

## POVERTY & INEQUALITY DEEPEN, DESPITE ECONOMIC GROWTH: IS IT SYMPTOMATIC OF POLICY FAILING THE POOR, OR GROWTH?

By Genet Mersha, December 17, 2009

### Part I

Admittedly, the title of this article is provocative and loud. The usual conspiracy theorists may see it as accusatory or politically motivated. Unless one is ready for it now, it would come in a series. Thus, for sanity's sake, rest assured its express purpose is to awaken Ethiopians in general and the authorities in particular. There is no way of skirting the issue: Ethiopia is in the throes of absolute poverty.

Consequently, there is a serious situation necessitating a fresh look into the linkages between the country's decade-and-a-half old pro-growth policies and pro-poor strategies. The policy impact on economic performance to date has scarcely achieved the much-needed success on the poverty and inequality fronts.

In making this conclusion, this writer declares her awareness that accelerated economic growth in Ethiopia has begun from a low base, and real growth is only six years old, out of the eighteen, since the regime has been in power. Even then, unfortunately, the momentum of growth and national development has been taking place in a climate beset by policy inconsistencies, political polarization, uncertainty and corruption. At the individual level, rife is state-inspired fear and insecurity and public resentment against curtailment of civil liberties.

Thus, the rise in the fight against poverty was conceived and operationalised against the backdrop of continued tensions, partly due to the on-going high and low intensity internal conflicts, mainly in the Ogaden and Oromia, which still cry out for political solutions and maturity at all levels and since 2006 the country's unproductive and unhelpful occupation of Somalia.

As a believer in the possibility of every small gain in national development accruing over time towards victory against absolute poverty, this writer sees the present occasion opportune to engage government in discussion since it has declared its intention to start work shortly on the third five-year perspective plan for 2011-2015. Reading the press release on this, one cannot help thinking that the ruling party seems to overtake reality to leapfrog Ethiopia into "**a middle-income country by 2025**" ([www.eprdf.org](http://www.eprdf.org), retrieved on 16 Dec.). Earlier the declaration used to say 'low middle-income country.' Be that as it may, the information released is underlining "the importance of ensuring democracy and creating conducive working atmosphere, among others." It could

have been much helpful, if they had decoded the organic elements of the shorthand for ‘ensuring democracy’ and ‘conducive working atmosphere.’

As a long-term objective, it is good. Nonetheless, recognition would be in order that the march towards such a goal requires a lot of work on the political and economic fronts upfront, especially in broadening the political base of support for the “official democracy” and overcoming divisions in the country.

More importantly, it involves genuine popular participation, based on political inclusiveness and tolerance, the state setting the example in that regard. In practical terms, that means paving the way for inclusion of all elements of society, i.e., political parties, non-governmental organizations, the unions, professional associations and the private sector, most of which are capable of making great contributions.

In particular, the private sector is important in sharing the burden of national development with government. Unfortunately, despite the rhetoric, the prevailing trend so far has been characterized by official preference of political distrust weighing heavily on minimising the role of the private sector in the economy, a deliberate policy of the state that has left it as the lone bearer of an unshared burden. The mistake here is that, the state has neither entertained transparently public opinion and benefited from it nor has shown its capacity to deliver goods and services necessary to satisfy public needs. It goes without saying, therefore, this has left it with a huge credibility and confidence gap.

#### **Millennium Development Goals (MDGs), as measure of Ethiopia’s successes & failures**

The depth of the country’s poverty is striking, especially when one reviews our country’s progress reports on the MDGs. The background data processed and sorted out by the United Nations Statistical Division, on behalf of the MDG Secretariat, speaks plenty. Certainly, there are some encouraging achievements, although in most areas measurable by different indices, poverty and inequality have barely gone down.

