Evaluating Ethiopia's Development Progress

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Evaluating Ethiopia’s Development Progress

Abstract
Ethiopia, Africa’s second most-populated nation is well on its way to becoming one of its wealthiest nations as it charges forward on its path to development. The big question is whether this growth is sustainable. To tackle this question, we will discuss its development strategy using a popular comparison to that of China. We will then offer an appraisal of the current state of the country. Finally, we will evaluate the future of Ethiopia, as it continues its current path – evaluating the potential upsides and risks it faces moving forward.

Keywords
Ethiopia, Development, Emerging Economy

Cover Page Footnote
This work was inspired by the course taken by the authors “Political Economy of Africa” at Institut d'Etudes Politiques de Paris (Sciences Po).
EVALUATING ETHIOPIA’S DEVELOPMENT PROGRESS

1. INTRODUCTION: ETHIOPIA, THE LAST FRONTIER?

“We are the only African country that has never been colonized. This is perhaps the last surviving African civilization” (Meles, 2007). Besides being commonly known as the only African country to never have been colonized, Ethiopia is also often regarded as ‘the birthplace of humanity’. Ethiopia is one of the most prominent African success stories in recent years. A country that is often associated with dire poverty and devastating famines has experienced sustained economic growth for the last 20 years, thereby alleviating the misery of millions of its own people, and now viewing itself in a prime position to become the last development frontier. Ethiopia was ruled by Emperor Haile Selassie until 1974, when he was toppled and replaced by the Derg, a military junta that imposed a USSR-style command economy, coupled with totalitarian rules. The Derg period was marked by very limited economic growth and repeated famines, most notably from 1983 to 1985, where it is estimated that around half a million people succumbed to starvation. At the same time, the Derg brutally suppressed political dissidents as well as the Eritrean independence movement. Since the very beginning of Derg rule, several Marxist groups rebelled against the new regime by taking up arms and engaging in guerilla warfare. Additionally, Addis Ababa was faced with an invasion by neighbouring Somalia, where irredentists sought to annex parts of Eastern Ethiopia that were inhabited primarily by ethnic Somalis. Only in 1991 was the oppressive Derg regime finally pushed out of power by a coalition of rebel groups, known as the Ethiopian People’s Revolutionary Democratic Front. This marked the beginning of Ethiopia’s economic transformation, which this paper will focus on. In the first section, we will discuss Ethiopia’s development model, with a special focus on its contentious industrial policy. We will discuss the potential virtues and shortcomings of this model as well as its intellectual underpinnings. Subsequently, Ethiopia was ruled by Emperor Haile Selassie until 1974, when he was toppled and replaced by the Derg, a military junta that imposed a USSR-style command economy, coupled with totalitarian rules. The Derg period was marked by very limited economic growth and repeated famines, most notably from 1983 to 1985, where it is estimated that around half a million people succumbed to starvation. At the same time, the Derg brutally suppressed political dissidents as well as the Eritrean independence movement. Since the very beginning of Derg rule, several Marxist groups rebelled against the new regime by taking up arms and engaging in guerilla warfare. Additionally, Addis Ababa was faced with an invasion by neighbouring Somalia, where irredentists sought to annex parts of Eastern Ethiopia that were inhabited primarily by ethnic Somalis. Only in 1991 was the oppressive Derg regime finally pushed out of power by a coalition of rebel groups, known as the Ethiopian People’s Revolutionary Democratic Front. This marked the beginning of Ethiopia’s economic transformation, which this paper will focus on. In the first section, we will discuss Ethiopia’s development model, with a special focus on its contentious industrial policy. We will discuss the potential virtues and shortcomings of this model as well as its intellectual underpinnings. Subsequently,
we will compare this to the development policies introduced by China and point to some essential differences between the two.

