Reflection on Growth and Transformation Plan (GTP) of Ethiopia 2011-2015

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This article is intended for those who would like to read a different perspective on GTP. Consider my assessment as a modest attempt to understand the nature of GTP on the basis of two approaches. The first approach is based on the framework of my policy suggestion which I called Green Revolution and Industrial Decentralization. My assessment of GTP along this line of thought is based more on theoretical justification rather than on pragmatic experiences. My academic approach, however, helps to adopt a standard industrial policy menu to the unique conditions of Ethiopia. The second approach is based on my intention to judge GTP on its own merits (on its own good and bad points using techniques of evaluation) and this approach is supposed to contain some action-oriented advice. Common to both approaches is the premises that the Ethiopian state and society is undergoing changes. For the past twenty years the country is not marked by fixed and settled structure rather than by some sorts of change. Between the two approaches there is, however, difference in understanding the nature of those changes and in explaining them how and why they occurred in the way they did. I hope this will be clear in the course of the discourse.

Analyzing GTP on the basis of Green Revolution and Industrial Decentralization Policy Framework

By looking at the nature, size, speed and need of the driving force unfolding in rural and urban areas of the country and reviewing the capacity of current government policy to counter the negative effects of the pressure drivers, I suggested green revolution and industrial decentralization as policy options to keep up with the race (for details see http://aigaforum.com/articles/GreenRevo_Industrial_policy_Ethiopia.pdf (part one) and http://aigaforum.com/articles/Green_Revolution_PartTwo.pdf).

Green revolution means introducing agriculture technology in rural areas for the purpose of ensuring food security. GTP appears to continue with its experiences and style of green revolution which is based on the promotion of smallholder agriculture in Ethiopia. GTP aims to “ensure the food security at the family, regional and national levels” and this is done by doubling the domestic agricultural production. As with the previous development programs the provision of improved technology to small holder farmers and commercialization of small scale farming is the basis of the growth plan. Unlike before when agriculture depends on rain, there will be now an expansion of small scale irrigation. More focus will be given to encourage farmers to emulate model farms with best practices and this may double the agricultural growth.

As I have repeatedly mentioned in previous postings my view is that small farms cannot be the engine of agricultural growth at a time when labour force growth is characterized by
young age and household types of higher consumption requirements. In the rural areas there are not sufficient conditions of drivers of improved technology use and commercialisation: there is lack of asset accumulation, a low per capita production, and a lower degree of urbanization. Child-rich households do not have saving to adopt the technology and their primary livelihood strategy focuses on meeting basic needs and not producing for the market. (see Green_Revolution_smallholder.htm and Labour_Force_Growth.pdf)

On the contrary, GTP’s push for further intensification of smallholder agriculture and commercialization of small scale farming may plunge households into fertilizer debt and sale of assets in an expanding informal land market. This phenomenon is already noticeable in the highlands of Ethiopia causing migration to towns. I am afraid that the unintended effects of GTP will serve as push factors for rural-urban migration (as opposed to desirable market-driven labor migration). GTP’s road construction will accelerate this internal rural-urban migration and this can sever the food problem in the urban areas. Currently, the annual urban population growth rate was 4.3%, while for Africa is 3.3%. Even if the level of urbanization in Ethiopia is low by African standard, the rates of urbanization in Ethiopia are exceptional (see Table). I suspect that in the next five years we will witness much accelerated urban growth.

Table 1: Urban growth rate comparison between Ethiopia, Africa, Western Africa, Kenya and Ghana, 1960-2010

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<tbody>
<tr>
<td>Africa</td>
<td>5.10</td>
<td>4.65</td>
<td>4.43</td>
<td>4.30</td>
<td>4.16</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>5.87</td>
<td>5.16</td>
<td>3.57</td>
<td>5.04</td>
<td>5.21</td>
</tr>
<tr>
<td>Kenya</td>
<td>6.32</td>
<td>6.96</td>
<td>7.65</td>
<td>5.34</td>
<td>4.80</td>
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<tr>
<td>Western Africa</td>
<td>6.46</td>
<td>5.26</td>
<td>5.22</td>
<td>4.99</td>
<td>4.99</td>
</tr>
<tr>
<td>Ghana</td>
<td>5.07</td>
<td>4.13</td>
<td>2.70</td>
<td>4.45</td>
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Source: Tsegaye Tegenu and Bo Malmberg (forthcoming), Urbanization in Ethiopia: Study on Growth, Functions and Development Policy Options

How is the government going to feed a growing urban population and at the same time be able to cover the food deficit in the rural areas? My view is that the government should be prepared to undertake green revolution on behalf of small holder farmers in Ethiopia (see earlier posting) and I see no other options.

Another area of difference between my growth/transformation model and GTP is in the priorities and management of industrialization in Ethiopia. My proposal and the government’s GTP agree on the principle of assigning key role to government in industrialization policy and on the strategy of import-substituting industrialization. Closer examination of the backgrounds of the so called BRIC countries (an abbreviation
for Brazil, Russia, India and China) shows that governments have played a central role in industrialization. There is however a difference between my proposal and GTP.

