

Ethiopia Country Economic Memorandum

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For a big push to work, good governance with transparency and accountability will be critical. The government needs to build its credibility, affirming a reputation for fairness and accountability. Firms and potential investors need to be convinced that government or party-owned companies don't enjoy advantages, and citizens need to be assured that they can petition for improved services and hold service providers and government to account. Growth and productivity are determined by peasants and private entrepreneurs, whose collective investment and production decisions shape the economic life of the country. The government cannot dictate these decisions, but needs to build the necessary credibility that the rules of the game are fair and clear and will be sustained over time to enable a fruitful environment for growth.

The macroeconomic backdrop must be supportive of growth. This would entail maintaining an

adequate cushion of reserves, avoiding swings in the real exchange rate and interest rates, and continuing the record of appropriately prudent fiscal policies. Equally, policy-makers need to shift their mindset to the management of the growth process and to start focusing today on tomorrow's bottlenecks. As seen in many countries, sustaining growth is more difficult than igniting it. Sustaining growth involves addressing bottlenecks as they arise (for example, high level of food prices and cement shortages), in order to keep the economy from overheating.

Development partners play an important role in supporting the PASDEP's goals. They need to improve the predictability of financing, along with simplified administration. They should also avoid externally-generated conditionality, but strengthen domestic mechanisms that deepen accountability of government to its citizens.

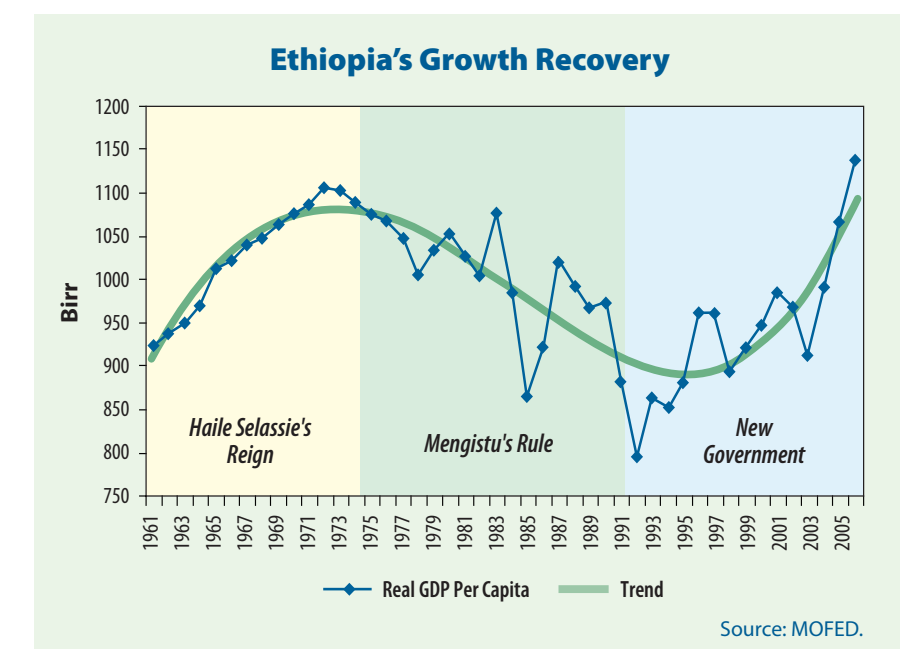
Accelerating Equitable Growth

SUMMARY

Ethiopia has experienced a strong recovery from the Derg regime and the end of the civil conflict that brought it to a close. Renewed economic growth, along with improvements in schooling, health services, and roads, constitute key elements of this achievement.

But Ethiopia's rebound comes from a dismally low base of pervasive poverty, isolation, and under investment in public goods. There has been little overall improvement in productivity until very recently—a profound disappointment in the agricultural sector, which accounts for 85 percent of employment and stands at the core of the government's strategy for growth and poverty reduction. Income poverty has fallen, but remains widespread.

The World Bank report, "Accelerating Equitable Growth," seeks to address the question: What are the long-run causes of Ethiopia's underdevelopment? History figures significantly. But institutional failures appear to be at the center. The autocratic character of the Imperial Regime, along with a hierarchical social structure, discouraged broad-based investment and innovation. The Derg regime sought redistribution of wealth, but within Stalinist economic policies



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and a highly conflicted society. This legacy is exacerbated by geography and climate, which leave millions cut off from essential services, markets and inputs, and vulnerable to droughts.

The current government has invested heavily in broad-based development, and has embraced a pro-poor growth agenda missing in previous eras. But the aftermath of the 2005 elections left the society more polarized, and donors hesitant about the “big push” that was earlier envisioned in the context of the Millennium Development Goals.