2.1 ETHIOPIA’S INDUSTRIAL POLICY

Generally associated more with perennial famines than stellar economic performance, Ethiopia has gone through an economic boom over the last decade. From 2005 to 2015, real GDP growth averaged almost 11% according to official government figures, transforming Ethiopia into the largest economy in Eastern Africa (CNBC Africa, 2016). Aided by significant foreign investment, the ruling Ethiopian People’s Revolutionary Democratic Front (EPRDF), commonly known as Ehadig, has embarked on an itinerary of concerted structural economic change. After having ousted the military Derg regime that had been in power since 1974, Ehadig started consolidating power while also implementing reforms to lay the groundwork for increased economic growth (Oqubay, 2015). Contrary to what orthodox development economics would recommend, Addis Ababa consciously rejected liberalization and a diminished role for the state. Most importantly, it executed an activist industrial policy. The term industrial policy can be interpreted rather broadly. Here, we will use the definition provided by Arkebe Oqubay, former mayor of Addis Ababa and senior policy maker in the Ethiopian government, whereby industrial policy denotes ‘[…] a strategy that includes a range of implicit or explicit policy instruments selectively focused on specific industrial sectors for the purpose of shaping structural change in line with a broader national vision and strategy’ (Oqubay, 2015, p.18). The mechanisms associated with such a design range from market control, strategic subsidization, protective tariffs, targeted quotas and ‘picking winners’, to the installation special economic zones and the protection of foreign investors (Stiglitz, 2014). In Ethiopia’s case, industrial policy has focused on agricultural development-led industrialization (ADLI), conducted through the implementation of five-year plans. The government plans to increase employment in the more productive sectors of the economy by promoting industrial development. At the same time, it aims to provide a more conducive environment for private actors by investing in public infrastructure projects, facilitating access to credit and maintaining macroeconomic stability, while also pursuing rather unorthodox measures in order to finance public investment. Addis Ababa also explicitly subscribes to the rationale of the infant industry argument (Oqubay, 2015). In essence, it aims to utilize tariff barriers to protect nascent industries until they have reached sufficient economies of scale, enabling them to compete with foreign companies (Sauré, 2007).

2.2 BREAKING WITH THE PARADIGM

These heterodox economic policies have not always found favor with Western observers and international institutions such as the IMF or the World Bank, which have generally endorsed the so-called ‘Washington Consensus’ [1]. This package of policy prescriptions, which emerged in the 1980s and was being championed not only by the above-mentioned institutions but also by the US government, as well as advocates for market-based reforms,
financial liberalization, and cautions against state-led intervention. This is based on the belief that excessive government interference will lead to economic distortions with negative effects on resource allocation, exacerbated rent-seeking and generally sub-optimal economic outcomes (McKinnon, 2010). Additionally, undue government activity can often lead to the crowding-out of the private sector. In Ethiopia’s case, this is specifically worrisome as it pertains to the access to credit and other refinancing options, both of which are heavily dominated by the state (World Bank, 2016).

2.3 NEOPATRIMONIALISM AS AN IMPEDIMENT?

Another criticism leveled at African activist industrial policy stems from those who underline the pervasiveness of ‘neopatrimonialism’ in the societies of sub-Saharan Africa (Erdmann 2006). Neopatrimonialism denotes a system of social hierarchy that, while often co-existing with legal-rational bureaucracies, is essentially based on patrimonial-clientage relationships, where loyalty hinges on the redistribution of favors and material incentives by those in power to the clientele (Van de Walle, 1999; Orogun, 1991). This essentially implies that the many failures of industrial policy in Africa were essentially of political rather than economic nature, signifying the state’s lack of fundamental capabilities and/or will to implement sound policies. Institutional weakness and rampant and endemic corruption, both of which are prevalent in African societies, supposedly exacerbate rent-seeking and inefficiencies, whereby the ruler’s personal clientele or favored ethnic/religious group benefit excessively from government intervention in the economy (Oqubay, 2015).

Ethiopian policymakers openly reject these admonitions, as well as free trade and economic liberalism. One foreign observer recalls how he was told in Addis Ababa that Ethiopia would ‘prefer to be dragged over burning coals’ over turning towards the IMF for assistance (Robertson, 2016). This repudiation of the ‘Washington Consensus’ is a very conscious decision, and Ethiopian officials have repeatedly praised China’s development path as a role model, which suggests acceptance of a however vaguely defined ‘Beijing Consensus’. In line with the supposed ‘China model’, many Asian observers point to the advantages of Ethiopia’s political stability and its ability to eschew cumbersome political compromises when it comes to implementing economic reforms (Oqubay, 2015).

