

STRUCTURAL TRANSFORMATION IN ETHIOPIA: THE URBAN DIMENSION

Building 'Economically Productive, Socially Inclusive,
Environmentally Sustainable & Well Governed' Cities



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Preface

The Government of Ethiopia has prepared the Ethiopian Growth and Transformation Plan 2013/14-15 (GTP) with the intention of transforming the country from an agriculture-led economy to an industrialization-led economy, and from rural to urban-based economic transformation. Based on the experience of different countries in managing urbanization and industrial development, this transformation demands a high level of skills. The Ministry of Urban Development, Housing and Construction (MUDHCo) believes that the United Nations Human Settlements Programme, UN-Habitat, has the knowledge and global experience in the field and has officially requested a partnership for transferring knowledge to support the implementation of the Ethiopian Cities Prosperity Initiative (ECPI). This is the basis for the preparation of this document and cooperation between MUDHCo and UN-Habitat.

At the 23rd session of the UN-Habitat Governing Council, following a request from MUDHCo, UN-Habitat signed a Memorandum of Understanding with MUDHCo for it to provide technical support in the implementation of the ministry's Ethiopian Cities Resilience, Green Growth and Governance Package (ECR-3G2P: 2013/14-2025), now reformulated as Ethiopian Cities Prosperity Initiative: Building Resilient, Green and well Governed Cities (ECPI: 2013/14-2025).

The Ethiopian backlog of urban infrastructure and services, and the expected increase in urban population, requires innovative approaches and capacity to attract, plan and manage huge investments at all levels of government. Exploiting the urban advantages for economic growth while ensuring access to economic opportunities for all, especially the poor, youth and women demand spatial and inclusive approaches to urban development and management.

UN-Habitat has supported a number of projects/programmes in Ethiopia since 1998, when its involvement began in the implementation of the Water for African Cities Programme, Phase I, for the City of Addis Ababa. The second phase of the programme, which has been operational since 2003, has expanded to include two cities (Dire Dawa and Harar).

Apart from the Water for African Cities Programme, UN-Habitat has also assisted the Government of Ethiopia in urban profiling, which is part of a systematic and structured approach to the assessment of urban needs and response mechanisms at city and national levels in Africa and the Arab States. The Urban Profiling Programme in Ethiopia included the profile of Addis Ababa, the capital city, Dire Dawa, the second largest city, and Ambo, a third-level city. More recently, UN-Habitat has been an implementation partner for the Global Environmental Facility-funded Sustainable Transport Project in Addis Ababa, fo-

cusing on the design of bus rapid transit systems, transport demand management and promotion of non-motorized mobility solutions.

UN-Habitat is well placed to provide practical and cutting edge knowledge and experience in sustainable urban development gathered from a myriad of studies and projects around the world. The agency's areas of focus in promoting sustainable urban development around the world largely overlap with the strategic pillars of ECPI: 2013/14-2025, offering the opportunity for effective collaboration and mutual learning.

The main objective of the UN-Habitat support to MUDHCo is to assist the latter in the development of a comprehensive framework for the implementation of the Ethiopian Cities Prosperity Initiative (ECPI: 2013/14-2025) consistent with the overall strategic goals of the *Ethiopian Growth and Transformation Plan 2013/14-15*, namely, poverty reduction and accelerated growth through industrialization while ensuring sustainability through resilience, green growth and good governance. To this end, Ethiopian cities will have to reposition themselves so that they can become important manufacturing hubs providing millions of well-paying jobs, and generating significant resources for the Federal Government and local authorities in the form of taxes.

The technical support to be provided by UN-Habitat will give priority to 'building sustainable systems and institutions' for policy formulation and effective implementation in order to enable Ethiopian cities to play a critical role in tapping into the process of economic globalization as a means to accelerate industrialization and job creation. By building the necessary institutional and legal frameworks, MUDHCo will be able to manage the challenge of urbanization strategically and on a long-term basis. Moreover, MUDHCo and UN-Habitat stand to benefit from the consolidation of their knowledge and experience on sustainable urban development through this initiative.



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Introduction

Cities are increasingly seen as drivers of national competitiveness and of economic and social development, especially in the transition from primary to secondary and tertiary industries.¹ As people become more mobile and firms more selective about where they locate themselves, competitive cities have emerged as magnets for talent and investment. National and global markets, as well as globally-integrated organizations, require central places where the work of globalization gets done.² Advanced industries require a vast physical infrastructure containing strategic nodes with hyper concentration of facilities. Recapturing the geography of places involved in globalization allows us to recapture people, workers and investments.

The concentration of productive activity, entrepreneurs, R&D institutions, banking and finance and strategic decision-making capacity allows for efficient sharing of infrastructure, services and information; matching buyers and suppliers of different kinds of inputs and supplies and learning about new techniques, products and processes³. These functions can support

growth by lowering costs, raising flexibility, reducing risks, increasing innovation and improving product quality. The particular combination of these elements determine a city's industrial structure and productivity and from this grows employment and income, profits and investment and taxes⁴.

The imperative of steering and guiding the growth and overall urbanization process through urban planning and well-coordinated management becomes a priority undertaking. Equally urgent is the need to improve livability, productivity and sustainability of the city through expanding access to basic services. Given the pivotal role that cities play in economic growth and transformation, Ethiopian policy makers should make deliberate efforts to optimize on the urban advantage.

The urban challenge in Ethiopia

Ethiopia remains one of the least urbanized countries in Africa and almost 80 per cent of the population reside in rural areas where they eke out a living from subsistence agriculture. However, rapid population growth, a sluggish agricultural performance and increased rural-urban migration have been countering this. The pace of urban growth is expected to accelerate in the coming decades and this will largely be in

1 OECD (2006), *Competitive Cities in the global Economy*, Paris: OECD; World Bank (2009), *World Development Report 2009: shaping economic geography*, Washington, DC: World Bank; Duranton, G (2008), 'From Cities to productivity and growth in developing countries', *Canadian Journal of Economics*, 41 (3), 689-736

2 Saskia Sassen (2011), *Cities in a World Economy*, Thousand Oaks, CA: Pine Forge Press

3 Parkinson M et al. (2004), 'Competitive European Cities: Where do the Core Cities Stand?'

4 OECD (2006), 'Competitive Cities in the Global Economy', *Territorial Review*

small- and medium-size cities with low resilience to climate change shocks.

Furthermore, many of the urban poor earn their livelihoods in the informal economy, where wages are low and working conditions deplorable. Moreover, poor and sub-standard housing, deficient infrastructure and urban services; growing health and environmental risks; inadequate municipal revenue base and weak institutions are characteristic of many Ethiopian cities.

To achieve broad development objectives, economic and political governance have to be deepened and government capacity in management and implementation strengthened significantly

The future consumption patterns of urbanites will also have dramatic effect on the health of public services. Demand for natural resources, food and other goods will impact forests, biodiversity, fisheries and water. Consumption patterns will also determine air, water, and solid waste loads and management practices which in turn can have significant impact on regional and global public goods⁵. Addressing these national and city-level challenges will require city-level actions. It is at the city level that the necessary policy, institutional, technical and cultural transactions can be achieved that will shift the current scary trajectories. Fortunately, time is on Ethiopia's side to put

⁵ Satterwaite, David (2008), 'Cities contribution to global warming: notes on the allocation of greenhouse gas emissions', *Environment and Urbanization*, Vol.20, No.2, pp.539-550

in place appropriate institutional and legal framework to guide the process of urbanization before the problem becomes impossible to manage in an orderly manner.

As Ethiopia strives to become a middle-income country by 2025, the government's ability to transform the country from an agricultural to an industrial society will increasingly be determined by the capacities of its metropolitan regions to improve the productivity of enterprises through improved infrastructure, the training and retention of a critical pool of talented people in the fields of science, technology and entrepreneurship, development management and the maintenance of a 'hospitable business environment' for a vibrant private sector to grow and contribute to economic growth and job creation.⁶ To achieve these broad development objectives, economic and political governance have to be deepened and government capacity in management and implementation strengthened significantly.

More importantly, achieving a middle-income country status by 2025 will require a significant improvement in the competitiveness of Ethiopian cities as centres of innovation and economic exchange, enabling them to tap into the opportunities available in the global economy. This will require a significant improvement in Ethiopia's global competitive ranking.⁷ Although Ethiopia's ranking has improved between 2007 and 2013, this was not sufficient to allow the country to move significantly higher in the Global Competitiveness Index ranking. Boosting the competitiveness of

⁶ World Bank (2012), *Light manufacturing in Africa: Targeted Policies to Enhance Investment and Create Jobs*, The World Bank, Washington, DC

⁷ World Economic Forum (2013), *The Global Competitiveness Report 2012/13*, The World Economic Forum, Geneva.



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cities by building the necessary infrastructure, education and innovation systems can open up enormous opportunities for cities to become successful in promoting economic development and improve overall national welfare.⁸ In this report, we explore the following questions:

- What are the challenges facing the Federal and regional governments and city administrators in Ethiopia to transform cities/towns as centers of innovation, industrialization and economic growth linked to the global production chain in order to generate prosperity and jobs?

⁸ OECD (2006), *Competitive Cities in the global economy*, Paris: OECD; World Bank (2011), *Light Manufacturing in Africa: Targeted Policies to Enhance Investment and Create Jobs, with a Case of Ethiopia*, World Bank, Washington, DC

- What are the challenges to making Ethiopian cities more competitive and enterprising in order to take advantage of the opportunities available in the regional and global economy? What are the institutional and governance constraints to market and factor mobility?
- How can cities ensure social equity and inclusion in the process of rapid economic growth?
- What are the environmental challenges and what needs to be done to strengthen the resiliency of cities against climate change and other shocks?
- What are the governance challenges for Ethiopian cities and towns to unleashing

their full potential for economic growth and transformation?

- What are the capacity-building challenges and can they be done cost-effectively?

This discussion paper makes two important conclusions at the outset. First, the government’s development agenda of transforming the country into a ‘middle-income country’ by 2025 is contingent upon the competitiveness, productivity, and well-functioning of Ethiopian cities and towns. In essence, there is a convergence between the urban agenda and the stated goal of becoming a ‘middle-income country’. None of the so-called emerging economies of Asia, such as China, Vietnam and South Korea, were able to achieve high levels of economic growth and industrialization without building effective and competitive cities that became important nodes of innovation, information and knowledge exchange and economic production strongly linked in the global value-chain⁹.

⁹ Zhang, Xiaobo, Arjan de Haan, and Shenggen Fan (2010), ‘Policy Reforms as a Process of Learning’, In *Narratives of Chinese Economic Reforms: How Does China Cross the River?*, ed. Xiaobo Zhang, Shenggen Fan, and Arjan de Haan. Hackensack, NJ: World Scientific Publishing.

UN-Habitat intervention will give priority to ‘building sustainable urban systems and institutions’ in order to enable Ethiopian cities to play a critical role in tapping into the process of economic globalization as a means to accelerate industrialization and job creation

Second, the ability of Ethiopian cities to become a powerful agent of economic and social transformation largely depends on two factors: (a) whether institutions and policy conditions, including the system of governance, unleash or hamstring a city’s potential to become a centre of innovation, economic accumulation and exchange and job creation and (b) whether the city is well planned and managed and its citizens have access to land, housing, education and basic services¹⁰. In this regard, the Federal government and city administrators can play a crucial role in realizing the distinctive opportunities offered by urbanization and globalization as well as confronting its challenges.

Given the stage of Ethiopia’s development, strong guidance from the centre is crucial since the Federal government is in a better position to make long-term commitments, including infrastructure investment and institutional reforms, and to create a level playing field so that the respective cities have an equal chance of attracting investments and spurring economic and social development. The Federal government can also promote cooperation between stakeholders and different tiers of government through institutional reform.

UN-Habitat’s Role

The main objective of UN-Habitat’s support to the Government of Ethiopia is to assist the Ministry of Urban Development, Housing and Construction (MUDHCo) to develop a comprehensive framework for the implementation of the ECR-3G2P package consistent with the overall strategic goals of the Growth and Transformation Plan, namely, poverty reduction and accelerated growth through industrialization. To meet this objective, Ethiopian cities will have

¹⁰ UNHABITAT (2011), *The Economic Role of Cities*, The Global Urban Economic Dialogue Series, Nairobi: UN Habitat

to reposition themselves so that they can become important manufacturing hubs, providing millions of well-paying jobs and generating significant resources to the Federal government and local authorities in the form of taxes.

UN-Habitat intervention will give priority to *'building sustainable systems and institutions'* in order to enable Ethiopian cities to play a critical role in tapping into the process of economic globalization as a means to accelerate industrialization and job creation. By building the necessary institutional and legal framework, the Ministry of Urban Development, Housing and Construction will be able to manage the challenge of urbanization strategically on a long-term basis. Consequently, UN-Habitat's support to the government should focus on the following:

1. Emphasis on building systems and institutions for each pillar of ECR-3G2P
2. Focus on innovative means of financing the activities outlined under each pillar
3. Focus on targeted human capital development aimed at producing a critical mass of subject matter specialists within the broad field of urban planning and sustainable urban development
4. Build a national urban observatory for data collection, analysis and dissemination on the state of urbanization in the country that will enable decision makers to plan and respond to emerging challenges and monitor performance in a timely fashion
5. Develop an appropriate tool to measure cities' performance in line with the general objectives of the GTP



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In preparing the final project document, the UN-Habitat team will concentrate its efforts on feasible, cost-effective and sharply focused policy interventions and strategies that will help equip the government of Ethiopia with the knowledge, capacity-building and institutional arrangements to guide the process of urbanization, and to situate Ethiopian cities at the epicentre of economic globalization so that they can tap into the economic opportunities available in the regional and global economy on a long-term basis.



The Quest for Structural Transformation in Africa: Building 'State-Society-Private Sector' Strategic Alliance for inclusive growth

INTRODUCTION

Transforming African countries from low-income agrarian to high-income industrial economies remains a major development challenge. Without industrialization and widespread economic diversification, it would be difficult to ensure sustainable high economic growth rates and inclusive social development.

In the present global conjuncture, the conventionally-accepted wisdom of market-led development as a necessary condition for transforming backward economies to high level of industrialization, can no longer be taken face value, particularly in the aftermath of the 2008 global financial crisis, which left many western economies in shambles. The scope and depth of the capitalist crisis required an unprecedented level of state intervention when Western governments were forced to introduce bailout packages and fiscal stimulus programs to correct wide spread market failures.

The 2008 global financial crisis also dented severely the reputation of the tradition-

al academic discipline of economics and paved the way for the emergence of an alternative thinking aptly named 'the new structural economics' school championed by the Chinese economist and former World Bank Vice President Justin Lin. This new school of thought aims at re-examining sustainable growth strategies for developing countries, based on the catching-up strategies that a number East Asia countries have successfully implemented since the 1970s in order to move up the technological ladder and diversify their economies¹¹. The proponents of the 'new structural economic school' advise developing countries to turn to the successful East Asian countries (China, Korea, Japan, Malaysia, etc.) for inspiration since these successful countries were at the same stage of development as Africa is today just barely 30 years ago.

¹¹ Lin, J.Y. (2009), 'New Structural Economics: A Framework for Rethinking Development', World Bank Research Observer; Lin, J.Y. and C. Monga (2011), 'Growth Identification and Facilitation: The Role of the State in the Dynamics of Structural Change', Development Policy Review 29(3):264-90

Indeed, Ethiopian policymakers can draw important lessons from both the advanced and emerging economies on the catching-up mechanisms for achieving structural transformation¹². However, the current phase of globalization has made this task more complicated and challenging since globalization brings with it both opportunities and risks that policymakers must examine carefully before embarking on a particular development path. While countries like Ethiopia can learn from the recent East Asian development experience, it would be a grave mistake to try to replicate them blindly.

Given the complex challenge that globalization brings with it, transformational change in Ethiopia would require the simultaneous engagement of the state, the private sector, and civil society in a complementary and supportive manner. In this regard, a developmental state approach that uses the market as an instrument rather than a sole mechanism for fostering long-term investment, rapid and sustained economic growth and structural transformation would be the right path to follow¹³.

The Elusive Quest for Structural Transformation in Africa: a retrospective view

A little over half a century after gaining political independence from colonial rule, the task of transforming African countries from low-income agrarian societies to high-income industrialized economies remain a

major development challenge. The failure to achieve structural transformation since independence in the 1960s is, in large part, due to Africa's excessive reliance on externally designed models of development that paid scant attention to the specific historical and cultural circumstances of individual African countries. In more ways than not, these externally designed development models resembled the colonial development model, which stifled economic production and social transformation in the continent. Structural transformation was never on the political agenda of post-colonial African governments. This observation promoted the late Nigerian philosopher Claude Ake to make the following remarks: *'it is not that development has failed in Africa; it has never got started. Because of exogeneity and its contradictions, Africa never had a development agenda - but only a confusion of agendas.'*¹⁴ Indeed, development in post-independence Africa became something to be organized from above instead of a process of unleashing people's potential for self-improvement from below. Under the guise of nation building, political elites and party loyalists, far removed from the reality of life on the ground, began to dictate what peasants could and could not produce, and at what price they could sell their outputs. Arbitrary removal of peasants from fertile areas to make way for export plantation and excessive taxation led to what became known as 'accumulation by dispossession'.

Not only were these top-down policies anti-peasant and anti-poor people but even projects financed by the 'new lords of poverty' - the external donors - also ended up marginalizing the vast majority of Africans.¹⁵ These national- and externally-ini-

12 Reinert, Erik (2007), *Why Rich Countries Got Rich...and Why Poor Countries Stay Poor*, London: Constable & Robinson, Ltd.; Maddison, A. (1982), *Phases of Capitalist Development*, Oxford: Oxford University Press

13 Wade, R. (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Development*, Princeton, NJ: Princeton University Press; Haggard, S. (1990), *Pathways to the Periphery: The Politics of Growth in the newly industrialized countries*, Ithaca, NY: Cornell University Press.

14 Ake, Claude (1996), *Democracy and Development in Africa*, Brookings Institution Press, Washington, DC: p.40
15 Cheru, Fantu (1989), *The Silent Revolution in Africa*:

tiated interventions were justified by the authorities on the grounds of advancing the narrowly defined national interest of 'modernization' and 'westernization'. But as Africa entered the decade of the 1980s, the familiar cry from the poor became, '*please don't develop us!*' a testimony to the catastrophic impacts of top-down and elite-designed development strategies.

Except for a brief period between 1960 and 1970, the topic of structural transformation never featured prominently in African development discourse. Following the euphoria of political independence in the early 1960s, many African countries embarked upon ambitious programmes of nation building and national development designed to bring structural transformation to the inherited colonial political and economic systems. Inspired by the political thinking of early nationalist leaders such as Kwame Nkrumah, Seku Toure and Modibo Keita, the 'nationalist development project' sought to achieve five historic and humanistic tasks: *decolonization; nation building; development; democracy and regional integration*¹⁶. At the same time, the nationalist project also focused on taking a more active role within the G-77 and the United Nations system to bring about a new international economic order that is favorable to the newly independent countries of the South.¹⁷ Indeed, during the first decade of independence African countries registered

impressive growth rates given the initial conditions. Physical infrastructures were greatly improved, particularly in the areas of health, education and communication. New universities, agricultural research centres, national transport networks, and local government structures were established to facilitate the national development project. Elaborate social subsidies and social programmes were developed as part of the nation-building project which helped diffuse social tensions. In short, the early 'nationalist' project did indeed accomplish a lot more in the economic and social front compared to the development policies and strategies implemented in subsequent years¹⁸. Thus, given the focus on development, the early post-colonial state in Africa was described by some as a 'developmental state'.

With the ascendancy of neoliberalism in the early 1980s, however, the optimistic mood that prevailed across Africa during the first development decade was replaced by a sense of despair, increased levels of poverty, social integration and political instability. Debt structures, conditional aid flows and unequal system of trade became the main instruments by which African development was regulated. As African governments became increasingly accountable to external actors rather than to their own citizens, what was left of the 'transformative agenda' of the 1960s and 1970s was completely dismantled¹⁹. Two decades later, the role of the state as the driver of development has been significantly curtailed,

Debt, Development and Democracy, London & Harare: ZED Books/Anvil Press; Hancock, Graham (1989), *Lords of Poverty: the Power, Prestige and Corruption of the International Aid Business*, New York: Atlantic Monthly Press

16 Nkrumah, K. (1963), *Africa Must Unite*, London: Panaf.

17 Mkandawire, T. (2001), 'Thinking about Developmental States in Africa', *Cambridge Journal of Economics*, 25 (3):289-314; Adejumboi, S. (2004), 'Economic Globalization, Market Reforms, and Social Welfare Services in Africa', In *Globalization and Social Policy in Africa*, T. Akin Aina, S.C.L. Chachagee and E. Annan-Yao, eds., CODESRIA, Dakar, Senegal: 23-46

18 Mkandawire, T. (2007), 'From the national question to the social question', Paper delivered at Cape Town University in honor of Harold Wolpe; Adesina, Jimi O. (2007), *Social Policy in Sub-Saharan African Context: In Search of Inclusive Development*, UNRISD/Palgrave Macmillan, Basingstoke

19 Cheru, F. (1989), *The Silent Revolution in Africa: Debt, Development and Democracy*, London & Harare: ZED Books and Anvil Press; Mkandawire, T. and C. Soludo (1999), *Our Continent, Our Future: African Perspectives on Structural Adjustment*, Africa World Press, Trenton, NJ.

the domination of market forces is set in place, and economies have been left wide open to external competition.

Yet few African countries have achieved credibly in terms of any of the indicators that measure real, sustainable development, let alone structural transformation. The majority of African countries are still dependent on one or two commodities as a source of foreign exchange. Agricultural production remain stagnant, unable to keep up with the rate of population growth. Most countries have slid backwards into growing inequality, poverty, ecological degradation and de-industrialization. Donor-mandated programmes of 'structural adjustment' and market-oriented reforms failed to produce structural transformation.

Africa's experience with 'structural adjustment' and market-oriented reforms was in sharp contrast to the development strategies pursued by the newly-industrializing countries of East Asia. Under the careful guidance of a strong and development state, they experimented with a mixture of market-friendly policies as well as state control of the strategic economic sectors in order to engineer high level of economic growth based on low-cost manufacturing and, later, into high-end and sophisticated industrial goods as they move up the technological ladder²⁰. State intervention was critical in the area of infrastructure development, investment and human capital development, and a gradual and selective liberalization of specific sectors as they become more mature to compete in the market place. Such is the case of China, Vietnam, South Korea, and Taiwan - important countries that refused to follow all

20 Wade, R. (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton, NJ: Princeton University Press.

the rules in the neoliberal guidebook even while moving in a more market-oriented direction.²¹In fact, these successful countries can hardly be called poster children of neoliberal economic policy.

In the past five years, however, the successful development experience of the East Asian countries, particularly the rise of China and India, has captured the imagination of Africans and has subsequently put the topic of structural transformation on top of the political agenda.²² The rise of the newly-emerging countries has opened up new possibilities for African countries to tap into new opportunities in low-cost manufacturing as emerging countries such as China and Korea move up the technological ladder and leave low-cost production to the late comers. The successful development experience of these emerging countries demonstrates the importance of national policies that support strategic industries, develop internal infrastructure and invest in human capital formation in order to take advantage of new opportunities from the rising of a multi-polargrowth world²³.

These countries were able to accelerate structural change and income growth by promoting industrial growth that reflects their latent comparative advantage. Their success was due to two important factors: (a) that governments had the freedom to

21 Haggard, S. (1990) *Pathways to the Periphery: The Politics of growth in the newly industrialized countries*, Ithaca, NY: Cornell University Press; Wade, R.H. (1990), *Governing the Market: Economic Theory and the role of government in East Asian Industrialization*, Princeton, NJ: Princeton University Press; Rodrik, D. (1994), 'Getting interventions right: how South Korea and Taiwan grew rich', NBER Working Paper, No. 4964.

22 Cheru, F. and Cyril Obi (2010), *The Rise of China and India in Africa: Challenges, Opportunities and Critical Interventions*, London & New York: ZED Press and the Nordic Africa Institute

23 Evans, Peter (1998), 'Transferable lessons? Re-examining the institutional prerequisites of East Asian economic policies', *Journal of Development Studies*, 34(6):66-86

control basic economic policy and (b) the state had the administrative, legal and regulatory capacity to guide the market in a way favourable to national development and structural change²⁴. Therefore, an effective and competent state is a prerequisite for accelerating structural change in any society.

What exactly is structural transformation?

The structural transformation process has been the subject of various empirical studies included in the specialized development literature on the patterns of economic and social development. A proper understanding of the development process of a typical dual economy developing country such as Ethiopia would show that structural transformation usually takes root in the context of a sustained increase in real per capital income over a fairly long period²⁵.

