

OECD Development Pathways

# Rural Development Strategy Review of Ethiopia

REAPING THE BENEFITS OF URBANISATION





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# Foreword

Countries like Ethiopia are placing rural areas at the centre of their national development efforts. With almost 80% of its total population residing in rural areas, and a similar share of employment in agriculture, Ethiopia has made rural development a priority in its development agenda. Starting in the mid-1990s, Ethiopia has implemented a series of reforms focusing on promoting agricultural development coupled with unprecedented public investment in pro-poor sectors. As a result, Ethiopia has achieved a two-digit economic growth rate and reduced rural poverty by half. However, as is the case of many countries in the region, Ethiopia is confronted today with a series of challenges that call for a revision of the existing policy framework for rural development.

The Rural Development Strategy Reviews (RDSRs) are an OECD assessment and guiding tool that provides comprehensive analysis and policy guidance for inclusive and sustainable rural-urban transformation. They are produced in response to countries' demands for new analytical tools that go beyond sectoral approaches and harness the functional roles of rural and urban areas. Moreover, the RDSRs build on the OECD Development Centre's New Rural Development Paradigm (NRPD). The new paradigm stresses the need for strategies that are multi-sectoral. Beyond just agriculture, they should focus on rural industry and services, and beyond rural areas, they should focus on rural-urban linkages. Strategies have to be multi-agent and multi-level, involving not just national but also local and regional governments, as well as the private sector, international donors, non-governmental organisations and rural communities.

The RDSR of Ethiopia was made possible thanks to the support of the Korean International Co-operation Agency (KOICA) that seeks to promote rural development in developing countries. It was carried out by the Social Capital – Rural Development Unit of the OECD Development Centre, in co-operation with the Policy Studies Institute (PSI) of Ethiopia. It involved an extensive consultation process with multiple stakeholders and benefited from the experience of national and international experts. The RDSR of Ethiopia has been a process of dialogue, consensus and trust building. It has provided the opportunity to identify common ground for future reforms that would allow Ethiopia to reap the benefits of its demographic, economic, and spatial transformations, and improve the well-being of its rural population.

The RDSR highlights the progress made by Ethiopia in promoting rural development over the last three decades. It sheds light on how the country's ongoing demographic, economic, and spatial transformations, will bring about major challenges, but also a large set of opportunities for structural transformation and rural development. In this vein, it reviews Ethiopia's current rural development strategy and analyses the roles of intermediary cities in addressing these three transformations and promoting rural development. The review proposes key areas for reform. They include: a) a new approach to agricultural development, beyond just agricultural productivity, that promotes productivity gains along the entire agri-food chain; b) mobilising resources and scaling up investment to improve rural population well-being, implementing co-ordinated actions for investment in basic services and infrastructure, and fostering job creation; c) improving co-ordination mechanisms between rural and urban policies, to limit fragmented programmes and policy action; and d) complementing development efforts with a territorial approach that better accounts for interaction between urban and rural areas, and increases the knowledge base of spatial process.

# Acknowledgements

The Rural Development Strategy Review (RDSR) of Ethiopia was produced by the OECD Development Centre in co-operation with the Policy Studies Institute (PSI) of Ethiopia. The review was carried out under the supervision of Federico Bonaglia, Deputy Director, and Mario Pezzini, Director of the OECD Development Centre. The report was co-ordinated and drafted by Vicente Ruiz, Economist, and Semhar Haile, Junior Policy Analyst (OECD). This report would have not been possible without the support and guidance of Teferi Tiyaru, Deputy Director General of PSI. Tadesse Kuma, Senior Researcher at PSI played a key role in co-ordinating activities in Ethiopia. Tadesse and Tewodros Tebekew drafted a background paper that served as the basis for Chapter 2. Farah Kammourieh provided insightful content and editorial support. Julia Peppino and Myriam Andrieux provided valuable support in co-ordinating administrative tasks. Brenda O'Hanlon and Elizabeth Nash edited the report. Delphine Grandrieux, Elizabeth Nash and Adem Kocaman turned the draft into a publication. Aida Buendía designed the cover.

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The OECD Secretariat is grateful for the co-operation and support of all participants in the consultation process that complemented the analysis in the report. This process consisted in more than 50 interviews with key stakeholders including urban and rural experts, academics, and government representatives from different ministries at Federal level, as well as representatives from both the municipality of Adama and the East Shewa Zone.

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# Abbreviations and acronyms

ADLI	Agricultural Development Led Industrialisation
AGP	Agricultural Growth Programme
ATA	Agricultural Transformation Agency
BoARD	Bureau of Agriculture & Rural Development
BoFED	Bureau of Finance and Economic Development
CAADP	Comprehensive African Agricultural Development Programme
CRGE	Climate Resilient Green Economy
CSA	Central Statistics Agency
CSOs	Civil Society Organisations
EPDRF	Ethiopian People's Revolutionary Democratic Front
ETB	Ethiopian Birr
FSCB	Federal Food Security and Coordination Bureau
GoE	Government of Ethiopia
GoR	Government of Rwanda
GTP	Growth and Transformation Plan
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IFPRI	International Food Policy Research Institute
LMSM	Large and Medium Scale Manufacturing
MFI	Micro Finance Institutions
MoA	Ministry of Agriculture
MoLSA	Ministry of Labour and Social Affairs
MoUDC	Ministry of Urban Development and Construction
MPI	Multidimensional Poverty Index
MSE	Medium and Small Enterprises
NRPD	New Rural Development Paradigm
NSPP	National Social Protection Policy

NSPS	National Social Policy Strategy
NUDP	National Urban Development Plan
NUSP	National Urban Spatial Plan
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PSI	Policy Studies Institute
PSNP	Productive Safety Net Programme
RDPS	Rural Development Policy and Strategies
RJOCS	Rural Job Opportunity Creation Strategy
RPSNP	Rural Productive Safety Net Programme
RSDP	Road Sector Development Program
SDPRP	Sustainable Development and Poverty Reduction Programme
SHC	Small-holder cooperatives
SLMP	Sustainable Land Management Programme
SNNPR	Southern Nations, Nationalities and Peoples Region
TVET	Technical, Vocational Education Training
UPSNP	Urban Productive Safety Net Programme
URRAP	Universal Rural Road Access Program
WoARD	Woreda Office of Agriculture and Rural Development

# Executive summary

Since the mid-1990s, Ethiopia has implemented a series of successful strategies to promote economic growth and social progress, and improve rural population well-being. These reforms have led Ethiopia to experience sustained growth between 2004 and 2018, with an average annual growth rate of gross domestic product (GDP) per capita of 7.4%, outperforming most sub-Saharan African countries. Moreover, large government investment has been directed at improving agricultural productivity, as well as addressing the multiple needs of rural populations. As a result, between 2000 and 2016, the share of rural population considered poor decreased from 45% to 25%.

The backbone of Ethiopia's reforms is the Agricultural Development-Led Industrialisation (ADLI) policy framework. It has been guiding rural development action since the mid-1990s. It provided the basis for several development plans and programmes (SDPRP, PASDEP, GTP I, and GTP II). ADLI accounts for a number of different policies but its main objective is to increase agricultural productivity. This approach seemed adequate at the time it was conceived, given the socio-economic context and low base from which Ethiopia's growth process started. However, today the country stands at a different stage of development, facing a different set of challenges from those that motivated ADLI.

More specifically, three transformations are currently underway in Ethiopia, and will have major effects on the well-being of rural populations:

- **Demographic:** Ethiopia is in the early stages of its demographic transition, i.e. the country's population will continue to grow between now and 2050, which means a large number of people will enter the labour market in the coming years. This is of particular significance in rural areas where fertility rates are higher.
- **Economic:** The agricultural sector's contribution to GDP is decreasing. However, more than two-thirds of employment is still in agriculture and the rural non-farm economy remains premature, i.e. a slow structural transformation process.
- **Spatial:** Ethiopia will remain a predominantly rural country until 2050, i.e. more than 50% of the population is expected to live in rural areas. However, it is urbanising fast: urban population is expected to double between 2015 and 2030. Although the country is currently characterised by a monocentric urban system, urbanisation is being propelled by intermediary cities.

Intermediary cities will play a key role in addressing some of the challenges linked to these three transformations. Intermediary cities facilitate rural-urban transformation by linking rural areas and small towns with larger cities. They do so by providing market centres and post-gate farming services, including processing, storage, and distribution activities that are necessary for the development of value chains. They offer job opportunities for rural migrants, and increasing evidence suggests that they have a strong potential for poverty reduction. However, they face several binding constraints including: limited knowledge about the socio-economic processes shaping agglomeration effects, lack of adequate policies, as well as a consistent financing gap.

Effectively addressing Ethiopia's transformations will depend on the capacity of institutions and policies to adapt. In practice, it will require a paradigm shift in Ethiopia's approach to rural development: update the ADLI in order to capture the country's new reality and ensure an inclusive rural-urban transformation.

Four main reforms can strengthen Ethiopia's rural development strategy:

- **A new approach to agricultural development.** Agriculture will continue to play a key role in Ethiopia's development. However, as the country transforms, its approach to agriculture has to evolve from focusing mostly on improving agricultural supply, to improving productivity of all elements of the agricultural value chains. The development of wholesale, distribution and commercialisation of agricultural goods can promote employment opportunities that benefit both urban and rural dwellers. This requires additional investment in transportation networks and infrastructure for the development of post-harvest activities, such as processing and storage.
- **Mobilising resources and scaling up investment to improve the well-being of rural populations.** Investment in basic services and fostering job creation will remain key to consolidate Ethiopia's rural development efforts. Although the government of Ethiopia has significantly invested in infrastructure, the gap between rural and urban areas prevails. Limited access to electricity, road, water and sanitation services, contributes to the high level of deprivation in rural areas, and limits the potential for rural economic diversification. More investment in basic services can enhance job creation in farm and off-farm sectors and improve rural well-being. This will require creating a conducive environment for the private sector, and promoting the entry of new actors, including small and large enterprises, especially in intermediary cities and small towns.
- **Enhancing co-ordination between rural and urban policies.** Ethiopia has excelled in multi-sectoral interventions for rural development. However, rural and urban policies are implemented in silos, with limited co-ordination among rural and urban policies. As a result, the socio-economic interactions between the two areas are not fully captured; and policies do not seem to take into account or harness the changing dynamics of Ethiopia's urban and rural realities. To reduce policy fragmentation, authorities could build on Ethiopia's multi-level governance framework, which provides scope for better territorial governance. This will require improving the capacity of authorities at both national and sub-national levels.
- **Complementing the existing policy framework with a territorial approach.** Effective territorial approaches capture the multi-dimensional needs of rural areas, and their interactions and linkages with urban areas. They account for the needs of the multiple rural stakeholders who contribute to Ethiopia's rural transformation. This requires Ethiopian authorities to improve the knowledge base on rural-urban interactions, i.e. invest in research activities that allow policy makers to better understand the linkages between rural and urban areas. A first step in this direction is to revise the definition of rural and urban areas, and base policy decisions on urban-rural typologies that do not rely on administrative boundaries. Furthermore, developing spatial plans at the regional level would help understand the roles of population centres within regional urban systems and in turn, design more accurate policy interventions.

# Assessment and recommendations

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The Rural Development Strategy Review (RDSR) of Ethiopia studies the rural-urban transformation process of the country, along with the evolution of rural development strategies, and identifies potential areas of reform. This overview summarises the main results and recommendations of the RDSR. It recognises the large and continuous efforts of the Government of Ethiopia (GoE) in promoting rural development and highlights the increasingly important roles of intermediary cities. Ethiopia's socio-economic landscape is fast changing, governed by three main transformations: economic, demographic and spatial. These transformations will bring both challenges and opportunities. However, the current framework for rural development, the Agricultural Development-Led Industrialisation (ADLI) strategy, may not be capable of fully addressing these challenges and reap on the benefits of rising opportunities. Thus, this report calls for a shift in paradigm, and updating of the current strategy, in order to maintain Ethiopia's successful economic path and promote an inclusive rural-urban transformation.

---

## Introduction

Ethiopia is facing key challenges that require the reconsideration of its current approach towards rural development. In the mid-1990s, Ethiopia embarked on a series of reforms that transformed the country from a stagnant into a dynamic economy. Since 2004, the country has benefitted from unprecedented economic growth that has further translated into poverty reduction and higher levels of welfare. Despite the latter, the gap between rural and urban areas is increasing. Ignoring the rising rural-urban disparities will put the development process of Ethiopia at risk.

Ethiopia's successful growth process has been driven by a series of reforms and development plans that aimed to create a conducive environment for structural transformation. The Agricultural Development Led Industrialisation (ADLI) strategy has been the basis for these reforms. ADLI accounts for a number of different policies but its main objective is to increase agricultural productivity. This approach seemed adequate at the time, considering the socio-economic context and low base from which Ethiopia's growth process started post its political transition in 1991. However, today, the country stands at a different stage of its development path and faces different challenges from those that motivated ADLI at the time.

These new challenges stem from three major transformations that are currently underway in Ethiopia, which will have significant effects on the well-being of rural populations.

The first transformation is demographic. Ethiopia is in an early stage of its demographic transition, i.e. the country's population will continue to grow between now and 2050, which means that a large number of people will enter the labour market in the coming years. The increase will be particularly important for rural areas, as these have higher fertility rates.

The second transformation is economic. Although the agricultural sector's contribution to gross domestic product (GDP) is decreasing, it still accounts for more than two-thirds of total employment. In addition, non-farm activities only account for a small share of rural employment. The premature state of the rural non-farm economy questions the sector's reliability as a potential source of employment opportunities in the short or medium term. Overall, Ethiopia's structural transformation is taking place at a slow pace.

The third transformation is spatial. Ethiopia will remain a predominantly rural country until 2050, i.e. more than 50% of the population is expected to reside in rural areas. However, it is urbanising fast. Although the country is currently characterised by a monocentric urban system, the urbanisation process taking place is mainly being propelled by **intermediary cities**. Intermediary cities have a strong potential to contribute to rural development but are confronted with several binding constraints. These constraints include limited knowledge about the socio-economic processes shaping agglomeration effects, lack of adequate policies or policies implemented in silos, as well as a consistent financing gap.

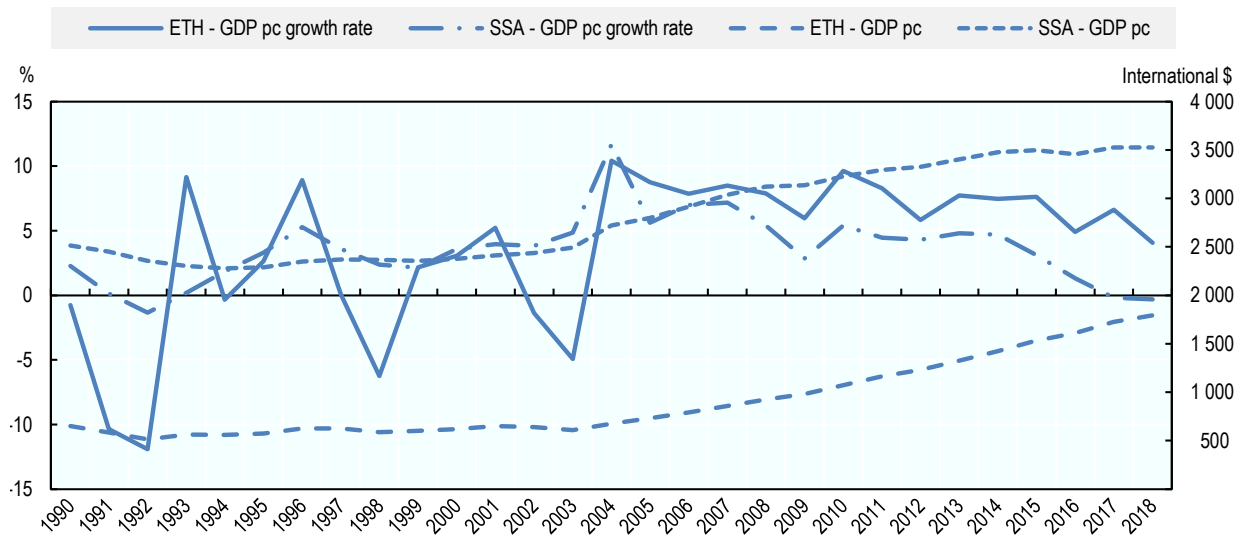
Effectively addressing the challenges resulting from these three transformations will depend on the capacity of institutions and policies to adapt to these changes. In practice, it will require a paradigm shift in Ethiopia's approach to rural development.

## Ethiopia has benefitted from sustained economic growth, which has contributed to poverty reduction

Ethiopia has achieved sustained economic growth since the mid-1990s. Ethiopia's gross domestic product (GDP) per capita has experienced sustained growth, with an average annual growth rate of 7.4% between 2004 and 2018. Ethiopia's economic growth outperformed that of the majority of other sub-Saharan African countries, which stood at an average of 5.2% during the same period (Figure 0.1).



**Figure 0.1. Evolution of Ethiopia's GDP per capita**



Note: ETH = Ethiopia; SSA = sub-Saharan Africa. PC = per capita. GDP per capita expressed in constant 2011 international dollars.  
Source: The World Bank (2019<sup>[1]</sup>).

Agriculture has consistently been the backbone of the Ethiopian economy, but its contribution to GDP is decreasing. In 1992, the share of GDP coming from agriculture peaked at 64%; since then it has decreased, reaching 31% in 2018. In parallel, there has been a slow shift in employment out of agricultural activities. Between 2005 and 2013, the share of employment corresponding to agricultural activities decreased from 80% to 73%. However, Ethiopia's rural non-farm economy is still at an early stage in its development: more than 70% of Ethiopia's rural households' income comes from crop-production.

Grain crops have dominated Ethiopia's agricultural production. In 2018, grain crops accounted for 79% of all crops produced, and almost 88% of all crop area in the country. Smallholders account for most of this production. In 2018, 16 million smallholders produced almost 95% of all grain crops in the country. Ethiopian smallholders are characterised by a very small plot size. In 2015, almost 64% of all holders produced crops in less than 1 ha, and almost 40% of holders produced crops in less than 0.5 ha.

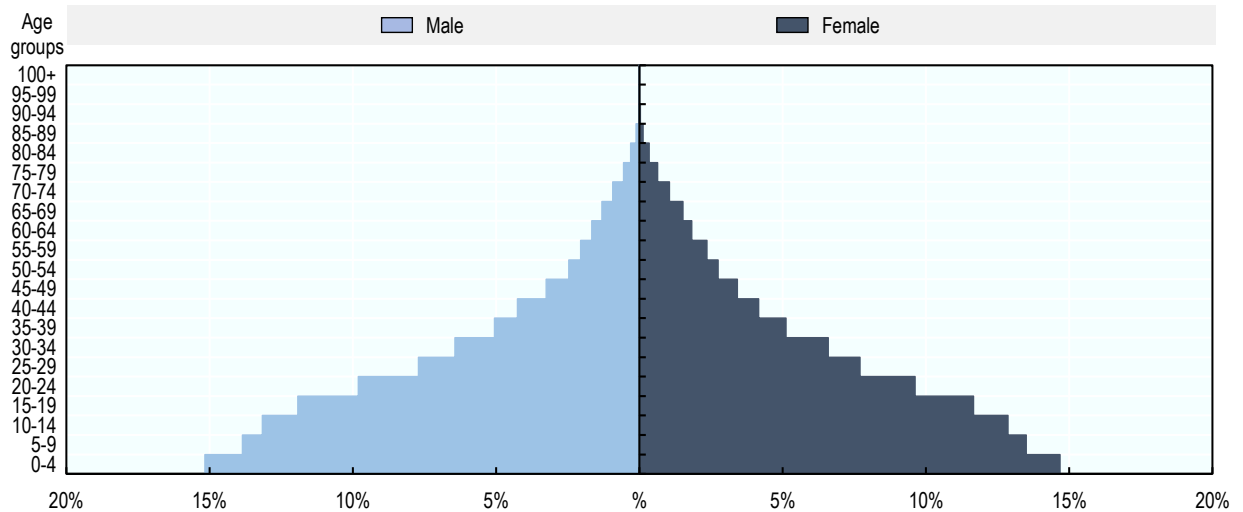
Economic growth has translated into significant poverty reduction and overall human development since the mid-1990s. Ethiopia's poverty head count, i.e. the share of the population living below the national poverty line, fell from 44% in 2000 to less than 30% in 2011, and to 24% by 2017. Human development has also increased since the mid-1990s. During the period 2000-10, Ethiopia's Human Development Index (HDI) showed considerable improvement. The country's HDI shifted from 0.35 in 2000 to 0.46 in 2013, with an average annual increase of 2.12%.

## Ethiopia is characterised by a growing population and a large share of young people

Ethiopia is going through the early stages of a demographic transition. Since the mid-1950s, Ethiopia's total population has not stopped growing; in fact, it has increased from 18 million in 1950 to almost 99 million in 2015. This made Ethiopia the most populated country in East Africa in 2017, followed by Tanzania (53 million), Kenya (47 million) and Uganda (40 million).

Ethiopia is characterised by a very young population. Indeed, almost 42% of the total population is under 14 years of age, while the working-age population (those aged 15-64 years old) accounts for 55% (Figure 0.2). The nature of Ethiopia's population structure puts a greater burden on its working-age population. Thus, the working-age group will continue to support the group, which is not yet in the labour market.

**Figure 0.2. Ethiopia's population pyramid, 2015**



Note: Each horizontal bar represents the percentage of the total population of males and females in each age group.

Source: UNDESA (2018<sup>[2]</sup>).