Still some may argue that Ethiopia could meet the targets, since the latest data have not been incorporated or Ethiopia has accelerated its pace of growth only in the last few years to alter radically the situation by 2015. The fact of the matter is that already nine years have gone out of the fifteen. For trained eyes, the present data give a good glimpse into the next six years. In other words, any further data to be included i.e. for the four years (2007-2010) and the subsequent period are less likely to transform significantly the outcome of Ethiopia’s efforts (may be primary education); it should continue though. Moreover, to free herself of any doubts this writer consulted CSA Abstract 2008, prepared by the Ethiopian Central Statistics Agency, which has not assuaged her concerns.

A series of this article would give a cursory treatment to each of the MD Goals, taking the example of Ethiopia's efforts. In this article, the data on the country's performance under MD Goal 1 against the various indices is distilled in the table below.

**Goal 1: Eradicate extreme poverty and hunger. This requires reducing by half the proportion of people whose income is less than one dollar a day in the period between 1990 and 2015. The picture the data portrays as far as Ethiopia is concerned is shown in the table below.**

Measurement criteria	1990	1991	1995	1996	2000	2001	2005	2007
Total population below \$1 per day, %			60.5		55.6		39.0	
Total population below poverty line, %				47.0	45.0			
Population undernourished, %		71.0		63.0			46.0	
Rural pop below poverty line, %				47.0	45.0			
Urban population below poverty line				33.3	37.0			
Poorest quintile's share in national income, consumption, %			7.2		9.2		9.3	

Source: UNSTATS, retrieved data [un.org/millennium](http://un.org/millennium) indicators

What this tells us is that absolute poverty is intractable and requires flexible, consistent and well-focussed policies, which unfortunately our country's political and ideological set up does not allow. In addition, one needs to note that, based on data assembled to date and updated by 14 July 2009, the United Nations has reached the conclusion that not a single Sub-Saharan African country (SSA) is likely to attain the MDG targets.

The agenda of the MDG contains eight goals and several targets. Befittingly, as seen above, is the first goal is about poverty eradication. The internationally accepted definition of poverty comes from the 1995 United Nations World Summit on Social Development. It defines absolute poverty as "a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services."

In an everyday language, the following explains poverty better.

**Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom.**

*Overview: Understanding, measuring and overcoming poverty (World Bank)*

The fact of the matter is that, for instance, since 2005 the poverty threshold, the so-called international poverty line, is measured in money terms. Those below poverty line are those that may have to go by \$1.25 a day, raised from \$1.0 a day since 2005.

This in view, bear in mind that in Ethiopia the daily wage rate payable, among others, by the new horde of international farming companies is birr 9. This means, with prices of goods and services astronomically high, a daily labourer is not even capable of getting by a dollar a day, since Ethiopian nine birr is equivalent to \$0.71cents (at current exchange rate of a dollar /per birr at 12.671). It is no use blaming the companies; it is the going wage rate in the country—the very depth of Ethiopia’s absolute poverty!

### **Government policies**

On paper, government policies and strategies say the right thing about eradication of poverty. They are the right approach and convincing. In the last few years, the performance of the economy has been astounding, at least on the GDP criteria. To government’s favour, until 2005 overseas aid (ODA) has shown consistent increases as since the early 1990s. International financial institutions have been also friendlier and supportive of national efforts than any time before to previous Ethiopian governments.

As a result, sectorally Ethiopia has been the fifth largest aid-for-trade recipient after India, Viet Nam, Afghanistan and Iraq (2009 report of United Nations MDG Gap Task Force). Similarly, it has also been the fourth largest beneficiary from debt cancellation under the HIC Initiative. In addition, Ethiopia has been one of the foremost beneficiaries in LDC categories from the various IMF facilities and loans, World Bank and African Development Bank financing facilities.

Clearly, while per capita aid level has been much lower than a few LDC African countries, still this is the first time in the last forty years that foreign aid to Ethiopia, as a percentage of gross national income (GNI), has peaked to 18.8 and 18.11 percent, as was the case in 2003 and 2004, respectively. Nevertheless, since 2005 because of a combination of factors, it has gone down to its presently low level of 12.48 percent annually.