Various scholars have offered different definitions of structural transformation based on the specific historical experience of the particular countries that they studied. In general, structural transformation can be looked at as the change in the sectoral composition of output, or GDP, and that of the sectoral pattern of the employment of labour, as the economy develops (that is, as real per capita GDP increases) over a fairly long period of time²⁶. In the context of

such an economy, development takes place in the form of capital accumulation in the high-productivity sector supported by the migration of labour from low-productivity sectors, implying structural transformation. Therefore, recurrent themes that come across in the historical evidence on modern economic growth are the significant role of technological innovation, the increase in the rate of capital accumulation, the resulting shift in the sectoral composition of growth and the role of urbanization (though not stated explicitly) in facilitating innovation and economic productivity²⁷.

With every progress in technological innovation, the time required to make the transition from agrarian to industrial society has drastically been reduced. According to Maddison (1995), it took about 1400 years for the Western world to double its income before the 18th Century. In the 19th Century, the same process took about 70 years, and in the 20th century only 35 years. As a result, agriculture's share of employment in the western world declined from more than 80 percent to less than 10 percent²⁸. The central question posed in this chapter is this: *What would it take for Ethiopia, with 80 percent of the population still engaged in subsistence agriculture, to make the same journey as the developed countries and the emerging countries of Asia and Latin America?*

The struggle to achieve structural transformation is not new to the African continent.

24 Wade, Robert (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Development*, Princeton University Press, Princeton, NJ.; Haggard, Stephan (1990), *Pathways from the Periphery: The Politics of growth in the Newly Industrializing Countries*, Ithaca, NY: Cornell University Press; Chang, H-J. (2003), *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press; Rodrik, D. (1999), *The New Global Economy and Developing Countries: Making Openness Work*, Washington, DC: Overseas Development Council

25 Chenery, H. and M. Syrquin (1975), *Patterns of Development, 1950-1970*, Oxford: Oxford University Press

26 The definition of sustained economic growth adopted by the Commission on Growth and Development (2008)

is a real GDP growth rate of 7 percent a year or more for 25 years or longer.

27 Kuznets, S. (1966), *Modern Economic Growth*, New Heaven: Yale University Press; Rostow, W.W. (1960), *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge: Cambridge University Press; Gerschenkron, A. (1962), *Economic Backwardness in Historical Perspective: A Book of Essays*, Cambridge, MA: Belknap Press of Harvard University.

28 Maddison, A. (1995), *Monitoring the World Economy, 1820-1992*, Paris: OECD

With the attainment of political independence, the idea of transforming newly-independent African countries into modern societies took centre stage in academic research in the late 1950s and early 1960s. Economists and political scientists, particularly in the United States, embarked on a search for a theory of structural change.

Prominent among them were Arthur Lewis and W.W. Rostow.²⁹ The fundamental requirements of structural transformation in the development process is embodied in the 'dual economy' model first espoused by Arthur Lewis (1954) and the extension of this model by other scholars over the years. The model looks at the economy of a typical developing country such as Ethiopia as composed of two broadly defined sectors: a large rural (subsistence agriculture) sector characterized by low productivity and a relatively small urban (modern or industrial) sector characterized by high productivity. In the context of such an economy, development takes place in the form of capital accumulation in the high-productivity sector supported by the migration of labour from the low-productivity sector, implying structural transformation.

A somewhat similar, but heavily ideologically-biased analysis was propounded by W.W. Rostow, who in his seminal book, ***The stages of Economic Growth: A non-Communist Manifesto***, sketched out the prerequisites for development that each country must pass through³⁰. In his 'stages of growth' model, Rostow posits that, during the take-off phase, two key elements are critical: a sharp increase in

the rate of capital accumulation and the emergence of a leading industrial sector that fosters the change in the production structure. Rostow's theory on the stages of growth' was quickly dismissed for being too simplistic, ideologically-biased and lacking any historical reference to the influence of colonialism and imperialism in perpetuating underdevelopment in previously colonized regions. Moreover, Rostow's 'stages of growth model' was exclusively aimed at transforming poor countries in the image of Western Europe and North America. It was focused on 'modernization and westernization', not necessarily on structural transformation.

Simon Kuznets was another economist who embarked on trying to understand the mechanics of structural transformation, which characterizes the evolution of successful countries from low-income, rural agrarian economies into urban industrial economies with a much higher per capita income.³¹ Through a series of stylized facts, Kuznets identified four features of modern economic growth: a shift in the sectoral composition of the economy whereby the share of the non-agricultural sector increases and that of the agricultural sector decreases; the proportion of the labour force employed in the non-agricultural sector rises while that in the agricultural sector decreases; a shift in the distribution of the population between the rural and urban areas (i.e., increased rural-urban migration) and an increase in the relative size of capital-labour ratio in the non-agricultural sector of the economy. Kuznets also observed that the shift from agrarian to industrial society is not simply a function of technological change alone; the set of interrelated changes in social institutions

29 Lewis, Arthur (1954), 'Economic Growth with Unlimited Supplies of Labor', Manchester School of Economic and Social Studies, vol.22, pp.139-91

30 Rostow, W.W. (1960), *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge: Cambridge University Press

31 Kuznets, S. (1966), *Modern Economic Growth*, New Haven: Yale University Press

and beliefs brought about by the same process of industrialization and urbanization are equally critical for productivity growth.³² These observations were corroborated by other economists, such as Chenery and Abramowitz³³. Interestingly, the transformation of a number of East Asian countries from agrarian to highly competitive industrial economic since the early 1970s followed a similar pattern described by Kuznets.

Rostow's theory on the significance of capital accumulation for growth was challenged by Alexander Gerschenkron, who, through his study of the catching-up process of European countries in the mid-1800, uncovered that capital accumulation was never a precondition for the success many European countries who were lagging far behind Britain.³⁴ Instead, Gerschenkron argued that the part played by special institutional factors (i.e., government agencies, banks) designed to increase the supply of capital to the nascent industries helped European countries to catch up with Britain.

In short, capital accumulation as a precondition can be substituted for through deliberate state action to increase the supply of capital to domestic enterprises. In the current Ethiopian context, for example, the decision by the Federal government to sell bonds to the public - the so-called 'Millennium Bond' - in order to finance the construction of the Renaissance Dam,

can fit into this category of deliberate state intervention to make up for what private investors are unwilling to do due to presumed risk factors.

While the analytical perspective provided by Kuznets, Gerschenkron, Lewis and Rostow on structural change captured the historical development experiences of western Europe and North America, it was the '*fly-ing geese*' model developed by Japanese economist Kaname Akamatsu that caught the attention of many development economists and political scientists in the 1960s since Japan was the only non-Western country that was able to make successful transition from low production agricultural economy to one of the most advanced industrial country in the world. Akamatsu, focusing primarily on the development experience of Japan, documented what he called the '*wild geese flying pattern*' in economic development, noting that 'wild geese fly in orderly ranks forming an inverted V, just as airplanes fly in formation'³⁵.

The model basically describes the sequential order of the catching-up process of industrialization by latecomer economies by transforming themselves as production platforms for low cost and low skill manufacturing sectors. As the 'leader-country' move up the product ladder to more sophisticated industrial production, the latecomers can move into the low cost and low skill manufacturing sectors being vacated by the 'lead-country' and 'kickstart' their own industrialization process.

It may be remembered that the growing trade in parts and components in East Asia started with the phenomenon growth of

32 Kuznets, S. (1971), *Economic Growth of Nations: Total Output and Production Structure*, Cambridge, MA: Harvard University Press.

33 Chenery, H.B. (1979), *Structural Change and Development Policy*, New York: Oxford University Press; Abramowitz, M. (1983), 'Notes on International Differences in Productivity Growth Rates', In *The Political Economy of Growth*, (ed.), D.C. Mueller, New Haven: Yale University Press.

34 Gerschenkron, Alexander (1962), *Economic Backwardness in Historical Perspective: A Book of Essays*, Cambridge, MA: Belknap Press of Harvard University Press

35 Akamatsu, K. (1962), 'A Historical Pattern of Economic Growth in Developing Countries', *The Developing Economies* (Tokyo), Supplement Issue No. 1: 3-25

Japanese incomes and wages in the 1970s and 1980s, a phenomenon that is repeating itself in the case of China today. The growth of wages eroded Japan's comparative advantage in manufacturing and triggered the search for lower-cost countries such as Hong Kong, Taiwan, Korea, and Singapore³⁶. When these countries also experienced their own wage inflation and living standards, they looked for off shore for the most labour-intensive phases of their production process to other low-wage East Asian countries (Thailand, Malaysia, Indonesia and Vietnam).³⁷ A similar process is underway in China, dubbed as the world's factory. It was only by 1990 that China became a major player in the competition for plant location and is presently leading the world in attracting foreign direct investment. At the time, China was already a dominant player in some light manufacturing such as footwear and toys. Japan continued to be a major player in toys but was clearly moving up the technological ladder to more sophisticated electronic games. In the early 2000s, however, China was able to move up the product ladder to more sophisticated manufacturers and overtake Japan in world export shares in plastic, electrical machinery and parts. But today, China is experiencing a growing tension for higher wages and pressure to boost income and domestic demand. The tension in real wages has begun to bite, forcing many Chinese companies to move offshore, initially to Vietnam and other East

Asian countries, but more and more to Africa where wage levels are comparably lower than Vietnam or Laos.

Akamatsu's '*flying geese model*' has relevance to the future development prospects of African countries, as with Mauritius several years ago when it became a production platform for low-cost manufacturers. The model focuses on three dimensions: intra-industry; inter-industry and the international division of labour. The first dimension involves the product cycle, whereby the developing country initially imports the goods, later moves to production combined with imports (i.e. the import-substitution phase), and finally moves to exporting goods and may even become a net exporter. The second dimension involves the sequential appearance and development of industries, with industries being diversified and upgraded from consumer goods to capital goods. The third element involves the relocation of industries across countries, from advanced to developing countries as the latter undergo the process of convergence.

As the present emerging economies move up the technological ladder and enter into the production of more sophisticated goods and services, there are enormous opportunities for developing countries to exploit the latecomer advantage by building up industries that are growing dynamically in more advanced countries that have endowment structures similar to theirs such as China, India and other emerging economies³⁸. This is already beginning to happen as we recently witnessed the relocation of Chinese and Swedish textile manufac-

36 Miracle or Design? Lessons from the East Asian Experience, Washington, DC: Overseas Development Council; Wade, R.H. (1990), *Governing the Markets; Economic Theory and the role of government in East Asian Industrialization*, Princeton, NJ: Princeton University Press.

37 Lall, Sanjaya (2002), 'Selective Policies for Export Promotion: lessons from the Asian Tigers', In *Non-Traditional Export Promotion in Africa: Experience and Issues*, by G.K. Helleiner (ed.), Palgrave: New York; Bello, W. and S. Rosenfeld (1990), *Dragons in Distress: Asia's Miracle Economies in Crisis*, San Francisco: Institute for Food and Development Policy.

38 Lin, J.Y. (2010), *Growth Identification and facilitation - The Role of the State in the dynamics of structural change*, The World Bank Policy Research Working Group Paper 5313, World Bank: Washington, DC.

turers to Ethiopia. Already Ethiopia is cost competitive with China in the textile and leather sectors. In other words, those African countries that have developed a clear industrial policy that is consistent with their comparative advantage, invested heavily in infrastructure, upgraded their human capital through skills training and maintained a competitive and enabling business environment would be the ones who benefit from the changes in the global production system brought about by advances in information technology and rapidly declining transport cost.

A similar view is advanced by Chinese economist Justin Y. Lin (2009), formerly Senior Vice President and Chief Economist at the World Bank. Drawing largely from the report prepared by the Commission on Growth and Development, Lin produced a 'framework for rethinking development' or 'new structural economic framework'.³⁹ Lin believes that the rise of China and other emerging developing countries offer developing countries, particularly Africa, to move out of subsistence agriculture into manufacturing as these emerging economies move up the technological ladder and abandon low-cost manufacturing production. Lin suggests that China can lead the way for the birth of the next 'newly industrializing' African countries as it moves up the technological ladder. He estimates that some 85 million jobs in the manufacturing sector can be up for grabs when China moves up the next technological ladder and as rising labour cost begin to put a

...those African countries that have developed a clear industrial policy that is consistent with their comparative advantage, invested heavily in infrastructure, upgraded their human capital through skills training and maintained a competitive and enabling business environment would be the ones who benefit from the changes in the global production system

.....

brake on its global competitiveness⁴⁰.

The 'structural economic framework' emphasizes that the development of countries depends on their competitive advantage along a continuum to high-income industrialized economy. Along this continuum, an economy's factor endowments evolve, requiring corresponding infrastructure to facilitate its operations and transactions. Since infrastructure development involves high transaction cost for the private sector, the state is the only institution that can take the responsibility to invest in physical infrastructure, direct credit to strategic industries and provide protection to infant industries at the initial stage of industrialization until they are able to compete in the free-market on their own.

39 Lin, J.Y. (2010), 'New Structural Economics: A Framework for Rethinking Development', policy Research Working Paper No. 5197; Lin, J.Y. and Monga, C. (2010), Growth Identification and facilitation - The Role of the state in the dynamics of structural Change, The World Bank Policy Research Working Group Paper 5313, World Bank: Washington, DC;

40 Lin, J. Y. (2011), 'From Flying Gees to Leading Dragons: New Opportunities and Strategies for Structural Transformation in Developing Countries', WIDER Annual Lecture 15, Helsinki: UNU-WIDER.

BOX 1: Structural Economic' School

1. The government identifies the list of tradable goods and services that have been produced for about 20 years in dynamically growing countries with similar endowment structures and a per capita income that is about 100 percent higher than their own
2. Among the industries in that list, the government may give priority to those in which some domestic private firms have already entered spontaneously and try to identify the obstacles that are preventing these firms from upgrading the quality of their products or the barriers that limit entry to those industries by other private firms
3. For those industries which are completely new to domestic firms, the government could adopt specific measures to encourage FDI from higher-income countries and incubation programmes to catalyze private domestic firms into these industries
4. Support should also be given to industries not on this list but which are successful self-discoveries by private enterprises in the country to enable the scale up of these industries
5. In countries with very weak infrastructure, and an unfriendly business environment, the government should invest in industrial parks or export processing zones and attempt to attract domestic firms and foreign firms that are willing to invest in the targeted industries
6. The government can provide time and cost-limited incentives to pioneer firms or foreign investors that work within the industries identified in Step 1 to compensate for non-rival public knowledge created by their investments.

Source: extrapolated from Lin & Monga (2010)

The approach advocated by the new structural economic school particularly focuses on identifying the most promising activities that match a country's comparative advantage. In this development evolution, the market is seen as the basic mechanism for effective resource allocation. Successful industrial policies have often involved a combination of 'leading the market' and 'following the market'.

In the former case, government encourages investment decisions that private actors would not make (e.g. infrastructure development), whilst in the latter, the government support some of the investments and

innovation of private firms to encourage a marginal extension of the production frontier in the specific areas of production. Leading the market seeks to anticipate the future, in which existing comparative advantages in natural resource based and cheap labour are used up, and also seeks to create comparative advantage in particular products (e.g. leather) and sectors by building technological capabilities at the firm level.

In summary, a cursory review of the literature on economic development as a process of structural change has demonstrated that all countries can make the

transition from agriculture to industry, but the catching-up process can vary from country to country, depending on their endowment structure, historical conjunctures, timing and geography. The critical factors determining the scope and pace of structural transformation are industrialization and rapid technological innovation which enables countries to move out of subsistence production to more dynamic industrial production. As a result of these structural changes, the share agriculture in the national GDP will decline while the proportion of national income derived from manufacturing activities increases substantially. In the process, countries are able to engage in extensive industrial upgrading and diversification, generate jobs and raise incomes substantially.

Associated with the changes in the structure of the economy, there will be a substantial movement of people from rural areas to cities where modern manufacturing is concentrated.⁴¹ The developed countries and the countries that successfully caught up with them (the East Asian countries in particular) have all had dramatic structural changes in the composition of employment and value added in primary, secondary and tertiary industries. By contrast, many low-income African countries have failed to achieve similar structural changes despite experimenting with different models of development over the past 50 years. What is to be done to bring about structural transformation in low-income countries like Ethiopia is the subject of the next section.

41 Bagchi, A.K. (1990), 'Industrialization.' In *The New Palgrave: Economic Development*, (eds) J. Eatwell, M. Milgate, and P. Newman, New York: W.W. Norton & Co. pp.160-73

The role of the State in structural transformation

Africa's marginal position in the new global hierarchy provides us with a compelling occasion to set in motion a 'transformative' and 'emancipatory' long-term national development vision. This will entail the need to adopt appropriate macroeconomic, structural and social policies, with greater emphasis on 'strategic integration' as opposed to 'indiscriminate opening' to world markets. Such strategic opening to world markets should be decided on the basis of how the mix of proposed policies support national interest in terms of promoting economic growth and structural change. It would involve a mix of sectorally neutral as well as selective policies. This brings us face to face with the issue of the role of the state in national development.

Historically, the State has been pivotal in the economic transformation of many of the now developed countries⁴². As Gerschenkron (1966) and Lin and Monga (2010), points out, all European economies benefited from government support in technological acquisition of foreign technology in order to catch up with Britain. Similarly, the late industrializing East Asian countries, such as Singapore, Japan, Korea and Malaysia, managed to transform their economies in less than 30 years through a disciplined planning approach.⁴³ In the African context, achieving structural transformation requires first and foremost, the

42 Reinert, Erik (2007), *How Rich Countries Got Rich...and Why Poor Countries Stay Poor*, London: Constable & Robinson Ltd.

43 Amsden, A. (1989), *Asia's Next Giant: South Korea and Late Industrialization*, New York: Oxford University Press; Wade, Robert (2004), *Governing the Market: Economic Theory and the Role of Government in East Asian Development*, Princeton, NJ: Princeton University Press; Ohno, Izumi and Kenichi Ohno (2009), *Dynamic Capacity Development: What Africa can learn from Industrial Policy Formulation in East Asia*, National Graduate Institute for Policy Studies (GRIPS), Tokyo.

need to construct a development-oriented competent state that would assert its development role within the context of a common national development vision, unconstrained by the remote forces of globalization⁴⁴. History tells us that successful developing countries have been those that have shaped a constructive, mutually supportive relationship between the public and private sectors rather than the ones that opted either for the primacy of the market or the primacy of the state.⁴⁵ The main basis for more equitable and inclusive growth process are agrarian reform and rural development policies; high rates of investments in manufacturing; investment in vital infrastructures; broad-based human resource development; support for small and medium enterprises through financial policies; development and implementation of inclusive social policies to rebuild citizenship and the expansion of productive employment.

The institutional imperatives for driving a transformative agenda

For the development state to push forward the structural transformation agenda, it must have the following institutional arrangements:

- ***A strong and effective national development planning institution:*** A strong national development planning agency that identify national priorities, setting targets, developing strategies, facilitating coordination among various sectors and stakeholders, and es-

tablishing monitoring and evaluation mechanisms to achieve the goals. Such has been the case with the Economic Planning Board of Korea and Singapore, and the Economic Planning Unit (EPU) of Malaysia. In these Asian countries, the bureaucracy was responsible for the planning, intervening and guiding the economy.⁴⁶

In the case of Ethiopia, the newly-established *National Planning Commission* could play a similar role as ‘the brain and engine’ for articulating a long-term national development vision aimed at bringing about structural transformation in the country. In order for the new National Planning Commission to be effective, the entity must be able to recruit ‘the best and the brightest’ Ethiopian skilled professionals and offer them attractive compensation package and predictable career path. The NPC must be headed by a minister with impeccable credentials in the field of development planning and the NPC should be placed under the Office of the Prime Minister. It should be recognized publicly as the sole planning entity, with the responsibility to oversee the implementation of national plans, and ensure coordination with departments, sector ministries, specialized transformation institutions and other stakeholders.

44 UN Economic Commission for Africa (2011), *Economic Report on Africa 2011; Governing development in Africa - the role of the state in economic transformation*, Addis Ababa: UNECA

45 Wade, R.H. (1990), *Governing the Market; Economic theory and the role of government in East Asian Industrialization*, Princeton, NJ: Princeton University Press.

46 Ohno, Izumi and Masumi Shimamura (2007), *Managing the Development Process and Aid: East Asian Experience in Building Central Economic Agencies*, GRIPS Development Forum; Cartels, M. (1992), ‘Four Asian Tigers with a Dragon Head: A Comparative Analysis of State, Economy, and Society in the Asian Pacific Rim’, In *State and Development in the Asian Pacific*, R. Appelbaum and J. Henderson, eds., Newbury Park, CA: Sage Publications; Johnson, C. (1982), ‘Political Institutions and Economic Performance’, In *The Political Economy of the New Asian Industrialism*, C.F. Deyo, ed., Ithaca, NY: Cornell University

BOX 2: Effective State Capacity: Transferrable Lessons from China

- Policy making and capacity building were based on **learning and performance as the key criteria** and evolved as the economy and society evolved through time, often in unforeseen ways.
 - The Chinese State was able to take this approach through **avoiding state capture by elites and special interests** and focusing on inclusive growth as the ongoing national project.
 - **A capacity for policy analysis and performance review was established** via the creation of economic and social policy research institutes, pilot programs followed by rapid scaling up, and **meritocratic leadership selection process. The governance system** evolved from a command economy to a networked economy with a high degree of decentralization coupled with various feedback and accountability systems substituting for open political system.
 - **The policy directions set at the top encouraged widespread local and private initiative.** Together with the learning-by-doing culture, this has made for a rapid transformation process.
-
- **A critical mass of highly trained and competent civil servants:** A strong, competent and independent bureaucracy, insulated from political or interest group influence, is critical for enhancing government effectiveness and for accelerating the transformation agenda. Recruitment of the best and the brightest to the civil service has to be based on merit rather than political patronage, ethnic and religious considerations. Moreover, the incentive structure has to be attractive, with predictable career paths, and competitive remuneration system. It is precisely due to the lack of attractive remuneration packages and predictable career paths that many government ministries in Ethiopia experience high levels of staff turnover. Moreover, as in many advanced countries, changes in the political leadership should not affect the positions of these civil servants.

customs, tax collection authorities, and other oversight institutions, such as the anti-corruption authority and the office of the Auditor-General.

- **Establish a network of second-level transformative institutions:** Linked to the national planning institutions are a network of transformative institutions designed to guide specific sectors (e.g. the Agricultural Transformation Agency in Ethiopia), staffed with competent sector specialists and technicians, who can respond effectively to the demands of specific sectors, provide the needed technical or financial support on timely basis, and monitor their performance regularly and make the appropriate adjustments as needed.⁴⁷ **Establish 'Industrialization strategy' as a process, not just a document:** In the past, Africa got into trouble

It is not only the capacity of the planning commission and sector ministries that should be invigorated, but also all of the public institutions - the central bank,

⁴⁷ Evans, P. and James E. Rauch (1999), 'Bureaucracy and Growth: a cross national analysis of the effects of 'Weberian' state structures on economic growth', *American Sociological Review*, 64, pp.748-765; Ohno, Izumi and Masumi Shimamura (2007), *Managing the Development Process and Aid: East Asian Experience in Building Central Economic Agencies*, GRIPS Development Forum, Tokyo.

with industrial strategies that were too ambitious and did not take into account the country's comparative advantage. In the contemporary situation, industrial policy must be based on a careful assessment of the country's comparative advantage, as well as the adequacy of skills and infrastructure to support an industrialization strategy. Each country must carefully identify industries that have a comparative advantage as well as new sources of economic growth for industrialization, identify their constraints (e.g. infrastructure, human resources, etc.) and devise measures to remove the constraints and make necessary investments to support the industries. The measures taken must be consistent with the country's institutional capacity and executed under discipline and competition.⁴⁸ **Establish a network of strong 'think-tanks' and university-based research institutes of high international standard.** But industrial policy cannot move forward in the absence of high skilled people in science and technology, and a strong research and development (R&D) platform for innovation.⁴⁹ In a highly-competitive and knowledge-based global economy, investment in research and development (R&D) in science and technology is critical for boosting production, enhancing human capacity and reinforcing the capacity of the state to guide development effectively. This is, of course, part and parcel of the broader challenge of reorienting African higher education towards science and technology, and entrepreneurship education.

48 Ohno, Izumi (2011), 'Industrial Strategies and Enterprise Development: Views from East Asia', paper presented at the China-DAC Conference for Enterprise Development, Addis Ababa (February).

49 Oyelaran-Oyeyinka, B (2006), Learning to Compete in African Industry: Institutions and Technology Development, Ashgate Publishing Limited, Aldershot.

Although Ethiopia has, in recent years, reoriented its educational system towards science and technology education, the quality of the education and training offered remain relatively poor and is of low quality. In the next phase of the GTP, greater effort must be made by the government towards improving quality and move away from quantitative expansion. Quality research and training in science technology is the foundation for successful industrialization. Moreover, the research centres and universities should have a strong link with the private sector and the state and they should be required to market their ideas and innovations in the market place actively.