2.4 NO MERE COPY: PRAGMATISM PREVAILS?

Nonetheless, despite all the similarities between Ethiopia’s development strategy and that of China or the East Asian Tigers, there are also crucial differences. Agriculture plays a more prominent role in the Ethiopian economy in comparison to the minor part of manufacturing, which only accounts for a minor part of the Ethiopian economy with an employment share of around 10% (World Bank, 2016). Furthermore, Ethiopia has significantly lower domestic saving rates than the Tigers or China had at similar stages of development, which makes investment financing more challenging. Particularly in contrast to the Chinese Renminbi, the Ethiopian Birr has been kept at artificially high levels in order to facilitate capital imports. Officials in Addis Ababa have pointed out that currency depreciation would not serve their...
immediate policy goals, especially as export-oriented manufacturing is still in its infant stages (World Bank).

In this section, we have examined the Ethiopian development model from a theoretical perspective. It is based on an activist industrial policy, executed through specific and wide-ranging governmental interventions in the economy and fueled by massive public investment. Ethiopian policy makers are conscious of the need for structural change in order to facilitate sustainable economic growth. Furthermore, we have demonstrated the rejection of orthodox advice concerning the liberalization of the economy, in favor what has been termed the ‘Beijing Consensus’ on development. Nevertheless, the Ethiopian growth model is not simply an imitation of the Chinese experience, as Addis Ababa has pragmatically opted to utilize only those aspects that are suitable to Ethiopia’s specific conditions.

3. THE CURRENT STATE OF ETHIOPIA’S DEVELOPMENT

Ethiopia has, over the years, undergone massive development following the introduction of their precise plans. The gravity of this progression is visible according to several development indicators. These include financial, health, education, and specific sectoral indicators.

3.1 ETHIOPIA’S FINANCIAL BOOM

GDP per capita, one of the most commonly used development indicators, measures economic development according to the pace of income growth per head of the population (United Nations, n.d.). According to its current trend in GDP per capita growth, Ethiopia is positioned to be developing at a very successful rate. More specifically, there have been two peak periods of growth during recent Ethiopian history – 1993-2004, when the growth rate was 4.5%, and 2004-2014, when it soared to 10.9%. These figures are remarkable considering the fact that during the bulk of the 1980s, the growth rate was at a measly 0.5% (see annex A1). The year 1992 marked the shift from a command economy to a more market-oriented economy associated with the demise of the socialist Derg regime (1974–1991). In addition, the period since 1992 was preceded by political regime change and the end of a major civil war. Growth was higher during this first period in the 90s, but somewhat unstable. 2004, in turn, marked the first year of an unprecedented sustained high-growth period (World Bank, 2016). Both shifts suggest very promising movements for the Ethiopian economy.

3.2 EDUCATION IN ETHIOPIA: A PRIORITY

As a primary component of its push towards becoming a middle-income country, education has been placed as a point of focus by the Ethiopian government. In 1994, Ethiopia announced the passing of the Education and Training Policy (ETP) reform, which was the first formal framework for education in Ethiopia (International Development Center of Japan, 2012). Its objectives were to provide a more comprehensive education for its students both in primary
and secondary education, as well as in terms of training (Ministry of Education, 1994). In 2010/11, the gross enrollment rate (GER) was 96.4% in primary education. The net enrollment rate (NER) marked 85.3% in 2010/11, the highest ever and showing a significant improvement from 52.2% in 2001/02 (see annex A2). However, Ethiopia’s focus has been not only on access to education, but also on concurrent improvements in the quality of education together with the increasing population growth- ensuring that more of their students pass and a more equal system of education (UNESCO, 2015). As it currently stands, compared to other countries, Ethiopia ranks at the 7th percentiles in access to education and at the 8th percentiles in learning outcomes (EPDC, 2014) (see annex A3). However, its increased per pupil expenditure rate suggests that Ethiopia will make a big leap in the educational sector (see annex A4).