In all this, one thing that is not clear is whether the country has been utilising available resources in a manner that supports realization of politically defined, publicly expressed objectives and legally supported mandates of governmental institutions. The question is what is letting institutions to show indifference to efficiency of budgets and their utilisation in a coordinated and in goal-oriented manner. That could have saved a lot of money that could be additional toward measures for eradicating poverty.

In one of her articles in 2009, this writer remarked in some details that government budget formulation and implementation processes and procedures needed revamping. This is because, while the budget is approved as an input, output is hardly followed up with rigorous follow up during the budget implementation processes against targets to ensure that activities are focussed towards attainment of planned objectives, say, for instance, poverty reduction.

What is disquieting is the more sectoral growth the country experienced, the greater has become policy-makers' titillation over infrastructural development and physical transformation of the country, especially the capital city, its suburbs and some towns garlanded with modern buildings. Yes, this writer salutes all of these achievements, as she has so often done recognising that the final victory over poverty and inequality is built on every single achievement against it. We need to worry, nonetheless, that the overwhelming effect of this excitement has made officials to turn a blind eye to harmful effects of mismatched trade off between growth and worsening human conditions caused by absolute poverty.

Consequently, in the absence of appropriate policies to address the problems of absolute poverty at the distribution level, a huge mass of people in both urban and rural areas have been locked out of the benefits of economic growth. What the statistics does show is in crucial areas the numbers of people in poverty are rising or perched in the same place year after year.

Why is the situation like that? The simple answer is that the policy and strategies pursued by government for poverty reduction appear to be poorly targeted. Not that a hundred percent achievement is expected, but not this much lower either. That is why one has to look into the policies whether the system of distribution of the benefits of growth is directed to those in lowest quintile. It requires at all levels that policies that help the poor create prospects that enable them to escape poverty.

What this means is that, against the backdrop of Ethiopia's profound absolute poverty, the choice by government of ineffective distribution strategy stands in sharp contrast with the thinking of latest knowledge in development economics, including of the World Bank staff that have long recognized economic growth is distribution-neutral, without deliberate policies to affect the situation.

That is to say, in low-income countries with higher initial inequality less are the gains from growth to be shared by the poor. If that approach is pursued, irrespective of the level of GDP growth in Ethiopia, inequality remains unchanged. To put it differently, high initial inequality renders poverty less responsive to growth.

In the past decade especially, the consensus among economists is that growth is distribution-neutral, which means that while open to all quintiles, it still leaves inequality undiminished in conditions of very high

inequality. This is because the poor have neither the resources nor the access to change their plight. In fact, one study aptly asserts, "For high inequality countries, growth will be quite a blunt instrument against poverty unless the growth comes with falling inequality" (Martin Ravallion, *Pro-Growth: A Primer*, 2004). In other words, there would be no correlation between the growth attained and existing inequality in countries such as Ethiopia with widespread poverty.

Nonetheless, there is no justification whatsoever for governments with poor policy instruments forcing millions into poverty. Those who have carefully chosen their policies have done it, as we can see among a number of Asian countries such as South Korea, Taiwan, now Indonesia's performance both on the political and economic fronts.

When we turn to our country, for instance, in the context of measuring progresses made in achieving the Millennium Development Goals (MDG), a case study of ten countries by the Economic Commission for Africa (ECA) reports the following pertaining to maternal mortality in Ethiopia and Chad,

Ethiopia and Chad that have the lowest figures overall of women receiving delivery assistance from a health professional, also show wide disparities between the richest and the poorest – less than 3% of the poorest wealth quintile are able to access delivery assistance from a health professional, compared to almost 50% and 60% of those from the richest group in Ethiopia and Chad respectively *ECA Health inequities in selected African countries (Review of evidence and policy implications, 2009)*

All said and done, it is time to put to rest the view that economic growth could solve all problems of poverty and inequality. In reality, such views have become a major obstacle deterring the poor from sharing the fruits of economic growth in Ethiopia as well as in those developing countries that have performed well especially in the past two decades.

(TO BE CONTINUED...)