- **Nurture the development a dynamic indigenous private sector:** The private sector is an engine of growth. No country has achieved industrialization without developing a successful private sector. Although the profit motive is the driving force in the operations of private investors, they take risks and innovate to break new grounds in product development in order to maximize profits and garner a larger share of the given market. It is, therefore, imperative that government nurtures the growth of the private sector through financial and non-financial policies so that they can become competitive in the market place. As experience from Japan and Korea points out, the role played by the state to develop an indigenous private sector which, over time, grew into some of the most powerful companies in the global economy, was a critical factor in the industrialization of both countries. Both governments used a mixture of protectionism, subsidized credit and so on for local private industries to develop an indigenous technological base, and then

they were allowed to compete in the global market⁵⁰.

It must be clear, however, that the role of government should not be limited to providing critical support to the private sector. Government should also challenge the private sector and state-owned enterprises (SOEs) to perform better and become competitive in export markets, and that government support is conditional on the achievement of certain policy goals. The relationship between the state and the private sector is based on a forward-looking performance-based model in order to promote learning and technology-acquisition capacities. The close interaction between government and the private sector will ensure that the policymakers have a good idea of the constraints facing businesses and this should have a positive impact on policy design and implementation. Experience from the emerging countries tells us that governments that have been able to enforce discipline and terminate assistance to firms when there is evidence of non-performance, have been successful in promoting industrialization. In other words, industrial policy is not about 'picking winners' per se but also about letting the losers exit the market.

- ***Construct a viable social contract as an integral part of the national development strategy:*** Democracy and development cannot be separated from the social agenda. There is an organic link between political freedom

and freedom from hunger, ignorance and disease. In every political system, there must be a social bargain in being a member of that political community. A social bargain (or social policies) is the glue that keeps a political community together and fostering citizenship and national unity.⁵¹ Investment in quality education and healthcare, guaranteed oldage pensions, access to affordable owner-occupied public housing, access to affordable childcare and, in some cases, radical land reform constitute an important aspect of development-oriented social welfare programmes that enable every citizen to become a productive member of society while creating a more congenial social environment. It is within the social bargain that one seeks to exert accountability on the state as a member of that political community.

Structural Transformation: the urban dimension

While the literature on structural transformation highlighted the shift from rural-based subsistence production system to urban-based, high technologically-driven economic activities, the analysis offered little insight into the particular role played by large urban centres in driving or facilitating the process of transformation and industrialization. In fact, much of the development literature of the 1960s and 1970s did not present the process of urbanization in a positive light. Many scholars decried the 'urban-bias' in public policy and the need to reverse it in favour of rural development and basic needs. The urban sector was viewed as a problem to be curbed, rather than one to be nurtured and guided since cities can serve as nodes of innovation, in-

50 Wade, Robert (2004), *Governing the Market: Economic Theory and the Role of Government in East Asian Development*, Princeton University Press, Princeton, NJ.; Haggard, Stephan (1990), *Pathways from the Periphery: The Politics of growth in the Newly Industrializing Countries*, Ithaca, NY: Cornell University Press; Chang, H-J. (2003), *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press.

51 Adesina, J. O. (2007), *Social Policy in Sub-Saharan African Context: In Search of Inclusive Development*, UNRISD/Palgrave Macmillan, Basingstoke

formation/knowledge exchange and economic accumulation⁵².

It is only in the past 25 years that a more nuanced analysis of the role of urbanization in economic development and transformation has begun to emerge⁵³. The most influential writings on the subject have come from scholars specializing in the field of critical studies of globalization. Prominent among them is Columbia University professor, Saskia Sassen who in-

troduced the concept of 'Global Cities'.⁵⁴ Sassen argued that one cannot take the existence of a global economic system as a given; rather, there is a need to understand the particular ways in which the conditions of economic globalization are produced. She points out that the accelerated pace of economic globalization would not have been possible without the presence of a network of effective competitive cities, such as New York, Tokyo and London, that play a central and commanding role in facilitating economic globalization extending far beyond the boundaries of any national state.⁵⁵

52 Lipton, M. (1997), *Why Poor People Stay Poor: The Urban-Bias in Public Policy*, Cambridge, MA: Harvard University Press

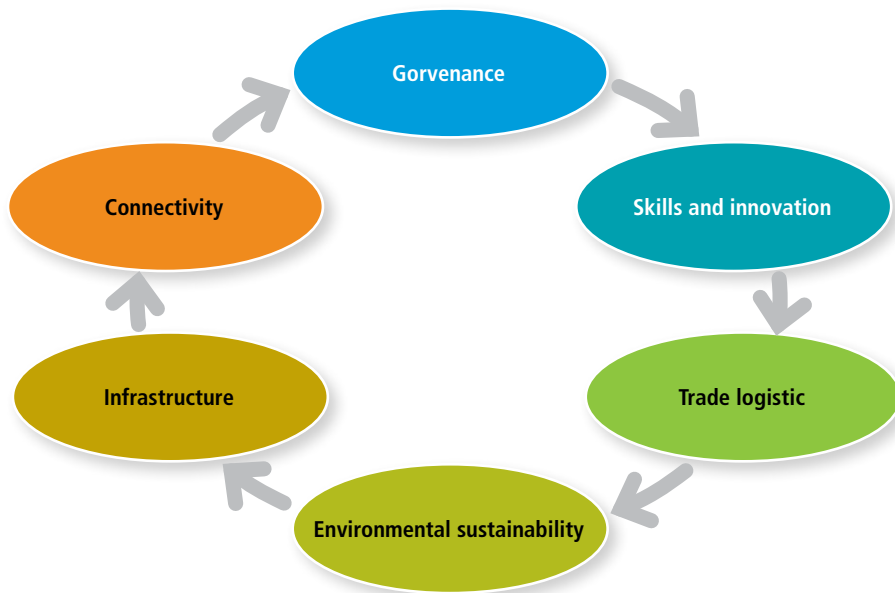
53 John Rennie Short and Yeong-Hyun Kim (1999), *Globalization and the City*, Essex: Addison Welsley Longman; M.P Smith, eds. (2001), *Cities in Transformation*, Beverly Hills, CA: Sage

54 Sassen, S. (1991), *The Global City: New York, London, Tokyo*, Princeton: Princeton University Press.

55 Sassen, S. (2001), *Cities in the World Economy....*

FIGURE 1: Six Dimensions of Competitiveness

When applied in the Ethiopian context, the transition from an agrarian to an industrial society cannot



happen without the existence of a network of effective and 'competitive' cities that can serve as nodes of innovation, knowledge production, information exchange and strongly integrated to global production chains. By building both 'hard' and 'soft' infrastructure to improve their competitiveness, Ethiopian cities can become indispensable actors for promoting industrialization, diversification and structural transformation.

This is an important lesson that Ethiopian policymakers must take into consideration as they strive to transform the country into a middle-income country by 2025. As clearly presented in Chapter 3 of this report on 'competitive cities', successful implementation of Ethiopia's *Growth and Transformation Plan* will largely depend on the ability of the Federal government to take decisive actions to make Ethiopian cities more competitive. This task will require significant inter-sectoral coordination as it is beyond the capacity of a single ministry to engineer broad structural transformation on its own.

Structural transformation: the regional integration dimension

In the present conjuncture, actions at the national level alone is not enough to kick start structural change due to the small size of many African economies. National strategies to bring about structural transformation must, therefore, be complemented with measures to promote more broad-based regional integration and cooperation to unlock Africa's manufacturing potential.

Regional integration is an important aspect of 'strategic integration' and should support the goal of increased international competitiveness by promoting regional production chains and nurture the develop-

ment of regional markets in order to reduce demand-side constraints on growth. This requires a more concerted effort to tackle the interlocking problems of infrastructure - electricity, roads and communications - along with radical measures to improve the business environment. Governments must make significant public investment in both 'hard' and 'soft' infrastructure, invest in human capital formation, provide credit and maintain a growth-oriented macroeconomic environment. In short, regional integration has enormous potential to contribute to the realization of national industrial development objectives.⁵⁶ Among the key interventions needed are:

Cooperation in regional infrastructure: The competitiveness of African economies has been hampered by the indirect costs stemming largely from poor infrastructure, high regulatory burden and political instability⁵⁷. Regional cooperation in infrastructure would lower transaction costs and enhance the development of regional markets. Regional integration can also contribute to reducing the regulatory burden facing African firms by harmonizing policies and serving as an external agency of restraint on domestic policies⁵⁸. At the political level, regional integration reduces uncertainties associated with investment by promoting

To become a country where democratic rule, good-governance and social justice reign, upon the involvement and free will of its peoples, and once extricating itself from poverty to reach the level of a middle-income economy as of 2020-2030

56 UNCTAD (2009), *Economic Development in Africa Report 2009: Strengthening Regional Integration for Africa's development*, New York and Geneva: UNCTAD; Wade, R. (2009), 'Rethinking industrial policy in low income countries', *African Development Review*, 21 (2): 352-366

57 Foster, V and Briceno-Garmenda C. (2010), *Africa's Infrastructure: a time for transformation*, World Bank: Washington, DC; Ndulu, Ben (2006), 'Infrastructure, regional integration and growth in Sub-Saharan Africa: dealing with the disadvantages of geography and sovereign fragmentation', *Journal of African Economics*, AERC Supplement, 2: 212-244

58 UNCTAD (2009), *Economic Development in Africa Report 2009: Strengthening Regional Integration for Africa's Development*, Geneva: United Nations. UNECA/AU/AfDB, (2012), *Assessing Regional Integration in Africa V: Towards an African Continental Free Trade Area*, Addis Ababa: UNECA.

peace and security, which are necessary conditions for the sustainability of industrial development.

Foster the development of a regional financial structure: Measures to eliminate supply-side constraints – such as poor infrastructure and burdensome regulations - must be complemented by similar efforts to reduce demand-side constraints on growth. The competitiveness of African firms has been affected by the lack of well-developed financial markets, high collateral requirements and the high cost of credit⁵⁹. Regional integration can facilitate the development of financial markets and improve access to credit, enhancing the competitiveness of domestic manufacturing firms. This could take many forms, which could include the establishment of trade promotion councils; sub-regional credit and insurance system and sub-regional banks to finance production and trade⁶⁰.

Simplify procedures for promoting intra-Africa trade investment: At present, there are too many unnecessary and bureaucratic barriers to intra-Africa trade and investment. Import controls and export licensing, customs hold-ups, restrictive exchange controls and a complicated system of documentation, border inspections and corruption is hindering intra-Africa trade. While these are complicated issues that cannot be addressed at once, the Ethiopian government should champion an open-integration approach and use its regional political influence to nudge the

member countries of the Intergovernmental Authority on Development and the East African community to expedite the process of regional integration by removing binding constraints.

Capturing the growing consumer market in Africa: In the coming decades, a large part of global growth will be generated by developing and emerging countries of the south, including the African continent. Much of the global consumption for goods and services will be dominated by the rising middle classes in Africa and other emerging southern economies. Recent projections indicate that, if Africa maintains an average growth rate of 5 percent, consumer spending will rise from \$860 billion in 2008 to \$1.4 trillion in 2020. ⁶¹ The share of African households with discretionary income is projected to rise from 35 percent in 2000 to 52 percent in 2050. It is obvious that boosting regional integration gives a country large market size. It is imperative that Ethiopia reorients its production and trade to the regional market close to home rather than chasing after disappearing markets in the Northern Hemisphere for its products.

What are the indicators of structural transformation?

In the literature, a structural transformation indicators, such as the GDP or employment share of a sector, is used as a dependent variable to be explained by the level of development (as proxies by real per capita GDP) and total population. The relationship is usually posited as non-linear in income and population. Focusing on the share of the three production sectors (agriculture, industry and services) in addition to the manufacturing subsector,

59 Ramachandran, V. Gelb, A. and Shah, M.K (2009), Africa's Private Sector: What's wrong and with the business environment and what to do about it, Center for Global Development, Washington, DC.

60 UNECA (2010), Assessing Regional Integration in Africa IV: Enhancing Intra-Africa Trade, Addis Ababa: UNECA, pp.267-291.

61 McKinsey Global Institute (2010), Lions on the move: the progress and potential of African Economies, McKinsey & Co. www.mckinsey.com/mgi.

While these indicators measure the changes in the structure and composition of the economy, they do not fully capture other dimensions of structural transformation. Thus, drawing from the recent development experience of many late-industrializing developing countries, we present more encompassing indicators that include the

changes in social institutions and beliefs produced by the process of industrialization and urbanization. These changes in social institutions and beliefs are necessary conditions to nurture a culture of innovation and entrepreneurship and should constitute an important part of indicators for measuring structural transformation.

TABLE 1: Measuring Structural Transformation: Key Indicators

ECONOMIC INDICATORS	SOCIO-CULTURAL INDICATORS	INSTITUTIONAL INDICATORS
<p>Labour & employment by sector:</p> <ul style="list-style-type: none"> • Agriculture share of employment (%) • Industry share of employment (%) • Service share of employment (%) • Manufacturing share of employment (%) <p>Value Added by Sector:</p> <ul style="list-style-type: none"> • Service value added as % of GDP • Manufacturing value added as % of GDP • Industry value added as % of GDP • Agriculture value added as % of GDP <p>Labor productivity by sector:</p> <ul style="list-style-type: none"> • Agriculture • industry • services <p>Composition of exports and imports:</p> <ul style="list-style-type: none"> • Raw primary product export as % of total exports • Processed (value-added) primary product export as % of total exports • Manufactured export as % of total exports • Service export as % of total exports • High technology export as % of total exports • Rate of inter-regional trade 	<p>Composition of population:</p> <ul style="list-style-type: none"> • Rural share of population (%) • Urban share of population (%) <p>Human Capital Development:</p> <ul style="list-style-type: none"> • Proportion of people with a college degree from accredited institutions • Proportion of graduates in science and technology fields • Gross domestic investment in R&D • Number of internationally-recognized institutions of higher education • Strength and diversity of domestic private sector actors • Social indicators (e.g. Fertility and life expectancy) <p>Social Indicators:</p> <ul style="list-style-type: none"> • Health • Education/literacy • Life expectancy • Nutrition • Infant mortality • Maternal mortality • Access to water & sanitation • Access to electricity 	<p>Effectiveness of institutions:</p> <ul style="list-style-type: none"> • Administrative capacity • Taxation capacity • Technical capacity • Legal capacity • Coordination capacity • Responsiveness of delivery institutions • Degree of corruption • Security of property rights • Peace & political stability <p>Competitiveness & cost of doing business:</p> <ul style="list-style-type: none"> • governance • Connectivity • Inclusiveness • Environmental sustainability <p>Political participation:</p> <ul style="list-style-type: none"> • Voter turn-out at local elections • Voter turn-out at national elections • Degree of civil engagement • Religious and inter-group harmony • Frequency of labour strikes <p>Regional integration:</p> <ul style="list-style-type: none"> • Time required to clear customs and immigration at borders • Time required to clear inspections • Adequacy of boarder control inspectors • Time required to secure a visa

It must be acknowledged that each phase of globalization is different from previous ones and each brings with it new opportunities and challenges. For example, the political and economic conditions that existed when the newly-industrializing countries of East Asia (the NICs) engineered their spectacular development were radically different from the conditions under which China, India, Brazil and other emerging countries developed. While the NICs were able to copy and imitate Western technology freely, the latecomers such as China, India and others had to operate in a new intellectual property rights regime of the WTO (e.g. TRIMS and TRIPS) which came into force in the early 1990s⁶². We should also expect that the global conditions under which African countries will industrialize will be quite different from the conditions under which the emerging countries developed. Therefore, new challenges and opportunities will emerge and these should be taken into account when measuring structural transformation. The possible indicators mentioned above are partial and incomplete and will have to be revised constantly as new challenges emerge in the process of achieving structural transformation.

Achieving structural transformation in Ethiopia: a pragmatic approach

There is no compelling reason why Ethiopia cannot become a middle-income country by 2025. It can do so if the country's leaders vigorously address the development deficits in the structural transformation of output (including industrialization), trade, infrastructure, human capital and entrepreneurship, and capitalize on the opportunities available in the world economy while

at the same time being ready to manage the risks associated with an emerging multi-polar world.

The key imperatives are the following:

1. INSTITUTIONS & TRANSFORMATIONAL LEADERSHIP DIMENSION

Successful developing countries have been those that have shaped a constructive, mutually supportive relationship between the public and private sectors, rather than the ones that opted for the primacy of the state or the primacy of the market. The question that is often posed is: what kind of state is suitable for driving a transformative agenda?⁶³ The overwhelming evidence from the literature tends to highlight the important role of a 'developmental state' in transformative change. The question is: how do you build one and what should be its essential characteristics?

We offer the following suggestions:

The need to build an effective and functioning developmental State:

If building democracy is a political process, it cannot exclude the very central issue of State power. Although the State in Africa has been the object of popular resistance, let us not mistakenly assume that one can ever build a society on a democratic footing without having an effective and functioning state system in the first place. Indeed, part of the struggle is precisely how to build such a functioning and effective State that responds to the concerns of its citizens as opposed to simply serving the interest of a narrow class and elite groups that often dominate its affairs. Democ-

62 TRIMS (Trade Related Investment Measures); TRIPS (Trade Related Intellectual Property Rights)

63 Mkandawire, T. (2001), 'Thinking about Developmental States in Africa', *Cambridge Journal of Economics*, 25 (3):289-314

ratization is not only about elections and people's participation in the political process; it is also about building the State and strengthening the integrity of public institutions. Therefore, the State-building agenda is everyone's business.

The key characteristics and functions of a developmental State is described in the box below. Although there are distinct differences between what are called 'developmental States' due to cultural and historical differences, they all possess administrative, legal, and regulatory capacity to formulate and implement national development policies and programmes. Through planned interventions, developmental States in the contemporary period have been able to stimulate as well as proactively support and promote economic development.⁶⁴ More-

over, development states have emerged largely through trial and error and learning by doing, and there are no designed templates that other aspiring countries can simply copy.

More important, the task of building a properly-functioning State would inevitably include revisiting the policy process and policy institutions across the continent, and how to ensuring that domestic policy processes are restored in a way that will allow for the engagement of the citizens. This is important since policy institutions in much of Africa have been captured by external forces since the structural adjustment period of the 1980s and 1990s to a point where rulers on the ground exercise little real power when it comes to domestic economic policy decisions.

⁶⁴ Johnson, Chalmers (1982), 'Political Institutions and Economic Performance', In *The Political Economy of the New Asian Industrialization*, C.F. Deyo (ed.), Ithaca, NY: Cornell University Press; Wade, R. (1990), *Governing the*

Market: Economic Theory and the Role of Government in East Asian Development, Princeton, NJ: Princeton University Press.

BOX 3: What kind of 'animal' is the developmental State?

- The **developmental State** is one that has the administrative, legal, and regulatory capacity to support the market and the private sector. It is a capable State rather than a captured crony-capitalist one and thrives on private-public partnerships rather than fearing them or being captured by them.
- The **developmental State** is one pushing for financial system reform to benefit small, medium and large enterprises through broad access to credit and legal frameworks to enforce contracts that buttress capital markets supported by supervisory and regulatory agencies for transparency and accountability.
- The **developmental State** is one that pushes for educational and health systems, which create a productive and skilled workforce, and invests in institutional and physical infrastructure which complements private sector dynamism.
- The **developmental State** is a strong, democratic and reflects local values and priorities and drive the development thrust from 'inside-ward' rather than a weak and submissive one that permits external forces to drive internal priorities and outcomes.

Source: Fantu Cheru & Colin Bradford, *'The Planet at Risk', Helsinki Process Background papers*

The key to African countries in today's world is to try to weave through the parameters set by the world economy and maintain as much independence (or policy space) as possible. In its quest for structural transformation, Ethiopia's pragmatic approach of engaging both the 'old' and 'new' development partners from the East constructively is a brilliant strategy that must be maintained and updated as the global conditions change. After all, both the traditional and emerging partners have neither permanent friends nor enemies in Africa; they have permanent interests. There is nothing wrong with Ethiopia looking after its own interests.

Invest in transformational institutions and leadership: The question of producing and sustaining 'transformational leadership' in public institutions is very much

linked to the whole topic of building an independent and professional civil service, protected from political capture from powerful groups. Contrary to Ayi Kwei Armha's gloomy pronouncement 45 years ago that '*the beautiful ones are not yet borne!*'-- (i.e., those Africans who could lead and inspire their populations), the continent has in fact plenty of them, both at home and in the Diaspora. Many professionals stay away from public service due to poor working conditions, unattractive compensation packages and the lack of predictable career path. The challenge has been how to undertake thorough civil service reform that recognizes and rewards talented people and have a political system that protects professionals from political influence by powerful groups within and outside government.

2. THE SOURCES OF GROWTH DIMENSION

Reversing the productivity decline in agriculture and moving up the value-chain: Despite the recent economic success of many African countries, more than 80 per cent continue to reside in rural areas eking out a bare existence from subsistence agriculture. Therefore, kickstarting an African green revolution, which would in turn propel the process of industrialization and diversification, remains a priority for several decades to come as the process is obviously complex and multi-faceted. The State must play an active and supportive role by investing in agricultural research, extension, rural infrastructure and other supporting services that are essential for raising productivity per hectare, increasing income for farmers through value-addition and further non-farm employment opportunities. Government-guaranteed prices and security of tenure in particular are important incentives for shifting peasant farmers from subsistence to

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more value-added production.

Industrialization and diversification through value-addition: Despite the recent high GDP growth in most African countries, the majority of African countries still depend on a few primary agricultural and mineral resources for their exports while continuing to import manufactured and other consumer goods from abroad. In 2011 alone, crude petroleum and natural gas accounted for 65 per cent of total goods exports from Africa. Little value-addition takes place in African commodity and mineral exports, thus limiting the possibility for expanded employment as well as diversification in the direction of manufacturing and other more rewarding production activities. The 2008 global financial crisis underscored the critical role of export diversification in reinforcing the resilience of economies to external shocks.

The focus in Africa now must be on identifying new sources of growth, particularly in non-agricultural sectors. In this regard, the manufacturing sector presents greater opportunities for sustained growth, employment and poverty reduction in Africa. Manufacturing is a major conduit for diffusion of new technologies to other sectors of the economy. The sector has high forward and backward linkages, thereby contributing to domestic investment, employment and output in the development process⁶⁵. For example, manufacturing provides demand stimulus for growth of the agriculture sector. This implies that governments should not seek to achieve industrial development at the expense of the agricultural sector be-

cause the latter can contribute to industrial development through the supply of wage goods that enhance the competitiveness of domestic firms in global export markets.⁶⁶

Dramatically increase investment in science and technology education and basic research: Africa's ability to take advantage of the opportunities available in the global economy is very much dependent on reversing the poor state of higher education, particularly in the areas of **science and technology education**, research and analytical skills and creating a learning culture that values and retains talented people. Investment in education should emphasize climbing the technological ladder and tapping into the global system of information and knowledge. Government should use targeted incentives to facilitate entry into technical and scientific education that provides the skilled labour force crucial for industrialization.

In reforming the educational system, the government must create a learning culture that values and retains talented people. The ongoing special programme on Ethiopian Diasporas should give priority to attracting back leading skilled Ethiopian professionals to fill the capacity gap in many ministries, particularly the newly established **National Planning Commission**. Therefore, transforming the Ethiopian education system is a *sine qua non* for the country's industrialization goals.

Scientific and technological innovation should not be the exclusive domain of governments. The private sector can also

65 Lall, S. (2004), 'Stimulating industrial competitiveness in Africa: lessons from East Asia on the role of FDI and technology acquisition', paper prepared for the NEPAD/TICAD Conference on Asia-Africa Trade and Investment; Gault, F. and Zhang, G (2010), 'The role of innovation in the area of development', In Kramer-Mbula, E and Wamae, W. eds. Innovation and the Development Agenda, OECD/IDRC, Paris

66 Rattso, J. and Torvik, R. (2003), 'Interactions between agriculture and industry: theoretical analysis off the consequences of discriminating agriculture in sub-Saharan Africa', *Review of Development Economics*, 7 (1):138-151; de Janvry A. and Sadoulet, E. (2010), 'Agriculture for development in Africa: business-as-usual or new departures?', *Journal of African Economies*, 19 (AERC supplement 2):ii7-ii39.



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play a critical role by accessing existing technology through FDI, licensing or the purchase of capital equipment. The use of local content rules as an integral element of FDI policy, the granting of subsidies for technology imports and the support of local knowledge creation by setting up science parks are measures that have been taken by countries such as Singapore, to enhance technological knowledge and capacity. This would also require the need to leverage the communications revolution to exploit Africa's potential for leapfrogging in knowledge acquisition and enterprise creation and global economic linkages.

Continue to expand public investment in critical infrastructure: Investment in infrastructure has a central role in the transformation agenda and is critical for supporting economic growth, industrial-

ization, job creation and poverty reduction. Despite this fact, the average investment in infrastructure in Africa is between 2 to 3 percent of GDP. Over the years, infrastructure has become an important binding constraint on growth in many African countries and efforts at regional integration have been hampered because of huge infrastructure gaps. Though Ethiopia has invested heavily in critical infrastructure in the past decade, a lot more needs to be made to address the significant gap. Domestic resource mobilization efforts should be complemented with an aggressive policy to attract foreign direct investment in the infrastructure sector.