3.3 DERIVING DEVELOPMENT FROM HEALTH

In order to have a progressive economy, one must have a stable healthy population. It is therefore imperative that Ethiopia show improvements in the health sector to ever be considered as successfully developing. As it stands, Ethiopia is characterized by a predominantly rural and impoverished population with limited access to safe water, housing, sanitation, food and health care. Estimated life expectancy at birth is 63 years for males and 67 years for females (World Bank, 2016). The burden of disease measured in terms of premature death is estimated at 350 disability-adjusted life years lost per 1000 members of the population, which is the highest in sub-Saharan Africa. In addition to the widespread poverty and low-income level of the population, a low literacy rate (mainly among women) and lack of access to health care have contributed to ill health in the country. The infant mortality rate is 41 deaths per 1000 live births, while the overall under-five mortality rate is 58.4 per 1000 live births (see Annex A5_1 and A5_2). A total of 67% of all deaths of children aged under five years in Ethiopia take place before a child’s first birthday. However, these levels are considerably lower than those reported in the Ethiopian demographic and health survey in 2005. Both the infant mortality rate and the under-five mortality rate have decreased significantly (World Health Organization, 2014). Ethiopia remains one of the poorest in terms of health conditions, but its improvements show promise of development.

3.4 SECTORAL DEVELOPMENT IN ETHIOPIA

Development is also capable of being felt directly in specific sectors. In Ethiopia, most notably, the Services and Agricultural Sector have been the most promising. The Services sector was the largest in terms of economic output, accounting for 45% of the value added in the Ethiopian Economy in 2013 (see Annex A6). It has also been one of the largest sectors in terms of employment, accounting for the employment of 15% of the total population of Ethiopia in 2013 (see Annex A7). The global pattern has changed over time as services are now creating more jobs and manufacturing less, a sign of premature deindustrialization. Ethiopia is consistent with this trend apart from manufacturing output, which remained quite small unfortunately. The agricultural sector is the second biggest in terms of economic output and by far the biggest employer, with the number of farmers growing at a rate of 3.4% (World Bank,
With continuous expansion in terms of cultivated area (land) and farmers (labor), one could make the argument that the agricultural sector should be the focus of development policy in Ethiopia.

4. CONTINUOUS GROWTH? ASSESSING THE POTENTIAL AND RISKS OF AN EMERGING ECONOMY

Expectations are high for Ethiopia to follow the footsteps of the Asian tigers, which is to guarantee continuous economic growth by building an increasingly important manufacturing sector. The economic successes of previous years seem to proof support country’s potential to reach this goal in the coming decades, yet there are certain risks that have the potential to undermine this success story. The following sections analyse the future expectations and risks for the Ethiopian economy.

4.1 FOREIGN DIRECT INVESTMENT AND COMPARATIVE ADVANTAGE - POSSIBILITIES FOR CONTINUOUS GROWTH

Continuous industrialization is one of the cornerstones for the future economic success of Ethiopia. Building on manufacturing as a driver for growth, Ethiopia has increasingly attracted investors for its manufacturing facilities. These investors recognize Ethiopia as a prime investment destination not solely based on its encouraging expected growth rates, but due to other positive factors as well such as low production costs and stability (Aglionby, 2017). First, the costs for energy and labor in Ethiopia are multiple times lower than in the manufacturing economies in Asia, and therefore this gives the Ethiopian market a comparative advantage in the producing industrial sector for the foreseeable future. Second, as compared to other African countries that would boast a similar economic structure and would - in terms of low cost - be attractive to foreign investors, Ethiopia is a politically stable country. For the last two decades, there have been no major regime changes, and this stability is reflected in the increasing attractiveness of Ethiopia for foreign investors. If these conditions - low production costs relative to other manufacturing nations and political stability - can be upheld, capital inflow into, and thus the development of, the Ethiopian manufacturing sector is likely to continue.