The report argues that there is no magic bullet for fast development, given the complex socio-cultural and political history, challenging agro-ecological conditions, and difficult regional context. But there is ample evidence that S-curves presently characterize Ethiopia’s development prospects. In such an environment, scaled-up development assistance, as well as large investments by both the government and the private sector, are needed to enable the country to get out of its poverty trap and attain sustained, equitable growth. But can a big push succeed? To realize the ambitious goals in the Plan for Accelerated and Sustained Development

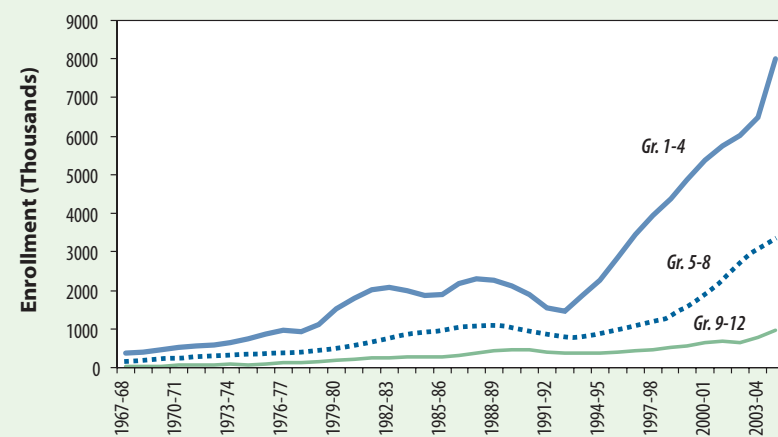
water and sanitation, primary health services, access to roads and electricity, and safety nets for the poorest in all parts of the country. The overall push would be strengthened, plus there would be a complementary strategy focusing public investment and policy attention on specific areas of opportunity, to replicate in many sectors the recent take-off in rose exports.

2. The second element would aim to remove constraints to productivity and growth associated with Ethiopia’s political heritage of top-down planning and distrust of the private sector. In the rural economy, the government would facilitate greater local political and social responsibility, with clear lines of accountability to beneficiaries. At the urban level, government would be supportive of private profit-making—without attempting to pick winners or exhibit favoritism.

3. The third element would address coordination failures

across technology, inputs, markets and risk management, in a context of deepening decentralization and localized approaches to community and regional needs. Different communities require different combinations of interventions to succeed. In food insecure regions, education would support migration and off-farm activities. In fertile lowland areas, the combination of transport, irrigation, and private sector support could ignite fast growth. The report recommends greater use of pilots and locally-based experiments, supported by thorough evaluation.

School enrollments have soared (from a very low base) since 1992

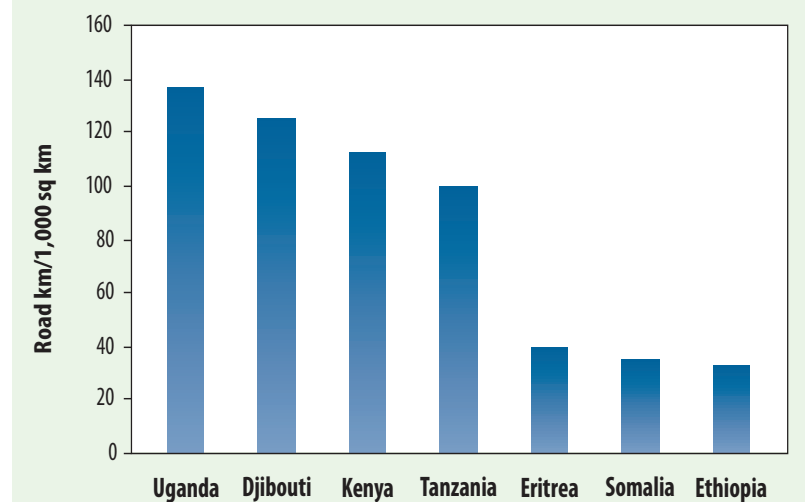


Source: World Bank 2005F, taken from Government of Ethiopia Education Statistics Annual Abstracts, 1994-2002; also Government of Ethiopia 2003b, 2004, and 2005b.

to End Poverty (PASDEP), three significant, inter-related, innovations in the country’s current economic and social policy must be successfully implemented:

1. The first would be to augment the currently “balanced,” across-the-board development strategy, which seeks to expand basic education, access to

Road densities are extremely low in Ethiopia



Source: Estache and Goicoechea, 2005.