Vigorously pursue to attract Foreign Direct Investment: Foreign direct investment (FDI) is an important source of private capital for developing countries. It has

the potential to promote economic growth and diversification, enhance skill development, facilitate the transfer of technology and access to foreign markets, improve the competitiveness of domestic firms by creating capacity for value-addition and spawn the development of new manufacturing and service sectors.⁶⁷ Both Mauritius and Malaysia have used FDI successfully in this way, including public investment in infrastructure, training and skills to attract it into sectors producing goods and services with a high value-added component.

The contribution of FDI to structural transformation will very much depend on the host country having a strategic vision how it fits into the overall development strategy. In this regard, the business environment and the quality of physical and human capital are key determining factors. For example, large investments in education and training were partly responsible for Singapore, China, Malaysia and Taiwan moving up the value-added 'ladder' from manufacturing that is intensive in unskilled labour⁶⁸. In the case of many African countries, however, there is a disjuncture between the policy to attract foreign direct investment on the one hand, and the national strategy (or lack of) on human capital development on the other as if the two are mutually exclusive. This disjuncture, which is prevalent in Ethiopia, must be addressed as a condition for attracting FDI into the country.

67 UNCTAD (2005), *Economic Development in Africa 2005: Rethinking the Role of Foreign Direct Investment*, Geneva: United Nations; Ajayi, S. Ibi (2006), 'FDI and Economic Development in Africa', Paper presented at the ADB/AERC International Conference on Accelerating Africa's Development, Tunis, (November 22-24).

68 Chang, H-G (2003), *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press; Haggard, S. (1990), *Pathways from the Periphery: The Politics of growth in the Newly Industrializing Countries*, Ithaca, NY: Cornell University Press.

Finally, creating an enabling environment to attract FDI will not on its own produce the desired effect in terms of inducing structural change and industrialization. African governments must ensure that FDI is channeled to priority sectors such as agriculture, infrastructure, natural resource extraction and manufacturing for these sectors are critical for unleashing productive potential. In the case of Ethiopia, the *Growth and Transformation Plan (GTP)*, has identified the following priority sectors: light manufacturing; agriculture and agro-processing; textile; leather products; mining and oil exploration; tourism; education and health services. The policy on FDI should, therefore, be directed to support and strengthen these priority sectors. Moreover, the policy to promote FDI should not be done at the expense of the domestic private sector. FDI should be the means for developing domestic technological base by encouraging joint ventures and hence creating linkages between foreign and domestic enterprises.

Breaking the 'taboo' on population policy: It would be a grave error to omit the sensitive topic of population policy in any policy discussion on structural transformation. While Ethiopia has made major progress in accelerating the rate of economic growth over the past decade, present and future gains will be wiped out unless the Federal government takes decisive actions to slow down the pace of population growth. No amount of technological revolution in the economic sector will be able to expedite the country's structural transformation without a corresponding policy to put a brake on the high rate of population growth.

In a deeply-religious country such as Ethiopia, there will be resistance from many quarters against a radical population con-

trol policy but this is the time for action since the country's future hangs in the balance. While a draconian policy similar to the one being pursued by China should be resisted, a combination of the 'carrot and the stick' approach, along with expanded public awareness campaigns and access to affordable medical options, should be rolled out by the Federal government at the earliest possible time.

CONCLUSIONS

Structural transformation cannot be engineered or imported from outside; it must be an authentic expression of the society itself. While Ethiopia can learn a great deal from the successful industrializing countries of East Asia, it should avoid 'mimicking' from them institutional practices with little attention to their fit in the Ethiopian context. As Deng Xiaoping, the architect of Chinese economic reform once told a visiting young Ghanaian leader, Jerry Rawlings in 1985: ***'Please don't try to copy our model. If there is any experience on our part, it is to formulate policies in light of one's own national conditions.'*** Deng's pointed advice to President Rawlings remains as relevant today as it was in 1985.

It must be acknowledged at the outset that each phase of globalization is different from previous ones and each brings with it new opportunities and challenges. For example, the political and economic conditions that existed when the newly-industrializing countries of East Asia (the NICs) engineered their spectacular development were radically different from the conditions under which the latecomers (China, India, Brazil and other emerging countries) developed. While the NICs were able to copy and imitate western technology freely, the

latecomers had to operate in a new global intellectual property rights regime of the WTO (e.g. TRIMS and TRIPS) which came into force in the early 1990s⁶⁹. We should also expect that the global conditions under which African countries will industrialize will be different from the conditions in which the emerging countries successfully engineered their development over the past 25 years. In other words, African countries must not only try to understand the current economic and political conjuncture as they formulate their development policies but they must also pay equal attention to predicting what the world might look like in the next 50 years to avoid being caught in unexpected global turbulence.

First, multilateral trade rules as well as the proliferation of bilateral trade and investment treaties are shrinking the policy space available for promoting industrial development in African countries. Contrary to the hospitable international environment that existed when the NICs were developing in the 1970s, the rules of the WTO prohibit the use of industrial instruments such as quotas and local content requirements. The use of export subsidies have also been banned, except for the Least Developed Countries⁷⁰. African countries are also under pressure to abandon the use of tariffs as a measure of protection as a result of the Economic Partnership Agreements (EPAs) of the European Union. Consequently, African industrialization is taking place in an environment in which the use of some industrial policy instruments applied by the

69 TRIMS (Trade Related Investment Measures); TRIPS (Trade Related Intellectual Property Rights)

70 Rodrik, D. (2004), Industrial Policy for the twenty-first century, CEPR Discussion Paper No. 4767, Center for Economic Policy Research, London; Chang, H. (2009), 'Industrial Policy: can we go beyond an unproductive confrontation?', Paper presented at the Annual World Bank Conference on Development Economics, Seoul, Republic of South Korea (22-24 June).

developed and emerging economies are either banned or regulated.

Second, as globalization and technological change accelerate, firms are increasingly facing stiff competition in the global export market due to the reduction in tariff and non-tariff barriers to trade in industrialized products and the entry into the world economy of large number of emerging countries who are challenging the dominance of developed countries in industrialized products. While the emerging countries might offer new pathways to African countries in developing labour-intensive manufacturing in the short-term as the former move up the technological ladder, African countries cannot and should not take the opportunity to sell products at lower cost as a permanent solution to their industrialization ambitions. They will have to innovate more on their own and produce better products to garner a larger share of the global market. Industrialization and structural transformation are not activities that can be 'turned-on-and-off' at a whim; these are permanent 'national projects' of survival and renewal in an environment where stiff competition is a permanent feature of the global economy. It is, therefore, important that African countries try to maintain as much independence or policy space as possible if they are to make significant progress in boosting and sustaining industrialization.⁷¹ Third, no amount of good planning will move the reform agenda forward unless the Federal government takes decisive actions to remove the widespread 'embedded dysfunction' that characterize

government institutions. Red tape and corruption have a stranglehold on the country, putting a brake on Ethiopia's development potential. Disciplined political leadership at the top and coordination across line ministries and departments are critical for unblocking the 'policy gridlock' and fostering accountability across the board. Transparency in decision-making is also necessary to check rent-seeking behaviour.

In conclusion, Ethiopia can escape the scourge of poverty and underdevelopment and embark on a process of industrialization and structural transformation just as China, India and other emerging countries have done in the recent past. The key is to have visionary and competent leadership that is committed to mobilizing the population around a common long-term national development project with the aim of improving popular welfare and preserve national independence. Effective ongoing interaction/adaptation between policy makers, researchers, economic actors and public feedback should be the basis for pushing forward the common national development agenda. The challenge for African leaders, including Ethiopia, for the coming decades is how to inspire their citizens to embark on a process of 'self-discovery' and to believe that they alone can transform Africa for Africans.

71 UNCTAD (2009), *The Least Developed Countries Report 2009: The State and Development Governance*, New York & Geneva: UNCTAD; UNCTAD (2007), *Economic Development in Africa, 2007: Reclaiming Policy Space: Domestic Resource Mobilization and Developmental Status*, Geneva, UNCTAD; Evans, Peter (1995), *Embedded Autonomy: States and Industrial Transformation*, Princeton, NJ: Princeton University Press.



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Managing 'double transitions' in Ethiopia: Globalizing and urbanizing!

INTRODUCTION

Ethiopia has been one of the fastest-growing economies in Africa, having registered double digit GDP growth rates for more than a decade. Initially led by agriculture, economic growth has become more broad-based, with mining, services and manufacturing sectors generating an increasing share of output⁷². The basis for accelerated industrialization is being laid by increased educational attainment, improved health outcomes, and quantum increases in infrastructure capacity in terms of access to power, transportation, and telecommunication. Industrial parks are starting to spring up across Ethiopia, echoing China's development experience 20 years ago.

Despite a number of challenges which will be discussed later, Ethiopia's growth prospects remain robust, reinforced by sound macroeconomic management, high levels of government commitment and massive investment in infrastructure and human resources development (World Bank 2013). The latest Five-Year Plan, *Growth and Transformation (GTP)*, outlines an ambitious development strategy to transform the country away from dependence on subsistence agriculture and towards a

highly-competitive industrialized economy producing for export to world markets and employing a substantial size of the labour force⁷³. In the process of undertaking these radical reforms, the government plans to transform the country into 'middle income' status by 2020.

It is important to establish at the outset that the GTP has in fact a much older pedigree. The Ethiopian People's Revolutionary Democratic Front government has taken a series of bold measures over the past 20 years to transform the Ethiopian economy. Upon assuming power in 1991, the Transitional Government of Ethiopia (TGE) put in motion a series of policies to revive a faltering economy and abolished state control of the economy. The policy shift towards a market economy opened the door for the private sector to play an important role in the economy, and a series of policies of liberalization were announced⁷⁴. At the same time, however, the Transitional Government retained some features of the previous regime such as the state ownership of land and development centered on

73 MOFED (2010), Growth and Transformation Plan 2010/11-2014/15, 2 volumes, Government of Ethiopia, Addis Ababa

74 MOFED (1993), An economic development strategy for Ethiopia: A comprehensive guidance & a development strategy for the future, Government of Ethiopia, Addis Ababa

72 IMF (2011), The Federal Democratic Republic of Ethiopia: Joint Staff Advisory Note on the Growth and Transformation Plan 2010/11-2014/15. IMF Country Report No. 11/303

agriculture and rural areas. At the political level the Transitional Government allowed multi-party political system and these changes were incorporated in the new constitution, which established the Federal system in August 1995.

Given the central role of agriculture in the Ethiopian economy, the government put in motion a long-term agricultural development-led industrialization strategy as a means to transform peasant agriculture and to embark on a process of industrialization. It was believed then (and remains true today) that raising the productivity of peasant agriculture through the provision of technology and better farming practices, improved seeds, fertilizers, irrigation, rural roads and marketing services is critical for raising the incomes of farmers, attaining national food self-sufficiency and producing value-added products to local and global markets. A rise in agricultural output was expected to stimulate industrial production, thus establishing a link between rural and urban areas.

In order to appreciate the theoretical and ideological foundations of the latest Five-Year Plan, *The Growth and Transformation Plan (GTP)*, it is important to take a retrospective view on the evolution of development thinking in Ethiopia since 1991. The lessons learned from implementing successive development plans over the past 20 years formed the basis for the formulation and launch of the GTP in 2010 as the main development policy framework for Ethiopia. The transition from a classic 'neoliberal economic policy' approach in the 1990s to a 'developmental state' approach along the lines of China and South Korea since 2005 has had a profound impact on the transformation of the Ethiopian economy.

From ADLI to the GTP: the evolution of development thinking in Ethiopia

The idea of agricultural development led-industrialization (ADLI) took concrete shape as an overarching economic strategy between 1992 and 1994; the concept was incorporated in the first and second development plans, which were published only in Amharic. Its intellectual antecedents can be traced back to several government documents: *An Economic Development Strategy for Ethiopia (1994)*⁷⁵, *Rural Development Policies, Strategies and Instruments of the Government of the FDRE (2001)*, and *Ethiopian Industrial Development Strategy (2002)*. ADLI is considered to be an evolving strategy subject to pragmatic experimentation and adjustments.

The three policy documents were to provide the intellectual foundations for the next development plan, the *Sustainable Development and Poverty Reduction Program (SDRP)*, 2002/03-2004/05. The SDRP concretized the previous strategy and took the form of a poverty reduction strategy paper (PRSP) prepared for the sole purpose of soliciting the cooperation of donors and to benefit from the Highly Indebted Poor Countries (HIPC) debt relief Initiative of the World Bank.

The SDRP promoted agricultural development and poverty reduction in rural areas by strengthening agricultural extension services; training extension agents in technical and vocational educational and training; water harvesting and irrigation; restructuring peasant cooperatives and supporting microfinance institutions. It emphasized

⁷⁵ Ministry of Planning and Economic Development (1993), *An Economic Development Strategy for Ethiopia: A Comprehensive guidance & a development Strategy for the future*, Government of Ethiopia, Addis Ababa.

the parallel development of agriculture and industry through mutual dependence. Agro-processing and the leather industry were targeted for experimentation in production for exports. However, in conceptualizing the strategy, the SDRP made no reference to the role cities can play in facilitating urban-rural interactions, promoting industrialization and value-addition. This narrow conception of ADLI prevented policymakers from developing a holistic thinking on the growing role of cities and towns in national and international systems of production, distribution and consumption. *The urban is often erroneously associated with a 'problem' rather than an 'opportunity to be harnessed', a platform for innovation and economic dynamism.* At the beginning of 2005, however, a more accommodative pro-urban view began to emerge, and this was crystallized with the adoption of the *Plan for Accelerated and Sustained Development to End Poverty (PASDEP)*, which is discussed below. The central argument articulated in the PASDEP is that the focus on deliberate urbanization should not be interpreted as a neglect of rural areas. Indeed, as the experience of China and South Korea has amply demonstrated, urban policy can and should complement rather than contradict rural development efforts.

THE PLAN FOR ACCELERATED AND SUSTAINED DEVELOPMENT TO END POVERTY (PASDEP), 2005/06-2009/10

By the time the *Plan for Accelerated and Sustained Development to End Poverty (PASDEP), 2005/6-2009/10*, was prepared, there was sufficient recognition of the problems associated with an agricultural development-led industrialization strategy exclusively targeted to smallholder agriculture. While the country experienced a

marked increase in food production when compared to past historical trends, overall productivity and crop diversification was not commensurate with the resources that the government invested in the sector. Output remained volatile due to heavy dependency on the amount and timing of rainfall. For example, in the 2002/03 period, the output of the crop sub-sector contracted by 16.5 per cent following a decline of 3.7 per cent in 2001/02.⁷⁶ It was clear to policy makers by 2005 that a paradigm shift was necessary to transform the Ethiopian economy. Prime Minister Melese himself took the lead in advocating for a radical reorientation in economic policy aimed at rebalancing the nexus between state and market-led approaches, and to take a second look at the vital links between rural and urban areas in the process of industrialization and economic diversification⁷⁷. The late Prime Minister believed that Ethiopia could move away from dependence on subsistence agriculture and towards industrialization and export of value-added agricultural products under the guidance of a strong and development-oriented state. Consequently, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) made important adjustments by broadening the policy scope from smallholder agriculture to include other sectors, especially the industry sector and the urban sector. This was a turning point in economic policy since PASDEP officially lifted urban issues onto the national development agenda.

⁷⁶ MOFED (2005), *A Plan for Accelerated and Sustained Development to End Poverty (PASDEP) 2005/6-2009/10*, Government of Ethiopia, Addis Ababa

⁷⁷ Melese Zenawi (2006), 'Africa's Development: Dead Ends and New Beginnings', unpublished paper, available at http://cgt.columbia.edu/files/conference/Zenawi_Dead_Ends_and_New_Beginnings.pdf, accessed 28/08/2013



© Ministry of Urban Development, Housing and Construction, Ethiopia

This shift in economic policy was concretized by the adoption of the **Urban Development Policy** in 2005 by the Council of Ministers⁷⁸. Although the 2005 urban development policy did not present a clear roadmap on how to integrate the urban agenda into the overall development framework of the government, it did nevertheless acknowledge that, in the age of globalization, cities can act as transmission belt for knowledge production, information, trade and economic exchange⁷⁹. Two years later, in December 2007, the then Ministry of Works and Urban Development issued an urban development strategy document with two sub-programmes: *Urban development package*, consisting of six programmes, and a sub-programme on *urban good governance package*, consisting of seven pillars, to complement the strategic objectives of PASDEP.⁸⁰

78 Ministry of Federal Affairs (2005), Urban Development Policy, Addis Ababa

79 Sassen, Saskia (2001), *The Global City*, Princeton University Press, Princeton.

80 Ministry of Works and Urban Development (2007), *Plan for Urban Development and Urban Good Governance Package*, Federal Democratic Republic of Ethiopia, Addis Ababa.

BOX 4: Plan for Accelerated and Sustained Development to End Poverty: Urban Development Package, (2005/06-2009/10)

Component 1: Urban Development Package

- Pillar 1: Micro/Small-Enterprise Development Programme
- Pillar 2: Integrated Housing Development Programme
- Pillar 3: Youth Development Programme
- Pillar 4: Provision of land, infrastructure and Services
- Pillar 5: Rural-urban & urban-urban linkages

Component 2: Urban Good Governance Package

- Sub-programme 1: Land Development and Administration Systems Reform
- Sub-programme 2: Urban infrastructure and service reform
- Sub-programme 3: Urban finance & financial management reform
- Sub-programme 4: Organization and Human Resource Management Reform
- Sub-programme 5: Urban planning Reform
- Sub-programme 6: Justice Reform
- Sub-programme 7: Public Participation Reform

While the 'urban development package' focused on job creation, housing and infrastructure, the 'urban good governance package' focused on the development of policy and legal reforms on a wide range of topics central to the governance of cities and the enactment of proclamations for their implementation.

These reforms constituted as critical building blocks for the development of a coherent national urban development strategy for the country. Work continues on the updating of these policies as new knowledge about the role of cities in national development becomes available and by responding to emerging issues as they come.

In the specific case of agriculture, the Plan for Accelerated and Sustained Development to End Poverty placed strong emphasis on growth acceleration, which was to be attained through commercialization of agriculture and private sector development under the guidance of a strong, competent and development-oriented state. This was to be supported through expanded public investment in critical infrastructure, such as roads, electricity and telecommunication. In essence, the government guides the other members of society by giving incentives to adopt behavioural patterns based on value creation rather than rent seeking. The new approach of 'State-led' systemic transformation drew its inspiration from the successful development experience of East Asia⁸¹.

81 Haggard, S. (1990), *Pathways to the Periphery: The Politics of growth in the newly industrialized countries*, Ithaca, NY: Cornell University Press; Rodrik, D. (1994), 'Getting Interventions Right: how South Korea and Taiwan grew rich', NBER Working Paper no. 4964; Wade, R. (1994), 'Selective industrial policies in East Asia: is the East Asian miracle right?', in R. Wade et al., (eds.), *Miracle or Design? Lessons from the East Asian experience*, Washington, DC: Overseas Development Council, pp.55-79

Indeed, in the first three years of implementation of the Plan for Accelerated and Sustained Development to End Poverty (2005/06-2009/10), good performances were recorded in agricultural and industrial production as well as exports. Overall GDP growth during the planned period averaged 11.3 percent, compared to a low of 1.5 per cent in 2001/02. Correspondingly, GDP per capita rose to USD357 in 2007/8 from a very low figure of USD127 in 2000/1. Physical infrastructure and human capital development expanded substantially. This was a dramatic achievement for a country which had been stuck at the low end of economic growth for a long period of time. Moreover, the country managed to withstand the devastating impact of the 2008 global financial crisis and quickly returned to the path of economic growth, registering an average 10 per cent GDP growth in 2009 and 2010 respectively.

At the closing days of implementation, it was clear to the government that a more ambitious investment strategy was needed in order to reboot the economy to a high growth path, and a shift away from agriculture and towards manufacturing and value-addition of agricultural commodities. The 'big push' approach, with its emphasis on infrastructure development and export expansion, formed the basis of the current Five-Year Development Plan, the *Growth and Transformation Plan (GTP)*, which is discussed below.

THE GROWTH AND TRANSFORMATION PLAN (GTP), 2010/11-2014/15

The *Growth and Transformation Plan (GTP)* was launched in October 2010, and covers the years 2010-2015. In formulating the Plan,, the Government of Ethiopia made significant efforts to learn from its expe-

rience in implementing the *Plan for Accelerated and Sustained Development to End Poverty (PASDEP)*. The government is committed to achieving continued growth within a stable macroeconomic framework in the context of the Five-Year development Plan (the GTP). The Plan’s strategic pillars include sustaining rapid growth by promoting industrialization, encouraging social development, investing in agriculture and infrastructure, and strengthening governance and the role of youth and

women.⁸² Put simply, the government has accorded top priority to accelerated industrialization in order to create jobs and lift workers from low-productivity agriculture and informal sectors into higher-productivity activities. Consequently, this strategy has propelled the urban agenda centre stage, particularly the role of cities in promoting industrialization, capital accumulation and stronger integration to global markets.

⁸² MOFED (2010), Growth and Transformation Plan (GTP), 2010/11-2014/15, The Federal Democratic Republic of Ethiopia, Addis Ababa

BOX 5: The GTPs 7 Strategic pillars

1. Sustaining rapid and equitable economic growth
2. Maintaining **agriculture** as a major source of economic growth
3. Creating conditions for **industry** to play a key role in the economy
4. Enhancing expansion and quality of **infrastructure development**
5. Enhancing expansion and quality of **social development**
6. Building capacity and deepening **good governance**
7. Promoting **gender and youth empowerment** and equity

.....

...the government has accorded top priority to accelerated industrialization in order to create jobs and lift workers from low-productivity agriculture and informal sectors into higher-productivity activities

.....

The GTP was built on the Asian Tiger model of state-led development. The key targets include the building of an additional 10,000 miles of roads and a 1,500 mile rail network; the quadrupling of power generation coupled with 82,500 miles of new power lines; increasing the number of mobile telephone users from 7 million to 40 million and internet service subscribers from 200,000 to 3.7 million and the creation of four industrial cluster zones. All this and much more is calculated to be achieved at a cost of USD57.5 billion over five years although some estimate put the cost as high as USD75 billion. In FY2013 alone, the government hopes to spend USD7.8 billion dollars financing mega projects such as electric power, roads, rail and public housing.

The GTP, therefore, laid out an ambitious investment plan and proposed ways to finance it. The plan considered options under two scenarios: medium and high. Under the medium scenario, the economy is projected to grow at a rate of 11.2 per cent, similar to the one attended during PASDEP. Under the high growth scenario, an annual average GDP growth rate of 14.9 per cent is targeted. The basic assumption for the high growth scenario is the doubling of agricultural value-added by scaling up the productivity of farmers. The growth targets in the industry and service sectors in the high growth scenario are only slightly higher than in the medium growth cases (Table 1). Critics have raised doubt whether the government is going to be able to mobilize the huge funds required to finance the GTP investment priorities.

TABLE 2: GDP growth (%) achieved under the Plan for Accelerated and Sustained Development to End Poverty and targets under GTP

Sectors	Achieved PASDEP	Target GTP Medium growth scenario	Target GTP High growth scenario
Agriculture	8.4	8.6	14.9
Industry	19.0	20.0	21.3
Services	14.6	10.6	12.8
Real GDP	11.0	11.2	14.9

Source: MOFED (2010)

In terms of the sources of future growth, the GTP identified the following sectors where investment and policy support should be concentrated on light manufacturing; agriculture and food processing, leather products, textiles, mining, oil and gas. Following the examples of State-directed industrial policy of East Asia (China and South Korea in particular), the GTP applies all tools of traditional industrial policy to achieve structural transformation.

The policy mix include:

- Targeted financial support, such as subsidies, loans from domestic policy banks and equity participation
- Setting up State-owned corporations to address market failures
- Trade policies that favour export-oriented and import-substituting industries
- Tax incentives, including import duty exemptions, tax holidays, etc. that promote priority sectors, particularly those facing handicaps such as inadequate trade logistics or infrastructure
- Investment in specific supporting economic infrastructure and/or
- Regulatory exemptions to attract, preserve, or foster the growth of particular industries, including by attracting foreign direct investment

The GTP, therefore, provides a broad national development vision, with a clear roadmap on how to transform a largely agrarian economy into one where modern manufacturing, services and knowledge-based production geared to the export market dominate.

As the GTP reached the halfway mark of implementation, significant achievements have been registered. High levels of GDP growth have been registered although inflation posed a critical challenge. In 2010/11, GDP grew by 11.4 per cent, surpassing the target of 11 percent. Agriculture and industry sectors have registered growth rates above their targets sets for the year: 8.5 and 14 per cent respectively. Although unemployment still remains high, the absolute poverty index has declined from 38.7 percent in 2004/05 to 29.6 percent in 2010/11 as a result of developments in the economic and social sectors and better implementation of welfare programmes⁸³.