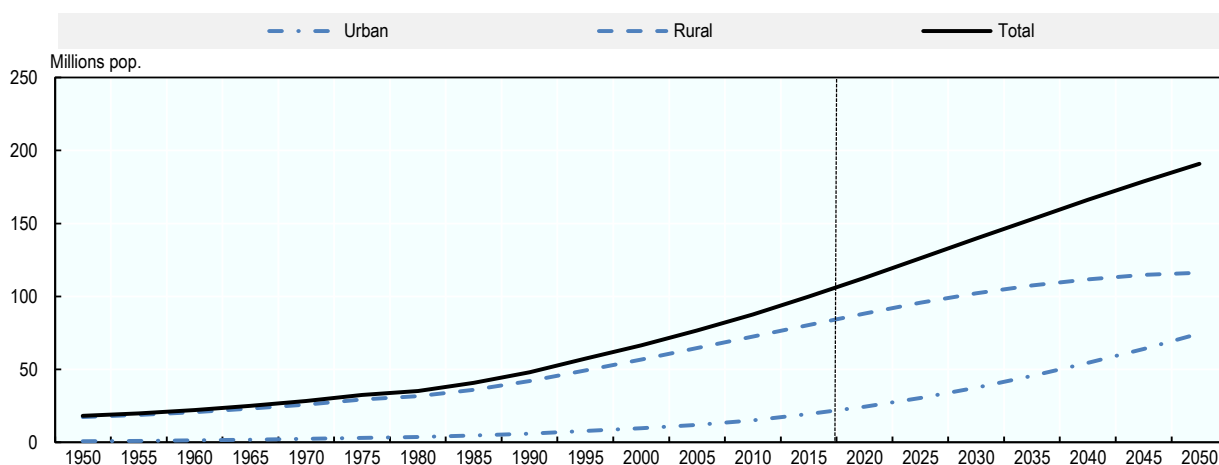
Ethiopia's current population structure brings economic opportunities. Ethiopia's demographic dividend started in 2002, and during its first year it potentially contributed 0.068% to economic growth; it will continue to contribute to economic growth until it peaks 22 years later (by 2024), reaching up to 0.92%. It will then slowly decline, and 65 years after it began, it will stop (by 2067). Changes in the population structure from then on will have a negative impact on economic growth.

Internal migration plays a key role in Ethiopia's rural-urban transformation process. Although the scale of internal migration has not drastically changed since the late 1990s, its patterns have evolved. Notably, the importance of rural-to-urban migration has increased, while that of rural-to-rural migration has decreased. The most important driver of internal migration in Ethiopia is the search for employment. Although empirical evidence remains limited, rural-to-urban migrants seem to be better off when compared with non-migrants; consumption of goods other than food tends to more than double while diet further improves for migrants when compared with people who opted to not migrate.

### Ethiopia's spatial dynamics are changing

Ethiopia is, and will remain until at least 2050, a predominantly rural country. In 2015, the rural population was estimated to be approximately 80.5 million, or 81% of the total population. More importantly, although there are increasing investments to boost manufacturing, as well as ongoing efforts to improve rural electrification, irrigation and mechanisation (which will contribute to the rural-urban transformation), most of the population is expected to reside in rural areas until about 2050 (Figure 0.3).

Figure 0.3. Rural and urban populations in Ethiopia, 1950-2050



Source: CSA (2013<sup>[3]</sup>) and UNDESA (2018<sup>[2]</sup>).

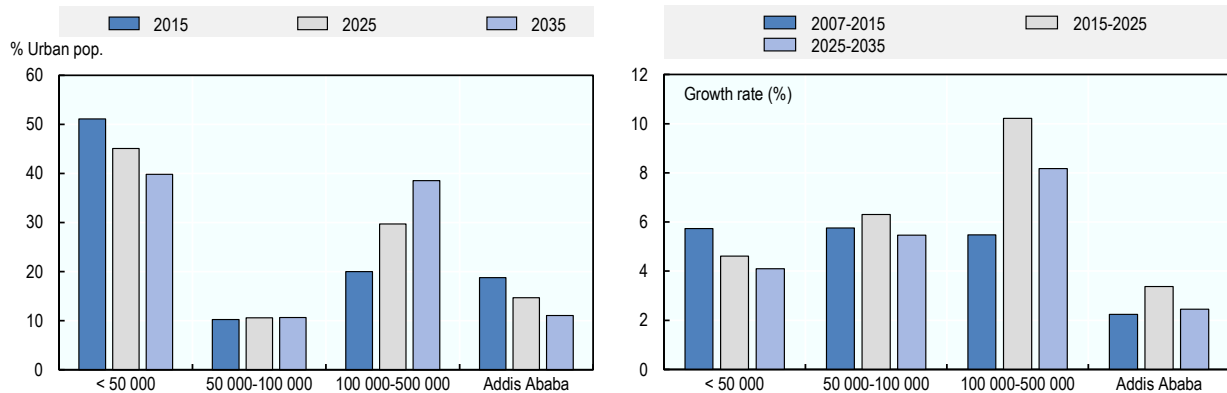
Ethiopia is one of the least urbanised countries in the region. In 2015, urban areas hosted 20% of the Ethiopian population; this value is lower than the regional averages of sub-Saharan Africa and East Africa, which during the same year stood at 39% and 27%, respectively.

Ethiopia's urban system strongly relies on its capital city, Addis Ababa. Addis Ababa is the largest city in Ethiopia and the only agglomeration with more than 1 million people. Other than Addis Ababa, there is a small group of cities characterised by a total population hovering at around 300 000 inhabitants; this includes agglomerations such as Mekele, Adama, Dire Dawa, Gondar and Hawassa. Although, today, Ethiopia is characterised by a monocentric urban system, several cities are starting to play more important roles. This could release pressure from Addis Ababa and allow other cities in the urban system to accommodate higher-value economic activities and inhabitants.

Ethiopia is urbanising rapidly. It took Europe 110 years to increase its urban population from 15% in 1800 to 40% in 1910, whereas Ethiopia will experience this change in half that time. By 2025, the urban population is expected to account for 24-29% of Ethiopia's total population; this number will reach up to 30-40% by 2035.

Intermediary cities are driving Ethiopia's urbanisation process. Cities with fewer than 50 000 inhabitants will continue to account for the largest share of Ethiopia's urban population between 2020 and 2035, going from 51% in 2015 to 40% in 2035. Nevertheless, intermediary or medium-sized cities with the number of inhabitants ranging from 100 000 to 500 000 will experience the highest average annual growth rates, which are estimated to be 10.21% between 2015 and 2025 and 8.18% between 2025 and 2035 (Figure 0.4).

**Figure 0.4. Urbanisation growth rates by agglomeration size**



Source: Schmidt et al. (2018<sup>[4]</sup>).

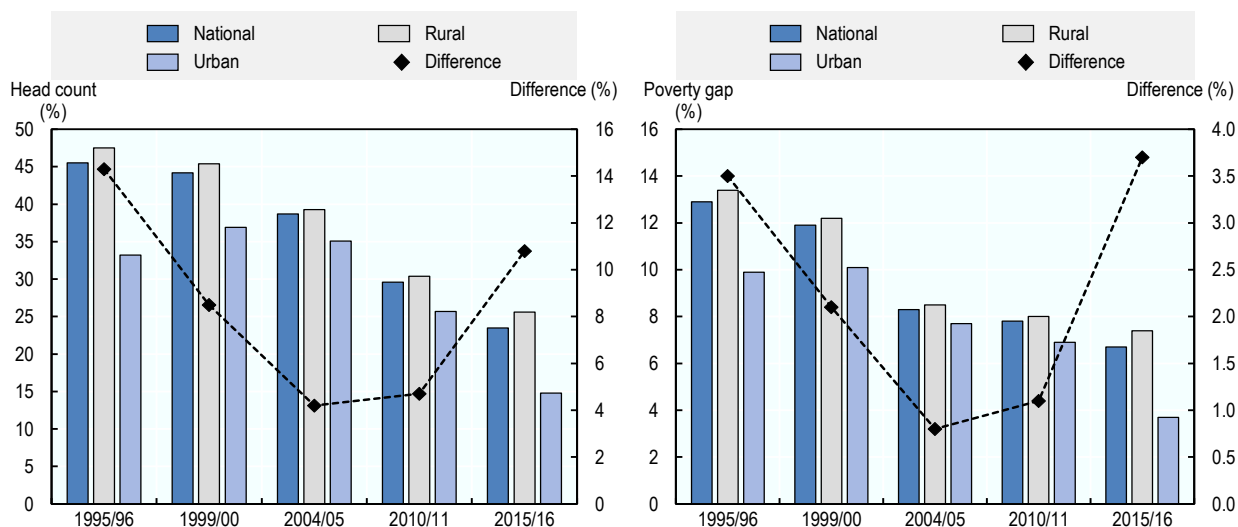
### **There has been significant progress in terms of welfare in rural areas, but the rural-urban gap is increasing**

Despite the success of poverty reduction in rural areas, since the mid-2000s, the gap between urban and rural areas has increased from 2005 to 2016. In 2000, the poverty head count in urban areas was close to 33%, i.e. almost 14 percentage points lower than in rural areas; by 2005, this difference was four percentage points, but by 2016, the difference had increased by almost 11 percentage points (Figure 0.5).

Although monetary poverty has decreased, multi-dimensional poverty remains high. In 2016, at the national level, Ethiopia's Multidimensional Poverty Index (MPI) sat at 0.48, the highest value across those East African countries for which data is available. The total incidence of multidimensional poverty stood at 84%, i.e. 84% of the population in Ethiopia is considered multidimensionally poor. This number contrasts with the monetary poverty estimate, in which only 24% of the population is considered poor. Ethiopia also shows a large gap in multidimensional poverty between urban and rural areas. In 2016, rural areas' MPI stood at 0.55, while in urban areas it stood at 0.16. Indeed, the incidence, i.e. the share of multidimensionally poor people in rural areas, reached almost 92% of the total rural population; in contrast, urban areas' incidence was close to 16%. In other words, amongst the almost 74 million people living in rural areas in 2016, close to 68 million were multidimensionally poor.

Difference in terms of welfare between rural and urban areas risks to increase if Ethiopia's ongoing economic, demographic, and spatial transformations are not properly addressed.

Figure 0.5. Evolution of poverty in rural and urban areas



Note: Difference refers to the difference between urban and rural areas for either poverty head counts or the poverty gap in each year.

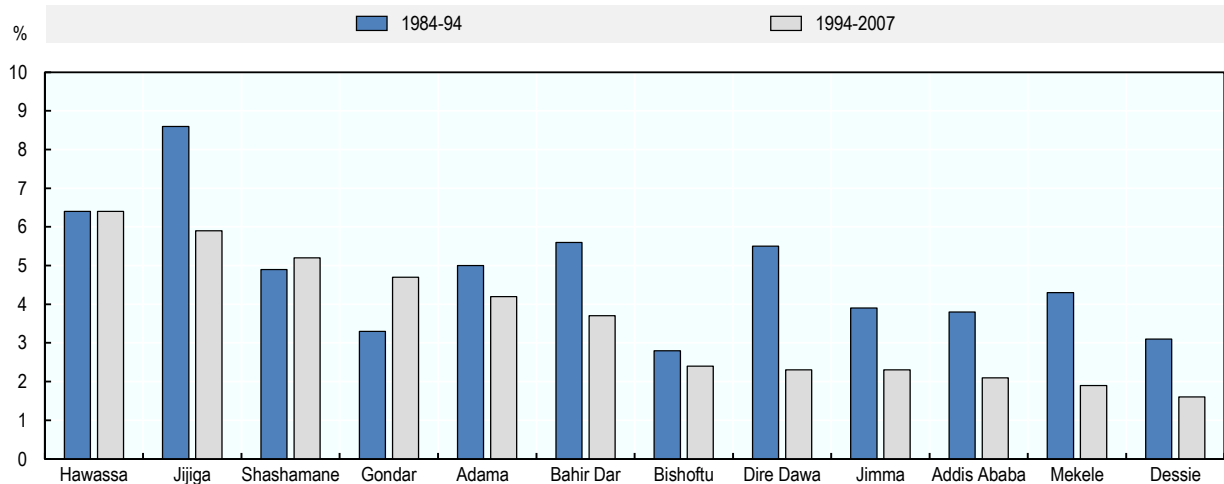
Source: Authors' calculations using data from NPC (2017<sup>[5]</sup>).

## Intermediary cities will play key roles for rural development and addressing the rural-urban gap

Addressing rural development in Ethiopia requires putting intermediary cities at the forefront of the development agenda. Intermediary cities help to promote a more inclusive urbanisation process and a balanced urban system. These agglomerations can enhance the living standards of urban dwellers by alleviating pressure from megacities in terms of housing, infrastructure, transportation and public service provision. They can provide the hard and soft infrastructure needed for attracting private and public investment. Well-managed intermediary cities can facilitate a rural-urban transformation and contribute to developing countries' structural transformation process.

Ethiopia's economic and spatial landscape is gradually changing, and intermediary cities are at the centre of this process. As discussed above, Addis Ababa plays a central role in Ethiopia's urban system and it is characterised by a high primacy: it is 8 times bigger than the second largest city in the country. Nevertheless, despite Addis Ababa's pre-eminence, a number of urban clusters of diverse sizes and functions are being formed; some of them are linked to the capital city following transportation and road infrastructure investment since the mid-1990s; others are anchored on regional capitals. Moreover, many intermediary cities are growing faster than Addis Ababa, further reducing the primacy of the capital (Figure 0.6).

Figure 0.6. Average annual population growth rate during 1984-94 and 1994-2007



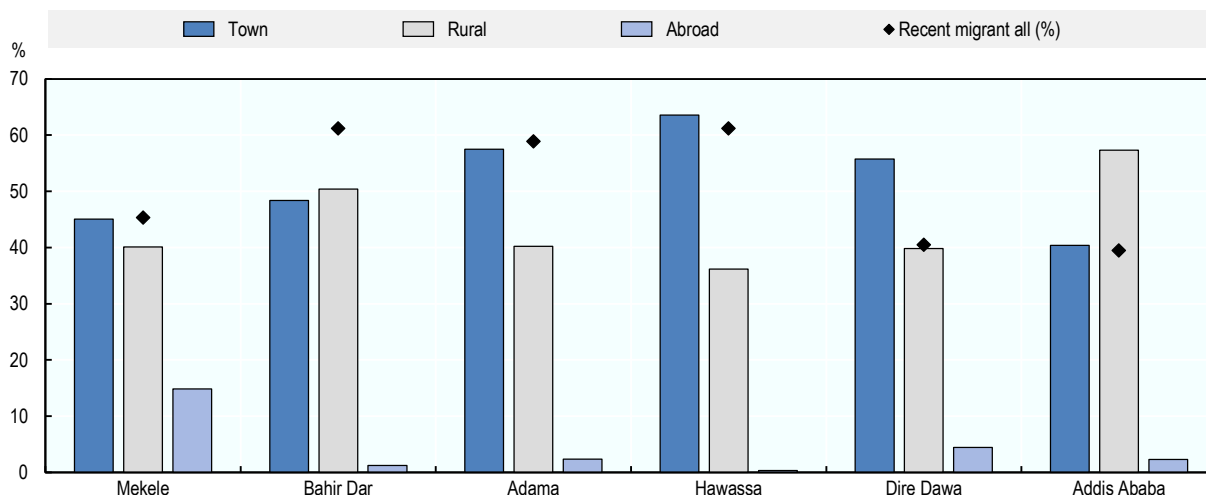
Source: Authors' calculations using data from the CSA (1984<sup>[6]</sup>; 1994<sup>[7]</sup>; 2007<sup>[8]</sup>).

The changes in Addis Ababa's role further reflect the Ethiopian government's efforts to establish a more balanced urban system. These efforts manifest in several ongoing policies, such as the development of industrial activities in regional capitals or intermediary cities. Following policy strategies, such as the promotion and establishment of export processing zones and industrial parks, cities like Adama, Adwa, Hawassa, Bishoftu, Sebeta and Mekele are expanding their manufacturing base. However, the population increase in these agglomerations largely outstrips employment creation.

Rural-to-urban migration is a rising phenomenon in Ethiopia and across intermediary cities. As highlighted above, although Ethiopia's internal migration has historically been dominated by rural-to-rural flows, large public investments in infrastructure, factories and public services, as well as employment opportunities, have fuelled rural-to-urban migration. However, rural migration is not always the main contributor of population growth across intermediary cities. Figure 0.7 shows the shares of recent migrants coming from rural areas, towns and abroad. In most of the selected intermediary cities, the largest share of recent migrants came from small towns and not from rural areas.

Increasing evidence suggests that intermediary cities can play an important role in enhancing rural well-being. They can help to reduce poverty by enabling better access to employment, health and education services, and urban infrastructure. In addition to providing access to basic services, intermediary cities enable flows of remittances between urban and rural areas. Their role in linking the two territories facilitates the circular or seasonal migration of rural households, and it also enables rural households to diversify their livelihoods and sources of income beyond the subsistence agricultural sector. However, the growth linkages between urban and rural areas depend on a number of factors, notably on the physical and market distances between them.

Figure 0.7. Origin of migrant population, among selected cities



Source: Authors' calculations using the Labour Force Survey (2013<sup>[9]</sup>).

Ethiopian intermediary cities contribute to the development of rural areas in different ways:

- They serve as **market centres** for agricultural goods and have growing potential to increase agricultural intensification and enhance diversification towards higher value-added agricultural goods. However, in most cases, market linkages need to be strengthened. Ethiopia's predominantly subsistence agriculture-based economy limits the scope for the development of technologically advanced farming and commercialisation. Additionally, there are major constraints in providing an adequate supply of agricultural goods for industrial use or agro-processing in intermediary cities.
- Intermediary cities can provide **employment opportunities**. The rate of job creation in some of Ethiopia's intermediary cities is surpassing that of the capital city. Government-led policies and investment in the manufacturing sector are facilitating job creation, especially in cities such as Adwa and Mekele in the north; Adama, Sebeta and Bishoftu in the Oromia region; and Hawassa in SNNPR. However, despite having higher employment rates, intermediary cities are characterised by a larger informal sector compared with Addis Ababa.
- Intermediary cities promote **financial flows**. Ethiopia's intermediary cities play a crucial role in facilitating financial flows between urban and rural areas in many different ways. Intermediary cities host the headquarters of growing numbers of microfinance institutions (MFIs). MFIs tend to cater to the needs of low-income households (both rural and urban) which are unable to access larger formal institutions, and they provide small-sized loans. Remittances from intermediary cities to rural areas is another form of financial flow that follows from the opportunities developed across intermediary cities.

### Adama is an intermediary city that has strong potential for development

Adama benefits from its strategic location. The city, formerly known as Nazareth, is located along a major transportation corridor and is part of a developing connected urban cluster. Adama is located close to Addis Ababa, and has a strong connection to intermediary cities such as Mojo. Adama is one of Ethiopia's fastest-growing cities in terms of population, urban built-up areas and economic function. According to CSA projections, the city's population grew by 4.8% annually between 2010 and 2015; by 2016, the total population was expected to reach nearly 400 000.

Adama is linked with its surrounding rural hinterlands predominantly through production-consumption linkages and rural-to-urban migration. The city heavily relies on its surrounding rural areas for the supply of agricultural and livestock products, both for household consumption and for wholesale trade by local enterprises. Furthermore, Adama is a distribution centre for agricultural inputs, including fertilisers, herbicides, insecticides and other farming equipment.

However, there is still significant scope for strengthening the linkages between Adama and its surrounding rural areas. The current weak rural-urban linkages stem from a range of constraints, including economic and policy constraints, which limit Adama's ability to build functional linkages with surrounding rural areas. This is largely because the economic planning for the municipality and the neighbouring zones are conducted separately, limiting the scope for integrated and harmonised policies. Furthermore, two additional fundamental issues constrain Adama's ability to build strong rural-urban linkages: infrastructure constraints (including roads, public services and transportation), and the city's inability to sufficiently generate productive jobs.

### Despite their potential, Ethiopia's intermediary cities face critical challenges

Ethiopian intermediary cities are challenged by three fundamental gaps that affect their contribution not only to rural development but also to overall national economic growth:

- **Knowledge gap:** Data on intermediary cities is either hardly available, or it is unreliable. Overall, there is a significant gap in the availability of reliable and representative empirical knowledge across Ethiopia's urban areas. Current information on urbanisation trends, as well as on the functions and dynamics across all of Ethiopia's urban areas, remains incomplete and is not representative at district level.
- **Policy gap:** The policy gap concerns the lack of co-ordinated policies addressing the needs of intermediary cities, while accounting for their potential role in the urban system. Despite their fundamental roles and growth, intermediary cities remain overlooked in national urban policies as national urban policies tend to primarily focus on large agglomerations. In addition, rural and urban policies do not use a place-based approach and continue to rely heavily on the binary assumptions of rural and urban divide. As a result, policies targeting rural and urban areas treat the two territories in isolation, leaving intermediary cities to fall between the cracks of the urban and rural divide.
- **Financing gap:** Despite their increasing population, intermediary cities have limited financial resources, and therefore limited capacity to invest in the infrastructure and public services needed to meet growing demand. Municipal revenue is the main source of funding for urban infrastructure investment; however, across Ethiopia, municipal revenue only makes up 3% of total national revenue, and there is a substantial gap between municipal expenditure and revenue. Intermediary cities that have a low tax base from which to extract revenue, and those that attract a low level of investment, face even larger constraints in adequately financing their infrastructure investment needs.

### The evolution of rural development policy in Ethiopia shows the need for a better integration of rural-urban linkages

Ethiopia's rural policy has evolved along with political changes and in parallel to economic development. Prior to 1991, the monarchy (1941-74) and the Derg period (1974-91) both prioritised the industrial sector. National development strategies mixed export-oriented (mainly during the Imperial period) and import substitution industrial development strategies, and the agricultural sector tended to be used as a source of foreign currency. Since 1991, Ethiopia's development strategies have dramatically changed from



emphasising industry to emphasising agricultural sector-driven policies. In 1991, agricultural sector development and rural areas were placed at the heart of the national development agenda. This led to the establishment of the Agricultural Development-Led Industrialisation (ADLI) strategy as the main framework for national development. The ADLI functioned as the main pillar for all national development strategies, which prioritised small-scale agricultural sector development. Table 0.1 summarises the evolution of rural policy between 1950 until today.

