, including senior officials, have been prosecuted for corruption related charges.

Ethiopia's regulatory system is robust. Secured interests in property are protected and enforced. Investment licences are easily and quickly obtained from the Ethiopian Investment Commission. Proposed national laws, generally, are circulated for public comments prior to approval and enactment. Disputes may be settled by means agreeable to both parties. Property and contractual rights are recognised and commercial and bankruptcy laws are also in place. In 2017, Ethiopia ranked 142 out of 180 countries in the *Economic Freedom Index* of the Heritage Foundation and 109 out of 138 countries in the *2016/17 Global Competitiveness Report*.

Natural resource management and environment

Ethiopia's vision is to become a carbon neutral and climate resilient economy by 2025. Toward this end, it adopted a Climate Resilient and Green Economy (CRGE) strategy in 2011. The CRGE's targets are mainstreamed in the GTP II and thus, building a climate resilient green economy is one of the GTP II pillars. A range of legal, policy and institutional frameworks for addressing climate change, environmental protection and the sustainable utilisation of natural resources have been developed and are being implemented at the federal, regional and district levels. For example, a ten-year forest sector development programme, which is aligned to GTP II was approved in 2016.

The CRGE strategy establishes a comprehensive framework to develop the economy in a manner which minimises the country's susceptibility to, *inter alia*, climate change and related shocks. Despite these plans and policy frameworks, Ethiopia still faces serious challenges from changing climatic conditions, calling for continued adaptation, mitigation and support to develop on a low carbon trajectory. Ethiopia was the first developing nation to submit an Intended Nationally Determined Contribution (INDC) plan to the United Nations Framework Convention on Climate Change (UNFCCC); this plan builds on the CRGE strategy and elaborates on how Ethiopia plans to mobilise and utilise climate-related finance to pursue its carbon neutral development ambitions. In 2016, Ethiopia was elected to the presidency of the south-south co-operation platform – the Climate Vulnerable Forum – an international partnership of countries highly vulnerable to climate warming that comprises 43 countries. Ethiopia is expected to use this platform to champion reductions in greenhouse gas (GHG) emissions.

Political context

The ruling Ethiopian People's Democratic Front (EPRDF) won all the parliamentary seats in the 2015 national elections. Opposition groups and human rights activists have expressed their concerns about the increasing narrowing of the democratic and political space in the country. In addition, protests disrupted the nation in 2016 in the Oromia and Amhara regions, which account for about 62% of the population, with the protestors citing concerns about political and economic marginalisation. The government declared a six-month state of emergency in October 2016, enacting a variety of measures to restore peace. These on-going measures include restrictions on the use of social media and mobile internet especially for activities that could incite violence. Political parties are also not allowed to issue statements inciting violence.

The expectation is that these measures will ensure the return to stability and security by providing an opportunity for the government to implement reforms aimed at addressing the political and economic concerns. A number of reforms were announced by the President, Dr. Mulatu Teshome, during his speech to the Federal Parliament on 10 October 2016. As part of these reforms, Prime Minister Hailemariam Desalegn reshuffled the Cabinet on 1 November 2016 as an initial step towards promoting good governance and accountability. The regional cabinet has also been reshuffled and civil service reforms have been implemented. Other reforms include addressing the current land appropriation system, increasing voice and participation, promoting improved intergovernmental relations, mediating peace and reconciliation and ensuring inclusive growth.



Ethiopia's security and stability is also affected by its location in the volatile Horn of Africa region. The authorities are collaborating with the country's neighbours, the African Union and the United Nations to counter these risks including through supporting efforts to ensure peace and stability in Sudan, South Sudan and Somalia. Tensions with Egypt have also eased following the March 2015 agreement with Egypt and Sudan, which established the principles for collaboration on the utilisation of the River Nile waters.

Social context and human development

Building human resources

Ethiopia's high growth trajectory, which averaged over 10% during the past 13 years, contributed significant gains in poverty reduction and human development. Poverty was reduced from 38.7% in 2005 to 29.6% in 2011 and is estimated to have decreased further to 23.4% in 2015. Life expectancy at birth increased from 51.9 years in 2000 to 64.1 years in 2014; expected years of schooling increased by 4.2 years and Gross National Income (GNI) per capita by 130% during the same period. As a result, according to the United Nations Development Programme's (UNDP) *Human Development Index* (HDI), the HDI increased from 0.284 to 0.442, indicating an average annual increase of 3.21%. However, Ethiopia is still ranked among the low human development countries at 174th out of 188 countries in 2014 as noted in the 2015 UNDP *Human Development Report*.

Although the post-2015 development agenda looks at 17 Sustainable Development Goals, (SDGs) rather than the targets for the 8 Millennium Development Goals (MDGs), Ethiopia is in the early process of enumerating the SDGs. Thus, development statistics are best looked at through the lens of the MDGs. A recent assessment on the MDGs in Ethiopia highlights that six of the eight MDGs had either been achieved or were on track to being achieved by the end of 2015. Impressive results in access to health services have also been achieved. Contraceptive prevalence rate increased to 36% in 2016 from 29% in 2011 and 15% in 2005 and the coverage of antenatal visits reached 62% in 2016 from 34% in 2011 and 28% in 2005. The under-five mortality decreased from 123 per 1 000 live births in 2005 to 67 in 2016. Infant mortality also decreased from 77 to 48 between 2005 and 2016. However, maternal mortality remains high at 412 deaths per 100 000 live births in 2016.