Progress in social development has also been impressive. The GTP aims at achieving the Millennium Development Goals' (the Goals) targets by 2015. As shown in Table 2, health, school enrolments, health coverage, and access to drinking water have more than doubled between 2002 and 2010.

⁸³ MOFED (2013), Growth and Transformation Plan: Annual Progress Report for F.Y. 2011/12, Federal Democratic Republic of Ethiopia, Addis Ababa

TABLE 3: Social development in Ethiopia before and after developmental State

S.N	Indicator	Before developmental State		After developmental State	
		1995	2002	2005	2010
Health sector development					
	Health coverage	40	60	71	89
	Number of health centers	246	412	644	1787
	Number of hospitals	73	115	131	200
	Maternal mortality rate	1400	-	871	590
	Child mortality rate	161.3	-	121.0	105.9
Education sector development					
	Primary school net enrolment rate (%)	36.6	61.6	69	88
	Secondary school enrolment ratio (%)	--	17.1	25	38.1
	Number of students in higher institution	30,538	77,077	91,655	260,241
	Total number of schools	10,772	12,962	17,692	30,301*
	Total number of teachers	105,892	146,626	194,459	323,576*
Drinking water supply					
	National	19.1	34	35.9	68.5
	Rural	9.6	25	25.2	65.8
	Urban	72.1	85	91.5	92.4
Poverty incidence					
	National incidence of poverty (%)	0.495	0.419	0.380	29.6
	Rural incidence of poverty (%)	0.516	0.411	0.385	30.4
	Urban incidence of poverty (%)	0.365	0.467	0.353	25.4

* Data represents 2008/09

Source: CSA, 2003, 2006 and 2011

In the case of the infrastructure sector, where the government has been investing heavily, major achievements have been recorded in the two years of GTP, with the construction of many hydroelectric power plants, road and communications networks completed.⁸⁴ This is bound to ease the problem of logistics with regard to trade with the outside world, and reduce the cost of doing business.

84 MOFED (2013), Growth and Transformation Plan: Annual Progress Report, Addis Ababa.

TABLE 4: GTP Achievements in the infrastructure sector

Sub-sector indicators	2010/11	2011/12		Target for 2014/15
		planned	actual	
Roads				
-Total road network (000 km)	53.1	54.8	56.2	64.5
-Average time taken on road (hrs.)	3.5	2.3	2.9	1.4
-Road density (km/1000 km ²)	48.1	71.9	57.4	123.7
-Road density (km/1000 population)	0.66	0.98	0.75	1.54
-Roads in acceptable condition (%)	82	83	86	86.7
-Areas further than 5 km from all-weather roads (%)	61.8	48.7	56.3	29
-New roads that connect Woredas to all-weather roads (km)	854	24299	10219	71522
Rail way				
-Railway network in km	0	493	0	2395
Power				
-Electricity coverage in (%)	45.4	55	48.5	75
-Energy generating capacity (MW)	2048.5	2582	2177	8000
-Length of distribution line (km)	138832	145838	153230	258038
-Rehab of transmission line (km)	967	3258	1688	8130
Telecommunications				
-Fixed telephone density (per 100)	1.03	2	0.95	3.4
-Mobile service subscribers (in millions)	0.854	1.56	0.805	3.05
-Fixed telephone subscribers (millions)	10.7	16.6	17.3	40
-Internet service subscribers (millions)	0.129	0.62	0.221	3.69
Water				
-Potable water coverage (%)	73.3	81	79.8	98.5
-Urban potable water coverage	92.5	95	88	100
-Rural potable water coverage (1.5km)	71.3	80	78.1	98
-Developed irrigable land (in ha)	32034	100234	42229	98475

Although the State has been the principal actor in driving the development process, the private sector has been assigned a significant role in realizing the objectives of the GTP. Accordingly, the government has taken a series of regulatory and operational measures to strengthen private sector participation in the economy. Trade and credit policy incentives, investment in critical infrastructure, reform in the property rights regime, along with the commitment to maintain macroeconomic stability, have been extensive. These measures have pro-

duced high levels of economic growth, averaging 11 percent in the past nine years, and an increase in FDI flow into the country. The Ministry of Finance and Economic Development (MOFED) reported that FDI inflows were USD1.2 billion and USD1.1 billion during 2010/11 and 2011/12⁸⁵.

Despite tremendous efforts by the government to support private sector development,

⁸⁵ MOFED (2013), Growth and Transformation Plan: Annual Progress Report for F.Y.2011/12, Federal Democratic Republic of Ethiopia, Addis Ababa, p.20

the policy mix that is fostering high public investment and economic growth has the unintended consequences of crowding out the private sector in the land, credit and foreign exchange market. The focus on high public investment has had a negative impact on the distribution of credit, foreign exchange. In addition, the productivity of the private sector has also been affected by an inefficient land distribution system⁸⁶. These issues have been aired during the high-level government and private sector dialogue meetings and the government is considering a number of options to remove these binding constraints so that private sector operators can function in a supportive policy environment.

Tangible actions have not been forthcoming so far to ease these constraints. In particular, the government plans to put in place additional policy measures to support 'innovative' domestic entrepreneurs so that the 'leaders' can lead 'the laggards' by example.

Ethiopia's aspiration to become a middle-income country is not farfetched or a fantasy. Ethiopia today is where China was economically barely 25 years ago. China did not wait to embark on its industrialization path until all the binding constraints are resolved. Instead, Chinese leaders concentrated their efforts on a few sectors with potentials and focused on removing those binding constraints. In this way, they were able to move up the technological ladder through selective policies step by step⁸⁷. This pragmatic approach should also guide the implementation of the *Ethi-*

opian Cities Resilient, Green Growth and Governance Program Package (ECR-3G2P), which is discussed in sections II and III.

To summarize, the intellectual foundations for a developmental State approach in economic policy was developed in successive stages against the backdrop of a decade-long reluctant embrace of neoliberal economic policies that produced little tangible results. Particularly informative has been the lessons learned from implementing State-directed policies under the Plan for Accelerated and Sustained Development to End Poverty. In the closing days of the programme, the political discourse in government circles moved away from an exclusive focus on ADLI towards a 'big-push' approach to industrialization and structural transformation under the guidance of an activist 'developmental state' along the lines of the successfully industrializing countries of East Asia. This intellectual and ideological shift in economic policy also coincided with a period of increased Ethiopian engagement with the successfully industrializing countries of East Asia, particularly China and South Korea, and Ethiopia's active diplomatic leadership in the *Forum for China-Africa Cooperation (FOCAC)*. These developments, along with the inspiring and visionary leadership of the late Prime Minister Melese Zenawi, have had a profound influence on development thinking in the country, particularly in the drafting of the *Growth and Transformation Plan (GTP)*.

The articulation of policy on the urban dimensions of the GTP was left to the Ministry of Urban Development, Housing and Construction, which subsequently produced the *Ethiopian Cities Resilient, Green Growth and Governance Program Package (ECR-3G2P)*, 2013/14-2020) discussed in Section II below.

86 World Bank (2013), *Ethiopia Economic Update II: Laying the Foundation for Achieving Middle Income Status*, Report 78501, World Bank, Washington, DC

87 Zhang, Xiaobo, Arjan de Haan, and Shenggen Fan (2010), "Policy Reforms as a Process of Learning", In *Narratives of Chinese Economic Reforms: How Does China Cross the River?* ed. Xiaobo Zhang, Shenggen Fan, and Arjan de Haan. Hackensack, NJ: World Scientific Publishing.

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The Urban Dimensions of the GTP: An Analysis of the Ethiopian Cities Resilient and Green Growth and Governance Package (ECR-3G2P)

The task of formulating national sector plans consistent with the strategic directions of the Growth and Transformation Plan (GTP) were left to the line ministries. Although the GTP devoted barely a page to urban issues, it was obviously clear that the priorities would have to be implemented by cities. Accordingly, the Ministry of Urban Development, Housing and Construction prepared the *Ethiopian Cities Resilient and Green Growth and Governance Programs Package (ECR-3G2P)* covering the period 2010/11-2014/15.⁸⁸ Although

the GTP does not explicitly spell out the role Ethiopian cities should play in advancing the broad development objectives of the government, there are some areas of convergence between the ECR-3G2P and the *Growth and Transformation Plan* sectoral priorities as shown in the table below. While the GTP has seven strategic pillars, the *Ethiopian Cities Resilient and Green Growth Package (ECR-3G2P)* initially consisted of specific pillars.

⁸⁸ Ministry of Urban Development & Construction (2013), *Ethiopian Cities Resilient and Green Growth and Governance Programs Package (ECR-3G2P)*, Government of Ethiopia, Addis Ababa

BOX 6: The Growth and Transformation Plan (GTP) and the Ethiopian Cities Resilient & Green Growth and Governance Programs Package (ECR-3G2P): Main Pillars

7 Strategic GTP pillars

1. Sustaining rapid and equitable growth
2. Maintaining agriculture as a major source of economic growth
3. Creating conditions for industry to play a key role in the economy
4. Enhancing expansion and quality infrastructure development
5. Enhancing expansion and quality of social development
6. Building capacity and deepening good governance
7. Promoting gender and youth empowerment

Ten pillars of ECR-3G2P

- Pillar 1:** Job creation, Micro and Small enterprise development
- Pillar 2:** Capacity building and good governance
- Pillar 3:** Urban planning and design
- Pillar 4:** Land development & management
- Pillar 5:** Housing development & management
- Pillar 6:** Construction industry Development
- Pillar 7:** Integrated urban infrastructure development and service Delivery
- Pillar 8:** Green & safer cities
- Pillar 9:** Strategic leadership development.
- Pillar 10:** Policy implementation

The ECR-3G2P should not be viewed as the first attempt by the government to tackle the myriad of urban challenges facing the country. Following the review of the Plan for Accelerated and Sustained Development to End Poverty and the strategic decision made by the government to move beyond ADLI and embark on an ambitious strategy of industrialization and urbanization, the Council of Ministers adopted an **Urban Development Strategy** in 2005⁸⁹. In addition, there are a number of ongoing programmes and projects that pre-date the ECR-3G2P and these are largely funded by the World Bank and the German government. These programmes are largely focused on urban housing, infrastructure, social development, and urban governance and are now integrated as part and parcel of the ECR-3G2P.

⁸⁹ Ministry of Federal Affairs (2005), Urban Development Policy, Government of Ethiopia, Addis Ababa

Progress Report in implementation of ECR-3G2P

The ECR-3G2P is a living document and so is constantly being revised. While the sub-programmes under each pillar look like a shopping list of activities to be undertaken, the UN-Habitat support to the Ministry of Urban Development, Housing and Construction is aimed at developing a more focused program package that would complement the strategic objectives of the Growth and Transformation Plan. The various programmes and sub-programmes are in different stages of implementation and it is too early to get a complete picture. However, the February 2013 Progress Report on the implementation of the GTP gave a partial listing of the achievements in urban development and housing (see table below).⁹⁰

⁹⁰ MOFED (2013), Growth and Transformation Plan: Annual Progress Report for F.Y. 2011/12, pp.20-21

TABLE 5: Summary of Targets met, 2010-12, & Targets for 2014/15

Urban Development & Housing	2010/11	2011/12		Target for 2014/15
	(000)	planned	actual	
Employment generated under integrated housing development (000)	176	25	193	182
Employment created by MSE in million	0.542	0.554	1.148	0.74
Reduction of slum areas (%)	50	45	45	30
Urban cobblestone road constr.(km)	222.2	105	246	3738
Urban potable water coverage (1.5km)	92.5	95	88	100

Source: adapted from Table 1.8 of MOFED progress report, p.22

To supplement this progress report, a rapid mapping exercise of ongoing programs and projects was undertaken by MUDHCo in July 2013 as an input to the UN-Habitat's initiative to prepare a framework document for the implementation of ECR-3G2P.

The mapping exercise focused on the following subsectors:

1. URBAN PLANNING, SANITATION AND BEAUTIFICATION PROGRAMME:

The broad objectives of this programme is to undertake capacity building and provide technical support to regions, towns/cities and the private sector so as to enhance their capacity in urban planning preparation and implementation and urban sanitation and beautification.

The sub-programme on '*urban planning improvement*' focused on the development of policy and legislative framework and the preparation of organizational manuals, compilation of urban profiles, and systems for monitoring and evaluation of urban plans. It also focused on urban planning capacity of small towns through the provision of training to city managers,

experts and private sector. Among the major achievements have been:

- Various manuals and studies have been prepared in the spheres of urban planning preparation and implementation, solid waste management, liquid waste management, and urban greenery
- The preparation of National Urban Development Scheme and the study on the competitiveness of Addis Ababa and the preparation of 12 Local Development Plans as a package is expected to be started soon after a Consultant has been selected and approved by concerned bodies
- Urban plan monitoring and evaluation of 56 towns/cities have been conducted as part of protecting violation of plans so as to conduct urban planning preparation and implementation endeavors as per the Urban Planning Proclamation. Besides urban profile of 73 towns have been prepared and made accessible to the users through the web portal
- Base maps of 399 small towns (towns with 2000 to 20,000 population) as well as the preparation of basic plans for 313

small towns have been prepared. Another 23 cities have completed a detailed mapping exercise

- Urban planning institutions and coherent organizational arrangement has been put in place in the four Emerging Regions, enabling them to prepare their own plans
- The capacity of executing/implementing bodies at town level has been strengthened among other things through providing various awareness raising programmes and trainings pertaining to plan preparation and implementation and Geographic Information Systems for about 3823 mayors, city managers, and experts. Moreover, hardware and software equipment pertaining to photogrammetric had been distributed to the four major Regions and The Ethiopian Mapping Agency
- In terms of Structure Plan and Local Development Plan preparation, 52 and 135 have been prepared respectively and respective cities/towns have managed to lead their developmental endeavours along with the plans at hand.

The programme has encountered major challenges. These include poor quality preparation of urban plans due to capacity constraint; limitations in establishing timely and well-built information dissemination system among regions, towns/cities and at federal level; the absence of strong monitoring and controlling system on violation of urban plans and poor organization and involvement of the private sector in urban planning sector.

The second sub-programme *-Urban Sanitation and Beautification Improvement-* is

focused on urban solid and liquid waste system improvement and urban beautification and greenery development improvement.⁹¹ Among its most important achievements are the following:

- The preparation of different manuals, notably the *Urban solid and liquid waste management strategy*, urban greenery development and *Landscape and beautification strategy*
- The preparation of a Ethiopian Occupational Standard and curriculum on urban sanitation and greenery and beautification
- The creation of 13,074 job opportunities in sanitation and greenery and beautification
- In collaboration with different stakeholders, 109 solid waste disposal sites and a similar number for liquid waste disposal sites have been prepared
- As part of promoting Urban Greenery Development, about 694.7 hectares of varying types of Green Infrastructure have been developed

Nevertheless, the major challenges associated with urban sanitation and beautification improvement include the absence of adequate awareness raising mechanisms/venues for the officials and experts in various tiers of government and the society at large and the lack of enforcement mechanisms to control illegal dumping of hazardous wastes from industries and other sources.

91 Ministry of Urban Development and Construction (2013), 'Mapping of Existing Initiatives in the Area of Cities Resilience, Green Growth and Governance: Urban Planning, Sanitation and Beautification Program', mimeo, August, 2013.

2. IMPLEMENTATION OF HOUSING DEVELOPMENT AND MANAGEMENT:

The housing development management programme involved phase one (2006-2010), the Integrated Housing Development Program that preceded the GTP and phase 2, which covers the GTP period (2010/11-2012/13).

Phase I: the *Integrated Housing Development Program (IHDP)*, 2006/7-2009/10: The main objectives of, this programme was to create extensive employment opportunity through the construction of affordable low-cost housing so as to alleviate shortages. To facilitate this, housing development project offices were established at

regional and city/towns levels with clearly-established responsibility.

The programme had initially set an ambitious goal of constructing 396,000 housing units, but was only able to deliver 142,802 due to a lack of adequate financing from the national bank of Ethiopia. The programme was also unable to meet its targets due to a shortage of skills in construction, project management and planning, construction design and poor logistic support and the shortage of construction materials. The shortage of qualified contractors, both big and small, considerably slowed the space of housing construction and delivery.

TABLE 6: Summary of Housing Construction, 2006-2010

Type of dwelling	Regions			Addis Ababa			Total	
	2006/08	2009/10	Total	2004/5	2006/7	2008/10	Total	Total
Commercial	1,660	2,127	3,787	1,727	2,465	1,400	5,592	9,379
3-bedroom	2,447	2,612	5,059	1,770	2,132	3,184	7,086	12,145
Studio	5,117	5,097	10,214	5,922	4,844	2,202	12,968	23,182
2-bedroom	7,597	10,736	18,333	11,717	7,068	4,645	23,430	41,763
1-bedroom	10,208	14,956	25,164	11,084	11,196	8,889	31,169	56,333
Total	27,029	35,528	62,557	32,220	27,705	20,320	80,245	142,802

Source: MUDHCo, 'Progress Report on Achievements of the Past Year', draft (in Amharic)

Despite the scale-back in housing construction, the completed projects generated 193,000 jobs, and most of those employed were women. Small-scale construction enterprises accounted for almost half of the jobs created in the sector.

TABLE 7: Number of jobs created by government housing projects, 2011

Type of project	Housing development project offices	Consultants	Contractors	Small scale enterprises	Total
Government housing project	1,557	228	74,022	65,881	185,980
Sugar factory housing	110	40	16,562	10,932	27,644
University housing	113	91	12,858	6,317	19,379
Government buildings	49	28	1,621	2,832	4,530
Total	1,829	387	105,063	85,962	193,241

Source: MUDHCo, 'Summary Progress report on achievements made in 2011', draft (Amharic)

To overcome the widespread skills shortage in the construction sector, the programme resorted to measures which included retooling of recent university graduates through a rigorous training on construction skills. A second retooling exercise involved the retraining of consultants, architects, structural and electrical engineers, and technicians of surveying and drafting to become contractors through training and rigorous training and making sure that they pass through the necessary registration and supplying them with the necessary working capital and equipment/machinery.

Similar measures were taken by the programme to improve logistics and the supply of construction materials. More significantly was the support given to Micro and Small Scale Enterprises (MSEs) so that they could participate in the construction sector as sub-contractors. These included occupational skill training, microfinance, equipment and work place. As a result of these initiatives, the size of job opportunity created by MSEs, implementing agencies, consultants and contractors during the planned period of 2006/7-2009/19 was 176,317.

Phase II: Housing in the GTP/ECR-3G2P context: Since the beginning of the Growth and Transformation Plan (GTP), the mode of housing delivery has changed and it includes: low-income housing development (ie.10/90 approach); condominium development (20/80 model); saving housing development for middle income group (40/60 option) and mega housing projects for sugar and fertilizer industry, and university housing. The second approach is housing development by the private sector and cooperatives.

Since the GTP started, a total of 96,233 housing units and 1,720 housing blocks have been constructed. An estimated 300,000 jobs have been created in the first half of GTP implementation.

TABLE 8: Number of Housing Units constructed

No.	Type of project	Number of	
		Housing Unites	Blocks
1	20/80 Condominium Housing Development	70,712	
2	10/90 Low Income Housing Development	24,288	
3	40/60 Saving Housing Development	1,233	
4	Ten New Universities		623
5	Sugar Factory Housing		1,097
Total		96,233	1,720

Despite these achievements, however, housing construction and delivery, faces a number of challenges that were already present during the implementation of the Integrated Housing Development Program (IHDP). Shortages of skilled contractors, logistics supply of construction material and qualified building inspectors are the key problems hampering the housing sector. Land development and delivery also remain a critical challenge.

3. CONSTRUCTION INDUSTRY DEVELOPMENT AND MANAGEMENT

The Government is trying its best to create an internationally-competitive construction sector by developing policy and strategies for implementation under the Ministry of Urban Development, Housing and Construction. Accordingly, the sector has shown significant development in the past decade and is playing a key role in facilitating the overall economic development of the country.

In addition to its direct contribution to development, it has also an important role for other sectors in supporting, empowering and facilitating production and service linkages. Moreover, the sector absorbed hundreds of thousands of the unemployed through the Government's Mega projects.

Shortages of skilled contractors, logistics supply of construction material and qualified building inspectors are the key problems hampering the housing sector

TABLE 9: jobs created by various construction enterprises in Government-funded housing projects, 2011 Budget Year

Project type	Private enterprise	Consulting enterprise	Contractor enterprise	Small enterprise	Total
Planned housing development.	1,557	228	74,022	65,881	185,980
Sugar industry housing	110	40	16,562	10,932	27,644
10 new universities	113	91	12,858	6,317	19,379
Government buildings	49	28	1,621	2,832	4,530
Total	1,829	387	105,063	85,962	193,241

Source: MUDHCo, 'Progress report on enterprise development and housing construction: EC 1998-2004),

In the years from 2005-2011, the construction sector has shown an average growth of 12 per cent. The number of licensed contractors has jumped from 1552 in 2005 to 3095 in 2011. Similarly, the number of construction-related consultants grew from 29 to 802 during the same period.

TABLE 10: Growth in the number of contractors and construction managers

Field	2005	2006	2007	2008	2009	2010	2011	Total
Contractors who renewed their permits	1,152	1,588	2,452	2,133	2,418	2,511	3,095	
Consultants & managers	29	29	28	158	167	221	170	802

During the same period, some 32,290 hectares of land was distributed for development purposes, and a total of 142,800 housing units constructed and delivered to new owners (excluding Addis Ababa).

Keeping in mind all these major achievements, the construction sector is expected in the future to create ample job opportunities, promote and encourage various new investments, including direct foreign investment, through promoting the production of quality local construction materials and technologies.

Major Challenges

Though the sector achieved a relatively positive growth in recent years, there are still major challenges that could negatively affect its internationally-competitive vision and slow down the current fast all rounded economic development of the country.

Some of the current challenges include:

- Shortage of skilled manpower, particularly in construction projects managers, machinery operators and engineers and competence gaps among construction labour force

- Low financial capacity to provide infrastructure on need basis
- Lack of legislative and working systems that can properly lead and guide the ongoing industry development
- Weak capacity to tackle corruption and rent-seeking behavior
- Lower capacity of contractors, consultants and Micro and Small Enterprises in the construction development
- Shortage of construction materials delivery

Given the significant importance of the construction sector to the overall development of the country, the government is committed to exploring innovative ways to ensure that a dynamic and internationally competitive construction sector is well established during the next phase of the Growth and Transformation Plan (GTP II).

4. MICRO AND SMALL ENTERPRISES DEVELOPMENT PROGRAM

MSE is one of the areas given recognition in the country's industry development plan. It serves as vehicles for production and growth in manufacturing with high employment generation potential. For this reason, the government attaches importance to the significant role that MSEs can play in industrialization and the transformation of the agricultural sector.

There are three ongoing projects as part of the MSE Development programme. These are: the *Women Entrepreneur Development Project (WEDP)*; the *Local Economic Development Project (LED)*, and the *Entrepreneurship Development Program (EDP)*.



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Achievements and challenges

In recognition of the contributions of MSEs in the socio-economic development of the country, various MSE development policies and strategies were formulated and implemented in recent years. During the current period of GTP implementation (2010/11-2012/13), the following achievements were recorded:

Job Creation: About 4.2 million Jobs were created by MSEs and public mega projects in the period 2005-2011. Of the 1.1 million jobs created in 2011 alone, half was accounted by MSEs. Among the jobs created by MSEs, half have been taken by women.

TABLE 11: Jobs generated by Micro and Small Enterprises, 2005-2011

Region	Jobs created						Total Total
	2006	2007	2008	2009	2010	2011	
Afar					906		906
Gambella						1,401	1,401
B/shangul						1,010	2,103
Somali					1,093	3,303	6,803
Harar	4,337	8,110	3,840	1,039	1,433	3,224	21,983
Dire Dawa	13,000	11,258	11,344	11,149	9,575	8,623	53,800
SNPP	11,291	41,818	32,238	50,634	48,767	127,112	311,860
Tegrai	24,025	41,823	48,423	79,277	54,238	82,680	330,466
Amhara	39,141	90,373	136,114	143,947	97,447	101,720	608,742
Addis Ababa	61,801	223,242	134,611	90,529	60,841	99,899	670,563
Oromia	44,863	89,548	179,031	288,617	264,443	230,849	1,098,351
Total	198,458	506,172	545,601	655,043	542,883	659,821	3,106,978

Source: MUDHCo, 'Progress report on achievements in FY 2005-2011, draft

Access to finance: More than ET birr 4.8 billion loan was given to MSEs through Micro Finance Institutions (MFI). A total of 583,877 Micro and Small Enterprises were granted credit for various business activities.