Next to its preferential situation as a low cost producing country, Ethiopia has other strengths that can be further exploited in the future. Being the second largest country in terms of population on the African continent, Ethiopia has great potential as a market and thus expansion of international firms into the Ethiopian market is highly likely. To exploit this potential, however, Ethiopia must further expand its effort to effect structural change. There are many fields open to further development as a substantial part of Ethiopia’s work force that is still employed in the small structured agricultural sector (World Bank, 2016, p. 39). As McMillan and Rodrik (2011) put it, “[a]s labor and other resources move from agriculture into modern economic activities, overall productivity rises and incomes expand. The speed with which this structural transformation takes place is the key factor that differentiates successful countries from unsuccessful ones” (p. 1). Thus, focusing on the modernization and
commercialization of the agricultural sector and restructuring the economy as a whole - a shift from primary to the secondary and tertiary sector - offers great potential for further economic development.

4.2 FROM CLIMATE CHANGE TO POLITICAL INSTABILITY - RISKS FOR ETHIOPIA’S GROWING ECONOMY

Yet, while structural change opens up doors for future development, if such a transformation is not effectuated in a timely manner, there are major risks for Ethiopia’s economy. Moreover, besides structural change, Ethiopia runs the risk to be overtaken by technological development in other parts of the world, rendering its growth strategy obsolete. An economy strongly based on agriculture remains vulnerable to commodity price volatility as well as ecological degradation. Through this dependency on agricultural production, exogenous factors such as lack of rainfall and price volatility have significant effects on the purchasing power of Ethiopian households and therefore on the growth potential of the economy itself (Hill and Porter, 2016). This problematic situation is further exacerbated by the risks of climate change, as Yalew et al. (2017) concluded, “the regional effects of climate change primarily depend on the share of agriculture in the regions’ (sic!) GDP” (p. 21). While this evidence shows the risk of not achieving timely structural change, even if such change is effectuated, a simple shift from agricultural to manufacturing might not get the job of sustained economic development done. The reason for such a risk is increasing automation. Ethiopia might simply be too late when copying the strategy of the Asian tigers to shift its focus to manufacturing, as technology currently takes large leaps to replace workers, for example, in the clothing production sector. As wages are rising in the production sectors of East-Asian countries, other economies – such as Ethiopia – which aim to fill the void might be overtaken by robots (Nicolaou and Stacey, 2017).

As mentioned above, Ethiopia’s popularity with foreign investors can be in part explained by its relative political stability as compared to other low-cost African countries. Such a continuous stability must be maintained to secure sustained economic growth. In turn, an unstable political situation threatens continued economic success in Ethiopia. During eleven months of upheaval in the Oromia region, the government introduced a state of emergency in order to crack down on the protest in October 2016. These upheavals were spurred by political and economic grievances, as the country is controlled by one single party and the economic growth does not arrive in all regions equally. Little is done by the government to address these issues and thereby treat the disease; instead, it is just suppressing the symptoms by employing coercive force (Aglionby, 2017). Besides internal political challenges, instability in Ethiopia’s neighbourhood can impede sustained growth. With neighboring countries that are politically unstable, to say the least, such as Somalia and South Sudan, as well as continued political tensions with Eritrea, Ethiopia has to watch out and anticipate cross border challenges before they arrive to secure a stable environment for investment (Coface, 2017). In short, Ethiopia faces political risks that could undermine its attractiveness to foreign investors in the future, and these risks are equally to be found within the borders of the country, as well as in the general instability of the region.
All in all, Ethiopia possesses strengths that indicate a continuation of its success story and the possibility to strengthen its status as emerging country in East Africa. Growing interest of foreign investors, low production costs – and thus comparative advantage – as well as the structural potential for economic growth, underpin this possibility. Yet, there are a number of economic and political risks that might undermine such a development. Ecological degradation, climate change, and commodity price volatility can seriously harm the economy that is still to a large degree based on agricultural production. Moreover, copying the development model of the “Asian Tigers” – thus focusing on manufacturing – could prove as becoming obsolete as automation in the manufacturing sector plays an increasingly important role. Internal and external political questions are yet other factors that will co-determine the success or failure of the Ethiopian way. In short, Ethiopia shows potential to achieve perpetual economic success, yet it will have to overcome a number of obstacles on the path.