**Table 0.1. Evolution of Ethiopian national/rural development strategies**

Political ruling	Monarchy	Derg government	EPRDF
Period	1950-74	1974-91	1991 to present
National development strategies	Industrial development through import substitution and industrialisation	Centrally planned, industry-led development	Home-grown, agricultural-led, export-oriented development policies
Selected policies	<ul style="list-style-type: none"> <li>• Land was mainly owned by the state and the church</li> <li>• Establishment of large commercial farms producing coffee, as means of earning foreign currency</li> <li>• Prioritised the development of non-agricultural industries</li> </ul>	<ul style="list-style-type: none"> <li>• Nationalisation of land and other productive assets</li> <li>• Collectivisation of farms and promotion of villagisation programmes</li> <li>• Mixed economic policies (1988-89). Distortion of markets through price controls, and overvaluation of the Ethiopian birr</li> </ul>	<ul style="list-style-type: none"> <li>• Land remains state owned</li> <li>• Changed national development priority to agricultural development</li> <li>• Adoption of SAPs and export-oriented open economy</li> </ul>
Key rural development issues	<ul style="list-style-type: none"> <li>• Food shortages</li> <li>• Neglect of cereal production despite accounting for 80% of the cultivated area</li> </ul>	<ul style="list-style-type: none"> <li>• Severe droughts and famine in 1983-84 and food insufficiency</li> <li>• Civil conflicts</li> </ul>	<ul style="list-style-type: none"> <li>• Persistent food shortages</li> <li>• Rise in rural population</li> <li>• Environmental degradation and climate change-related shocks</li> </ul>

Source: Welteji (2018<sub>[10]</sub>), Alemu et al (2002<sub>[11]</sub>).

The GoE implemented a series of restructuring reforms, which had been under way since the early 1990s. These reforms took the form of national development strategies such as: the Sustainable Development and Poverty Reduction Program (SDPRP), the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), the Growth and Transformation Plan I (GTP I), and the Growth and Transformation Plan II (GTPII). Table 0.2 shows some of the main distinctions in policy approaches across the plans, and highlights some of the development strategies specifically targeting rural areas.

The progression across Ethiopia's national development strategies reflect the changes in the socio-economic dynamics of the country since 1991. As of 1991, the Government of Ethiopia extensively invested in rural areas. The national focus on agricultural productivity has had dual objectives. First, the Government of Ethiopia is aiming to address the persistent issue of food security in the country. Second, it is aiming to boost agricultural output for industrial development, and enable Ethiopia to reach its Agenda 2025 goal of becoming a lower-middle-income country.

Ethiopia's national development strategies have gradually expanded their remit to include the growing role of urbanisation and urban areas in national development. The Plan for Accelerated and Sustained Development to End Poverty (PASDEP), as well as GTPI and GTPII recognise the key role of urban areas, especially in Ethiopia's industrial development agenda. The PASDEP is particularly distinctive among the national development plans, as it is the only plan that explicitly promotes the urban agenda, has a comprehensive urban component, and integrates the National Urban Development Policy (NUDP) into the objectives of the development plan. The PASDEP and the NUDP stand out in their approach. Both plans take broader spatial approach and recognise the need for stronger rural-urban linkages, for inclusive rural development and promote the development of small towns. The two plans are well co-ordinated, and PASDEP embeds the main objectives of the NUDP as part of its urban development agenda. However, this approach is not carried on in the following development strategies.

Table 0.2. Evolution of rural strategies

	Period	Strategies and plans	Key policies
National development strategies	1994 to present	ADLI	A framework for all national development strategies, with agricultural sector development recognised as a catalyst for economic transformation
	2003-05	SDPRP	Builds on the ADLI, with primary focus on poverty reduction, macroeconomic stability and meeting the Millennium Development Goals (MDGs) standards
	2005-10	PASDEP	Within the ADLI framework, but promoted large-scale commercial farming, development of manufacturing sector; promoted rural-urban linkages
	2010-15	GTPI	Reprioritised commercialisation of smallholder agriculture, set dual objectives of agricultural and industrial sector development. Urban areas recognised as a catalyst for industrial development.
	2015-20	GTPII	Builds on GTPI, mainstreams the ADLI and continues to position urban areas as a catalyst for economic transformation and development of light manufacturing industry.
	2003	Rural Development Policy and Strategy (RDPS) (2003)	The first explicit rural development strategy. Promotes smallholder agricultural development-driven growth.
Policies targeting rural areas	2003	Food Security Program; PSNP; Resettlement Program; Household Asset Building Program	Attempts to provide systemised and consistent support to poor and food-insecure rural and urban households.
	1997-2010	Road Sector Development Program (RSDP)	Road infrastructure development programme to address the country-wide infrastructure gap. Programme focused on restoration of existing roads and building of new roads.
	2010-15	Universal Rural Road Access Program (URRAP)	Follow-up road infrastructure programme
	2010 to present	AGP	Investment in targeted high-potential agricultural areas to improve agricultural commercialisation and creation of value chains
	2017	RJOCS	A strategy for aligning rural job creation strategies within the framework and the objectives of GTPII.

Source: MoFED (2002<sup>[12]</sup>); MoFED (2003<sup>[13]</sup>); MoFED (2006<sup>[14]</sup>); MoFED (2010<sup>[15]</sup>), NPC (2016<sup>[16]</sup>), MoA (2015<sup>[17]</sup>), MoA (2017<sup>[18]</sup>).

## How to strengthen Ethiopia's rural development strategy?

Ethiopia stands today at a different stage of its development path and faces different challenges from those that motivated ADLI in the mid-1990s. These challenges result from the country's ongoing demographic, economic and spatial transformations. Addressing these challenges will require a shift in Ethiopia's approach to rural development. This process entails updating ADLI in order to better capture Ethiopia's new reality.

Experiences from emerging economies and OECD countries provide guidance on how to strengthen Ethiopia's rural development strategy. The OECD's New Rural Development Paradigm (NRDP) builds on these experiences and provides an analytical framework for assessing rural development strategies in emerging economies like Ethiopia. The NRDP stresses the need for strategies that are context-specific and maximise policy complementarities. Strategies need to be multi-sectoral, focusing on not just agriculture but also rural industry and services, and on not just rural areas but also rural-urban linkages. Strategies have to be multi-agent and multi-level, involving not just national but also local and regional governments as well as the private sector, international donors, nongovernmental organisations and rural communities.

This report proposes four main areas of reforms that could strengthen Ethiopia's rural development strategy. These areas have been identified through the analytical framework provided by the NRDP, an

extensive consultation process including key stakeholders in Ethiopia, two workshops held in Addis Ababa, as well as the analysis carried out by the OECD Secretariat. They are summarised as follows:

- **A new approach to agricultural development.** Agriculture will continue to play a key role in Ethiopia's development path. Increasing agricultural productivity has been, and will continue to be, key to reducing poverty. Moreover, increasing staple crops' supply will also be necessary in order to support efforts to develop agro-processing industries, feed a growing population, as well as a key driver for off-farm job creation. However, as the country transforms, the approach to agriculture has to evolve from focusing mainly on improving agricultural supply to improving the productivity of the different elements composing agricultural value chains.
- **Mobilising resources and scaling up investment to improve the well-being of rural populations.** The GoE has made major investments in infrastructure, especially in roads, electricity, and water and sanitation services. Nonetheless, striking differences between urban and rural areas prevail. Moreover, job creation will be necessary to reduce the rural-urban gap and promote the well-being of rural populations. Although off-farm activities in rural Ethiopia have (for the time being) a limited potential for job creation, the development of activities along downstream agricultural value chains offers interesting opportunities. However, this will further depend on creating a conducive environment for private sector participation.
- **Enhancing co-ordination between rural and urban policies.** Ethiopia has excelled in the implementation of multi-sectoral interventions for rural development, but rural and urban policies are implemented in silos. Today, Ethiopia's rural and urban policies tend to be fragmented. As a result, the socio-economic interactions between the two areas are not fully captured, and policies do not take into account or harness the changing dynamics of Ethiopia's urban and rural landscape. Improving the capacity of local authorities will be necessary to address the needs of a growing population and effectively reduce policy fragmentation.
- **Complementing the existing policy framework with a territorial approach.** The GoE has to facilitate the development of functional territories. However, implementing such approaches will require a learning process. Ethiopia could experiment with some pilot projects in certain zones and woredas. Based on the results from the pilot projects, the GoE could analyse the potential for extending this approach. This will further require improving the knowledge base regarding urban-rural processes, revise the existing definition of urban and rural areas, reinforce statistical systems, and carry out spatial planning at the regional level in order to provide sub-national governments with tools for evidence-based policy making.

Table 0.3 describes the suggested areas for reform, as well as a set of selected actions to achieve them. It is important to note that some of these actions are repeated across different outcomes. This repetition aims to highlight the need for a co-ordinated approach that builds on policy complementarities across different sectors. Moreover, these actions are not exhaustive, they aim to provide guidance on the way forward; they may also differ depending on the characteristics of each region or agro-environmental zone, and will eventually have to change in line with the evolution of Ethiopia's economy and society.

Table 0.3. Summary of areas and actions for reform

Expected outcomes	Actions	Key actors
<b>a) A new approach to agricultural development</b>		
Improve the productivity of the different elements composing agricultural value chains	<ul style="list-style-type: none"> <li>• Continue improving agricultural production through better quality of extension services, better access to both finance and production inputs, etc.</li> <li>• Improve rural-urban connectivity through investments in transportation, infrastructure networks and public services.</li> <li>• Create a conducive environment for the development of wholesale, processing, and retail services through investment in processing and storage infrastructure in small towns and intermediary cities.</li> <li>• Promote vocational training schemes - in cooperation with the private sector- for better tailored programmes and apprenticeships.</li> <li>• Improve access to basic infrastructure: electricity, water, and waste managements.</li> </ul>	<ul style="list-style-type: none"> <li>• Regional, zonal and woreda level governments</li> <li>• Small-holder farmers and farming cooperatives</li> </ul>
Stronger policies to manage and co-ordinate newly arising activities across agri-food supply chains	<ul style="list-style-type: none"> <li>• Establish a platform or an enabling body to: co-ordinate newly arising activities; link agricultural suppliers and processing enterprises; and enforce regulatory frameworks for food standards.</li> <li>• Identify and support the production of key high-value crops</li> <li>• Invest in adequate processing, distribution and storage systems</li> <li>• Develop regulatory frameworks for quality and safety of food standards</li> </ul>	<ul style="list-style-type: none"> <li>• Public and private enterprises (i.e MSEs)</li> <li>• Woreda level governments</li> <li>• Federal government</li> </ul>
<b>b) Mobilising resources and scaling up investment to improve the well-being of rural populations</b>		
Improve basic services in rural areas and intermediary cities	<ul style="list-style-type: none"> <li>• Expand coverage of basic services across rural areas, i.e electricity, water and sanitation services.</li> <li>• Channel investment to develop public services in intermediary cities, i.e. transport, water, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Woreda level government</li> <li>• Municipalities</li> </ul>
Job creation in rural areas, small towns and intermediary cities	<ul style="list-style-type: none"> <li>• Promote employment downstream agricultural value chains.</li> <li>• Fostering the development of wholesale, distribution, and commercialisation services along agricultural value chains.</li> <li>• Engage youth in rural job creation strategies by mainstreaming and adopting youth sensitive approaches including: <ul style="list-style-type: none"> <li>- Develop youth skills through training in: leadership, management, negotiation, vocational training in literacy and numeracy skills and promote peer-to-peer learning</li> <li>- Modernise agricultural sector through use of tractors, improved post-harvest techniques and promote ICT</li> <li>- Provide activities in proximity to location of youth to reduce mobility constraints, and help build social capital by supporting their access to farmers 'organisations and cooperatives</li> <li>- Provide access to finance, land, seed and capital</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Woreda level governments</li> <li>• Municipalities (for autonomous intermediary cities)</li> <li>• Farmers organisations and cooperatives</li> </ul>
Create a conducive environment for private sector participation in rural areas, small towns and intermediary cities	<ul style="list-style-type: none"> <li>• Facilitate access to formal credit services through effective financing systems</li> <li>• Investment in infrastructure, ICT and telecommunication services</li> <li>• Promote public private partnerships, and provide targeted capacity building or allocation of resources for MSEs with high potential for job creation</li> </ul>	<ul style="list-style-type: none"> <li>• Private enterprises</li> <li>• Woreda level governments</li> <li>• Municipalities</li> </ul>
<b>c) Enhancing co-ordination between rural and urban policies</b>		
Improve co-ordination between rural and urban policies	<ul style="list-style-type: none"> <li>• Establish a steering committee made up of actors and policy makers from various sectors and across different levels of governments to identify key issues and propose common solutions, as well as helping co-ordinate policies across sectors and governments.</li> <li>• Promote bottom-up development strategies, by fully engaging local stakeholders – both from rural and urban areas – in development strategies and policies. This include holding participatory and consultation meetings with municipal, kebele, farmers, and civil society representatives; as well as providing up to date information on state and financing of development plans.</li> <li>• Strengthen regional governments' supervisory role by establishing contractual agreements, and creating incentive mechanisms, i.e. establishing budget for co-ordinated investment programmes, such as connective infrastructure and public services.</li> </ul>	Regional, Zonal and woreda level government

	<ul style="list-style-type: none"> <li>• Address institutional and legal barriers reducing the scope for policy co-ordination, i.e reviewing conflicting policies on land use, local taxes and existing financing incentives that promote competition rather than horizontal cooperation.</li> </ul>	
Improve the capacity of local authorities to address the needs of a growing population	<p>Facilitating partnership between local governments and research institutions/ international development partners to help identify “low hanging fruit” sources for taxes for short term improved financing.</p> <p>Strengthening land-based financing, through land value capture instruments including: land titling, debt instruments and user fees – this should be aligned with regional/woreda land titling system.</p> <p>Improving transparency and strengthen reporting mechanisms for financial mobilisation at local level (woreda and municipal level), to facilitate transparency and identify inefficiencies. Focusing capacity training on the development of financial and management skills of local authorities (i.e. budget planning, tax collection and effective allocation of financial resources).</p> <p>Facilitate peer learning mechanisms among different levels of governments.</p>	Regional, woreda and kebele level government
<b>d) Complementing the existing policy framework with a territorial approach</b>		
Facilitate the development of functional territories	<ul style="list-style-type: none"> <li>• Expanding rural and urban policies beyond strict dichotomic and administrative boundaries by considering their linkages - i.e. flows of people, goods, and services along the rural and urban continuum - for the design and implementation of policies.</li> <li>• Support development efforts through place-based policies that are multi-sector, consider the different roles of sub-national and Federal authorities, and engage local stakeholders for their design (and not just for implementation).</li> <li>• Experiment with the territorial approach through pilot projects in selected zones and woredas, and expand the experiments based on lessons learned and local context.</li> <li>• Improve public investment in connecting intermediary cities and small town to rural areas (i.e. roads, electricity, telecommunication, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Federal level government</li> <li>• Regional level governments</li> <li>• Municipalities</li> <li>• Woreda level government</li> </ul>
Improve knowledge base regarding rural and urban processes and revise the existing definition of urban and rural areas	<ul style="list-style-type: none"> <li>• Invest in empirical studies and statistical information on demographic growth, economic activities, and source of employment in small agglomeration and rural areas; as well as improving the knowledge base on the channels that lead to agglomeration economies across intermediary cities.</li> <li>• Extend the current rural-urban typology to include additional factors beyond population size, i.e complementing current definitions with information on accessibility to urban centres and a more granular definition of urban and rural areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Federal level government</li> <li>• Woreda level government</li> <li>• CSA</li> <li>• PSI</li> </ul>
Carry out spatial planning at the regional level	<ul style="list-style-type: none"> <li>• Capacity building of regional representatives to carry spatial planning in the long term</li> <li>• Improve local government capacity in collection and analysis of data.</li> <li>• Facilitate partnership between regional representatives and international development partners for knowledge transfers</li> </ul>	<ul style="list-style-type: none"> <li>• Federal and Regional government</li> <li>• International development partners</li> </ul>

Source: Authors' elaboration.

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# 1 Ethiopia's rural-urban transformation process

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Ethiopia has achieved sustained economic growth since early 2000s, which led to significant poverty reduction and an overall improvement in well-being in rural and urban areas. The growth was led by a series of structural reforms which started in mid-1990s, and promoted the Agricultural Development-Led Industrialisation (ADLI) strategy. Today Ethiopia's socio-economic landscape is changing governed by three main trends: an economic, a demographic, and a spatial transformation. This chapter analyses the ways in which these changes are shaping Ethiopia's rural-urban transformation. It highlights that these three transformations will have a significant impact in rural areas. Moreover, it also highlights that, although Ethiopia's structural reforms have led to large improvements in rural and urban well-being, the poverty gap between the two territories is now widening. Addressing rural development will require strategies that account for these transformations, and consider the inherent linkages between rural and urban areas.

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## Introduction

Ethiopia's rural-urban transformation is ongoing. Ethiopia is today a predominantly rural country, with almost 80% of its population residing in rural areas. However, rural areas are transforming following changes at both sub-national and national levels. This chapter analyses the ways in which these changes are shaping Ethiopia's rural-urban transformation process. In particular, the chapter focuses on the main trends driving this transformation, while taking a close look to the evolution of welfare across rural areas. It argues that fast economic growth and a serious commitment to rural development have increased the well-being of rural populations. However, the welfare gap between urban and rural areas is increasing. Addressing this gap will require accounting for the linkages between rural and urban areas across multiple economic sectors, as well as policy actions that involve different levels of government. Overall, it will require rethinking the current strategies towards rural development.

Ethiopia's strategic planning has been key to achieving a dynamic economy. Ethiopia has undergone sustained economic growth since the mid-2000s, with a two-digit Gross Domestic Product (GDP), which was consistently higher than the sub-Saharan average. This growth process has been led by the extensive and continuous efforts of the Ethiopian government. The backbone of these policy actions is the Agricultural Development Led Industrialisation (ADLI) strategy. Established in 1994, the ADLI aimed to set the basis for structural transformation by focusing on agricultural growth. The ADLI has guided subsequent national development plans since the early 2000s until today (see Chapter 3 for an extensive analysis on these plans).

However, Ethiopia's economy and society are changing. These changes are governed by three ongoing transformations that will have major effects on the well-being of rural populations.

The first transformation is demographic. Ethiopia is in the early stages of its demographic transition, i.e. the country's population will continue to grow between now and 2050, while a large number of people will enter the labour market. The latter will be particularly important for rural areas, as these areas have higher fertility rates.

The second transformation is economic. Although the agricultural sector's contribution to GDP is decreasing, it will still account for more than two-thirds of employment. In addition, non-farm activities only account for a small share of rural employment. The premature state of the rural non-farm economy questions the sector's reliability as a potential source of employment opportunities in short or medium term. Overall, structural transformation is taking place at a slow pace.

The third transformation is spatial. Ethiopia will remain a predominantly rural country until 2050. However, it is urbanising rapidly: urban population will almost double by 2030. Although the country is currently characterised by a monocentric urban system, the current urbanisation process is mainly being propelled by intermediary cities. Intermediary cities have a strong potential to contribute to rural development but are confronted with several binding constraints (see Chapter 2).

In addition to these transformations, Ethiopia is confronted with an increasing rural and urban gap in well-being. Indeed, although there have been significant efforts in terms of poverty reduction, the difference in welfare between rural and urban areas is increasing.

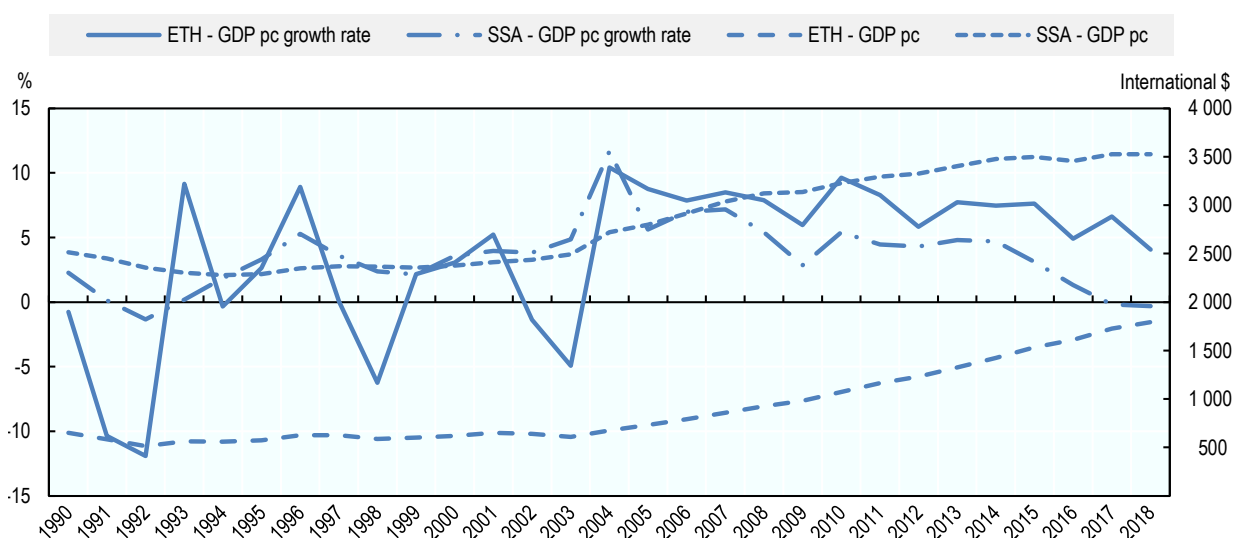
Effectively addressing these challenges will depend on the capacity of institutions and policies to adapt to these changes. In practice it will require a paradigm shift in Ethiopia's approach to rural development. In other words, it will require updating ADLI in order better capture Ethiopia's new reality.

## Ethiopia's economic transformation

### *Ethiopia is characterised by a dynamic economy*

Ethiopia has achieved sustained economic growth since the mid-1990s. Ethiopia's gross domestic product (GDP) per capita has experienced sustained growth, with an average annual growth rate of 7.4% between 2004 and 2018 (Figure 1.1). Ethiopia's economic growth outperformed the average of sub-Saharan African countries, which stood at 5.2% during the same period (Figure 1.1). Ethiopia's GDP per capita, however, remains low compared to regional standards. Indeed, in 2018, Ethiopia's GDP per capita was estimated at almost USD 1 800 (constant 2011 international dollars), representing less than half of that of the regional average (excluding upper-middle-income countries such as South Africa), which reached nearly USD 3 500 (constant 2011 international dollars) during the same year (Figure 1.1).