TABLE 12: Number of Micro and Small Enterprises that were granted loans from Micro Finance Institutions, 2005-2011, by region

Region	MSE beneficiaries					Total
	2007	2008	2009	2010	2011	
B/Shangul	-	-	-	133	-	133
Dire Dawa	2,633	2,294	490	-	2,200	7,617
SNNP	-	8,362	-	-	-	8,362
Harar	3,505	1,185	1,179	1,411	1,623	8,903
Oromia	50,165	18,453	29,425	21,366	-	119,409
Amhara	45,204	29,882	32,877	16,251	9,076	133,290
Addis Ababa	21,078	30,994	36,982	36,037	24,019	149,110
Tigrai	33,700	29,251	24,297	28,358	41,177	157,053
Total	156,285	120,691	125,250	103,556	78,095	583,877

Source: MUDHCo, 'Progress report on achievements of the FY 2005-2011', draft.

Access to training and technical assistance: While 1.2 million operators of MSEs became beneficiaries from technical and business management trainings, another 168,344 MSEs became beneficiaries from Business Development Services (BDS) regarding information on market opportunities; and participate in bazaars and exhibitions.

TABLE 13: Training & capacity building for Micro and Small enterprises, FY 2011, by region

Region	Type of training			Total
	Upgrading technical capacity	Business development	Kisen (Japanese) leadership development	
B/shangul	317	-	-	317
Harar	1,002	444	-	1,446
Dire Dawa	1,748	-	10	1,758
Somali	1,517	1,080	-	2,597
Amhara	37,625	15,969	10	53,604
Addis Ababa	21,407	44,413	202	66,022
SNNP	82,764	27,212	10	109,986
Tigrai	66,965	60,330	210	127,505
Oromia	149,615	76,869	10	226,494
Sub-total	226,317	362,960	452	589,729
Enterprise Development				931,902
TOTAL				1,521,631

MSEs were also to earn birr 14.2 billion through sub-contracting activities in the domestic market. The country was able to earn USD 864.4 million through the export of products produced by Micro and Small Enterprises (MSEs).

Land development and construction of sheds: In order to support micro and small enterprises secure a suitable manufacturing site, some 322.6 hectares of land (or 90 million sq. metres) was developed, and 11,626 sheds were constructed, along with 983 proper buildings.

TABLE 14: Number of manufacturing sheds constructed for MSE, 2005-2011, by region

	2005	2006	2007	2008	2009	2010	2011	Total
B/shangul	-	-	-	-	-	-	11	11
Dire Dawa	-	24	-	-	-	-	-	24
Harar	-	20	-	-	-	-	-	20
SNNP	-	65	-	-	-	-	141	206
Tigrai	-	99	-	207	37	-	418	761
Addis Ababa	381	341	346	376	386	337	358	2,525
Amhara	-	176	230	1,296	1,100	257	117	3,176
Oromia	-	153	495	735	1,760	960	800	4,903
Total	381	878	1,071	2,614	3,283	1,554	1,845	11,626

Source; MUDHCo 'Progress Report and achievements for FY 2005-2011, draft.

In addition, a MSE development strategy and different manuals and guidelines were prepared to facilitate the development activities of the Program.

Constraints and challenges

- Ineffective and inefficient service in delivering and collecting loan due to capacity limitation of microfinance institutions
- Mismatch between credit demand and supply due to less capacity of most Micro Finance Institutions to extend loans on a timely fashion
- Skills limitation in MFI to mobilize savings and inculcate a savings culture
- Lack of infrastructure, particularly the regular interruption of electricity to manufacturing centres
- Lack of self-reliance spirit and innovative culture for job creation with actors
- Failure in providing trainings on the basis of need/interest and result oriented
- Most market supply provisions are government dependent, thus not fostering a culture of independence and innovation in the MSEs
- Failure in staffing One Stop Service Centers
- Lack of detailed understanding of MSE development package and work commitment

Opportunities of the programme to make a difference

The programme has been given high focus by the Government as it is considered one of the most important interventions to deal

with the problem of high unemployment. While a national MSE development strategy has been adopted, the government has also established MSE Development Councils at different level (Federal to Town) to facilitate the Coordination between different implementing actors and stakeholders. Despite the high political support, however, greater government effort is needed to ensure that MSE operators receive high-quality training and advice and that the supporting institutions, such as microfinance institutions, become effective by drawing the best talent with expertise in the field of MSE development and the management of microfinance institutions.

The strategic challenge: aligning ECR-3G2P's programs with the GTP's development goals

The challenge of urbanization is multi-dimensional and solutions cannot be found within a single sector ministry. Given the cross-cutting nature of the urban challenge, inter-sectoral coordination among government ministries is a pre-requisite for proper diagnosis of the problem and for taking the correct policy interventions. What other ministries such as transport, agriculture and education do as part of their respective mandate could have a tremendous bearing on urbanization and the development of cities. MUDHCo must constantly keep an eye on the investment and policy decisions of other ministries to ensure that there is synergy and mitigate unintended negative consequences on urban growth.

The Growth and Transformation Plan, by necessity, assigns a central and strategic role to cities for the promotion of its industrialization agenda. At it currently reads, however, the *Ethiopian Cities, Resilient and Green Growth Package (ECR-3G2P)*

does not provide a highly focused policy framework for building more 'competitive, productive and resilient cities'. The ECR-3G2P consists of a long 'To Do List' of programmes and activities that is difficult to implement. A revised ECR-3G2P must focus on a limited but sharply selected list of sub-sectors that have the potential to trigger economic growth across the value-chain and generate jobs.

A number of instructive lessons can be drawn from the draft *Integrated Development Plan (2014-2038) for Addis Ababa and the surrounding Oromia Special Zone* when realigning the ECR-3G2P to the GTP. The Integrated Addis Ababa Master Plan proposes to transform the federal capital and other cities in the Oromia Zone as critical economic hubs for light manufacturing and agro-processing industries. It does so by focusing on a limited set of subsectors that the GTP has identified as critical for re-orienting the economy on a path of industrialization, namely: light manufacturing; leather products; agro and food processing; textiles; mining, oil and gas, amongst others. The plan further envisages developing linkages between city and regional industrial networks.⁹² Moving forward, the ECR-3G2P should concentrate on feasible, cost-effective and sharply focused policy initiatives aimed at enhancing the capacity of cities to become a major manufacturing and trade hub in East Africa, particularly in light manufacturing and agro-processing⁹³. In order to achieve the GTP's priority of high levels of economic growth through

Moving forward, the ECR-3G2P should concentrate on feasible, cost-effective and sharply focused policy initiatives aimed at enhancing the capacity of cities to become a major manufacturing and trade hub in East Africa, particularly in light manufacturing and agro-processing

industrialization, the transformative potential of Ethiopian cities must be enhanced immensely, and all available human and financial resources deployed strategically towards this objective.⁹⁴The next sections discuss the steps to be taken for building 'competitive and enterprising' cities in Ethiopia; the key sectors with high growth potential and the political conditions necessary for the effective implementation of the *Ethiopian Cities Resilient, Green Growth and Governance package*.

92 Addis Ababa City Administration (2013), INTEGRATED DEVELOPMENT PLAN: Addis Ababa and the Surrounding Oromia Special Zone, 2014-2038, Draft Executive Summary (June 2013)

93 World Bank (2011), Light Manufacturing in Africa: Targeted Policies to Enhance Investment and Create Jobs, with a Case Study of Ethiopia, Report 67209, Africa Development Forum, World Bank, Washington, DC: p.3

94 World Bank (2009), 'Ethiopia: Toward the Competitive Frontier; strategies for improving Ethiopia's Investment Climate', Report 48472 ET, Finance and Private Sector Development, Africa Region, World Bank: Washington, DC



Building 'competitive' and 'enterprising' cities in Ethiopia: challenges, opportunities, and critical interventions

Cities are the most productive parts of Ethiopia and offer the greatest potential for accelerated growth and job creation. Their continued success is fundamental to the country's ability to earn its living in a more open, international economy and to sustain the tax base required to pay for improved public services and the social safety net throughout the country. Cities also have a growing role to play as economic hubs or gateways to the wider sub-continent.

At present, however, Ethiopian cities face many challenges: bottlenecks in infrastructure, skill shortages, inefficient trade logistics, poor internal and external connectivity, inefficient land distribution system and a severe shortage of foreign exchange and domestic credit for entrepreneurs. These constraints collectively act as brakes on growth and competitiveness⁹⁵.

Over the past decade, the government has taken decisive and resolute measures to

tackle some of the most blatant aspects of urban decay and low economic productivity⁹⁶. It has invested billions of dollars to improve urban infrastructure, housing and condominium development, water and sanitation, electricity, and public transportation networks⁹⁷. It has taken steps to improve land regulation and facilitate land acquisition. Moreover, the government has devolved power and responsibility to the regions so that they can determine development policies consistent with local realities. Despite these commendable efforts, however, urban reform remains one of Ethiopia's greatest challenges.

To date, there has not been enough holistic thinking when addressing the issue of rapid urbanization, especially the role of cities in socio-economic transformation, innovation diffusion, industrialization and closer integration to the wider global markets. Planning around cities tends to be short-

95 OECD (2007), 'Competitive Cities: A New Entrepreneurial Paradigm Shift in Spatial Development'; World Bank (2013), Ethiopia Economic Update II: Laying the Foundation for Achieving Middle Income Status, Report 78501, World Bank: Washington, DC.

96 UNHABITAT (2008), Ethiopia Urban Profile, Regional and Technical Cooperation Division, Nairobi; MOFED (2013), Growth and Transformation Plan: Annual Progress Report for F.Y. 2011/12, Federal Democratic Republic of Ethiopia, Addis Ababa

97 MOFED (2013), Growth and Transformation Plan, Annual Progress Report for F.Y. 2011/12, Federal Democratic Republic of Ethiopia, Addis Ababa, draft/February.

term and inward looking, and lacking any thorough understanding of the role cities play in today's knowledge-intensive globalizing economy. Experience from East Asia points out that successful countries and regions must have successful and competitive cities at their core in order to take advantage of the opportunities available in the global economy.⁹⁸ A similar thinking should underpin the development of a national framework to guide the process of urbanization in Ethiopia. Boosting the competitiveness of cities by building the necessary infrastructure, education, and innovation systems, can open up enormous opportunities for cities to become nodes of economic development, by giving impetus for the development of industrial clusters with backward and forward linkages, and producing for the regional and global markets.⁹⁹

Enterprising' cities and globalization: Exploiting unrealized potential

Ethiopia's potential to become a manufacturing hub in Eastern Africa is huge. From leather and textiles to cut flowers and wood products, the diversification of Ethiopia's economy is boosting development and transforming the country into an economic powerhouse. First, Ethiopia's low wage costs and abundant material base have the potential to transform the country as a major hub for light manufacturing,

which will in turn lay a durable foundation for an indigenous technological base to emerge¹⁰⁰. Second, as globalization advances and China evolves away from a comparative advantage in labour-intensive manufactured products toward more advanced industrial production, countries like Ethiopia are positioned to take advantage of this opportunity.¹⁰¹ This is illustrated by the recent decision of a Chinese shoe manufacturer, Huajian International Shoe manufacturing Ltd., to relocate its entire global shoe production operation to Ethiopia¹⁰². Third, Ethiopia enjoys duty free access to U.S. and EU markets for light manufactures under the Africa Growth and Opportunity Act (AGOA) and the Cotonou Agreement.

The ability of Ethiopian cities to harness the opportunities available in the global economy will, however, depends on two factors: (a) whether current institutional and policy conditions unleash or hamstring a city's potential to become a centre of innovation, economic accumulation and exchange and (b) whether the city is well planned and managed and that residents and private economic agents have access to land, affordable housing, high quality educational institutions and efficient services that collectively contribute to a better quality of life.

At present, however, the ability of Ethiopian cities to become major manufacturing and service hubs in East Africa is being hampered by logistical challenges such as

98 Zhang, Xiaobo, Arjan de Haan, and Shenggen Fan (2008), 'Policy Reforms as a Process of Learning', In *Narratives of Chinese Economic Reforms: How Does China Cross the River?* ed. Xiaobo Zhang, Shenggen Fan, and Arjan de Haan. Hackensack, NJ: World Scientific Publishing.

99 UN-Habitat (2011), *The Economic Role of Cities*, Nairobi, The Global Urban Economic Dialogue Series; World Bank (2013), *Ethiopia Economic Update II: Laying the Foundation for Achieving Middle Income Status*, Report 78501, World Bank: Washington, DC; World Bank (2011), *Light Manufacturing in Africa: Targeted Policies to Enhance Private Investment and Create Jobs*, Case Study on Ethiopia (included), Washington, DC. pp.4-8

100 World Bank (2011), *Light Manufacturing in Africa: Targeted Policies to Enhance Private Investment and Create Jobs*, with a Case of Ethiopia, Report 67209, World Bank, Washington, DC, pp.4-8

101 Henok Assegai, D. Bienne and D. Curia (2013), 'Ethiopia's Investment Prospects: A Sectoral Overview', *African Review of Economics and Finance*, Vol.4, No.2:203-246; World Bank (2013), *Light Manufacturing in Africa*.

102 William Davidson (2012), 'Africa Rising: China steps up production in Ethiopia with drill instructions', *The Christian Science Monitor*, April 3.

costly transportation and communication, underdeveloped input supply system, inefficient land distribution system, restricted access to credit, a severe shortage of highly skilled people, and cumbersome and com-

plicated customs procedures. ¹⁰³Table 15: Constraints in Ethiopia, by importance, size of firm and sector

¹⁰³ World Bank (2011), Light Manufacturing in Africa: Targeted Policies to Enhance Private Investment and Create Jobs, with a Case Study of Ethiopia, Report 67209, World Bank, Washington, DC: pp. 4-8; World Bank (2013), Ethiopia Economic Report II

Sector		Input industries	land	finance	Entrepreneurial skills	Worker skills	Trade logistics
Apparel	Small	important	critical	critical	important	important	
	Large	important			important		Critical
Leather products	Small	critical	critical	critical	Important		
	Large	critical			important		Important
Wood products	Small	critical	important	important	important	important	
	Large	critical	important	important	important	important	
Metal products	Small	critical	important	important	important	important	
	Large	critical	important	important	important	important	
Agribusiness	Small	critical	critical	critical	important		
	Large	critical	critical	important			



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there is a consensus among the private sector associations that the Federal government need to do more to improve the 'business environment' and to remove a number of binding constraints affecting the competitiveness of the sector

Over the past decade, the government has adopted a number of regulatory and operational measures to strengthen the participation of the private sector in the economy. These include investments in infrastructure and human resources development, the revision of the investment code and better facilitation in licensing, registration and taxation¹⁰⁴.

Needless to say, the domestic private sector remains unimpressed by the scope of the reforms implemented so far, and there is a consensus among the private sector associations that the Federal government need to do more to improve the 'business environment' and to remove a number of binding constraints affecting the competitiveness of the sector. Progress in addressing the issues of access to finance, foreign exchange and suitable land for enterprises could go a long way in improving the business environment in the country.

In short, by removing the constraints to competitiveness, promoting planned expansion and participatory governance, Ethiopian cities/towns can play a catalytic role for generating economic growth, fostering innovation and entrepreneurship and laying

¹⁰⁴ World Bank (2013), Ethiopian Economic Report II, p.20

the foundations for sustained growth and job creation. This will, of course, require strong coordination with departments, Federal and regional governments, the relevant line ministries (i.e., transport, education, agriculture, trade, industry, etc.) and other stakeholders under the overall guidance of the Minister of Urban Development, Housing and Construction.

The 'path' to becoming a globally integrated and competitive city: six imperatives

As Ethiopia strives to become a 'middle income country' by 2023 through closer integration to the world economy, its competitiveness will increasingly be driven by the capacity of its metropolitan regions to play a leading role as centres of innovation diffusion and socio-economic transformation. The role of central and local governments is to ensure that the right conditions are in place to improve the competitiveness of cities and towns, and to unleash productive capacity in subsectors with high growth potential¹⁰⁵.

The key imperatives of competitiveness are the following:

A. COMPETITIVENESS & PRODUCTIVITY: THE GOVERNANCE DIMENSION

The governance of cities is a key factor for managing urban development and for implementing policy actions to achieve competitiveness objectives. Apart from providing basic public services, efficient

¹⁰⁵ World Bank (2009), Ethiopia: Toward the Competitive Frontier: Strategies for Improving Ethiopia's Investment Climate, Report 48472ET, Finance and Private Sector Development, Africa Region, World Bank, Washington, DC; Willem Van Wined (2006), 'Globalization and urban competitiveness: challenges...' in OECD, Competitive Cities in the Global Economy, OECD Territorial Review, pp.

and innovative local government can be a differentiating factor in ensuring that cities are competitive in order to be able to attract investment, talent, and finance necessary for generating economic growth and create jobs. Private investment is easily levered into places where government has clearly signaled its support by reducing business entry costs.¹⁰⁶The 2013 World Bank's *Doing Business* report ranks Ethiopia 127 out of 185 economies in 'Ease of Doing Business'¹⁰⁷. The report points out that the key impediments to entrepreneurship and innovation have been the lack of adequate credit and foreign exchange, as well as problems associated with access to land due to a very inefficient land distribution system.¹⁰⁸

Access to financial services: According to the 2012 Ethiopia Enterprise Survey, access to finance remains a major constraint for enterprises. This is perceived as the main business environment constraint by both small (38 percent) and medium (29.5 percent) enterprises in Ethiopia, compared to an Sub-Saharan Africa average of 21.2 and 15.2 percent respectively.¹⁰⁹ The same survey indicates that almost 93 percent of small enterprises and more than 95 percent of medium enterprises have either a checking or a saving account (a percentage higher than the respective Sub-Saharan Africa averages) but only 3 percent of small enterprises and 23 percent of medium enterprises have a loan or a line of credit. These low percentages can be explained by (among other factors) the extremely high collateral demanded by the banks in order to secure a loan.¹¹⁰

FIGURE 2: Key constraints to competitiveness



Public investment-driven growth has meant the diversion of domestic banking sector credit away from the private sector to state owned enterprises. In the six month period, July 2011 to December 2011, 71 per cent of new loans were directed towards public enterprises. This share was increased to 89 per cent during the second half of 2012. Similarly, a substantial share of available foreign exchange is also diverted toward public sector investment projects¹¹¹. The Federal government must find a better way of allocating scarce credit and foreign exchange to both the public and private sectors without jeopardizing the competitiveness one at the expense of the other.

106 Clarke, George (2011), 'Assessing How the Investment Climate Affects Firm Performance in Africa: Evidence from the World Bank's Enterprise Surveys', background paper (Light Manufacturing in Africa Study). Available online in Volume III at <http://econ.worldbank.org/africamanufacturing>. World Bank, Washington, DC. World Bank (2011), *Light Manufacturing in Africa: creating jobs and prosperity by fostering competition, with a case study of Ethiopia*, Vol.1.

107 World Bank (2013), *Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises*, World Bank, Washington, DC.

108 World Bank (2013) *Ethiopia Economic Update II: Achieving Middle Income Status*, p.24

109 World Bank (2013), *Ethiopia Economic Update II: Achieving Middle Income Status*, (June 2013), p.24

110 These rates correspond to 249.3 percent against a Sub-Saharan Africa average of 160 percent. Such high rates undermine the competitiveness of Ethiopian firms.

111 World Bank (2013), *Ethiopia Economic Update II: Achieving Middle Income Status*, p.24

The limited access to finance is further exacerbated by low level of domestic savings. This is largely attributed to the negative real interest rate and low level of banking penetration across the country. By African standards, banking services remain underdeveloped in Ethiopia though improving progressively since 2005.¹¹² Although the government has undertaken a series of measures to increase the savings rates in the country through improving financial sector accessibility from housing saving schemes to microfinance and pension schemes a lot more needs to be done to

incentivize citizens and local businesses to save and invest.¹¹³

Given the huge financing need in the country, the Federal government needs to create an enabling policy environment for a sound and competitive financial and banking sector to emerge in the country. With the growth of a competitive financial sector, domestic savings will grow and banking services will spread across the country. The introduction of ICT and mobile banking, similar to the Mpesa system in Kenya, will encourage savings while reducing transaction cost for businesses and average citizens alike.

¹¹² World Bank (2013b), Ethiopia Economic Update II: Laying the Foundation for Achieving Middle Income Status, Report 78501, World Bank: Washington, DC, 48-49.

¹¹³ *ibid*, p.47

TABLE 16: Bank branch expansion by region

Region	2006	2010	2011	2012
Addis Ababa	148	265	352	430
Tigray	26	43	76	94
Afar	3	5	5	9
Amhara	69	88	132	190
Oromia	115	182	262	354
Somalie	7	10	16	24
Beneshangul	1	2	4	7
SNNPR	38	59	95	143
Gambela	1	2	4	6
Harari	4	10	10	12
Diredawa	9	14	17	20
Total	421	682	973	1289

Source: National Bank of Ethiopia; cited in (World Bank 2013b), p.49

Access to foreign exchange: The foreign exchange market is highly regulated in Ethiopia for good reasons. Since the country does not possess huge foreign exchange reserves, the government prioritizes the strategic sectors of the economy, including critical infrastructure investment projects, in the allocation of scarce foreign exchange. Consequently, private investors engaged in non-strategic investments are locked out from the foreign exchange market.

It is imperative that the Federal government undertakes a thorough assessment on how best to assist private sector operators to overcome the problem associated with scarce foreign exchange. If the goal of export expansion in light manufactures is to be realized, foreign exchange allocation must be prioritized to these sectors with high growth potential. This is particularly urgent in sectors where input supply has to be insourced from other regions of the world until such time that a domestic substitute can be found.

Access to suitable industrial land: While government policy on state control of land is clear and straightforward, it is in the development, administration and delivery of land where huge problems are encountered. There is considerable room to make land allocation more efficient and market-friendly without having to alter the legal status of land as state property. Public authorities could increase productivity and encourage greater creativity by introducing more flexibility in the rules surrounding the disposal of under-utilized public land and buildings to private investors. In China, for example, 76 percent of local government revenue in 2007 came from the land value capture through land sale or lease. Reducing bureaucratic red tape and enhancing

transparency in the development, administration and allocation of industrial land will go a long way to improving the business environment and enhancing the competitiveness of the private sector.

In summary, there is an urgent need to review policies on credit, foreign exchange and land allocation in order to enhance the competitiveness of Ethiopian cities so that they can become a catalyst for broad-based economic growth and job creation. It is imperative that the Federal government undertake detailed research to determine the possible negative consequences of such policies on specific sectors and localities, and to come up with recommendations that enhances the competitiveness and productivity of the private sector. Towards this end, coordination between sectoral ministries are necessary in order to ensure synergy between different policy interventions that cut across sectoral boundaries.

B. COMPETITIVENESS & PRODUCTIVITY: THE SKILLS AND INNOVATIONS DIMENSION

Productivity is a function of skills and the adequacy of R&D capacity to support innovation, and the capacity to assimilate new technologies. At present, the key impediments to competitiveness in Ethiopia are many and include the lack of entrepreneurial, managerial and technical skills and the absence of policy to nurture innovation in cutting edge technology, products and services. The government recognizes that this is a major strategic challenge and the Parliament approved a '*National Science, Technology & Innovation (STI) Policy*' in February 2012. The policy will be implemented over the course of GTPII. The policy paves the way for the integration of science, technology and innovation with

the national development agenda. Innovation has always played the decisive role in countries' economic and social development; it is the foundation of competitiveness and improved productivity. Although innovation is fundamentally the task of the private sector and entrepreneurs, the role of government has always been crucial. It is only governments that can assume the risks involved in large-scale programmes such as infrastructure, and facilitate nationwide learning processes for innovative initiatives by setting minimum standards to the educational and research sources needed to cope with rapid technological changes. Cities in particular should have the minimum capacity to put in place appropriate policies and institutional environment to unleash the productive potential of entrepreneurship and support business incubators.

In Ethiopia, educational attainment is likely to be the single most important constraint to fostering innovation capacities over the

next generation. Although Ethiopia has spearheaded a massive drive in the expansion of universities in each region over the past decade, it is many years away from producing large numbers of highly qualified graduates to meet the demand in the labour market and future business innovators. The regions will, in particular, continue to struggle to attract skilled people due to a number of financial and non-financial reasons. In the short-to-medium term, however, a big push is required to develop targeted training programs for retooling currently unemployed school graduates to meet demand in selected and critical sectors and to produce a critical mass of future business innovators. These targeted training programmes should be developed in close consultation with the Ethiopian Chamber of Commerce and other concerned private sector associations since the latter know better the type of skilled labour needed in order to become competitive in the marketplace.