5. CONCLUSION

Ethiopia has had the highest rate of economic growth of any large African country over the last decade, resulting in large-scale poverty reduction and renewed dynamism. It has implemented a state-led development model that broadly builds upon the example set by China, but from which it also differs in several crucial regards. More generally, Ethiopian policymakers have largely rejected orthodox development models in favour of an activist industrial policy and heterodox financing arrangements. The success of this development model seems staggering at first sight, as advances have been made not only in purely financial term but also across the board in human development more broadly. This is clearly indicated by the growing number of children who receive basic education, as well as by the remarkable improvements witnessed in the health sector. Developments such as growing popularity with foreign investors and comparative advantage in manufacturing due to low production costs suggest that the success story of the last years and decades can continue well into the future. On the other hand, Ethiopia’s development also faces significant obstacles and potential risks that should not be underestimated, and which include not only natural degradation and price volatility, but also political instability.

To put this discussion into perspective, though, it must not be forgotten that the starting point for development in Ethiopia remains strikingly low. Being a country with nearly 100 million inhabitants, its total GDP is only equal to that of the city of Zurich, which has a population of little more than 400’000 inhabitants. Even more illustrative is a comparison with China, which is often regarded as Ethiopia’s ‘development role model’. Some 30 years ago, the level of development in the two countries was roughly the same, yet today the GDP per capita in Ethiopia is only a little more than a tenth of that in China (IMF, 2017). Thus, the path to catching up is a long one. Notwithstanding all the anticipated difficulties, Ethiopia’s success over the last years is remarkable, and if it continues to hold up its run, ‘emerging country’ is a term that can be assigned to the economy. On a final note, seeing Ethiopia’s growth during the last decade, a legitimate question can be asked whether other African countries can and should follow its footsteps and adopt its specific development model. This question opens up to a broader topic of study to the extent to which such heterodox economic policy can prove useful.
in an African-wide context, and whether the current paradigms of economic development should be revisited.
ANNEX

ANNEX A1: ETHIOPIA: REAL GDP GROWTH

1. 1980–2014


Source: World Bank (2016), Used with permission

ANNEX A2: PRIMARY GROSS AND NET ENROLLMENT RATES (2001/02-2010/11) (%)

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<td>83.7</td>
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<td>47.2</td>
<td>51.8</td>
<td>63.6</td>
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<td>75.5</td>
<td>80.7</td>
<td>81.3</td>
<td>80.5</td>
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<td></td>
<td>Total</td>
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<td>54.0</td>
<td>57.4</td>
<td>68.5</td>
<td>77.5</td>
<td>79.1</td>
<td>83.4</td>
<td>83.0</td>
<td>82.1</td>
</tr>
</tbody>
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Source: International Development Center of Japan, Inc. (2012).
APPENDIX A3: COMPARISON OF ACCESS AND LITERACY

Data source: UNESCO Institute for Statistics (UIS) (see Data Table for year)

Source: Education Policy and Data Center (2014)

APPENDIX A4: PER PUPIL EXPENDITURE (PPE) BY SCHOOL LEVEL (% OF GDP PER CAPITA)

Source: Education Policy and Data Center (2014)
ANNEX A5_1: INFANT MORTALITY RATE

Source: Retrieved from https://datacatalog.worldbank.org
ANNEX A5_2: UNDER 5 MORTALITY RATE

Source: Retrieved from https://datacatalog.worldbank.org
ANNEX A6: VALUE ADDED IN THE ETHIOPIAN ECONOMY

1. Value Added (billion birr, 2010/11 prices)

Source: World Bank (2016), Used with permission
ANNEX A7: EMPLOYMENT IN ETHIOPIAN ECONOMY

2. Employment (million people)

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<th>Year</th>
<th>Services</th>
<th>Industry</th>
<th>Agriculture</th>
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<td>2005</td>
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<td>2013</td>
<td>3.0</td>
<td>30.8</td>
<td>6.1</td>
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Source: World Bank (2016), Used with permission
BIBLIOGRAPHY