**Figure 1.1. Evolution of Ethiopia's GDP per capita**



Note: ETH = Ethiopia; SSA = sub-Saharan Africa. PC = per capita. GDP per capita expressed in constant 2011 international dollars.

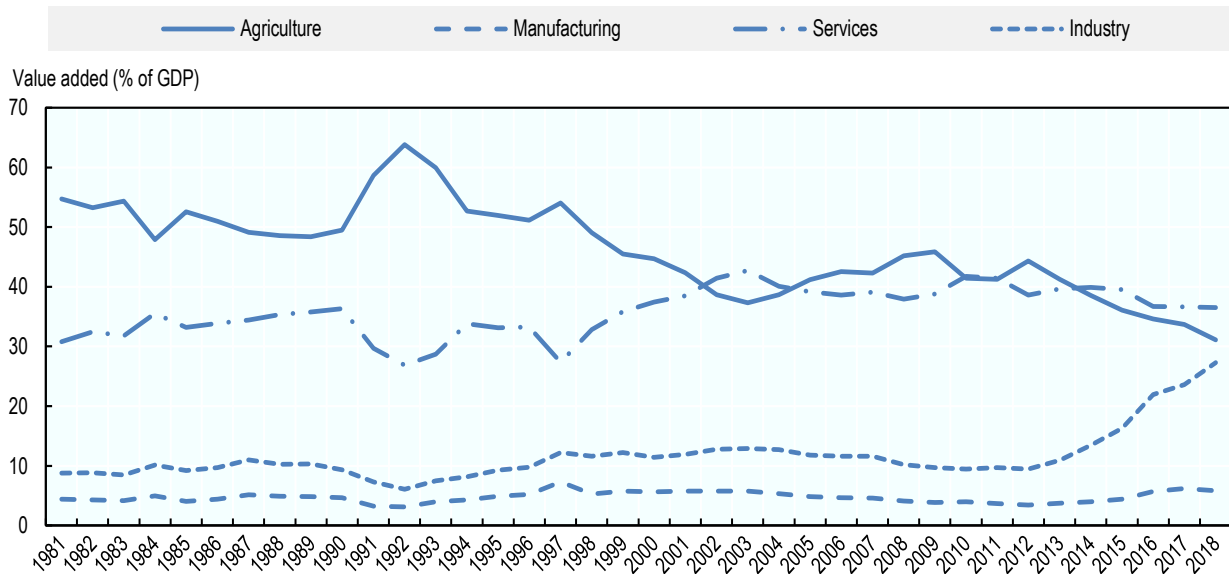
Source: World Bank (2019<sup>[1]</sup>).

A series of structural reforms that started in the mid-1990s are the main drivers of Ethiopia's successful economic performance. These reforms focused on promoting agricultural development coupled with an unprecedented public investment in pro-poor sectors. In particular, reforms focused on the Agricultural Development-Led Industrialisation (ADLI) strategy. The ADLI is a guiding framework for agricultural policies which promotes the use of land and labour resources. It involves the use of labour-intensive methods, infrastructure investments, health interventions, and capacity building to increase agricultural productivity. Another important reform focused on prioritising government spending on capital projects over consumption, which facilitated an unprecedented investment in both soft and hard infrastructure, despite Ethiopia's low domestic savings and tax revenues. Economic growth was further supported by increasing international trade, foreign direct investment (FDI) and social improvements (e.g. improvements in educational attainments) (Moller, 2015<sup>[2]</sup>).

## Ethiopia's structural transformation is still ongoing

Agriculture has consistently been the backbone of the Ethiopian economy, but its contribution to GDP is decreasing. Indeed, since the early 2000s, agriculture's share of GDP has decreased, whereas the service sector's contribution has increased. In 1992, the share of GDP coming from agriculture peaked at 64%; since then it has decreased, reaching 31% in 2018. In contrast, the service sector's contribution to GDP has increased since the early 1980s and has hovered at around 40% since the early 2000s. Industry has historically accounted for the second-lowest share of Ethiopia's GDP. Nonetheless, since 2011, it has shown a positive growth trend, reaching 27% by 2018 (Figure 1.2). The increasing contribution of industry to the economy does not follow from an increase in manufacturing, but rather from a boom in the construction sector (Moller, 2015<sup>[2]</sup>).

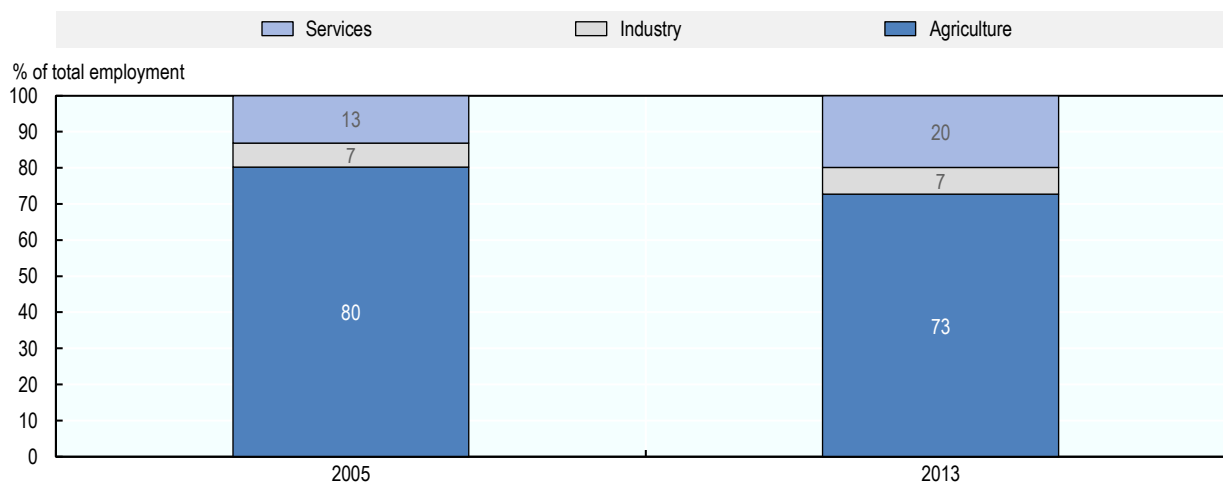
Figure 1.2. Evolution of Ethiopia's gross value added



Source: World Bank (2019<sup>[1]</sup>).

In addition to the decreasing contribution of agriculture to the national economy, there has been a moderate shift in employment out of agricultural activities. Figure 1.3 shows that, between 2005 and 2013, the share of employment corresponding to agricultural activities decreased from 80% to 73%. In parallel, employment in the service sector increased from 13% to 20%. However, this shift may be lower once adjusted for differences in the definition of unpaid work in the labour force surveys conducted in 2005 and 2013. This would lead to adjusted employment rates of 77% in agriculture, 8% in industry, and 16% in services in 2013 (Schmidt and Bekele, 2016<sup>[3]</sup>). In other words, agricultural employment may have only decreased by three percentage points in eight years.

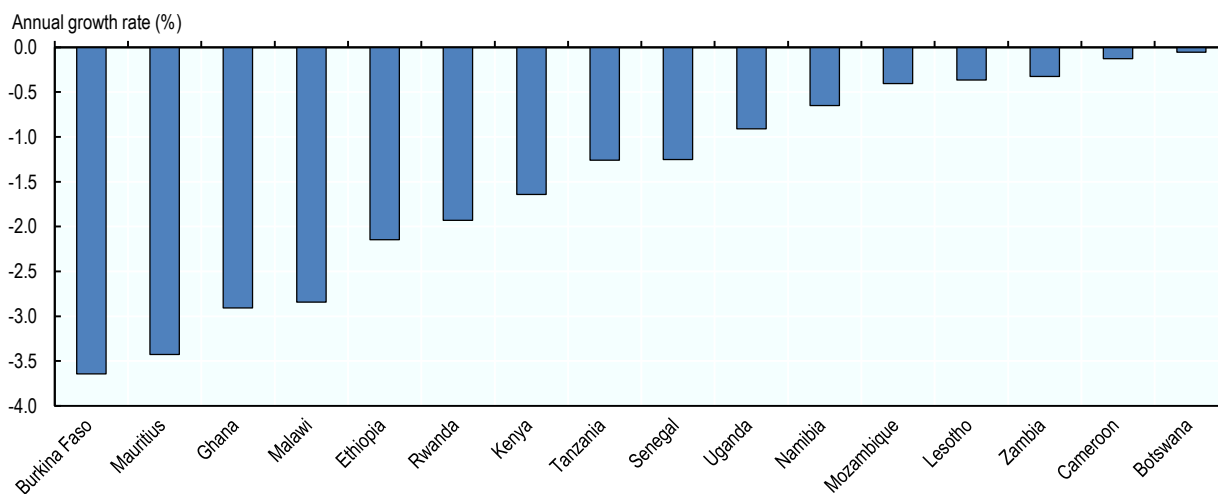
Figure 1.3. Employment across economic sectors, 2005 and 2013



Note: Amounts may not add up to 100% due to rounding.  
 Source: World Bank (2019<sub>[11]</sub>).

Although Ethiopia’s structural transformation process seems slow, it may be moving faster than in other countries in sub-Saharan Africa. Figure 1.4 shows the average annual growth rate of the employment share in agriculture for 16 African countries. Between 2000 and 2016, Ethiopia’s share of employment in agriculture has experienced an annual average growth rate of approximately -2.1%.<sup>1</sup> This ranks Ethiopia fifth out of 20 sub-Saharan African countries in terms of the speed of structural transformation. However, when considering only East African countries, Ethiopia ranks first above Rwanda, Kenya and Tanzania.

Figure 1.4. Average annual growth rate of the share of employment in agriculture for period 2000-16

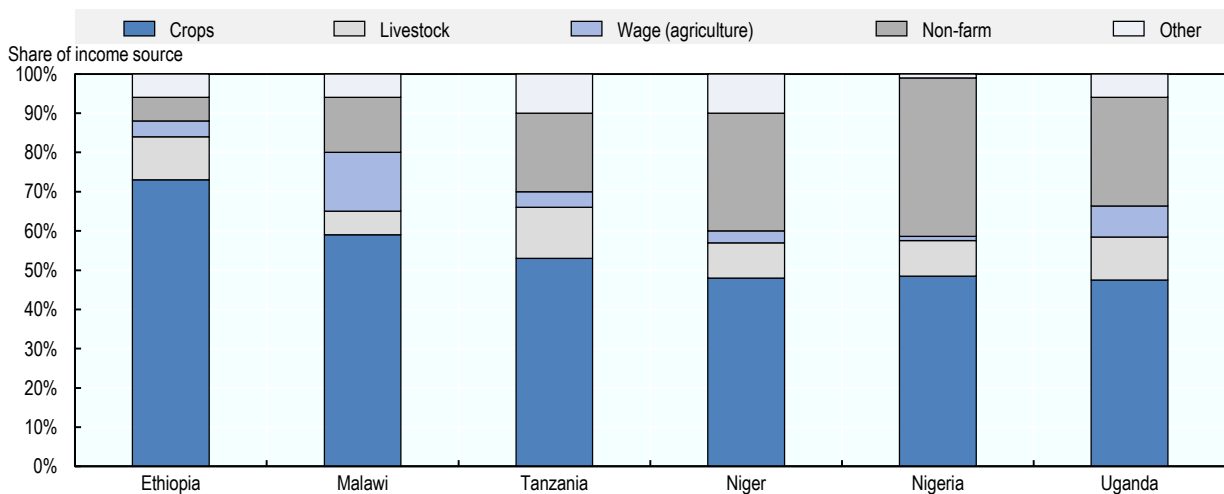


Source: Authors’ computations based on AUC/OECD (2019<sub>[4]</sub>) using data from the ASD.

### ***Non-farm activities will be increasingly important for rural development but today they offer limited employment opportunities***

Ethiopia's rural non-farm economy is still at an early stage in its development. In 2011, 23% of rural households had a non-farm enterprise; in contrast to countries like Tanzania (39%), Uganda (42%), Nigeria (53%), and Niger (62%) where non-farm enterprises were more important for rural households (Nagler and Naudé, 2014<sup>[5]</sup>). Most income generating activities in Ethiopia are directly linked to crop production, while only a small share comes from non-farm activities. Figure 1.5 shows the distribution of income sources for rural households in Ethiopia and a selected group of African countries. This figure shows that more than 70% of the income of rural households in Ethiopia comes from crop-production; while non-farm income (non-farm wages and self-employment) only accounts for 6% of rural households. These estimates are based on the Ethiopian Rural Socioeconomic Survey (ERSS), but a study conducted by Bachewe et al. (2016<sup>[6]</sup>), finds similar shares using the Agricultural Growth Program (AGP) baseline survey.<sup>2</sup> This study finds that crop production accounts for almost 72% of rural household income, while non-farm income accounts for almost 11% (non-farm enterprises, 8%; non-farm wages, 3%). These shares significantly differ from other countries in the region. Currently, Ethiopia is the country with the largest share of revenue resulting from crop production; it is followed by Malawi (59%) and Tanzania (53%), while Niger, Nigeria, Uganda stand at the same level (48%). In Nigeria, non-farm revenue accounts for almost 40% of rural household income; in Niger and Uganda, this share is close to 30%, while in Tanzania and Malawi is 20% and 14%, respectively. Ethiopia is the country with the lowest share of non-farm revenue by far.

**Figure 1.5. Sources of rural household income across selected African countries**



Note: Non-farm income accounts for non-farm wages and self-employment revenue; others refer to transfers and any sources of income. Data for Ethiopia refers to 2012; Malawi, 2011; Niger, 2010/2011; Nigeria, 2010; Tanzania, 2009; and Uganda, 2009/2010.

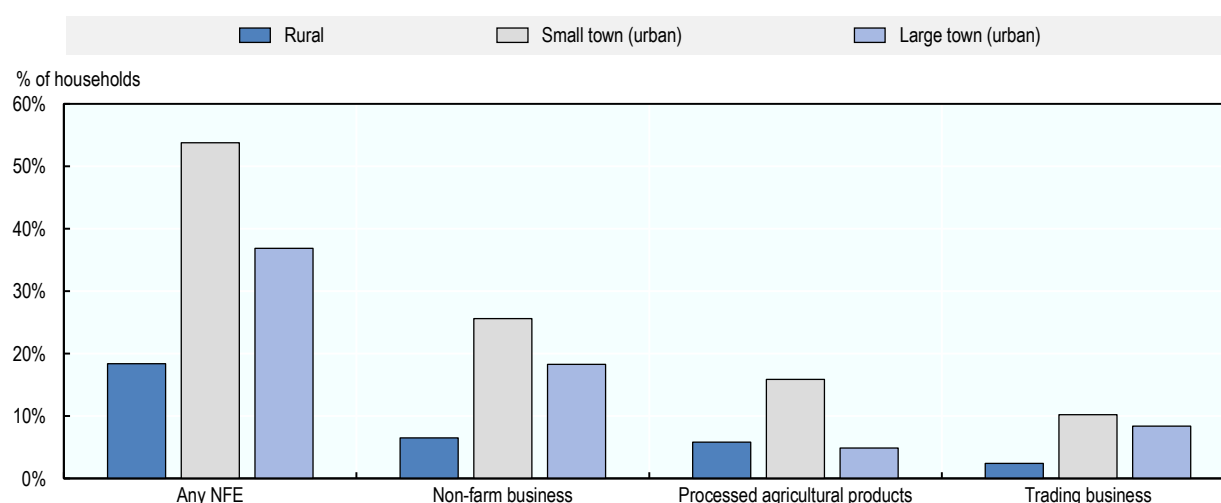
Source: Adapted from Davis, Giuseppe and Zezza (2014<sup>[7]</sup>).

What drives Ethiopian rural households to participate in non-farm activities? Both age and education are factors that influence the decision to participate in non-farm activities in rural areas. Bachewe et al. (2016<sup>[6]</sup>) find that the age of the household head is positively correlated to crop and livestock income, and negatively correlated to agricultural wage and non-farm enterprises. In other words, older household heads seem to have greater experience for generating income from farm activities while younger heads tend to involve in non-farm activities to secure their livelihoods. Everything else equal, education is positively correlated to diversification, i.e., better skills may facilitate the participation into non-farm enterprises and non-farm activities from which they can get a wage. Moreover, these authors also identify land quality<sup>3</sup> as a factor contributing to diversifying income sources, where lower land quality pushes households to engage in

non-farm activities. The latter is also consistent with results from a similar study carried out by Schmidt and Bekele (2016<sup>[3]</sup>). The authors find that push factors such as poor land quality play a key role in households engaging in non-farm activities. Indeed, farmers in less favourable agricultural areas that have limited assets (livestock and land), as well as limited access to financial institutions, are more inclined to engage in non-farm activities. Moreover, in this study, youth households also seem to be prone to engaging in non-farm activities as a coping strategy to address access to, or lack of, land, farm services, and enhancing agricultural technologies.

Non-farm enterprises are more prominent across small towns in Ethiopia. Figure 1.6 shows the share of households reporting having at least one non-farm enterprise, as well as the four most frequent types of non-farm activities. Small towns account for a larger share of households with at least one non-farm enterprise. Almost 54% of small town households have non-farm enterprises, compared to 37% in large towns and 18% in rural areas. The most important types of non-farm activities for these households are non-farm business (26%), which account for all off-farm activities, including services from home, and shops; processed agricultural products (16%); and trading business (10%), which include trading activities in streets and markets.

**Figure 1.6. Households reporting one or more non-farm enterprise by type**



Note: Non-farm business refers to off-farm activities, including services ran from home, like shops. Trading business include streets and markets. Small towns are those populated centres with less than 10 000 population according to the 2007 Census. Large towns are those populated centres with more than 10 000 inhabitants.

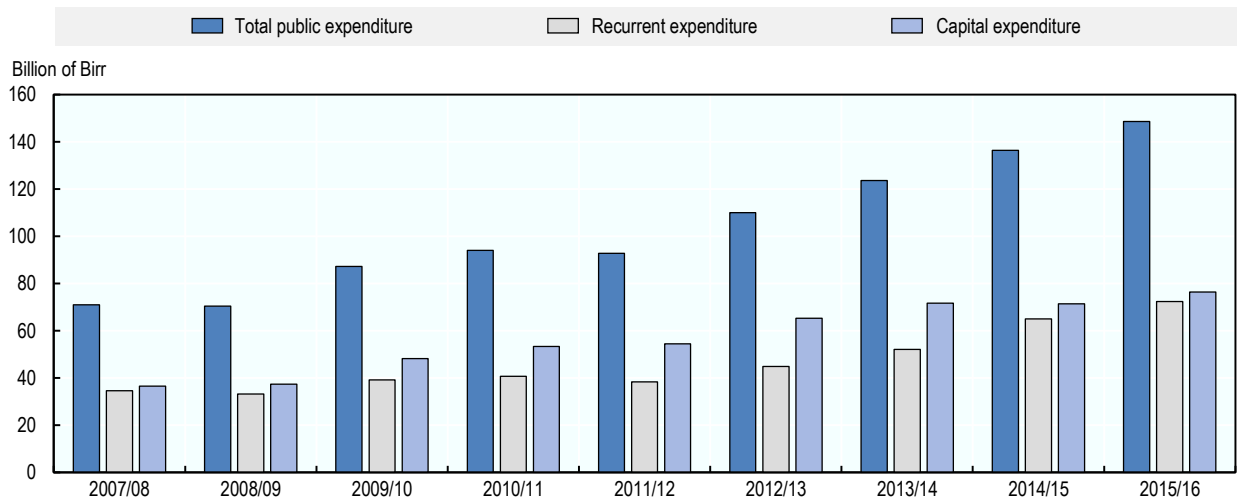
Source: Integrated Surveys on Agriculture Ethiopia Socioeconomic Survey (ESS), 2015-16.

Accessibility is one of the main constraints for developing non-farm enterprises in Ethiopia. Accessibility issues are not only limited to space, however. The most important constraint for Ethiopian households is access to finance. Almost 35% of households across the country report this as their most relevant constraint; followed by access to markets (30%), and transportation (14%) (CSA, 2017<sup>[8]</sup>). It is important to note that these constraints may be more binding for poorer households or marginalised groups, which in many cases rely on non-farm activities as a coping strategy (Beegle and Christiaensen, 2019<sup>[9]</sup>).

Since the late 1990s, there has been a transition from informal to formal employment in Ethiopia. According to official sources, the share of population employed in the informal sector<sup>4</sup> declined from 50.6% in 1999 to 25.8% in 2013. The female population employed in the informal sector also decreased from 64.8% to 36.5% during the same period (CSA, 2013<sup>[10]</sup>). Nevertheless, Ethiopian women's ability to access the labour market remains limited. In 2016, the overall employment rate for females aged 15-49 stood at 33.3%, compared with 88.2% for males in the same age group (ICD, 2016<sup>[11]</sup>).

Channelling public expenditure to develop physical infrastructure has been a key component of Ethiopia's recent economic development strategies. Starting with the Growth and Transformation Plan I (GTPI), launched in 2009/10, the Ethiopian government has focused on creating a conducive environment for structural transformation. In particular, government actions have focused on developing the necessary physical infrastructure (such as roads, irrigation and hydropower) for promoting the diversification of economic activities in the country. Between 2007/08 and 2015/16, total public expenditure increased from ETB 71 billion (Ethiopian birr) to ETB 149 billion (constant at 2010 prices), representing an average annual growth rate of almost 10% (Figure 1.7). During this period, capital expenditure increased from ETB 36.4 billion to ETB 76.3 billion (constant at 2010 prices), representing, on average, 55% of the total expenditure and around 10% of Ethiopia's GDP (NPC, 2017<sub>[12]</sub>). Ethiopia's public expenditure surpassed the average public expenditure across Africa (which accounted for 7% of total GDP) between 2009 and 2016. Additionally, during the same period, private sector investment on capital projects was higher in Ethiopia, amounting to 18.3%, compared with the average of 15.5% across Africa (AUC/OECD, 2018<sub>[13]</sub>).