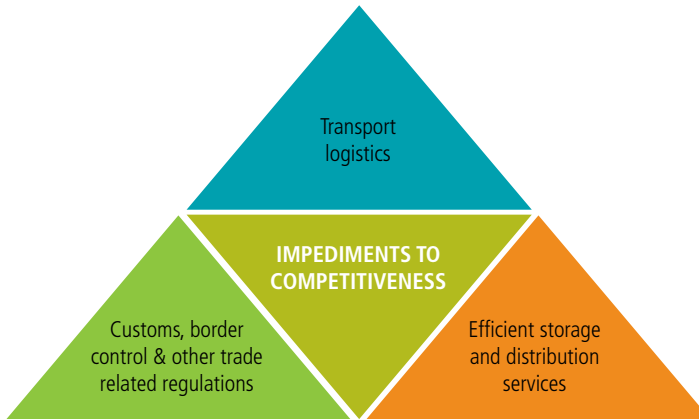
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C. COMPETITIVENESS & PRODUCTIVITY: THE TRADE LOGISTIC DIMENSION

As a landlocked country, Ethiopia faces numerous logistics challenges that undermine competitiveness as well as its ability to take advantage of its preferential access to the US and European markets. According to the World Bank's *Logistics Performance Index (LPI)*, Ethiopia ranks 141 out of 155 economies, down from 123 in 2010. High transport costs, the absence of cold storage facilities for perishable goods; complicated customs and border control that contribute to unnecessary delays for goods clearance and underdeveloped storage and distribution systems are some of the logistical challenges that the government is earnestly trying to address as a matter of national priority.

FIGURE 3: Three dimensions of the logistics challenge



While the massive investment in infrastructure that the government has made in recent years is expected to ease the problem in transport logistics, reforms involving customs administration, border control and other trade related regulations are all underway. Computerization to reduce red tape at customs and border control posts, the consolidation of Ethiopian Shipping Lines management, the establishment of a single agency to coordinate more than 25 domestic logistic operators and the inauguration of an interior dry port at Djibouti's main port, connected by multi-lane highway, and soon by a high-speed rail, are expected to ease the logistic gridlock.

D. COMPETITIVENESS & PRODUCTIVITY: THE CONNECTIVITY DIMENSION

National and international connectivity is critically important in an increasing globalized economy and for ensuring that cities remain attractive places to live and work. It is clear that the most attractive cities for business expansion and investment will be those that invest in advanced infrastruc-

ture such as next generation network that make business operations within the metropolitan area more efficient and responsive. External connections such as airports, seaports and adequate internal road network and public transportation are also vital for city competitiveness.

In addition, mobile technologies are opening new channels of communication between people and governments, enhancing democratic governance and other development areas such as health, education, agriculture, employment, crisis prevention and the environment. They can reduce bureaucratic holdups for average citizens and streamline work for civil servants.

While Ethiopia has made great strides in improving internal and external connectivity through its 'big push' approach in infrastructure development, the same cannot be said when it comes to ICT infrastructure, particularly high-speed broadband connection. By African standards, mobile phone subscription rate and connectivity

to high speed internet remain relatively low despite high demand. According to *The Economist*, mobile phone penetration, which averages 70 per cent of the population elsewhere in Africa, is closer to 25 per cent in Ethiopia.

Only 2.5 per cent of Ethiopians have access to the internet, compared with 40 per cent in neighboring Kenya. The government has taken steps to improve the efficiency of the telecommunication sector by upgrading telecom equipment rather than going through the privatization route. It had reached a USD1.6 billion agreement with China's two leading telecom-equipment companies, Huawei and ZTE, to upgrade its network, with the introduction of a 4G platform for Addis Ababa and a 3G platform for the rest of the country.

While this deal is an important first step toward improving telecom services, it is a poor substitute to fostering a healthy competition by allowing multiple operators in the same sector in order to raise efficiency and reduce cost of connectivity. With reduced cost of connectivity, both small and medium enterprises will be willing to adopt new information technologies to raise their productivity and competitiveness in the market place.

ICT is the most important aspect of connectivity, facilitating quick information flow between firms and people, and enabling entrepreneurs to make real-time decisions. The government recognizes the urgent need to address the connectivity gap in the country and is in the process of drafting a strategy on ICT Infrastructure Development in close collaboration with sector ministries, regional and municipal administrations.

E. COMPETITIVENESS & PRODUCTIVITY: THE ENVIRONMENTAL SUSTAINABILITY DIMENSION

Urban areas are vulnerable to the consequences of climate change. Cities also face environmental challenges such as traffic congestion, noise pollution and poor air quality which impinge on their competitiveness. These environmental problems can be complex as their causes are often inter-related at a city level. A city must, therefore, constantly strive to merge its physical/environmental planning with its economic planning to sustain its competitiveness and reduce its ecological footprint on the surrounding area. Land use planning, sustainable construction, sustainable urban transport plans and measures to promote low carbon emissions and energy-efficient vehicles, sustainable use of water, solid and liquid waste management, and recycling will go a long way to reduce greenhouse gas emissions at the city level. Recreational and green areas such as parks are an important attributes of creating sustainable urban environment.

The existing research on Ethiopia reveals that the majority of municipalities lack the basic technical knowledge, financial and administrative capacity to adapt to climate change. The capacity of municipalities has been constrained by the absence of credible partnership between the planning authorities and other key stakeholders, which include environmental agencies, local community groups and the private sector, and a general lack of access to climate science. Basic safety, such as fire, disaster and emergency management systems are in short supply or nonexistent.

Moreover, environmental problems have no boundaries and cut across many jurisdictions. Local initiatives to resolve one problem can possibly lead to new problems elsewhere and can conflict with national and regional policies. Both local and national authorities need to recognize and overcome these challenges through closer coordination, information sharing, joint use of critical facilities and by setting and enforcing codes and standards on land use, air quality, and construction. Moreover, if adaptation decisions are to be successful, there is an urgent need for municipalities in Ethiopia to engage in deliberative participatory activities aimed at winnowing the most complex problems associated with sustainable management of cities. Top-down and one-size-fits-all approaches should give way to participatory and 'cooperative environmental governance'.

F. COMPETITIVENESS & PRODUCTIVITY: THE SOCIAL INCLUSION DIMENSION

A competitive city also flourishes where social inclusion, citizen welfare and sustainability have been established. City attractiveness is influenced by the diversity of its people, cultural and sports infrastructure, green space and transport and communications infrastructure. The higher the quality of life in a given city, the greater potential there is to attract investment and skilled workers who possess the 'creative capital' required to power knowledge economies. On the other hand, cities that exhibit glaring social exclusion, residential and social segregation are unable to compete to attract investment, talent and jobs. A high degree of social exclusion within cities can result in higher levels of criminality and personal insecurity. This reduces a city's attractiveness.

The recent decision by the City of Detroit, in the United States, to declare bankruptcy is the result of years of declining competitiveness, aggravated by mass social exclusion, which made the city an unattractive place to invest. It is, therefore, imperative that city administrators and the national government ensure that social inclusion and urban 'safety net' provision remain central in national and city development since 'social exclusion' severely affects the competitiveness of the country and its cities.

In summary, the Federal government, the regions and city administrators must take a proactive approach to develop the potential of individual cities, enhancing their competitiveness through the above-mentioned policy actions. The realignment of the current ECR-3G2P package around cross-cutting tasks, including a focus on selected sectors with high growth and job creation potential, should also take into consideration the above-mentioned growth-enabling conditions. An integrated and cross-sectoral approach will also help the Federal government, regional, and municipal authorities to collaborate across boundaries in order to avoid duplication of efforts and maximize economic return from planned investments. Implementing many of the necessary reforms will, of course, require strong coordination across various departments and sector ministries.



Aligning the ECR-3G2P with the GTP: The Ethiopian Cities Prosperity Initiative (ECPI)

The *Ethiopian Cities Resilient, Green Growth and Governance Package* (ECR-3G2P), as it currently reads, consists of a long 'To Do List', and not necessarily focused on a limited but sharply selected subsectors that have the potential to trigger economic growth across the value-chain and generate jobs. It is imperative that the ECR-3G2P should be reconfigured so that its programs and subprograms are complementary to the long-term strategic priorities of the Growth and Transformation Plan (GTP). The imperatives of steering and guiding the growth and overall urbanization process in Ethiopia through urban planning and well-coordinated management becomes a priority undertaking. Equally urgent is the need to improve livability, productivity and sustainability of cities through expanding access to basic services.

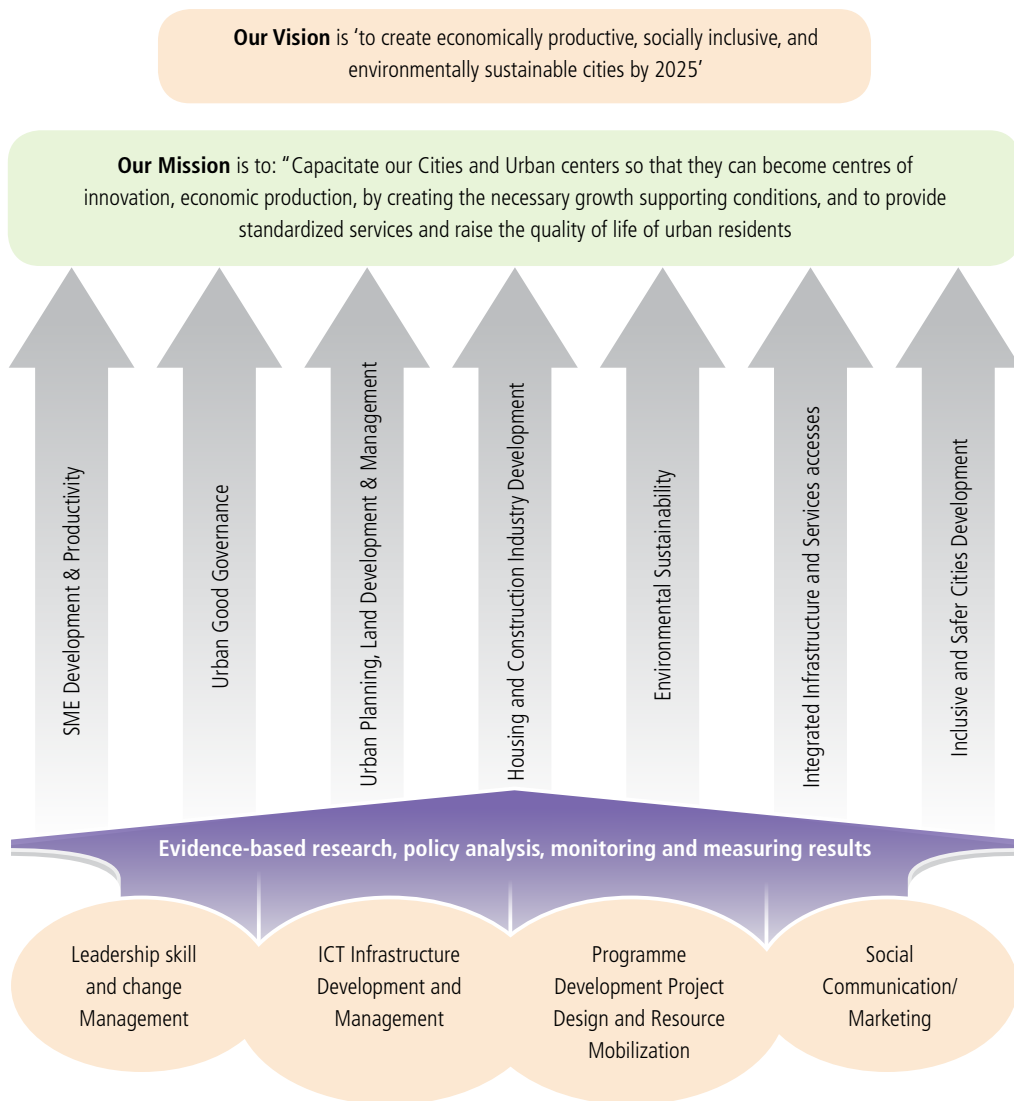
In the GTP, the government has indicated its long-term commitment to selected areas and policy themes. These include: *promoting industrialization; encouraging social development; investing in agriculture and infrastructure; and strengthening governance*. It is, therefore, imperative that regional and city authorities and investors must reorient their urban development policies around these GTP priority sectors with high growth and job creation potential. The ECR-3G2P must, therefore go beyond

its exclusive focus on the 'construction industry', and harness strategically the potentials of light and heavy manufacturing, agro-processing, textile, leather products, transport and logistics services, consistent with the strategic objectives of the GTP.

The Ministry of Urban Development, Housing and Construction, with expert advice from UN-Habitat, began the process of aligning the ECR-3G2P with the Growth and Transformation Plan in early July 2013. An in-house methodology seminar on City Prosperity Index (CPI) was organized by UN-Habitat for MUDHCo policy experts on August 16 in Addis Ababa. Following the methodology seminar, the Ministry, with assistance from UN-Habitat, developed the '*Ethiopian Cities Prosperity Initiative (ECPI): Building Green, Resilient and Well Governed Cities*' package, 2013/14-2025. The ECPI has eight strategic pillars: *SME development, productivity and job creation; urban good governance; urban planning, land development & management; Housing and Construction industry development; Integrated urban infrastructure and services; environmental sustainability; social inclusion; and research, policy analysis and strategic planning*, incorporating the strategic directions, objectives and targets for urban development as described in the Growth and Transformation Plan .

FIGURE 4: ECPI Vision, Mission and Strategic Pillars (Dimensions)

The alignment exercise also involved the identification of the sources of growth; the critical pillars that



support growth; the other 'enabling' conditions for sustaining growth (e.g. governance, etc.) and the sustainability dimensions of growth (see Table 17). Further refinements have been made to the contents of each programme pillar after a week long discussion held between Minis-

try officials, policy experts and the UN-Habitat lead consultant in August and September. A detailed description of each pillar, with cross-reference with other pillars, is provided in Annex 1.

TABLE 17: Pathways to economically-productive, socially-inclusive, and environmentally-sustainable cities

GROWTH DRIVERS (sources of growth)	<ul style="list-style-type: none"> • Light and heavy manufacturing (leather; textiles; wood products, etc.) • Construction (housing; input supply; urban infrastructure, etc.) • Trade and services • Agriculture & agro-processing
GROWTH SUPPORTING PLATFORMS	<ul style="list-style-type: none"> • Infrastructure • Knowledge/information • Enabling' macro-policy • Financing • Competent 'leadership' and government 'effectiveness'
GROWTH ENABLING CONDITIONS	<ul style="list-style-type: none"> • The <i>governance platform</i>--i.e., people's participation and civic engagement; transparency; accountability and responsiveness) • City capacity in <i>strategic planning & management</i> • <i>Business-Government strategic alliance</i> • <i>Social inclusion</i>& and the adequacy of social protection programs
GROWTH & THE SUSTAINABILITY DIMENSION	<ul style="list-style-type: none"> • Reducing the ecological footprints of cities • Reducing environmental risks • Reducing carbon emissions • Investing in green technology (transport, construction and water and energy use) • Solid waste management/recycling • Improving quality of life of urban residents (green space: reducing crowding and noise pollution) • Integrating physical planning with infrastructure development--smart growth • Preserving city cultural heritage

Source: prepared by Fantu Cheru, Sept. 4, 2013

By focusing on a handful of sub-sectors, the sequencing of reform becomes much easier, and that limited financial and human capital can now be strategically deployed to achieve the broad objectives of the Growth and Transformation Plan. The task of national, regional and city authorities is, therefore to identify the leading constraints in these sub-sectors and take decisive actions to remove them. But this can only happen if enterprise owners and

government policymakers keep up competition pressures in all pertinent markets. The targeted policy solutions at the city level can complement government efforts to relax other economy-wide constraints to sustainable economic growth.

TABLE 18: Synergy between three complementary government reform initiatives

National Reform Priorities	7 GTP Pillars	8 ECPI pillars
<ul style="list-style-type: none"> • Civil service • Anti-corruption • Expenditure management • Justice • Service delivery 	<ol style="list-style-type: none"> 1. Sustaining rapid & equitable growth 2. Maintaining agriculture as a source of economic 3. Promoting industrialization 4. Infrastructure development 5. Equality & social development 6. Promoting good governance 7. Promoting gender and youth empowerment 	<ol style="list-style-type: none"> 1. Policy Research & strategic leadership development 2. SME development, Urban productivity & job creation 3. Urban good governance 4. Urban planning and land management 5. Housing and construction industry development 6. Integrated infrastructure & services 7. Environmental sustainability 8. Inclusive & safer cities

The Ethiopian Cities Prosperity Initiative (ECPI): Visions and Strategy

The *Ethiopian Cities Prosperity Initiative (ECPI)* programmes and sub-programmes are pulled together around the following thematic areas:

PILLAR 1: POLICY RESEARCH, ANALYSIS, MONITORING AND MEASURING RESULTS

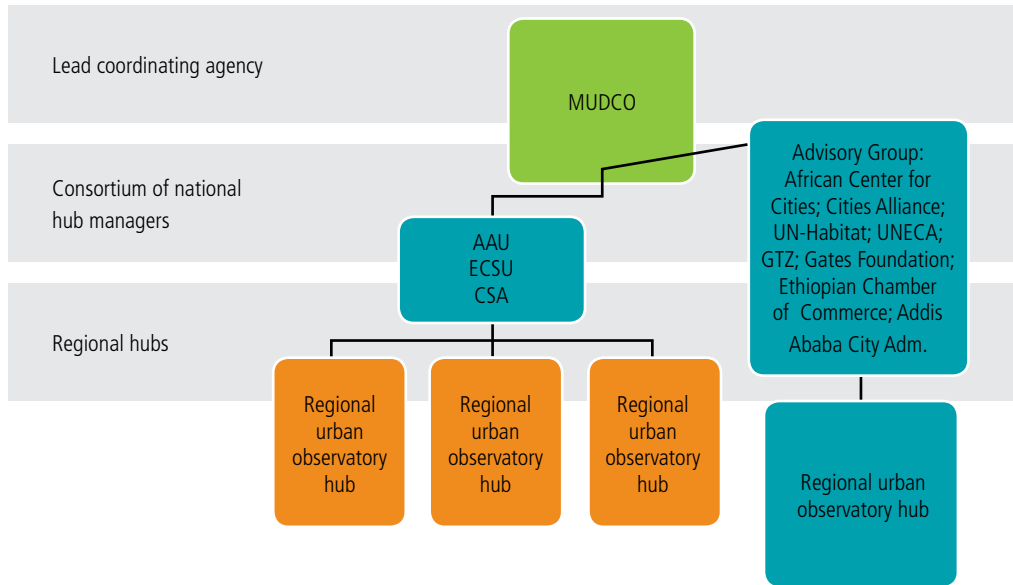
The absence of reliable urban-related information and database is preventing decision makers and service providers alike from predicting trends and, concomitantly, from providing for such changes and developments. In order to overcome the huge information gap in the urban sector, the government initiated the Integrated Urban Database Project (IUPD) in 2010 with financial and technical assistance from the Cities Alliance Program. The major objective of the IUPD is to develop a national strategy for the establishment of an integrated urban information database and a system for collecting, organizing and making available up to date and accurate information on urban development at the city, regional and Federal government levels. The project also en-

visions the setting up of urban observatory desks at the regional level. Needless to say, the IUPD project has not moved beyond the inception state due to lack of adequate finance and qualified staff. This is a huge but important undertaking that requires significant amounts of money, hardware, skilled personnel, and political support.

UN-Habitat, therefore, proposes that the Ministry of Urban Development, Housing and Construction establish an 'urban observatory' within the urban planning units of each of the regional governments, and reporting directly to a central hub to be located at the Ministry of Urban Development, Housing and Construction (MUDH-Co). Data collected at the regional level is transmitted to the central hub located at the Ministry of Urban Development, Housing and Construction. The overarching strategic goal of each of the 'urban observatory' hubs is to collect data and develop indicators on the state of urbanization in each region of Ethiopia that will assist regional and national policymakers to respond to emerging challenges quickly and to guide the process of urbanization in a coordinated manner.

FIGURE 5: Schematic presentation of the national and regional urban observatory hubs

The Regional Urban Observatory hubs will be linked to the National Urban Observatory hub, to be located



outside of the Ministry and managed by a consortium of universities (including Addis Ababa University and the Ethiopian Civil Service University) and the Central Statistics Office (CSO). The Ministry of Urban Development, Housing and Construction will be the sole responsible agency and will provide strategic guidance to the consortium. The regional urban observatory hubs will be assisted by regional universities in the collection, analysis and dissemination of data and analysis. Each of the regional hubs will also have its own website but also linked to the national observatory hub in Addis Ababa. All urban observatory hubs will abide by the principle of open access to the information they gather. There should also be an open access policy for uploading information gathered elsewhere on websites of the respective hubs.

Each of the urban observatory hubs will collect, analyze and disseminate information on the state of Ethiopian cities. The information that will be gathered could cover topics such as land use, housing, demography, communication, transport, energy, economy, education, health, nutrition, environment, disaster management, sustainability, resiliency, governance, poverty and inequalities, just to name a few. This information will be updated annually. Developing urban indicators for monitoring policy and implementation performance will be central to the activities of the regional urban observatory hubs.

Possible topics to explore further might include indicators on:

- Governance and government effectiveness
- Productivity, growth and employment
- Competitiveness and entrepreneurship
- Inclusiveness
- Sustainability and resiliency
- Client satisfaction on service delivery
- Competitiveness
- Land management

The list of indicators to be developed or refined does not have to be restricted to the ones mentioned above. What is important is that indicators have to be context specific.

Drawing from its extensive experience in building and managing urban information database system and the development of various urban indicators, UN-Habitat is well placed to provide the Ministry of Urban Development, Housing and Construction, and the consortium of institutions such as Addis Ababa University and the Ethiopian Civil Service University that will eventually manage the observatory hubs, the necessary technical assistance and backstopping on a regular basis. UN-Habitat, a pioneer in developing a user-friendly Urban Info software tool, will also be able to share its knowledge on how to develop user-friendly software to present the rich information that will be collected by the regional hubs.

Timely and empirically-based research and analysis will enable local governments and

policy makers at different levels to design appropriate policies and strategies, monitor their implementation, evaluate their impact, and review their development framework and implementation tools. Making available integrated urban information on many aspects of public service delivery at the local government level will also improve transparency and accountability of municipalities, facilitate investment and enhance public engagement. It is expected that all data gathered and collected by the regional urban observatories will be shared with the urban cluster team of the Policy Think Tank at the Prime Minister's Office, thus directly contributing to the strengthening of the capacity of the Policy Think Tank.

PILLAR 2: SME DEVELOPMENT, PRODUCTIVITY AND JOB CREATION

The Growth and Transformation Plan has accorded top priority to accelerated industrialization in order to create jobs and lift workers from low-productivity agriculture and informal sectors into higher productivity activities. For the ECPI to complement the strategic objectives of the Growth and Transformation Plan, its program focus must go beyond developing a vibrant construction industry. It must include development opportunities in sectors such as SME development; light manufacturing; construction; urban agriculture and agro-processing; trade and services; textiles; leather products; mining and oil exploration; tourism; education and health services¹¹⁴.

The focus on manufacturing and value-addition in agriculture is critical since manu-

¹¹⁴ Henok Assefa, Derk Bienen, Dan Ciuriak (2013), 'Ethiopia's Investment Prospects: A Sectoral Overview', African Review of Economics and Finance, Vol.4, No.2 (June), pp,224-239

facturing has important linkages throughout the economy. It is connected upstream and downstream to agriculture, resource industries, construction, housing, food security and productive safety net, transportation, telecommunications, utilities, and services, as well as being a major activity driver in those sectors. Importantly, manufacturing anchors business services, which tend to co-locate with manufacturers (see

Table 18). Among the key recommended interventions are the following: skills development through effective extension services; marketing development aimed at increasing access to international markets; finance and credit services for SMEs; technology and machinery facilitation; production and sales premise development and One Stop Shop Service centres to better serve Micro and Small enterprises.

TABLE 19: Medium and Small Enterprise Development: priority sub-sectors

Manufacturing	Construction	Trade sector	Service sector	Agriculture sector
-Textile and garment	-Building contracting	-Wholesale & domestic products	-Small rural transport	-Livestock breeding
-Leather products	-Building materials	-Retailing	-Cafés and Restaurants	-Poultry farms
-Food processing and beverage	-Traditional mining works	-Raw materials supply	-Store	-Seed and input suppliers
-Metal works and engineering	-Cobblestone	-Logistics services	-Tourism	-FDI in commercial agriculture
-Wood works, furniture and ornaments service	-Infrastructure subcontracting		-Canning/packing	-Agro-processing industrial clusters
-Agro-processing			-Management	-Forestry development
			-Municipality	-Vegetables and fruits
			-Project engineering	-Modern irrigation
			-Product design & development	-Animal food processing
			-Maintenance	-Greenhouse facilities
			-Electronics soft-ware development	-Service providers within the sub-sector
			-Interior design and decoration	
			-Private health and education	

Source: compiled from the MSE policy document

PILLAR 3: URBAN GOOD GOVERNANCE

The governance of cities emerges as the key issue for managing urban growth. Since 1991, considerable power and decision making have been devolved to the grass-roots level. There are now three levels of government i.e. the Federal, Regional and District/Local governments. The Ethiopian governmental policy of decentralization within the federal framework has resulted in the creation of legal and institutional mandates that empower local governments to make decisions on issues that fall within their jurisdictions. This urban local government level constitutes in most parts city level jurisdictions, sub-cities and Kebeles, depending on the size of cities and towns.