Primary school net enrolment rate increased from 68% in 2004/05 to 94.3% in 2014/15. The completion rate of grade eight students increased from 48% in 2009/10 to 51.3% in 2014/15, but, this remains low (thus, Ethiopia fell short of MDG 2 – Achieve Universal Primary Education). Literacy rates have risen since 2004 from 38% to 46.7% in 2011. Efforts are underway to expand vocational training and tertiary education, to equip the workforce with employable and demand-led skills.

Combating HIV/AIDS, malaria, TB and other diseases has been prioritised in the national development plans. The challenges posed by HIV/AIDS continue to be addressed through HIV/AIDS policies, strategies and programmes. Emphasis has been placed on scaling up coverage and universal access to HIV prevention, treatment, care and support. As a result, the HIV/AIDS prevalence rate has been reduced from 4.5% in 2000 to 1.1% in 2014, which surpasses the MDG target of less than 4.5%.

Progress has also been achieved in controlling malaria and tuberculosis. By 2010, all residents of malaria-prone areas had an insecticide-treated mosquito net. The percentage of population with treated bed nets reached 45% in 2014 from 22% in 2010.

Poverty reduction, social protection and labour

The government has been pursuing broad-based and pro-poor public expenditure policies with over 70% of the national budget allocated to poverty related sectors. As a result, poverty has



been reduced at an annual average rate of 1.94% since 1995. The proportion of people living below the national poverty line was estimated at 23.4% in 2015, which is just below the MDG target of 24%.

The sharp decline in poverty is attributable to the implementation of welfare programmes such as the Productive Safety Net Programme (PSNP), other food security programmes, as well as urban interventions (for example, the distribution of essential consumables such as wheat, sugar and edible oil). The PSNP coverage increased to close to 8 million chronically food-insecure individuals. The PSNP has a strong focus on addressing the poverty of female-headed households and encouraging women's participation in public-works activities. In 2015/16, up to 10.2 million people were supported with food and non-food aid, in part due to the 2015 El Niño induced drought.

Income inequality, as measured by a Gini co-efficient, remains low and stable at 0.298 in 2010/11 compared to 0.3 in 2004/05, while the urban Gini co-efficient has declined to 0.37 in 2010/11 from 0.44 in 2004/05.

Sensitisation and roll out of the comprehensive National Social Protection Policy is underway following its approval by council of ministers in 2014. A Social Protection strategy was also developed and approved in 2015. The institutional and co-ordination framework for the implementation of social protection programmes and the community care and coalition system were developed in 2016.

The labour laws and labour-market regulations have frequently been reviewed and are broadly appropriate and enforced. The major challenges in the labour market include low pay and the resulting high staff turnover. Active labour-market programmes (for example, linking micro and small-scale enterprises with public works, such as paving urban roads and condominium housing projects) are improving in quality and coverage, although more needs to be done. According to a recent World Bank study, urban unemployment is estimated at 17%. The government is currently preparing a youth programme to create more jobs.

The government has ratified several ILO conventions, including ILO Convention 182 on the Worst Forms of Child Labour. However, enforcement of these conventions, especially the child labour convention needs to be strengthened.

Gender equality

The government considers gender equality and mainstreaming as an integral part of its policies, strategies and programmes. Accordingly, addressing gender equality and empowerment of women is one of the pillars of GTP II. The Ministry of Women and Children Affairs and its counterpart, at the regional states level, are responsible for ensuring mainstreaming of gender in their respective areas of mandate.

The gender parity index in primary school enrolment reached 0.96 in 2015 from 0.7 in 2000. The share of married women using a modern method of contraception leapt from 13.7% in 2005 to 36% in 2016 mainly due to increased access to contraceptives. Access to health care for women has also improved in recent years. For example, 28% of Ethiopian women gave birth under the care of a skilled health professional in 2016 compared to only 10% in 2011. The percentage of seats in the national parliament held by women reached 38.7% in 2015, compared to 27.8% in 2010. However, the participation rate of women in business and decision making is still low. The literacy level of women at 52% is markedly lower than that of men at 72%. The 2016 Demographic Health Survey indicates that 24% of women experience emotional violence and 25% and 11% of women experience physical and sexual violence, respectively, from a husband or partner.