**Figure 1.7. Public expenditure by type, 2007/08-2015/16**



Note: Data expressed in real ETB billions at 2010 prices.

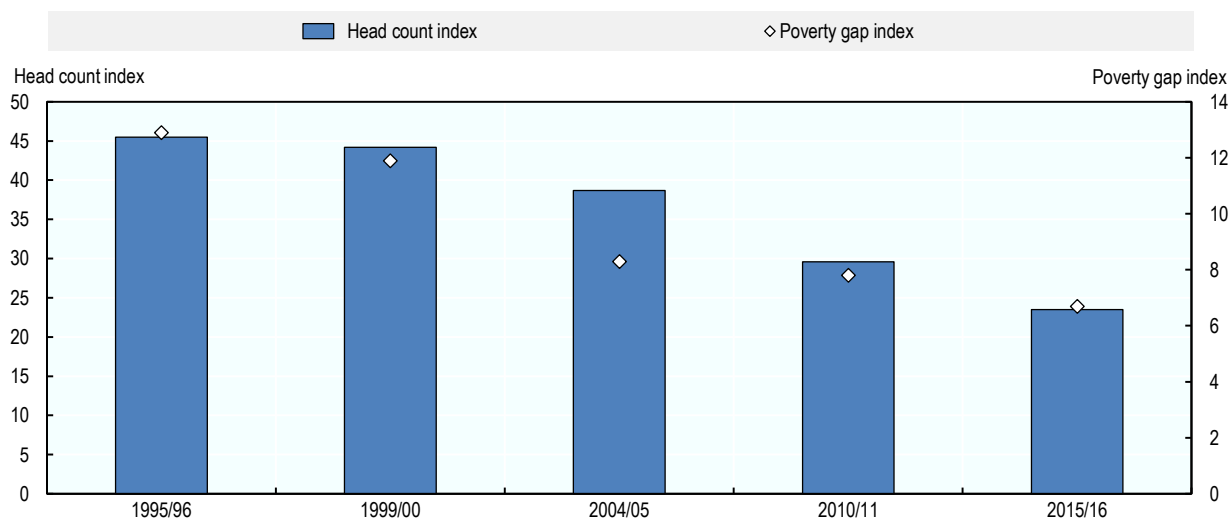
Source: NPC (2017<sub>[12]</sub>).

### ***Economic growth paired with social policies has brought significant poverty reduction***

Economic growth has translated into significant poverty reduction and overall human development since the mid-1990s. Ethiopia's poverty head count, i.e. the share of the population living below the national poverty line, fell from 44% in 2000 to less than 30% in 2011, and to 24% by 2017 (Figure 1.8). The poverty gap index has followed a similar trend. The poverty gap index provides information about the extent to which the population falls below the poverty line; it measures the average difference (or gap) between the income (expenditure) of individuals who fall below the poverty line and the value of the poverty line. It is expressed as a percentage of the poverty line, meaning that a higher poverty gap index value indicates that the poverty is more severe. In 2000, the mean poverty gap index was close to 12% of the poverty line, but this had almost halved by 2016, reaching close to 7% (Figure 1.8).



Figure 1.8. Evolution of poverty in Ethiopia



Source: NPC (2017<sup>[12]</sup>) using estimates from Household Income, Consumption, and Expenditure (HICE) Surveys.

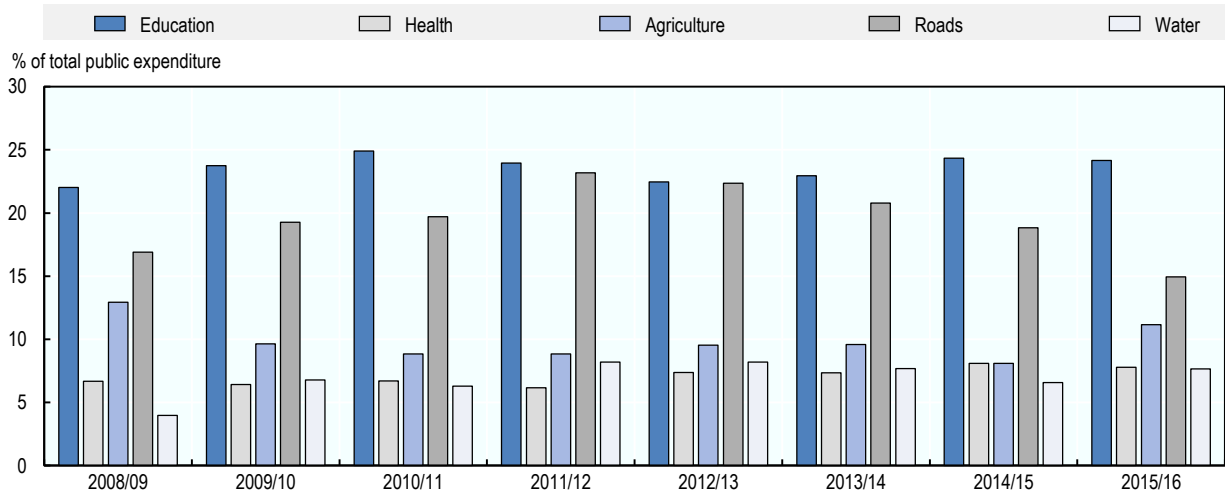
Human development has also increased since the mid-1990s. During the period 2000-10, Ethiopia's Human Development Index (HDI) showed considerable improvement. The country's HDI shifted from 0.35 in 2000 to 0.46 in 2013, with an average annual increase of 2.12% (UNDP, 2014<sup>[14]</sup>). Since the early 2000s, Ethiopia has developed a series of poverty reduction strategies and programmes, along with five-year development plans, that aimed at increasing public expenditure on basic services (e.g. education and health). One of these plans is the Productive Safety Net Programme (PSNP).

Launched in 2005, the PSNP was aimed at targeting food-insecure households through cash and food transfers. The main objective of the programme was to provide more predictable and sustained interventions to households affected by droughts. The PSNP has contributed to agricultural growth through increases in input use and facilitated distribution. Estimates suggest that the impact of transfers has led to reduction in poverty by 7% (Moller, 2015<sup>[2]</sup>).

The commitment of authorities to expanding social infrastructure has further contributed to positive health and education outcomes. For instance, between 2005 and 2013, the primary school net enrolment rate rose from 68.5% to 85.7%, while the share of immunised children rose from 44.5% to 87.6%, and births attended by trained healthcare workers increased from 12.4% to 23.1% during the same period (UNDP, 2014<sup>[14]</sup>). It should be noted that Ethiopia financed a large proportion of its investment in infrastructure through public debt, and benefited from debt relief in 2004, thanks to the Heavily Indebted Poor Countries (HIPC) initiative (IMF, 2015<sup>[15]</sup>).

Ethiopia has also invested extensively in pro-poor sectors. Between 2009 and 2016, spending on education, health, agriculture, roads and water, and sanitation services accounted for 70% of total government spending (Figure 1.9). In parallel, investment in public infrastructure such as rural roads granted better access to markets for residents, topping up the investment in agriculture. In fact, between 2010 and 2015, total road length increased by 30%, resulting in better and expanded all-season access to functioning roads (IMF, 2015<sup>[15]</sup>).

Figure 1.9. Share of public expenditure by anti-poverty action, 2008/09-2015/16

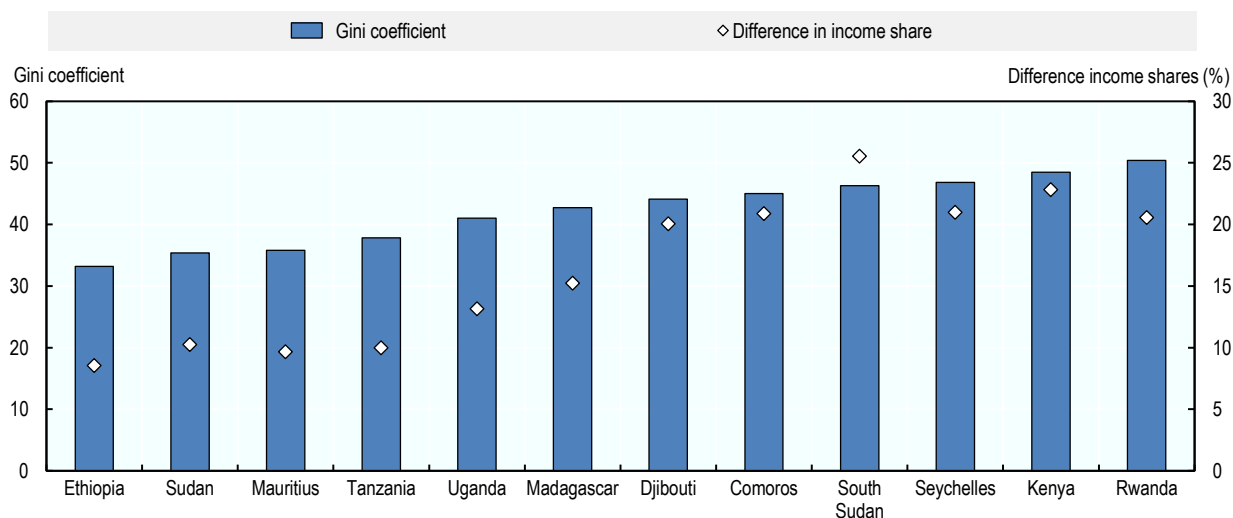


Source: NPC (2017<sub>[12]</sub>).

Poverty reduction has, however, been followed by a small increase in inequality. Indeed, income inequality – measured using the Gini coefficient – has increased since the mid-1990s. In 1995/96, estimates placed Ethiopia's national Gini coefficient at 0.29, compared with 0.33 in 2015/16 (NPC, 2017<sub>[12]</sub>). This small increase has mainly been driven by growing differences in terms of income and access to certain services between urban and rural households. Nevertheless, Ethiopia remains the country with the lowest level of inequality in the region. Among East African countries, Ethiopia ranks at the bottom in terms of both the Gini coefficient and the difference in income shares between the richest 10% and the poorest 10% (Figure 1.10). Ethiopia's Gini coefficient (0.33) is followed by Sudan's and Mauritius', both estimated at 0.35. At the other end of the ranking, Kenya and Rwanda show the highest values, at 0.48 and 0.50, respectively. In terms of the difference in income shares, Ethiopia stands at 8.6. In other words, the richest 10% of the population is 8.6 times richer than the poorest 10%. This contrasts with countries such as Kenya or South Sudan, where this statistic reaches 22.8 and 25.5, respectively.

Although Ethiopia's Gini coefficient is low compared with other developing countries, the country's fiscal system needs to put additional efforts to reduce income inequality. In 2010, taxes, transfers and subsidies contributed to reducing Ethiopia's Gini coefficient from 32 points (market income) to 30 points (final income). This decrease of two percentage points is among the lowest in a sample of 30 developing countries across the world, and is the lowest among the African countries considered in the sample (Figure 1.11).

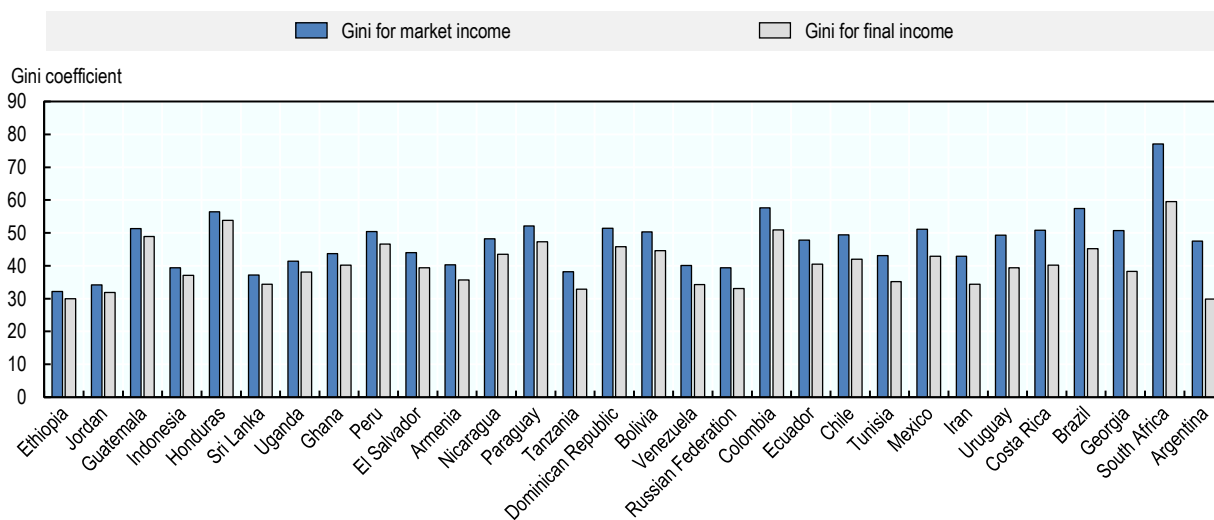
Figure 1.10. Gini coefficients and difference in income share in East African countries



Note: The difference in income share refers to the ratio between the income shares held by the richest 10% to the income held by the poorest 10% in the national income distribution.

Source: AUC/OECD (2018<sub>[13]</sub>).

Figure 1.11. Gini coefficients for market income and final income



Note: Data refer to different years.

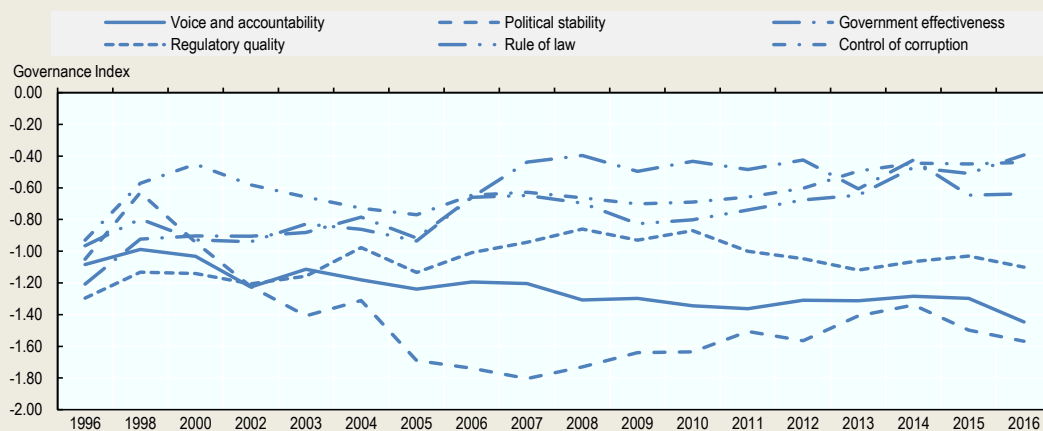
Source: AUC/OECD (2018<sub>[13]</sub>) using data from CEQ Institute (2019<sub>[16]</sub>), Commitment to Equity Institute Data Centre on Fiscal Redistribution (database).

Unemployment in Ethiopia has gone down since the mid-1990s. The unemployment rate fell from 8% in 1999 to 5% in 2005, and to 4.5% in 2013 (CSA, 2013<sub>[10]</sub>). This has also been the case for female and youth (population aged 15-29) unemployment rates. For the former group, the unemployment rate has decreased from 12.5% in 1999 to 7.8% in 2005, and 6.5% in 2013. For the latter, the unemployment rate decreased from 11.1% in 1999 to 6.8% in 2013 (CSA, 2013<sub>[10]</sub>). Nevertheless, as the next chapter will discuss, unemployment is becoming a predominantly urban phenomenon, which also has a strong regional component.

### Box 1.1. Trends in Ethiopia's governance

Although overall governance has improved in Ethiopia, the country has undergone significant changes in recent years. Between 2005 and 2015, Ethiopia made progress in two out of six indicators: Rule of Law and Control of Corruption out of Rule of Law, Voice and Accountability, Regulatory Quality, Political Stability, Government Effectiveness, and Control of Corruption (World Bank, 2015<sub>[17]</sub>). Political stability, voice and accountability, and regulatory quality have fluctuated with an overall decreasing trend during the same time period. In addition, the country demonstrated the second-greatest improvement among countries in East Africa in the Ibrahim Index of African Governance between 2006 and 2015 (only outperformed by Rwanda), ranking seventh out of 13 countries in 2015 (Mo Ibrahim Foundation, 2016<sub>[18]</sub>).

Figure 1.12. Evolution of governance in Ethiopia



Source: Mo Ibrahim Foundation (2016<sub>[18]</sub>).

However, Ethiopia has undergone major changes in its governance since 2015. Following three years of political unrest in the country, the former Prime Minister Hailemariam Desalegn resigned, and the current Prime Minister, Abiy Ahmed, was elected in April 2018 as the head of the ruling party, the Ethiopian People's Revolutionary Democratic Front (EPRDF). The newly elected government implemented substantial political and economic reforms, including the reconciliation with neighbouring Eritrea.

### ***Agriculture will continue to play a key role for development***

To say that agriculture plays a pivotal role in Ethiopia's development path is an understatement. The agricultural sector has evolved since the late 1990s following the adoption of the ADLI. Although it started from a low base, the sector has progressively adopted different types of improved agricultural technology, which has contributed to the increase in the acreage of some of the most important cereals in Ethiopia (Seyoum Taffesse, 2019<sub>[19]</sub>). Growth in the production of grains, and particularly cereals is key for rural livelihoods.

Grain crops dominate Ethiopia's agricultural production. In 2018, grain crops accounted for 79% of all crops produced, and almost 88% of all crop area in the country (Table 1.1). Among grain crops, cereals account for up to 88% of production, followed by pulses (10%) and oil seeds (2%). Teff, maize and sorghum are the cereals accounting for the largest shares of crop area in the country, at 30%, 23%, and 18%, respectively. Pulses are the second-largest type of grain grown in the country, with some of the most important crops in this group including faba beans, white haricot beans, red haricot beans, and chickpeas (CSA, 2018<sub>[20]</sub>). In terms of production, root crops are the second-most important group after grains. Sweet potatoes, taro (godere) and potatoes are among the most important crops in this group. In terms of crop area, Table 1.1 shows that the second-most important crop after grains is coffee, which accounts for more than 5% of the total crop area in the country. Vegetables and fruits only account for a small share of Ethiopia's crop area (1.7% and 0.8%, respectively); this is also the case for their shares in terms of production (2.2% and 2.1%, respectively).

**Table 1.1. Distribution of production and crop area of agricultural commodities, 2018**

Crop	Production	Area
Grain crops	79.03%	87.93%
Root crops	11.36%	1.60%
Sugar cane	3.24%	0.19%
Vegetables	2.23%	1.67%
Fruit crops	2.09%	0.83%
Coffee	1.24%	5.28%
Chat	0.69%	2.24%
Hops	0.12%	0.26%
Total	100%	100%
Grain crops	Production	Area
Cereals	88%	81%
Pulses	10%	13%
Oil seeds	2%	6%
Total	100%	100%

Note: Data for private peasant holdings during the Meher season, which is the main crop season. It accounts for any temporary crops harvested between the months of September and February.

Source: CSA (2018<sub>[20]</sub>).

Cereal yields have experienced significant growth since 2000. Figure 1.13 presents the yields of teff, sorghum, barley, wheat and maize for the years 2000, 2005, 2010 and 2015. Each of these selected cereals show a positive progression during this period. Overall, cereals' yields increased from 1.21 kg/ha in 2000 to 1.43 kg/ha in 2005, 1.83 kg/ha in 2010, and 2.32 kg/ha in 2015. In other words, during the period 2000-05, cereal yield increased by 18%, while for both the periods from 2005-10 and 2010-15, the yield increased by 27%.<sup>5</sup> However, these numbers hide important differences in the progression of different crops across these periods. For instance, during the period 2010-15, wheat and maize yields increased the most, from 1.83 kg/ha and 2.53 kg/ha in 2010 to 2.54 kg/ha and 3.42 kg/ha in 2015, respectively. In other words, these crops' yield increased by 38% and 35%. In contrast, during the previous period (2005-10), wheat and maize yield increased by 21% and 16%, respectively, while those of sorghum and teff each increased by 40%.

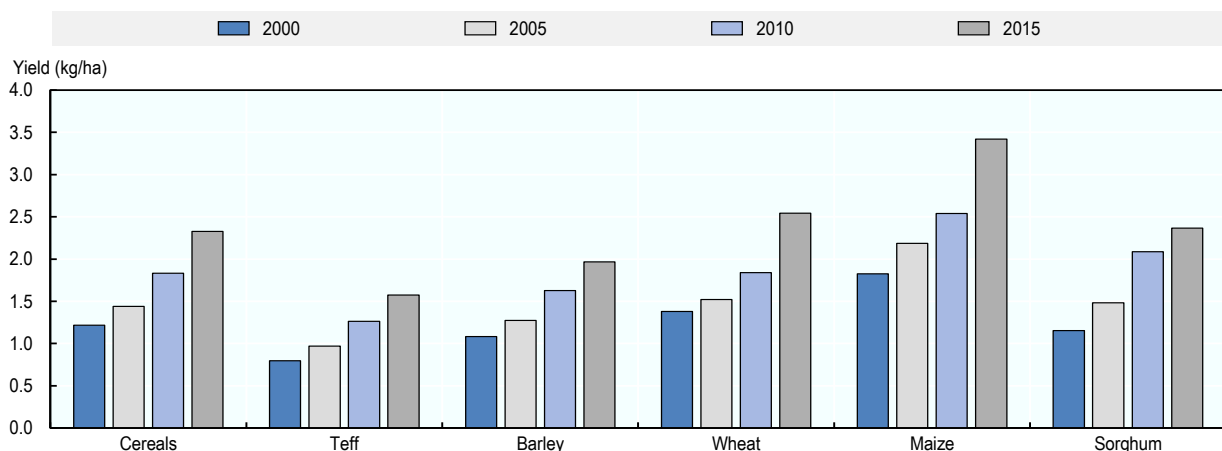
## Smallholders are key actors for agricultural growth in Ethiopia

Agricultural growth has been driven by a mixture of factors that have influenced the performance of smallholders. Smallholders account for most of Ethiopia's agricultural production. In 2018, 16 million smallholders produced almost 95% of all grain crops in the country (CSA, 2018<sup>[20]</sup>).<sup>6</sup> Ethiopian smallholders are characterised by a very small plot size. In 2015, almost 64% of all holders produced crops in less than 1 ha, and almost 40% of holders produced crops in less than 0.5 ha (Figure 1.14).