At present, however, many regional administrations and municipalities lack the capacity for comprehensive infrastructure investment plans and systems for managing and maintaining their assets, enforce laws, regulations, codes, procedures and by-laws to

support effective urban management and effective information systems to monitor progress and identify emerging challenges. They also lack capacity to raise the necessary revenues to pay for programmes and projects.

The main aim of the Ethiopian Cities Prosperity Initiative is to strengthening the capacity of municipalities in strategic planning and project management. It will devote considerable attention to development and implementation of asset inventories, asset management plans, infrastructure and service delivery standards, capital investment plans, public participation and citizens' satisfaction, cost recovery and community contribution mechanisms. Central to city effectiveness is the professional competence of its workers. The initiative will give priority to human resource development through a combination of training and an attractive compensation package in order to attract the best talent to municipal public service.

TABLE 19: **Building municipal capacity: The governance dimension**

REGULATORY CAPACITY	The ability of the government to establish and enforce the rules that guide, or regulate societal behaviour
ADMINISTRATIVE CAPACITY	The routine ability to manage the personnel and resources of the state and to enforce accountability and efficiency in service delivery
TECHNICAL CAPACITY	Includes the expertise and knowledge required to make and implement technical decisions, as well as the policy tools and instruments to implement those decisions effectively
EXTRACTIVE CAPACITY.	The ability to raise the revenues it needs to pay for its programmes

Moreover, the planning process must become inclusive and participatory, and that service providers must become responsive and accountable to city residents. In this regard, public engagement and effective and competent city leadership are critical factors. This leadership must provide a clear vision on the future of the city by providing a coordinated approach to tackle a multitude of challenges facing the city. Strong leadership can coordinate and implement progressive strategies in all areas of local governance and act as an advocate for the city to external stakeholders such as enterprise and central government.

PILLAR 4: URBAN PLANNING, LAND DEVELOPMENT AND MANAGEMENT

In Ethiopia, city development in recent years, including within the capital, has lacked strategic planning and the benefits of compact settlements have only recently been acknowledged. The pace of change often resulted in ill-thought out planning decisions and a failure to coordinate properly private development with public infrastructure and service needs. This has resulted in urban sprawl, high house prices, severe traffic congestion, increased commuting time, over-crowded public transport and increased pressure on local authority services such as water and waste collection and disposal.

The manner in which land use policy is applied has a direct impact upon a city's competitiveness and productivity. Land use policy plays a key role in determining the levels of mobility within cities and the costs of residential and business properties. Effective land use policy facilitates and coordinates efficient infrastructure, enterprise, civic and community development and underpins a city's ability to operate smoothly.

Integrated housing and economic planning, for example, can support the development of dynamic communities. Forward looking spatial planning can facilitate a city becoming more enterprising, connected, sustainable and attractive and inclusive.

The Ethiopian Cities Prosperity Initiative aims to strengthen municipal capacity in urban plan preparation, boundary demarcation and implementation, as well as in land use planning and spatial development. In addition, the Ethiopian Cities Prosperity Initiative will support the development of efficient, transparent, and service-oriented land delivery mechanisms, including land leasing, transfer and registration system, efficient property taxation and effective digital records and land information management systems at national, regional and municipal levels. The foundation for all of these areas is continuing skills development in urban planning and the licensing and certification of urban professionals.

PILLAR 5: HOUSING AND CONSTRUCTION INDUSTRY DEVELOPMENT

The housing development and management programme is a key investment area with social and economic aspects, particularly contributing to job creation and prosperity. There are three sub-programmes:

- 1. Housing development** (10/90, 20/80, 40/60, GOE rental and mega projects housing)
- 2. Housing management** – including public, cooperative and private housing
- 3. Housing through peoples' process:**
 - Participatory planning and management of settlements of urban villages

The Ministry's other major sub-programmes for strengthening the construction industry aim to:

1. **Improve the skills and performance** of local contractors and consultants
2. **Improve the quality and productivity** of the construction industry and management system within the industry
3. **Support the development of innovative and diversified construction materials, systems and technologies**

Clearly this is the one area in which the Ministry's programmes support development throughout the country, rural and urban – although it can be observed that the relationship between urban and rural development is mutually beneficial.

PILLAR 6: INTEGRATED INFRASTRUCTURE DEVELOPMENT AND SERVICES

The current 'big push' approach on infrastructure will continue for the foreseeable future and the government is committed to develop an indigenous domestic infrastructure building industry that is capable of participating in major infrastructure projects from road building to water and sanitation infrastructure, housing construction, rail and other key urban infrastructure projects. Needless to say, the infrastructure construction sector still remains relatively small, and lacking the technical and management capacity to engage in large scale infrastructure projects.

The *Ethiopian Cities Prosperity Initiative (ECPI)* aims to mobilize resources for infrastructure development and to incentivize municipalities to develop the appropriate human and institutional capacity to main-

tain existing built-up infrastructure from MSE shed to walkways and urban roads and to develop a system of registration of immovable and movable assets. This requires strong municipal leadership and effective systems and procedures for co-ordination with departments, Federal and regional governments and other stakeholders. Moreover, efforts must be made to capture best practices in infrastructure asset maintenance and management systems from around the world.

PILLAR 7: ENVIRONMENTAL SUSTAINABILITY & GREEN GROWTH

The exclusive focus on growth needs to be rebalanced with a concern with sustainability and resiliency. While cities can produce 'prosperity', they can simultaneously generate environmental and resource challenges. Cities and their residents consume more energy and commodities and generate waste. The city is a key scale for implementing a broad range of environmentally-sound policies and a site for struggles over environmental quality of life for different socioeconomic classes. At the urban scale, resilience is now as important as competitiveness.¹¹⁵ While environmental risks affect the competitiveness of cities, these risks also present enormous economic opportunities for the private sector to become part of the solution.¹¹⁶ Managing sustainability and resilience at the city level can become a source of growth and job creation. This is particularly true in sectors

¹¹⁵ Satterwaite, David (2008), 'Cities contribution to global warming: notes on the allocation of greenhouse gas emissions', *Environment and Urbanization*, vol.20, No.2, pp.539-550.

¹¹⁶ Satterwaite, David (2008), 'Cities contribution to global warming: notes on the allocation of greenhouse gas emissions', *Environment and Urbanization*, vol.20, no.2, pp.539-550; Satterwaite (2003), 'The links between poverty and the environment in urban Africa, Asia and Latin America', *The Annals of American Academy of Political and Social Sciences*, Vol. 590, pp. 73-92

such as infrastructure, construction, housing, solid and liquid waste management and disposal, and recycling where opportunities for sub-contracting and management service contracts for Small and Medium Enterprises are unlimited. The role of local authorities is to create enabling conditions for the private sector to deliver services in a cost-effective manner.

The ECPI will give emphasis to urban greenery development and management, solid and liquid waste infrastructure development and management, as well as the development of policies and strategies to promote energy conservation at household and firm level, reducing carbon emissions and climate change adaptation.

PILLAR 8: SOCIAL INCLUSION & SAFER CITIES

Physical and social planning are important tools for building inclusive cities and raising the quality of life of city residents. These characteristics are nurtured when social and spatial disparities are reduced, and when all social groups are enabled to participate equally in the social and economic life of a city, and their safety and security is guaranteed. It is imperative that city administrators and the Federal government ensure that social inclusion and urban 'productivity safety net' provision remain central in city development since 'social exclusion' severely affects the competitiveness of cities.

In addition, supporting the development of social, cultural and sports infrastructure for urban regeneration are necessary to enhance social cohesion and the potential for positive change in traditionally socially-excluded urban areas. Therefore, all efforts must be made to minimize disparities and social exclusion.



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The Ethiopian Cities Prosperity Initiative (ECPI) will give greater attention to gender mainstreaming in city development, including the inclusion of youth and other disadvantaged groups in urban development policies. Finally, urban safety and security will be integral part of the ECPI, including the development of policies on urban disaster management, emergency services preparedness, prevention and response.

Aerial view of the city of Addis Ababa at night
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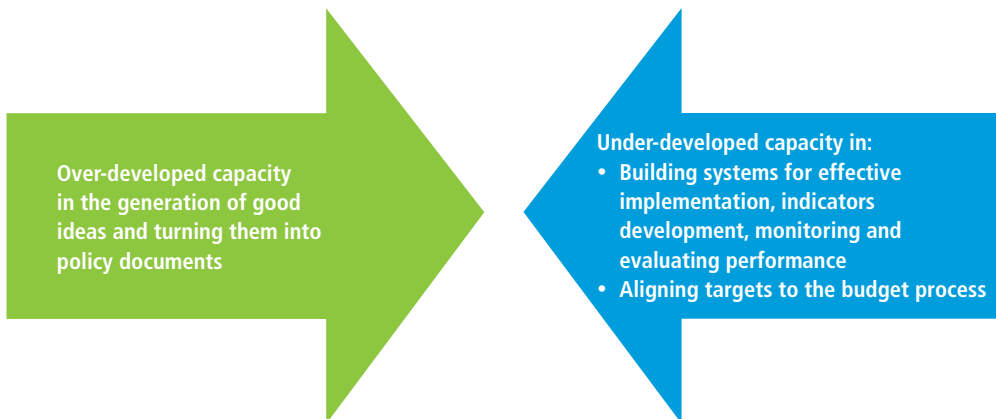
SECTION 6

Overcoming the Implementation Gap: the way forward

Efforts to accelerate the structural transformation of the Ethiopian economy are hindered by severe capacity shortages for implementation of programs and projects. In terms of measuring development outcomes, two institutional paradoxes are quite evident in the Ethiopian context. On one hand, there is strong government capacity for the generation of new ideas and translating them into policy docu-

ments; and on the other is the pervasive under-capacity for policy implementation, evaluation and measuring results. The gap between the two must be narrowed drastically if the goal of structural transformation is to be achieved and if Ethiopia is to avert the negative consequences of the '*urbanization-Tsunami*' that is expected to engulf the country in the coming decades.

Figure 6: Urban Planning and management in Ethiopia: Coming to terms with 2 paradoxes



It must be stated at the outset that many of the policy recommendations outlined in this discussion paper for managing the process of urbanization in Ethiopia are not new to Ethiopian policymakers. Over the past 20 years, the government has in fact adopted a series of policy measures covering a wide spectrum of sectors and sub-sectors, which include governance, construction, housing, SME and light manufacturing, land management, service delivery reform, civil service reform, justice and anti-corruption reform,) to improve the competitiveness of the economy, including the transformative potential of Ethiopian cities. Needless to say, effective implementation of policies and programmes remain Ethiopia's Achilles heel. In the pages that follow, we will examine the possible sources of the implementation gap and how best to address them in a more pragmatic and cost-effective way.

Plausible reasons for the persistence of the implementation gap

The implementation gap is the difference between what solutions have been adopted in legal documents and their actual implementation in practice. It affects countries across the globe and applies to laws and policies passed at all levels of government. When on-the-books policies and regulations are not enforced and when important economic regulations remain unimplemented, the credibility of government officials suffer, the risk of corruption rises, and the environment conducive to small businesses and entrepreneurship remain elusive.

Quite often, the persistence of an implementation gap is attributed to lack of capacity in government institutions. The problem is far more complex than sim-

ply the ineffectiveness of government institutions. A deeper examination of the problem produces useful meta-indicators that say a lot about the potential for implementation gaps to occur in many key areas of governance, such as government accountability, transparency, and citizens' oversight. These include, among others, the following:

(a) Legitimacy of laws and policies: Overcoming the implementation gap requires a two-pronged approach that focuses on both improving the quality of laws and making sure that they correspond to the real needs and concerns of the affected constituencies. In many ways, however, the policies that government enacts may have little relations to what citizens demand on the ground. This disjuncture is an outcome of decision-making process that leaves little space for participation by a broad section of societal actors. Policies imposed from above without consultation lose legitimacy, and thus fail to be implemented fully.

The problem of implementation becomes more complicated in a decentralized system of government where local conditions are quite different from that envisioned by policy-makers in a faraway capital city. A 'one-size-fits-all' approach may not work since not all regions are endowed with the same level of productive resources, administrative and human capacity to manage the process of urbanization effectively. Without a real mandate to act, and without adequate financial resources, local governments cannot meaningfully implement the policy directives.

(b) Clarity and quality of the laws: Even well-intentioned laws can suffer from an implementation gap when its provisions are overly complicated, conflicting, or un-

clear. This happens for two reasons: the inability of lawmakers to understand the implications of the law beforehand or to point out its problematic provisions; and the design of the law and its potential capture by particular interest groups. Lack of clarity in the laws creates uncertainties as to the actual scope and mandate to act when it comes to the implementation. Moreover, street-level bureaucrats may see policies and rules dictated from the center as unfair, unclear or impractical, and they consequently ignore them or interpret them wrongly.

In addition, implementation gaps occur due to the fact that realistic goals and measuring performance are not clearly specified from the start. This complicates the sequencing of reforms, the appropriate allocation of resources compatible with the scope of the reforms and the measurement of performance. The implementation challenge is further compounded by a shortage of competent personnel in the civil service. Most often than not, the people responsible for the implementation of policies and strategies are the least knowledgeable in the subject matters for which they are entrusted to implement. In other words, the nature and complexity of state governance structure frequently explain the implementation gap.

(c) Capacity in government institutions: The nature and capacity of local governance matters when it comes to implementation gap at the local level. Retaining and motivating skilled staff has been a problem across public services. Poor incentive structure and the absence of a predictable career path are partly responsible for the dramatic attrition rates, paralyzing the efficiency and effectiveness of the civil service. Stoppag measures, often funded by

donors, such as recruiting consultants at salaries five times the salary of civil servants but with the same level of education, has done nothing but deepen the situation of low morale in the civil service.

(d) Adequacy of resources compatible with the scope of the reform: Implementation gap occurs when there is a disjuncture between policy objectives and targets and the budget process. Policy directives often contain a long shopping list of activities to be undertaken without any due considerations as to how these can be financed within a given resource envelope. This problem arises due to the poor capacity of government institutions to cost programmes and projects, and hence to be able to sequence reforms accordingly.

(e) Failure to building a social coalition for reform: All societal actors, which include the private sector, civil society and other stakeholders, must be able to participate in addressing and closing the implementation gap. Non-implementation carries with it high transaction cost to all stakeholders. A buy-in for policies and strategies from the various stakeholders can only be secured if the process of policy formulation is consultative, transparent and inclusive from the very beginning. Not only will stakeholders become aware of the costs and benefits of a particular policy under discussion, such a process will also inform the stakeholders on the importance of effective implementation if they wish to benefit from the specific national policy.

Steps for overcoming the implementation gap

Ultimately, the solution to addressing the implementation gap is to prevent them from occurring by building legal and regulatory frameworks that include mechanisms for

cost-benefit analysis of proposed laws and legislations and through harmonization of different policies to foster implementation. The solution lies in strengthening the key pillars of integrity for governance to create a system where the incentive structure of government officials and other social actors are such that laws are soundly crafted from the beginning and there exists the political will, state capacity and public support to implement them.

The following four factors are worth considering in order overcoming the implementation gap:

(a) Secure a buy-in from 'street-level' bureaucracy: The lack of proper implementation is often tied to state structures and public administration. Elites and bureaucracy always presents a strategic dilemma for development practitioners. One cannot do development with them but, at the same time, it is impossible to do development without them. One critical measure for overcoming the implementation gap is effective human resource management through comprehensive Civil Service reform and recruitment based on merit rather than political affiliation. Greater effort is urgently needed to retain competent professionals through attractive incentive packages and improved working conditions. Civil Service reform must be linked to a budget process in which performance influences allocations and a transparent medium-term employment strategy. Moreover, greater efforts must be made to attract skilled Ethiopians in the Diaspora through innovative strategies.

(b) Overcome public 'reception deficit' by building broad-based social coalition for reform: Structural transformation can be accelerated if pragmatic measures are taken

to build strategic alliance between the government, the private sector and civil society for effective implementation of programs and projects. This requires a concerted effort by government to undertake regular structured dialogue between all stakeholders in a transparent manner. This implies that the planning process at national, regional and city levels must become more participatory and responsive in order to signal a consistent message of conviction to key stakeholders, government departments and the private sector about development priorities and how best to achieve them collectively in a mutually-supportive manner.

(c) Unblock government channel of communication: Communication is an essential ingredient for effective implementation of public policy. Through communication, orders to implement policies are expected to be transmitted to the appropriate personnel in a clear manner while such orders must be accurate and consistent. Inadequate information can lead to a misunderstanding on the part of the implementers who may be confused as to what exactly are required of them. In Ethiopia, bureaucracy is overgrown at both the national and local levels, often with unclear or overlapping prerogatives both horizontally (various parallel agencies) and vertically (national vs. local agencies).

Without a clear delineation of responsibility and accountability among government agencies, civil servants are left with an excessive degree of discretion to implement the law the way they please - or not implement it at all. Ambiguities on the formal powers and responsibilities assigned to the local and regional tiers of government in relation to the Federal tier, and lack of communication between the two tiers of government can often lead to a 'transla-

tion error' of policy directives and, hence, to poor implementation. How to exercise effective coordination between departments and line ministries and holding each of them accountable for meeting sets performance targets, remains a big problem.

(d) Policies are not the same as 'The Ten Commandments': Policies are not written in stone and the targets and indicators should be subject to regular revision, upward or downward, as circumstances on the ground and the fiscal conditions of the State change. It is important to emphasize **flexibility in policy implementation** consistent with local realities. The call for flexibility and pragmatism in policy implementation is all about deploying the powers of government in ways that build upon and reinforce the efforts of other tiers of government and other sectors of society, rather than displacing or dominating local initiatives. Local bargaining and compromises between different groups and interests can produce more durable outcomes than nationally imposed laws, safeguards and regulations.

For any government to be judged to be administratively competent, there must be evidence of bridging the gap between the intention of a policy and the actual achievement of the policy. This is where it becomes necessary for any policy maker to take the issue of policy implementation seriously even at the formulation stage.

Consideration should be given to: (1) the engagement or consultation of all stakeholders; (2) ensuring that both human and financial resources are adequate to implement the policy; (3) an effective communication strategy between the implementers and the beneficiary constituencies and (4) a commitment to build an effective institutional mechanism for monitoring and mea-

suring results. Policy implementation also requires pragmatism and a learning-by-doing culture that emphasize testing, piloting and scaling-up if initiatives prove to be useful, and a willingness to quickly abandon initiatives that fail to deliver the desired results.

In conclusion, preparing Ethiopian cities for 'globalization' is an urgent matter given the huge economic opportunities awaiting the country to exploit. The factors that made China and other emerging countries as the 'factory of the world' are changing fast as wage levels are rising and labour-intensive manufacturing production is migrating. Second, Ethiopia has the privilege of enjoying duty-free access to the U.S and EU markets for light manufactures under the Africa Growth and Opportunity Act (AGOA) and the Cotonou Agreement. Given its negligible share in the global market for light manufacturers, the potential for growth is huge.¹¹⁷

Ethiopia is already cost competitive with China in manufactured textile and garments, and other light manufacturing industries, such as leather and agro-processing.¹¹⁸ These developments make it imperative that Ethiopian cities, with the support of the Federal government, build the necessary institutional, legal, infrastructural and human capital to take advantage of the economic opportunities available in the regional and global economy. Smart, enterprising, competitive and well-governed cities are likely to succeed in creating prosperity and meaningful jobs by positioning themselves as manufacturing, trade, and financial hubs in the global supply chain.

¹¹⁷ World Bank (2011), Light Manufacturing in Africa: Targeted policies to enhance private investment and create jobs, Africa Development Forum, World Bank: Washington, DC.

¹¹⁸ World Bank (2011), Light Manufacturing in Africa: Targeted Policies to Enhance Private Investment and Create Jobs, with a Case Study of Ethiopia, Report 67209, Washington, DC: World Bank

Annex 1

The revised eight strategic pillars of the Ethiopian Cities Prosperity Initiatives

	Cross-cutting with	Institutions/ministries to be involved
<p>P1: RESEARCH, POLICY & STRATEGIC PLANNING (3-COMPONENTS)</p> <p>1. In-house Urban Policy & Planning Think Tank</p> <ul style="list-style-type: none"> • Research & Capacity Development • Integrated performance measurement and management system • Policy impact assessment and trend analysis • Leadership development & change management • ICT infrastructure <p>2. Policy unit</p> <ul style="list-style-type: none"> • Policy and programme development & implementation • Policy coordination with departments and the relevant line ministries, regional governments and city administrators <p>3. Social communication & marketing</p> <ul style="list-style-type: none"> • Effective outreach and social communication strategy (Radio, TV, Social Networking, MUDHCo website, etc.) 	All Pillars	<ul style="list-style-type: none"> • AAU • Ethiopian Civil Service University • MUDHCo
<p>P2: MSE DEVELOPMENT, PRODUCTIVITY & JOB CREATION</p> <p>Sources of growth: MSE; light & heavy manufacturing; housing; construction; trade and services; urban agriculture; agro-processing</p> <p>'How' to get it done:</p> <ul style="list-style-type: none"> • Improve skills and performance of entrepreneurs in all sub-sectors through training and extension service; • Market, design and product development; • Finance & credit services to MSE • premise developments • One stop shop service centres (credit, facilitation of technology and machinery, access to markets, skills development) 	<p>Pillar 2: Improvement in service delivery; cut bureaucratic red tape in issuing of license, credit, land, etc.; ease problem of input supply.</p> <p>Pillar 3: Land development and delivery</p> <p>Pillar 6: Social Inclusion (jobs for disadvantaged social groups—youth and women)</p>	<ul style="list-style-type: none"> • Ministry of Finance and Economic Development (MOFED) • Ministry of Industry • Private and public banks • Microfinance institutions (FEMSEDA) • Federal MSE agency • Technical and Vocational Education and Training (TVET)

	Cross-cutting with	Institutions/ministries to be involved
<p>P3: URBAN GOOD GOVERNANCE</p> <ul style="list-style-type: none"> • Deepening decentralization • Service delivery improvement and systems development • Skills and professional development • Financial and asset management • Public participation and engagement • Security and code enforcement 	<p>Pillar 7: All aspects</p> <p>Pillar 3: Improve capacity of cities in strategic planning & management, implementation;</p> <ul style="list-style-type: none"> • Focus on professional development of the 'missing middle' • Incentive structure for the 'missing middle' in city govt. • City 'report card'- accountability from below (parameters: solid waste collection; street cleaning; consultation) 	<ul style="list-style-type: none"> • Federal MSE (FEMSEDA) • MUDCo • Microenterprises • Private enterprises
<p>P4: URBAN PLANNING AND LAND MANAGEMENT</p> <p>Urban land use planning</p> <ul style="list-style-type: none"> • Urban plan preparation, boundary demarcation • Development of urban planning skills • Licensing of planning professionals <p>Urban land development & Adm.</p> <ul style="list-style-type: none"> • Land development and delivery, creating healthy real property market • Skills development in land management, land development, and administration • Development of land information system and infrastructure <p>Urban Land Registration</p> <ul style="list-style-type: none"> • Registration • Valuation 	<p>Pillar 7: All aspects of the pillar: research & development; trend analysis; performance measurement and policy and programme development and implementation</p> <p>Pillar 1: Access to developed land as it relate to productivity</p> <p>Pillar 2: Land governance Registration</p>	<ul style="list-style-type: none"> • Municipalities • Road, electric and water authorities
<p>P5: INTEGRATED URBAN INFRASTRUCTURE DEVELOPMENT</p> <ul style="list-style-type: none"> • Development of urban infrastructure and services (roads, drains, walkways, street light, etc.) • Infrastructure maintenance and management systems • Mobilizing infrastructure financing 	<p>Pillar 5: Environmental Sustainability: urban greenery, open space, recreational facilities and parks; solid and liquid waste collection, disposal and recycling</p>	

	Cross-cutting with	Institutions/ministries to be involved
<p>P6: HOUSING AND CONSTRUCTION SECTOR DEVELOPMENT</p> <ul style="list-style-type: none"> • Integrated housing Development and provision, urban renewal, slum upgrading, engaging MSE in the production and use of housing. • Capacity building in the construction industry/ transparency and efficiency in the sector. 	<p>Pillar 2: MSE development and productivity.</p> <p>Pillar 3: Good Governance</p>	<ul style="list-style-type: none"> • Housing Development and Public Building Authority.
<p>P7: ENVIRONMENTAL SUSTAINABILITY</p> <ul style="list-style-type: none"> • Urban greenery development and management • Waste management • Energy consumption and efficiency management 	<p>Pillar 4: Infrastructure (urban transport; solid waste disposal; energy)</p> <p>Pillar 1: (Housing development and construction)</p>	
<p>P8: SOCIAL INCLUSION & SAFER CITIES</p> <ul style="list-style-type: none"> • Urban safety and security management for disadvantaged group • Social protection/ productive safety net • Old age pension • Food stamps for street children • Early childhood school feeding programme 	<p>Pillar 1: (Jobs for disadvantaged social groups)</p>	



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