The first difference is on the choice of industrial sectors and products. The industrial policy of GTP intends to scale up already predefined industrial sectors including garment/ textiles production, leather products, agro-processing and construction. In the first phase of industrialization, I suggested establishment of chemical/fertilizer industries (for example using the potash in the Afar-Danakil region for fertilizer purpose), iron and steel industries for the purpose of raising domestic production of consumption and capital goods. Import-substituting industrialization of GTP focus on consumer goods, while my suggestion focus on import substitution of raw material and semi-finished goods. Since 2003/4 the percentage of the value of import of raw material, semi-finished and capital goods has increased compared to the value of fuel. In 2009/10 the country has trade deficit estimated to reach US $7.5 billion (see FDRE (2008), The Federal Democratic Republic of Ethiopia: Selected Issues and Statistical Appendix, July 2008, Table 1). My feeling is that in addition to creating a number of economic locomotives (say development of steel market intermediaries), strategically the country could save more foreign currency if priority is given to fertilizer, iron and steel industries.

I think the government is aware of this problem and would like to balance the deficit by expanding the export base of the country. Garment/ textiles production, leather products, flower and sugar industries can raise the countries global export market share by attracting foreign investment. The government thinks how it finances the project (the means and process of industrialization), while I focus mainly on the objectives of industrialization (creation of productive employment). I have to admit that I have not yet studied on ways of financing industrial decentralization and green revolution. If I do so I may end up attacking the current government budget lines. I am wondering if there seem to be a difference between academic theory and pragmatic practical experience.

Few words on structural transformation: a process by which countries change what they produce and move from low-productivity, low-wage activities to high-productivity, high-wage activities. Basically what GTP intends to do is a scale up process. My question is can a scale up process (quantitative ambitious growth targets) bring about fast and intense structural transformation (a qualitative change in labor productivity)? Reproducing oneself on a larger scale may not bring about structural transformation. The essence of structural transformation is the introduction of technology to dramatically change the output and employment structures. Historical facts show that systematic introduction of green revolution and industrial decentralization significantly increases the level of labor productivity.

**Assessing GTP on its own merits**

I will try now to briefly evaluate GTP on its own good and bad points without using my policy framework suggestion (for an insight into my evaluation concept, see my old website [www.epmc.se](http://www.epmc.se)). GTP clearly states the program objectives and the respective outputs (numerical targets) without any confusion. According to my view the plan is very comprehensive and the absence of one dimension may lead to a different outcome. There is, however, a question of how much can realistically be achieved with available
resources. Since this issue has been discussed exhaustively I would like to reflect on set of core factors that can set the stage for growth.

GTP contains factors that enhance growth: expansion of education and training and expanding health service (section 2.3.4), capacity building and good governance (section 2.3.5); and improving the capability and benefits of women and the youth (sections 2.3.6 and 7). What is missing in this ingredient is the factor of macroeconomic stability, which is crucial to trade. An unstable macro environment can hamper growth by distorting prices and incentives. Without price stability it is difficult to expand trade. GTP does not state how the government intends to achieve price stability in the coming five years. In the PASDEP document high inflation and balance of payment problems were considered as challenges. In the GTP there is no focus on how to meet this challenge. What are the measures to be undertaken to bring about low inflation, sound public finance and well-managed exchange rate which set the condition for sustained growth? The recent devaluation of birr caught many of us by surprise.

A significant challenge for GTP will be implementing the program objectives. The organizational structure of GTP, particularly that concerns the industrialization sector, has not come out very clearly. It seems that industrialization is going to be implemented in “command and control” structure of a traditional organization. The engineering, energy and sugar corporations are directly accountable to the Prime Minister. This may be an appropriate organizational structure in the Ethiopian context, given the problems of capacity and corruption. However, the modality in the allocation and co-ordination of responsibilities among the different corporations, concerned ministries and the Prime Minister Office has to be carefully designed considering the objectives of GTP and the functions to be performed. Given the previous practice of top-down decision, it seems to me that the channel of communication and co-ordination is going to be strictly vertical. Matters that might have been resolved among decision makers in the different corporations or departments at the same level would be referred upwards. To avoid such possible very high gradient management structure, it is necessary to introduce from the outset the following two complementary changes:

While I underline the necessity of a unified management structure, according to my view, the particular functions of the Prime Minister Office should be described at least under four broad headings:

- To clarify laws and legislations which facilitate the co-ordination and integration of industrialization activities,
- On the ground establishment of state-business partnership,
- To identify gaps and encourage public and private sectors to effectively implement the plan within available resources,
- To serve as a central monitoring and evaluation unit for the industrialization program, until such time of introducing an independent evaluation institute, and
- To give guidance on strategic planning.

The second aspect of change should be in establishing team management which can provide the different corporations and levels with initiatives, ideas and capacities that go far beyond what would be produced by top-down decision making. The management team can be made up of representatives of all relevant ministries and corporations serving the industrialization system.
If GTP is successfully implemented my guess is that by the end of the five year plan Ethiopia will experience migration-led urbanization. Large scale migration of rural labour to towns and urban centres has positive impact on development of the employment based economy. At the same time it creates demand for more services: housing, education, health, sanitation, transport, communication, energy and business services. By then the government will be forced to design an urban-based growth strategy, a move to industrial decentralization through backdoor.

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