Smallholders have increasingly adopted modern fertilisers and improved seeds. The Government of Ethiopia (GoE) has made significant efforts in promoting the adoption of modern agricultural technology, which has resulted in larger areas using modern fertilisers and improved seeds. Indeed, between 2005 and 2015, the area using modern fertilisers increased from 40% to 58%, and from 5% to 12% in the case of improved seeds (Figure 1.14). Extension services have also played a key role in promoting agricultural technology adoption. During the period 2005-15, the area covered by extension services has also increased, from 22% to 33%. According to Bachewe et al. (2018<sup>[21]</sup>), agricultural growth has been further propelled by significant public investments which, in addition to expanding extension services, have improved education outcomes, limited negative shocks (through social protection programmes such as the PSNP) and improved market efficiency by expanding the road network. Moreover, Bachewe et al. highlight that external factors such as good weather conditions, high international prices for agricultural commodities, and rapid urbanisation (higher urban demand) further contributed to promoting the adoption of agricultural technology between 2004 and 2015.

The increasing agricultural output in Ethiopia has been a key driver for poverty reduction. Hill and Tsehaye (2015<sup>[22]</sup>) show that for every 1% increase in agricultural output, poverty was reduced by 0.9%. According to their estimates, agricultural growth contributed to reducing poverty by an average annual rate of 2.2% after 2005 and 0.1% before 2005. However, this effect is only significant in areas located close to cities of at least 50 000 inhabitants. As previously discussed, public investment has been conducive to poverty reduction. However, additional efforts are needed in order to reach remote populations. Access to urban centres and the growth of non-farm sector activities have complemented the welfare gains resulting from investment in public services and infrastructure. Moreover, good climatic conditions and high food prices further contributed to reducing poverty.

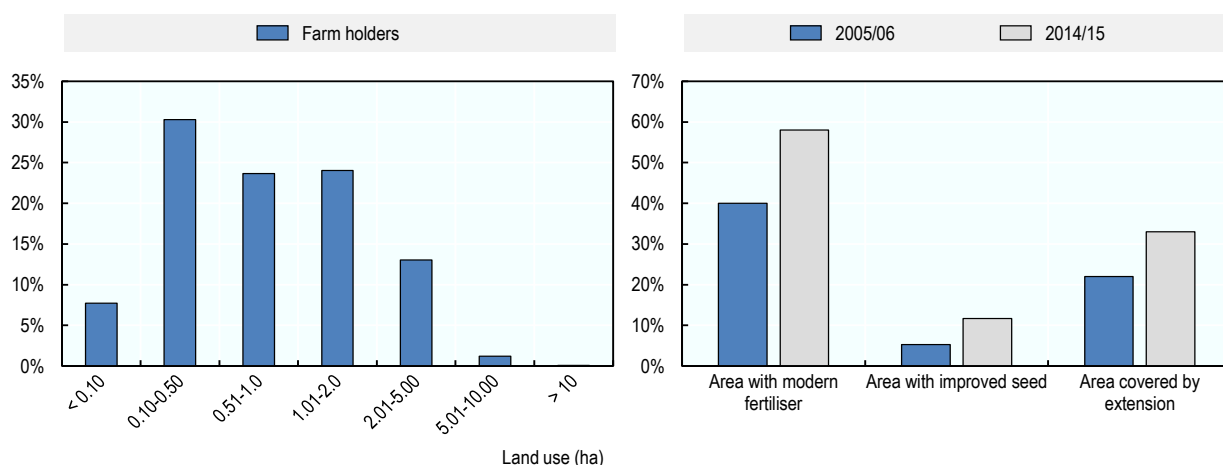
Figure 1.13. Yields of selected cereals between 2000 and 2015



Note: "Cereals" accounts for teff, barley, wheat, maize, sorghum, finger millet, oats/"aja" and rice.

Source: CSA's AgSS surveys for the years 2000, 2005, 2010 and 2015.

**Figure 1.14. Distribution of smallholders by land size and use of improved agricultural technology between 2005 and 2015**

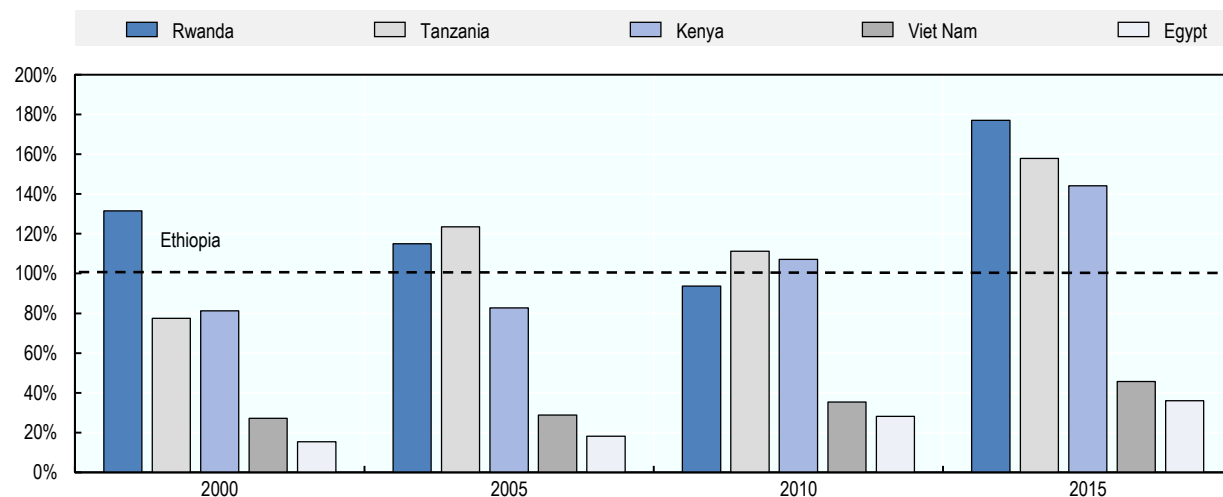


Source: CSA's AgSS surveys for the years 2005 and 2015 (CSA, 2018<sub>[20]</sub>).

***There is, however, scope to increase cereals productivity***

Ethiopia's cereal productivity has advanced at a steady pace compared to other countries in the region. In 2000, Ethiopia's cereal productivity was 78% of Tanzania and 81% of Kenya (Figure 1.15); by 2015, Ethiopia's cereal productivity had outpaced that of these countries, representing 158% of Tanzanian and 144% of Kenyan cereal productivity. However, compared to countries like Vietnam and Egypt, Ethiopia's productivity remains low. Indeed, by 2015, Ethiopia's cereal productivity amounted to 46% of Viet Nam and 36% of Egypt.

**Figure 1.15. Ethiopia's cereal productivity compared to selected countries**



Note: The percentages represent Ethiopia's cereal productivity (Kg/Ha) over that of the selected countries. Higher than 100% means that Ethiopia's productivity is higher than that of the selected country.

Source: World Bank (2019<sub>[1]</sub>).

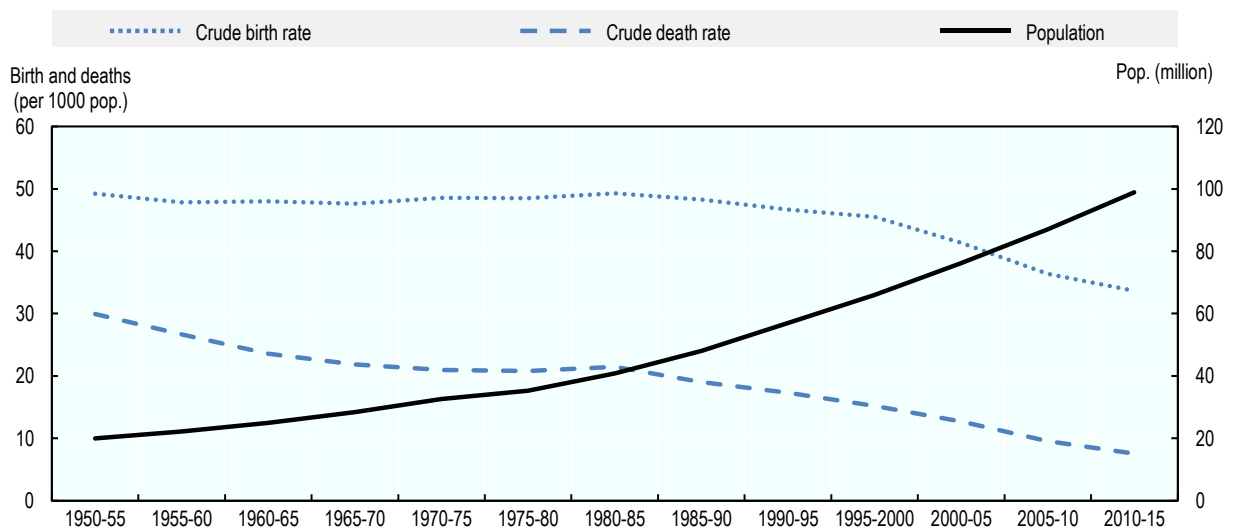
## Ethiopia's demographic transformation

### *Ethiopia is going through the early stages of a demographic transition*

Since the mid-1950s, Ethiopia's total population has not stopped growing. In fact, it has increased from 18 million in 1950 to almost 99 million in 2015. This made Ethiopia the most populated country in East Africa in 2017, followed by Tanzania (53 million), Kenya (47 million) and Uganda (40 million) (UNDESA, 2017<sup>[23]</sup>). This trend has mainly been driven by the spread between birth and mortality rates. This spread has been observed in every country during the early stages of development. The way this spread evolves over time is commonly referred to as a "demographic transition". The notion of demographic transition follows from observing the demographic processes experienced by most developed countries today. A demographic transition can be divided into a number of consecutive stages, which are strongly interlinked with social and economic changes. There are, however, two main general phases. In the first phase, as the economic situation improves (improvements in access to food supplies, drinkable water and health services become accessible), mortality rates tend to decline. Later on, during the second phase, better access to education, women's empowerment, higher wages and productive jobs lead to a decline in birth rates. When the latter takes place, population growth slows down.

Ethiopia's birth and death rates have consistently declined since the 1980s. During the period 2010-15, mortality stood at 7.5 deaths per 1 000 population, compared with 21.4 deaths per 1 000 population in 1980-85 (Figure 1.16). Moreover, during the same period, Ethiopia's death rate was lower than both the sub-Saharan and East African averages of 10.3 and 8.4 deaths per 1 000 population, respectively (UNDESA, 2017<sup>[23]</sup>). Ethiopia's birth rate has also decreased, from 45.4 births per 1 000 population in 1980-85 to 33.6 births per 1 000 population in 2010-15 (Figure 1.16). Ethiopia's birth rate from 2010-15 also stands below the sub-Saharan and East African averages (37.9 and 37 births per 1 000 population, respectively). In order to provide a better perspective on Ethiopia's demographic transition, Annex Figure 1.A.1 (in Annex 1.A) compares the demographic transitions of Ethiopia and Viet Nam. This figure shows that, although Ethiopia's and Viet Nam's birth rates are converging, there is still a big gap between their rates. In 2010-15, Ethiopia's birth rate was almost twice as high as Viet Nam's. Ethiopia's population will keep growing as long as the gap between the birth and death rates remains; however, decreasing trends for both rates suggest that the country's rate of population growth will slow down.

**Figure 1.16. Ethiopia's demographic transition**



Source: UNDESA (2018<sup>[24]</sup>).

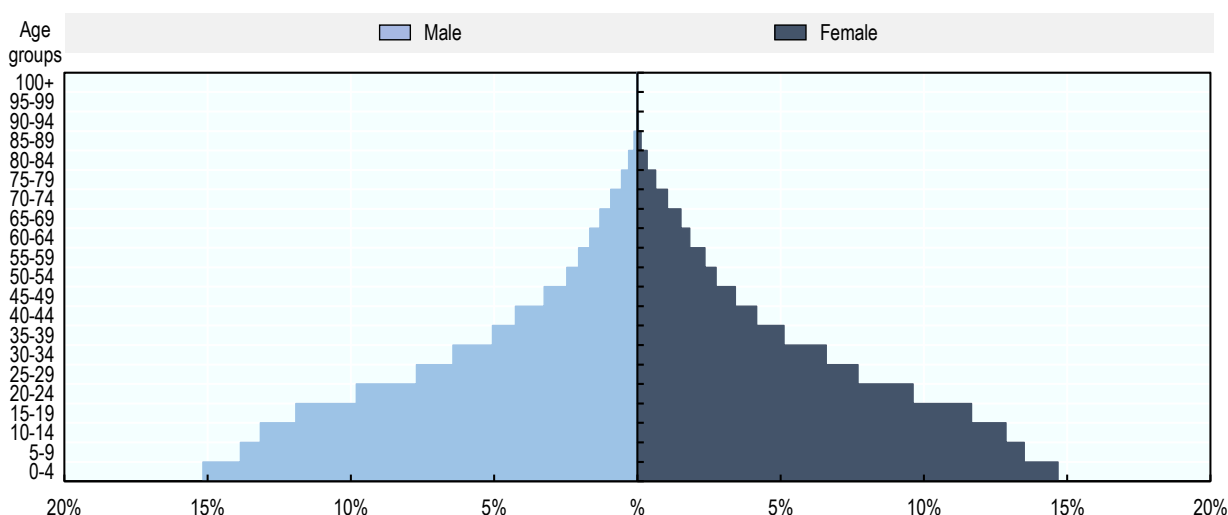


### ***Ethiopia's demographic transition is further reflected in the structure of its population***

Figure 1.17 shows the distribution of the Ethiopian population by age and sex in 2015. The shape of this distribution shows that Ethiopia is characterised by a very young population. Indeed, almost 42% of the total population is under 14 years of age, while the working-age population (those aged 15-64 years old) accounts for 55%.

The nature of Ethiopia's population structure puts a greater burden on its working-age population. Thus, the working-age group will continue to support the group which is not yet in the labour market. The latter can be expressed as a dependency ratio, i.e. the population outside the labour market (or dependants) over the working age population. In 2015, Ethiopia's dependency ratio stood at 82%; this value remains only slightly above neighbouring Kenya (78%), but is significantly higher than countries such as Morocco (51%) and Viet Nam (42%), which are more advanced in terms of their demographic transition Annex Figure 1.A.3 in Annex 1.A).

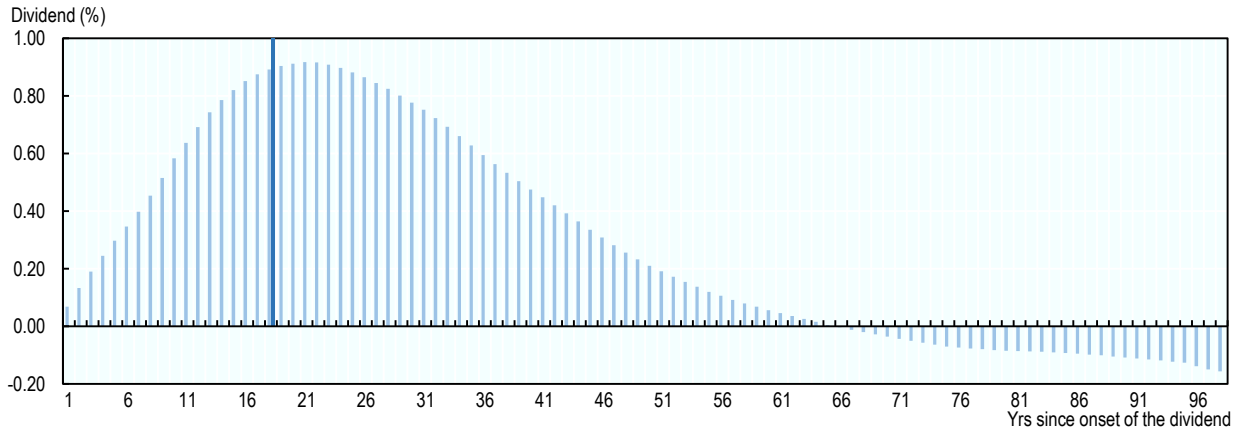
**Figure 1.17. Ethiopia's population pyramid, 2015**



Note: Each horizontal bar represents the percentage of the total population of males and females in each age group.

Source: UNDESA (2018<sub>[24]</sub>).

Ethiopia's current population structure also brings economic opportunities. Changes in the population's age structure affect the balance between individuals who are producing and those who are consuming; this implies that countries with a large proportion of both very young and very old people have fewer producers relative to consumers, and vice versa (Mason et al., 2017<sub>[25]</sub>). This is the basis for the demographic dividend, the contribution of changes in the population's structure to economic growth. Figure 1.18 shows the demographic dividend for Ethiopia. Ethiopia's demographic dividend started in 2002, and during its first year it potentially contributed 0.068% to economic growth; it will continue to contribute to economic growth until it peaks 22 years later (by 2024), reaching up to 0.92%. It will then slowly decline, and 65 years after it began it will stop (by 2067). Changes in the population structure from then on will have a negative impact on economic growth.

**Figure 1.18. Demographic dividend**

Note: “Dividend” refers to the contribution of changes in the population structure to economic growth. “Yrs since onset of the dividend” refers to how many years have passed since the first dividend started. In the case of Ethiopia, the first dividend started in 2002, according to United Nations (UN) estimates. The blue bar in the figure marks the year 2020, i.e. 18 years after the beginning of the first dividend.

Source: Mason et al. (2017<sup>[25]</sup>).

However, the demographic dividend can only materialise if the increase in the labour supply is matched with productive jobs. Moreover, Ethiopia’s demographic transition is taking place along with a rapid urban-rural transformation process, which will further necessitate improving public service delivery and promoting a conducive environment for employment creation in cities of different sizes.

### ***Internal migration plays a key role in Ethiopia’s rural-urban transformation process***

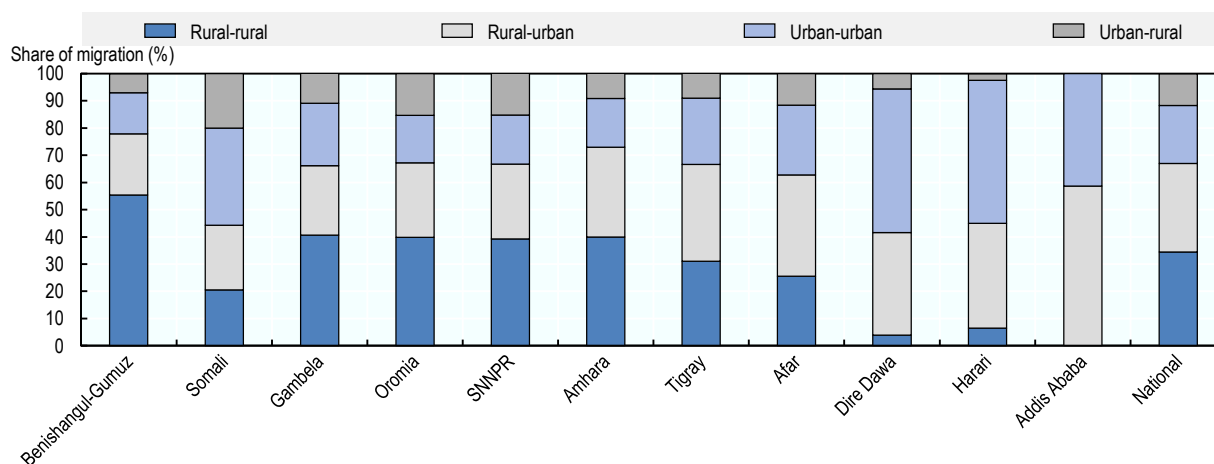
Although the share of the population changing residence in the country is small, the most important flow of population is taking place within rural areas. Between 2008-13, close to 35% of the population movements that took place in Ethiopia were rural to rural; rural to urban flows represented 33%, while urban-to-urban migration accounted for 21% of all population flows (Annex Table 1.A.4 in Annex 1.A). Although the scale of internal migration<sup>7</sup> has not drastically changed since the late 1990s, its patterns have evolved. Notably, the importance of rural-to-urban migration has increased, while that of rural-to-rural migration has decreased. Indeed, in 2005, migration from rural to urban areas accounted for 24% of all migration flows, i.e. seven percentage points lower compared with 2013; in contrast, the share of migration across rural areas accounted for 46% of total migration flows, representing a decrease of more than ten percentage points compared with 2013 (CSA, 2014<sup>[26]</sup>).

Internal migration patterns, however, further differ across regions. Figure 1.19 presents the share of population flows across urban and rural areas for all Ethiopian regions. Addis Ababa is the region with the highest share of the population coming from rural areas (59%), followed by Harari and Dire Dawa, for which rural migrants accounted for almost 38%. However, Addis Ababa is not the region with the highest urban-to-urban migration. During the same period, urban-to-urban movements accounted for almost 52% of the internal migration in Harari and Dire Dawa, while for Addis Ababa this represented 41%.

Most population movements in Ethiopia are taking place within regions. From 2008 to 2013, most population movements took place within zones of the same region. This is the case in all regions, with the exceptions of Addis Ababa, Harari, Dire Dawa and Somali. This pattern is clearly identified in Figure 1.20. In Oromia, more than 80% of the population movements from 2008-13 took place within the region; in Amhara, Tigray and SNNPR, intra-regional migration accounted for approximately 70% of all population movements. In contrast, in the case of Addis Ababa, Harari, Dire Dawa and Somali, the largest share of migrants moved to a zone outside the region; it is interesting to note that for these four regions, the most

frequent destination was Oromia (their neighbour),<sup>8</sup> which accounted for 51%, 33%, 29% and 46%, respectively, of the population outflows originating in these regions. Oromia is, in relative terms, the most important destination in the country.