Thematic analysis: Entrepreneurship and industrialisation in Ethiopia

The share of the industrial sector in the GDP remains low but has increased in recent years, from 10.4% in 2006/07 to 16.7% in 2015/16. The average share of the industrial sector in the GDP during this period was 12.2%, which remains low compared to the averages for sub-Saharan Africa (28.7%) and low-income countries (21%). Industry employs 7% of the labour force and generates about 20% of merchandise export values. The major industrial activities in Ethiopia include construction (9.5% of GDP), manufacturing (5.4% of GDP), electricity (1.1% of GDP) and mining (0.8% of GDP) in 2015/16. The corresponding GDP shares were 4%, 3.9%, 1.3% and 0.7% respectively in 2006/07. This indicates that most of the expansion in the industrial sector during the past ten years was led by construction, while the contribution of the manufacturing sub-sector remains small. However, the construction sub-sector has been growing rapidly, increasing at an average annual rate of 31.2% during the period 2011/12 to 2015/16 and contributing an average of 2.2% points to the real GDP growth rate. While the manufacturing sub-sector has increased by an average of 15.9% during this period, its average contribution to the real GDP growth rate has been minimal at 0.7% points.

Ethiopia's Industrial Development Strategy (IDS) was adopted in 2004 to guide the country's ambitions of achieving agricultural-led industrialisation. The IDS espouses various approaches towards industrialisation such as privatisation of public enterprises, export promotion incentives, entrepreneurship development, clustering and agro-industrial zones and skills development centres. The IDS identifies priority sectors for targeted support, namely: textile and apparel, leather and leather products, and agro-processing industries. Other focus areas include construction, cottage industries and small scale manufacturing enterprises.

National development plans, notably the Growth and Transformation Plans (GTP) I (2010/11-2014/15) and II (2015/16-2019/20) have also placed emphasis on promoting industrialisation. In particular, GTP I identified the agricultural sector as a foundation for industrialisation and prioritised structural transformation from agriculture to manufacturing. However, the share of manufacturing in GDP remained below 5% and the share of manufacturing exports in total merchandise exports was also low at about 10% during the GTP I period. The high costs of doing business, notably due to infrastructure bottlenecks; logistics; financial services and lack of land for investment were identified as key constraints to growth in manufacturing among the medium- and large-scale industries. For the micro and small enterprises, inadequate business advisory services, access to technology and capital were among the major bottlenecks. GTP II seeks to address these constraints to unleash export-led industrialisation, particularly in three priority sectors of leather and leather products, textile and apparel, and agro-food processing. GTP II prioritises improvements in infrastructure, trade and logistics, access to technology and finance, and business advisory/management support. Towards these goals, Ethiopia has adopted the Integrated Agro-Industrial Park (IAIP) development initiative, which is being implemented by the Industrial Park Development Corporation (IPDC).

The objectives of the IPDC include developing serviced land and other infrastructure to reduce the cost of doing business in the industrial sector. To maximise linkages, technology and knowledge transfer, foreign and domestic firms are given access to the industrial parks. Twelve industrial parks have been identified for development across the country and two of these parks, Hawassa and Addis Ababa, are operational. To ensure inclusive industrialisation, feasibility studies have been completed and resource mobilisation is underway for IAIPs in four regions, namely Oromia, Amhara, Southern Nations, Nationalities Peoples State and Tigray.

Ethiopia has a long history of entrepreneurship that began when the Aksumite Kingdom was a trading hub more than 2 000 years ago. However, the 2013 labour survey indicates that of the total employed population (about 72.7% of the total population), about 40.1% are self-employed



and 48.7% are unpaid family workers. In addition, 6.5%, 75.3% and 10.3% of the self-employed are engaged in manufacturing, agriculture and trade, respectively.

A 2013 survey of MSEs in selected major cities indicates that 80% of the MSE operators are in the economically active age group (10 years and above), with about 33%, 34% and 1.6% having primary, secondary and technical vocational education training (TVET) education, respectively. The survey further indicates that the employment opportunities created by MSEs were primarily family based and the ownership structure is mainly sole proprietorship.

The Micro and Small Enterprises Development (MSED) Strategy (2011) provides the framework for entrepreneurship development with a focus on improving the business-enabling environment, increasing access to finance and enhancing market linkages. GTP II proposes several measures to consolidate the implementation of the MSED. These include strengthening TVET and establishing centres of excellence in 35 universities to support the development of entrepreneurial skills. The government also plans to establish over 2 000 one-stop service centres for business development services, among other things; as well as provide 9 000 hectares of serviced land and 15 000 production sheds to entrepreneurs during the GTP II period.

The institutional framework for entrepreneurship development is spearheaded by two agencies, namely: the Federal Urban Job Creation and Food Security Agency in the Ministry of Urban Development and the Federal Small and Medium Manufacturing Industry Development Agency under the Ministry of Industry. In addition, the government, in partnership with the UNDP, established the Ethiopian Entrepreneurs Development Centre (EDC) in 2013 to enhance the government's institutional capacity for supporting micro, small and medium enterprises. The EDC also provides business advisory services and promotes partnerships and stakeholders engagements for enterprise development.

Measures to promote private sector development have been implemented, including the privatisation of state-owned enterprises and the creation of a public-private sector dialogue to identify and address private sector bottlenecks. In addition, business regulatory reforms to ease licencing and registration procedures and investments in integrated infrastructure in industrial parks have been implemented to reduce the cost of doing business. However, measures to increase access to finance by addressing both the supply and demand for financial services are equally important.

Note

1. Ethiopia's fiscal year runs from July 8 to July 7.