**Figure 1.19. Migration across urban and rural areas by region**



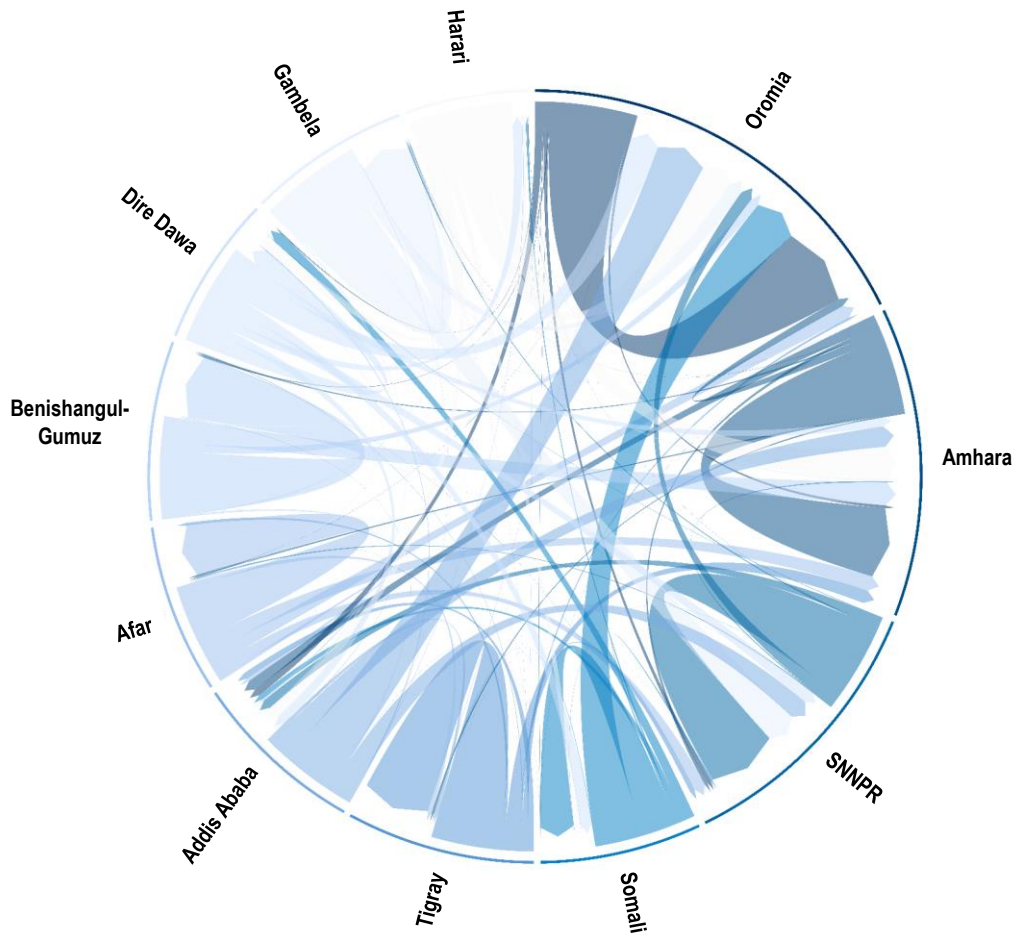
Note: Migration refers to population movements taking place from 2008-12.  
Source: Labour Force Survey (2013), adapted from Schmidt et al. (2018<sup>[27]</sup>).

The most important driver of internal migration in Ethiopia is the search for employment. Migration between rural and urban areas has been explained as a result of wage differentials between the two areas (Harris and Todaro, 1970<sup>[28]</sup>), as well as an overall strategy at the household level that helps to maximise the welfare of household members while reducing the risk of external shocks (Rosenzweig and Stark, 1989<sup>[29]</sup>). Overall, evidence from different countries shows that most migrants (except those from countries facing conflicts or natural disasters) move from one place to another in order to find job opportunities, access to services, and an overall better quality of life. The case of Ethiopia is no different. Among recent migrants in 2013, finding a job was the main reason for changing residence, followed by moving in order to live with family members or due to marriage, and education (CSA, 2014<sup>[26]</sup>). Although finding a job, family reasons, and education are consistently the main drivers for migration across Ethiopia, in some regions other factors play a relevant role. For instance, shortage of land is more relevant in regions such as Benishangul-Gumuz, Amhara, and Gambela, while displacement linked to war or drought was more important in Somali and Afar.

Internal migration in Ethiopia is influenced by both personal characteristics and place-related factors. Independent of the reason for migrating, young and educated Ethiopians are more likely to migrate than their older and less-educated peers. In 2013, rural migrants were on average 10 years younger than rural non-migrants; they were also characterised by having twice as many years of education compared with non-migrant rural dwellers, and were three times more likely to have attained secondary-level education (Bundervoet, 2018<sup>[30]</sup>). Holding small sized-land and landlessness are also important drivers for migration (Dominiko, 2016<sup>[31]</sup>). In addition to individual factors, places characterised by high levels of poverty and limited accessibility to roads provide a less conducive environment for migrants; in other words, credit constraints and high migration costs make rural-to-urban migration less likely (Bundervoet, 2018<sup>[30]</sup>).

Overall, population mobility appears to be a welfare-maximising strategy in Ethiopia. Evidence from Tanzania suggests that migration is associated with an overall improvement in welfare (Beegle et al., 2011<sup>[32]</sup>). In the case of Ethiopia, although empirical evidence remains limited, rural-to-urban migrants seem to be better off when compared with non-migrants; consumption of goods other than food tends to more than double while diet further improves for migrants when compared with people who opted to not migrate (Bundervoet, 2018<sup>[30]</sup>).

**Figure 1.20. Internal migration across Ethiopian regions**



Note: Internal migration refers to those population movements within and across regions from 2008-12. Arrows represent the share of population migration from one region to another or within the same region. The thickness of the arrows represents the magnitude of the flow. Colours differentiate regions. The order in which regions are presented around the circle represents total population size in 2013, starting with Oromia (the region accounting for the largest population in the country), moving clockwise until reaching Harari.

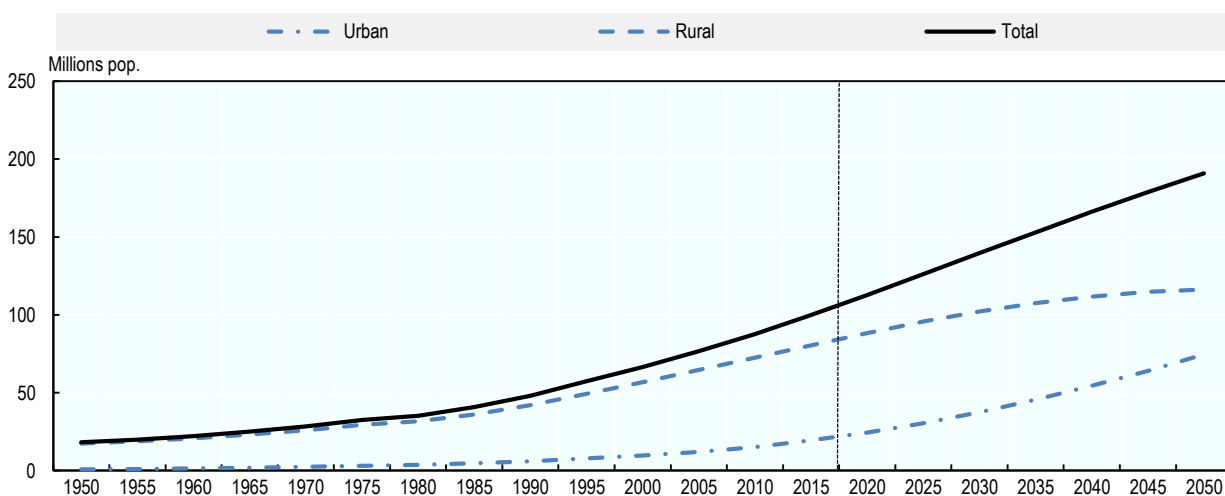
Source: Labour Force Survey (2013), adapted from Bundervoet (2018<sup>[30]</sup>).

## Ethiopia's spatial transformation

### ***Ethiopia's rural population will continue to grow in parallel with a rapid urbanisation process***

Ethiopia is, and will remain until at least 2050, a predominantly rural country. In 2015, the rural population was estimated to be approximately 80.5 million, or 81% of the total population (UNDESA, 2018<sup>[24]</sup>; CSA, 2013<sup>[33]</sup>). More importantly, although there are increasing investments to boost manufacturing, as well as ongoing efforts to improve rural electrification, irrigation and mechanisation (which will contribute to the rural-urban transformation), most of the population is expected to reside in rural areas until about 2050 (Figure 1.21). Ethiopia's rural population is expected to reach 102 million by 2030, which represents an average yearly growth rate of 1.6% between 2015 and 2030; growth will then further decrease to 0.65% between 2030 and 2050.<sup>9</sup> By the end of 2050, Ethiopia will remain predominantly rural, since the rural population will account for more than 61% of the total population (UNDESA, 2018<sup>[24]</sup>).

**Figure 1.21. Rural and urban populations in Ethiopia, 1950-2050**



Source: CSA (2013<sup>[33]</sup>) and UNDESA (2018<sup>[24]</sup>).

Ethiopia is one of the least urbanised countries in the region. In 2015, urban areas hosted 20% of the Ethiopian population; this value is lower than the regional averages of sub-Saharan Africa and East Africa, which during the same year stood at 39% and 27%, respectively (UNDESA, 2018<sup>[24]</sup>). However, comparing urbanisation rates between countries like this has some caveats. The main issue is the different definitions of urban areas across countries, as an area that one country considers to be urban may not be classified as urban by others (see Box 1.2 for the definition of urban areas in Ethiopia). Overcoming this caveat requires identifying urban areas – across countries – based on a common criterion that leads to a comparable definition. Datasets such as Africapolis provide this information.<sup>10</sup> According to this dataset, Ethiopia's urban population accounted for 27% of the total population in 2015; in comparison, the urban populations in neighbouring countries are estimated to be 72% in Djibouti, 65% in Kenya and 38% in Tanzania.

### Box 1.2. Being urban in Ethiopia

An urban centre in Ethiopia is defined as a locality with 2 000 or more inhabitants. These localities are referred as kebeles, which are the lowest-ranked administrative units with their own jurisdiction. However, areas classified as urban also include the following territorial administrative units regardless of the number of inhabitants:

- all administrative capitals (includes all regional, zonal, and woreda capitals, as well as localities with urban dweller's associations (UDAs))
- municipal towns
- all localities which are not included either in a) or b) with a population of 1 000 or more persons, and whose inhabitants are primarily engaged in non-agricultural activities (note that localities with a population of fewer than 1 000 persons should be considered as rural).

Urban centres with a population of 100 000 inhabitant or more, as well as regional capitals (irrespective of their population size), are further classified as major urban centres.

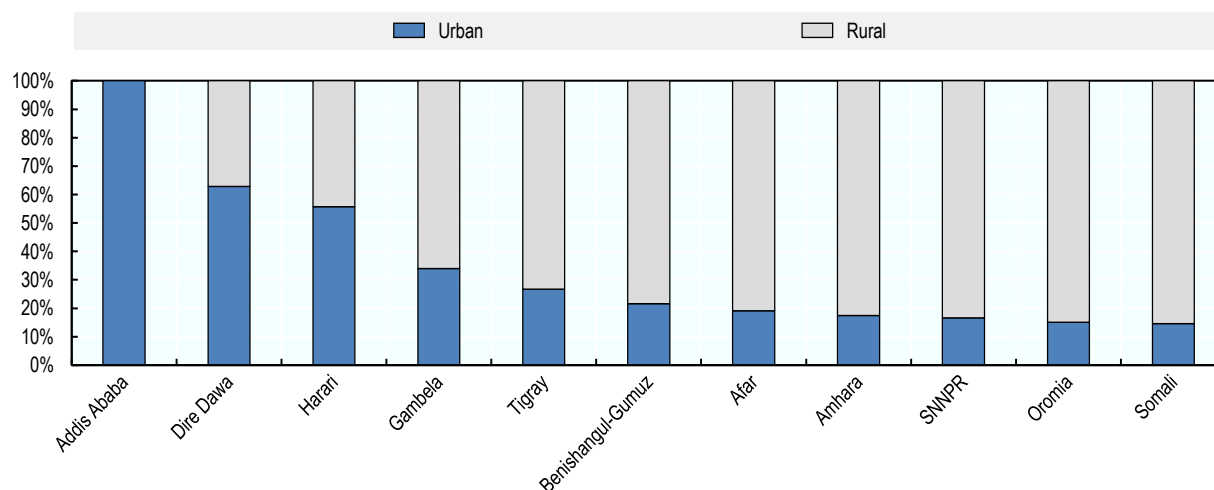
Rural areas are, by definition, those areas not classified as urban.

Source: CSA (2014<sub>[26]</sub>).

Addis Ababa is the most urbanised region in Ethiopia. Among the 11 regions within Ethiopia, Addis Ababa is the only region with 100% of its population classified as urban. However, despite being the most urbanised region in the country, it only represents 3.7% of Ethiopia's population and close to 18% of the country's total urban population (CSA, 2013<sub>[33]</sub>). Addis Ababa is followed by the regions of Dire Dawa and Harari, where the urban population accounts for 63% and 56% of the population, respectively. In contrast, in regions such as Oromia or Somali, urbanisation rates are close to 15% (Figure 1.22).

Oromia, Southern Nations, Nationalities, and Peoples' Region (SNNPR), and Amhara account not only for the largest number of cities with more than 100 000 population, but also for the largest number of small agglomerations. Indeed, in 2015, 19 of the 24 cities with more than 100 000 people in Ethiopia were located in these regions. In contrast, in the regions of Afar, Benishangul-Gumuz, and Gambela, there are no agglomerations with more than 100 000 inhabitants (Table 1.2 and Figure 1.23). Oromia, SNNPR and Amhara also account for the largest number of agglomerations with fewer than 50 000 inhabitants. Oromia itself accounts for more than 40% of this type of agglomeration in the country, followed by Amhara (38%). It is important to note that Oromia hosts 28% of the urban population in the country; it is followed by Amhara (19%) and Addis Ababa (18%) (CSA, 2013<sub>[33]</sub>). Moreover, in 2017, Oromia and Amhara together accounted for 60% of the total population of Ethiopia.

Figure 1.22. Urbanisation rate across Ethiopian regions, 2015



Source: CSA (2013<sub>[33]</sub>).

Table 1.2. Number of agglomerations by city size and region

	Less than 50 000	Between 50 000 and 100 000	Between 100 000 and 300 000	Between 300 000 and 500 000	More than 500 000	Average city size
Addis Ababa	0	0	0	0	1	3 711 329
Afar	9	0	0	0	0	19 529
Amhara	138	6	3	1	0	26 668
Benishangul-Gumuz	6	1	0	0	0	19 610
Dire Dawa	1	0	1	0	0	145 721
Gambela	4	1	0	0	0	25 678
Harari	0	0	1	0	0	111 073
Oromia	183	13	6	2	0	32 065
SNNPR	58	10	6	1	0	43 191
Somali	16	1	1	0	0	27 739
Tigray	29	5	1	1	0	36 348
Ethiopia	444	37	19	5	1	39 704

Note: Data for 2015.

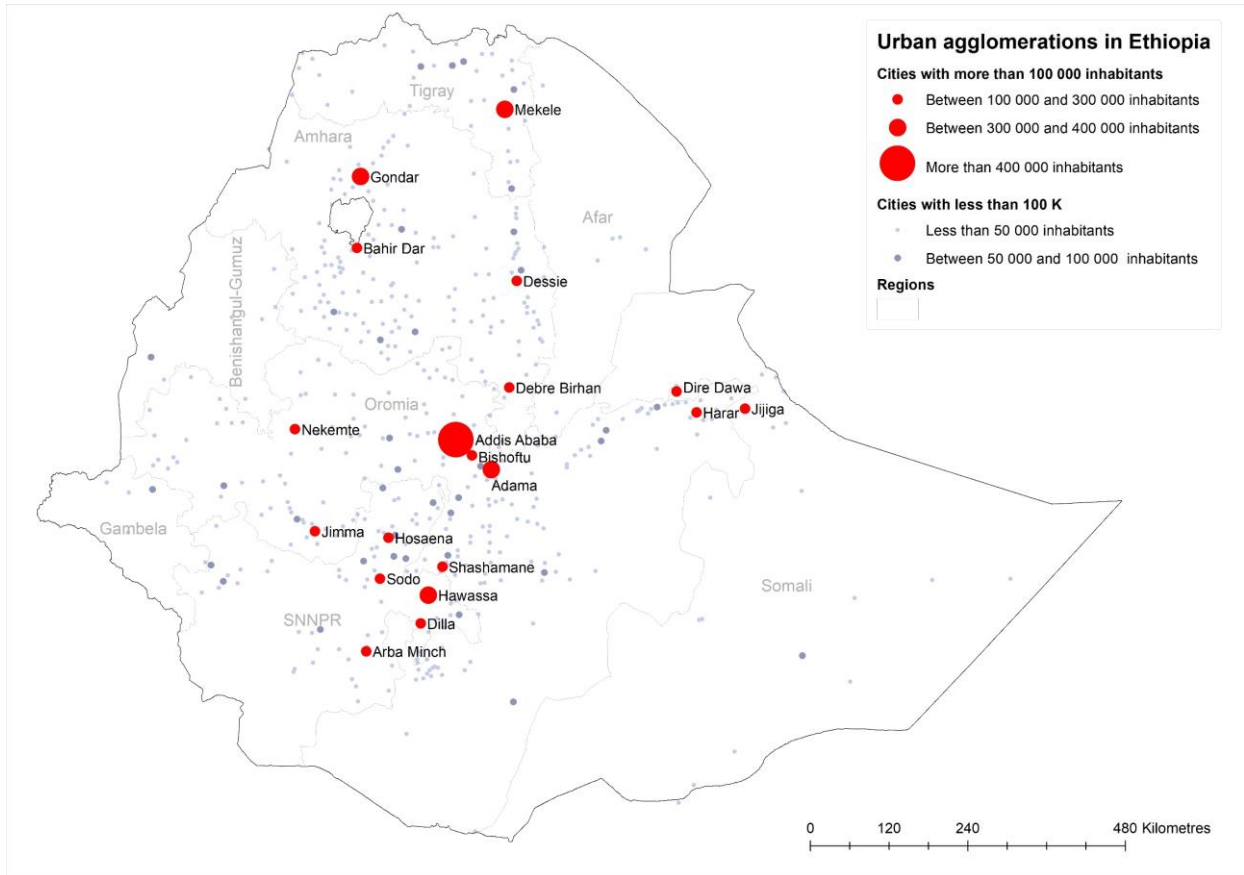
Source: Authors' calculations using data from Africapolis (SWAC/OECD, 2018<sub>[34]</sub>).

### ***Ethiopia's urban system is heavily skewed towards Addis Ababa***

Addis Ababa is the largest city in Ethiopia and the only agglomeration with more than 1 million people. For 2015, according to official statistics, Addis Ababa's population was projected to account for almost 3.3 million people (CSA, 2013<sub>[33]</sub>). However, according to Africapolis, Addis Ababa's population was closer to 3.7 million (SWAC/OECD, 2018<sub>[34]</sub>). The second-largest city in the country was Adama, followed by Gondar, Mekele and Hawassa (CSA, 2013<sub>[33]</sub>). Ethiopia's city rankings – the order of cities based on their population size – varies according to the definition of what a city is. For instance, according to Ethiopia's National Urban Spatial Development Plan, the second-largest city in 2015 was Mekele, followed by Adama and Gondar (MoUDH, 2016<sub>[35]</sub>). And according to Africapolis, the second-largest city in 2015 was Harari, followed by Adama and Mekele (SWAC/OECD, 2018<sub>[34]</sub>). Although these rankings may differ in terms of the position of cities within the ranking, they are consistent with regard to the size difference between Addis Ababa and the following cities in the ranking: Addis Ababa is around 8-10 times bigger than the

second-largest city. Moreover, there is a small group of cities characterised by a total population hovering around 300 000 inhabitants; these include agglomerations such as Mekele, Adama, Dire Dawa, Gondar and Hawassa.

**Figure 1.23. Urban agglomerations in Ethiopia**



Note: City populations for 2015.

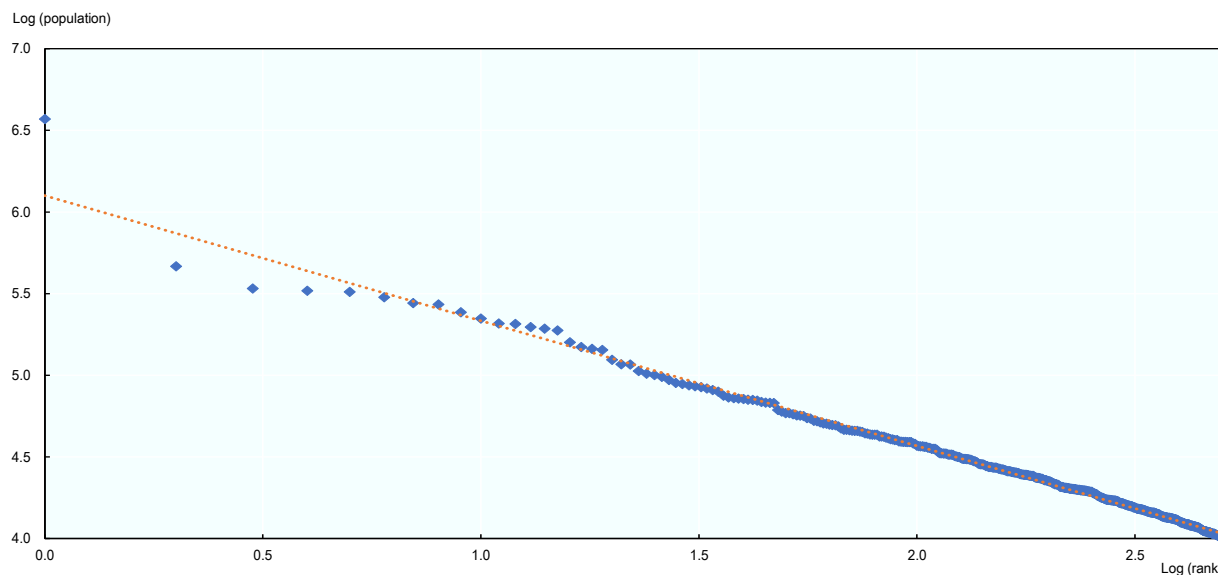
Source: Authors' calculations using data from Africapolis (SWAC/OECD, 2018<sup>[34]</sup>).

Ethiopia's urban system strongly relies on its capital city, Addis Ababa. Figure 1.24 presents the rank-size distribution for Ethiopian agglomerations in 2015. This figure highlights the role of Addis Ababa as an integral part of the urban system. As discussed, the capital city is very large compared with the following tier of cities in the ranking (Mekele, Adama, Dire Dawa, Gondar and Hawassa); after this group of cities, there is a large number of smaller agglomerations (with at least 10 000 people) scattered around the country that capture the remaining share of Ethiopia's urban population.

Addis Ababa's predominant role makes Ethiopia's urban system fairly monocentric. Urban systems with a tendency to concentrate economic functions and populations in a small number of cities are considered to be monocentric, while those with a more even distribution are said to be polycentric.<sup>11</sup> Figure 1.25 presents the extent of polycentricity for Ethiopia:<sup>12</sup> when this measure is higher than 1, the urban system tends to be polycentric; when it is lower than 1, it suggests a monocentric urban system. Ethiopia has a coefficient of 0.77, suggesting that it has a monocentric national urban system further characterised by a strong primacy.<sup>13</sup>



Figure 1.24. Rank-size distribution of Ethiopia



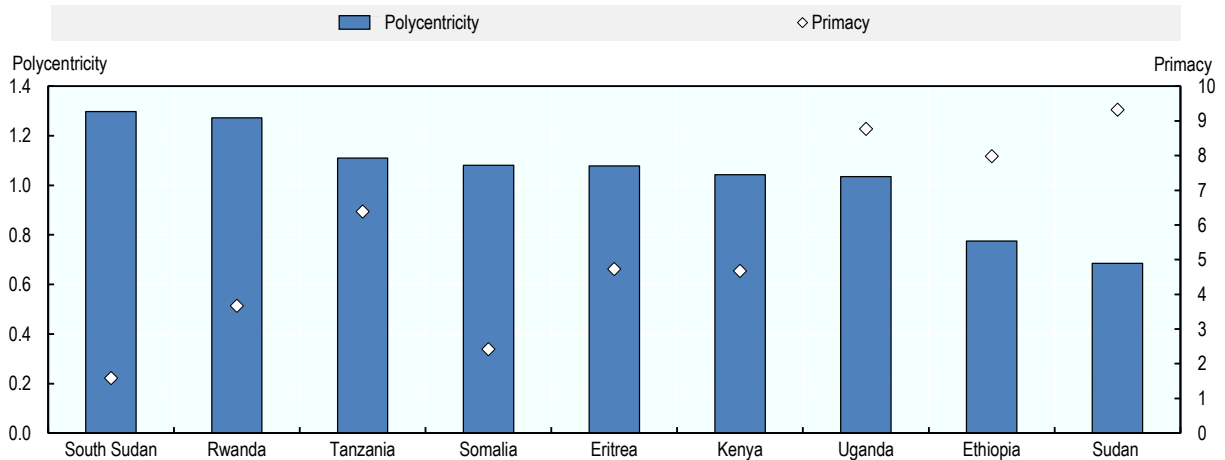
Note: The population of Hawassa has been replaced by CSA estimates due to potential issues with the estimates from Africapolis.

Source: Authors' calculations using data from Africapolis (SWAC/OECD, 2018<sup>[34]</sup>).

Ethiopia is not the only country in East Africa with a capital city dominating the national urban system. Figure 1.25 compares polycentricity and primacy for nine East African countries. Both Uganda and Sudan are characterised by a high primacy: their largest cities are around nine times bigger than the second-largest cities in their urban systems. As is the case for Ethiopia, these two countries also show a strong tendency towards monocentricity. In contrast, countries such as South Sudan and Rwanda show more polycentric urban systems and comparatively lower primacy levels.

The monocentric structure of Ethiopia's urban system, as well as its high primacy, suggests that there is scope for other cities to play more important roles within the urban system. Notably, this could release some pressure from Addis Ababa and allow other cities in the urban system to accommodate higher-value economic activities and inhabitants. Indeed, it seems that cities in Ethiopia tend to be relatively small. In 2015, only 16 out of the 78 agglomerations identified in Ethiopia's National Urban Spatial Development Plan had more than 100 000 inhabitants, while according to Africapolis, only 24 out of 509 agglomerations in Ethiopia fell into this category.

Figure 1.25. Polycentricity and primacy across East African countries



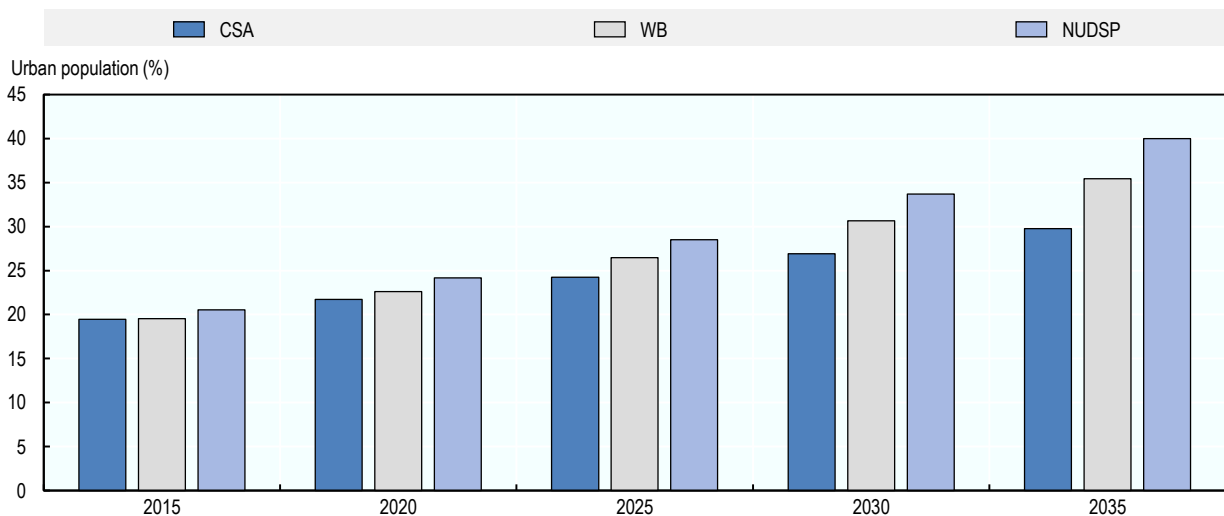
Note: Polycentricity is measured through the coefficient estimate resulting from regressing the city ranking over the city's total population (both variables expressed in logs) for each country. See in Annex 1.A for detailed results. Primacy is measured as the ratio of the population of the largest city in the country over the population of the second-largest city.

Source: Authors' calculations using data from Africapolis (SWAC/OECD, 2018<sup>[34]</sup>).

### Urban population will double within the next 15 years

Ethiopia is urbanising rapidly. It took Europe 110 years to increase its urban population from 15% in 1800 to 40% in 1910 (AfDB/OECD/UNDP, 2016<sup>[36]</sup>), whereas Ethiopia will experience this change in half that time.<sup>14</sup> By 2025, the urban population is expected to account for 24-29% of Ethiopia's total population; this number will reach up to 30-40% by 2035 (Figure 1.26). Although these percentages remain small compared with other advanced economies and are close to the sub-Saharan African average as of 2019 (39%), they imply a significant change in terms of the total number of urban residents. Within the next 15 years, the urban population is expected to double, increasing by 80-118%.<sup>15</sup> In other words, by 2035, city authorities will have to address the needs of 18-29 million new urban dwellers who will demand access to electricity, water, sanitation, housing, education, etc.

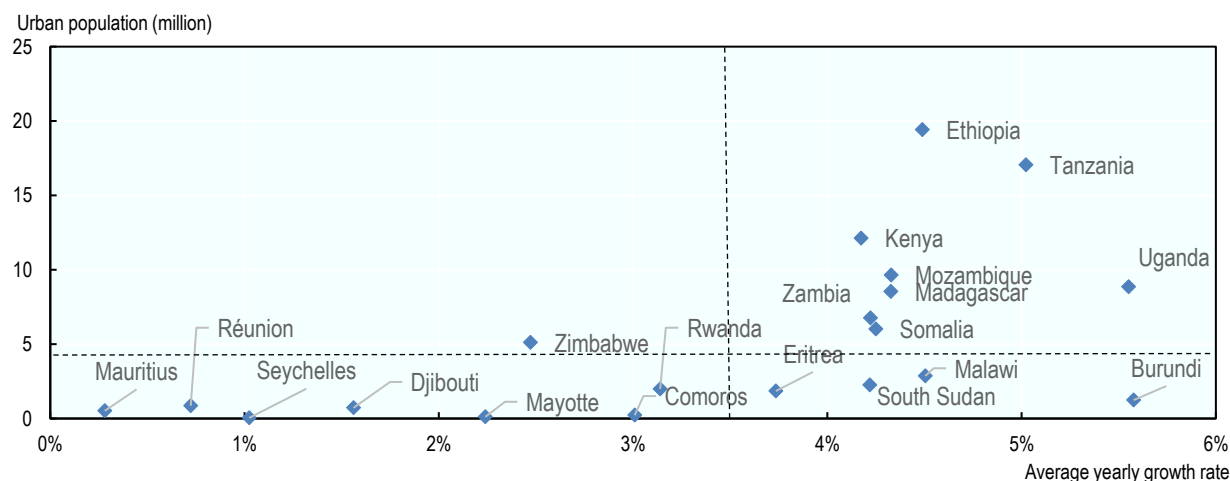
Figure 1.26. Urbanisation forecasts, 2015-35



Source: CSA (2013<sup>[33]</sup>), Ozlu et al. (2015<sup>[37]</sup>) and MoUDH (2016<sup>[35]</sup>).

However, Ethiopia is not the only country in the region experiencing a rapid urbanisation process. Ethiopia's urban population is expected to grow at an annual rate of 4.5% on average between 2015 and 2035 (Figure 1.27), but it will be outpaced by countries such as Tanzania, Uganda and Burundi, which are all expected to grow at rates higher than 5%. However, of particular note in this figure is the scale at which Ethiopia's urbanisation process is taking place. Ethiopia's urban areas accounted for 19 million people in 2015, representing the largest urban hub in East Africa. By 2050, Ethiopia is expected to be the country with the second-largest number of urban dwellers in East Africa (just after Tanzania), reaching almost 75 million people (Figure 1.27). See Box 1.3 to compare Ethiopia's urbanisation process to another key contributor to urbanisation in its respective region, Viet Nam.

**Figure 1.27. Urban growth in East Africa, 2015-30**



Note: Dotted lines represent the average of the variables in each axis.

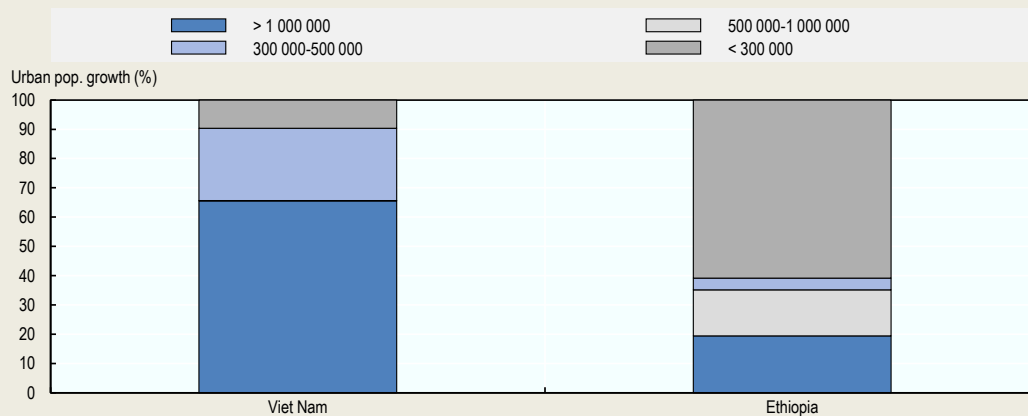
Source: Authors' calculations using data from UNDESA (2018<sup>[24]</sup>).

### Box 1.3. Urban growth in Ethiopia and Viet Nam

How does Ethiopia's urbanisation process compare with that of Viet Nam? The economies of Ethiopia and Viet Nam both reached growth rates close to 7% in 2018, making them key actors in their respective regions (World Bank, 2019<sup>[11]</sup>). However, these economies are at different stages of their economic transformation process. Viet Nam's economy relies on a growing services sector that accounts for the largest share of economic activity, while agriculture accounted for less than 15% of its economy in 2018. Ethiopia's service sector is evolving, and has overtaken industrial activities, reaching close to 36% in 2018; however, agriculture remains a key sector for the economy, representing almost 34% of its GDP (World Bank, 2019<sup>[11]</sup>).

Although both countries remain predominantly rural, differences in their economic activity described above further translate into the rural-urban spectrum, in particular when it comes to the types of agglomerations driving the urbanisation process. In 2018, Viet Nam's urban population represented approximately 35% of its total population, while Ethiopia's urban population was close to 20% of its total population (UNDESA, 2018<sup>[24]</sup>). Nevertheless, from 2015 to 2035, cities in Viet Nam with more than 1 million inhabitants will account for 65% of the country's urban population growth, followed by cities with populations of between 300 000 and 500 000 inhabitants, which are expected to account for 24% of urban population growth. However, in the case of Ethiopia, cities with fewer than 300 000 inhabitants will account for more than 60% of urban population growth, while Addis Ababa (the only city with more than 1 million inhabitants) will only account for 19%.

Figure 1.28. Urban population growth by agglomeration size in Viet Nam and Ethiopia, 2015-35



Source: Authors' calculations using UNDESA (2018<sup>[24]</sup>).

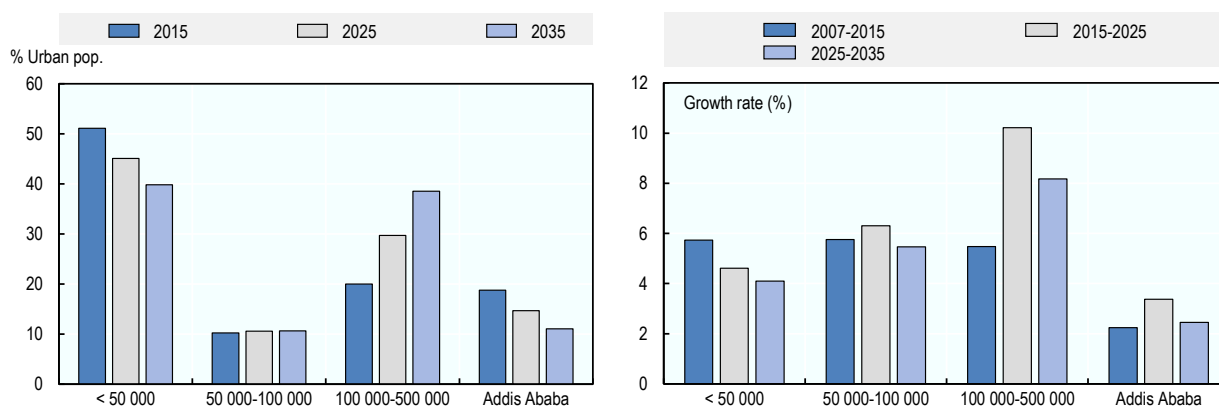
### ***Ethiopia's smaller agglomerations are contributing the most to urbanisation and playing a growing role in the economy***

Intermediary cities are driving Ethiopia's urbanisation process. In 2015, Addis Ababa accounted for 19% of the whole urban population in Ethiopia; this share, however, is expected to decrease between 2020 and 2035, reaching close to 11% by 2035 (Figure 1.29). Indeed, although Addis Ababa's population will continue to grow during this time, it will do so at a lower rate compared with small and medium-sized cities. Cities with fewer than 50 000 inhabitants will continue to account for the largest share of Ethiopia's urban population between 2020 and 2035, going from 51% in 2015 to 40% in 2035. Nevertheless, intermediary

or medium-sized cities with populations ranging from 100 000 to 500 000 people will experience the highest average annual growth rates, which are estimated to be 10.21% between 2015 and 2025 and 8.18% between 2025 and 2035 (Figure 1.29). They will be followed by small cities with populations ranging from 50 000 to 100 000, which are expected to grow by 6.30% and 5.47% during these two periods, respectively.

The rapid growth of intermediary cities has significant implications for both well-being of rural population and the structural transformation of Ethiopia. However, as will be discussed in Chapter 2, intermediary cities are characterised by a consistent lack of adequate infrastructure, a limited capacity of government officials, and a recurring financing gap. In order to generate economies of scale and limit the cost associated with congestion and pollution, the supply of infrastructure and the provision of public services must catch up with population growth. Moreover, the extent to which intermediary cities contribute to development further depends on the accessibility to rural areas, as well as other agglomerations within the national urban system.

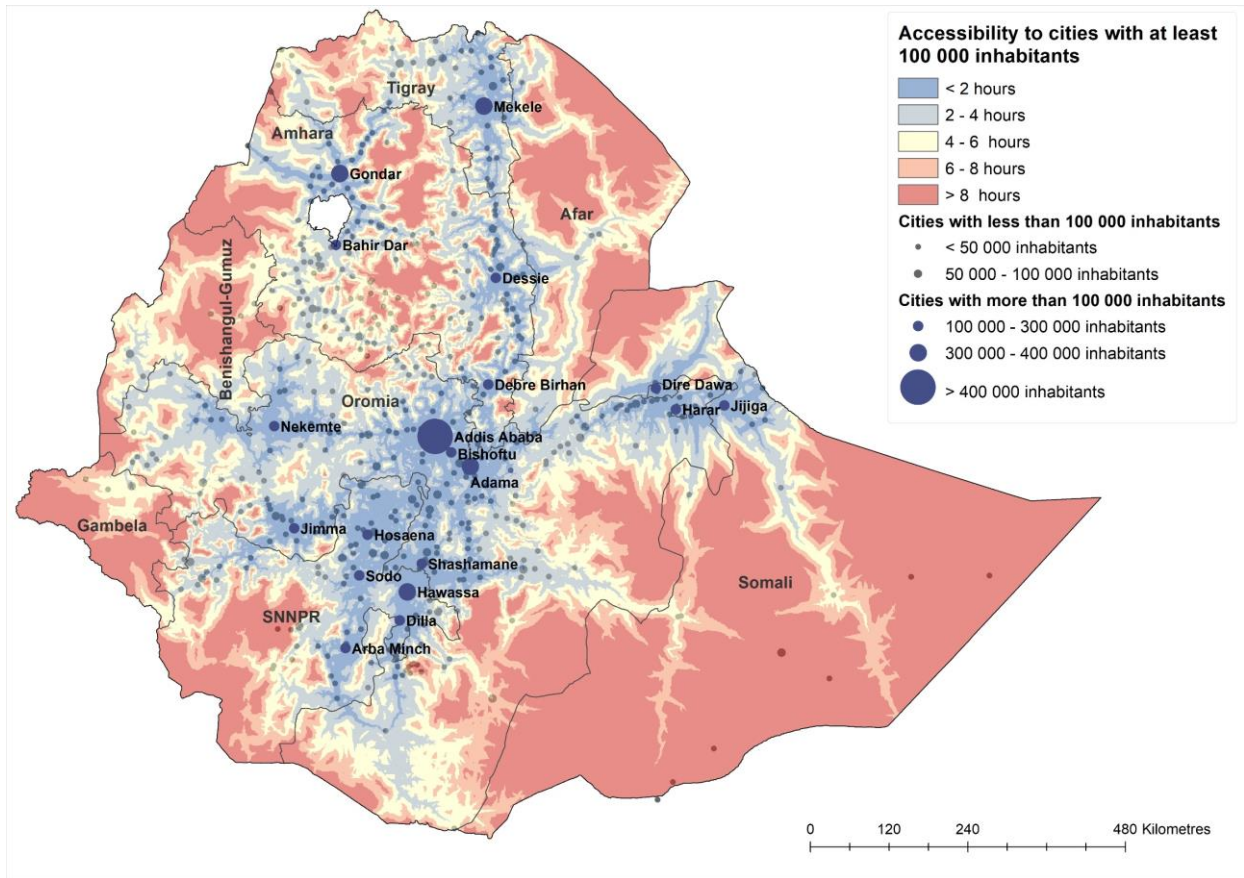
**Figure 1.29. Urbanisation growth rates by agglomeration size**



Source: Schmidt et al. (2018<sup>[27]</sup>).

Ethiopian authorities have actively invested in roads and better telecommunication, which has translated into better accessibility across the country. In fact, as part of its expenditure in pro-poor sectors, the GoE has extensively invested in road development across the country. For example, between 2010/11 and 2015/16, the average annual expenditure on roads reached ETB 22.7 billion, and accounted for 43% of the total pro-poor expenditure (Endale, 2019<sup>[38]</sup>). In certain regions, however, the population still faces significant challenges in terms of accessing education and health services that are usually provided in large and medium-sized cities. Figure 1.30 shows the amount of time needed to reach a populated centre with at least 100 000 inhabitants. At the country level, on average, a populated centre with at least 100 000 inhabitants can be reached within 7 hours. This value, however, hides significant regional differences. In Oromia, the average travel time is 5 hours; while the regions of Gambela and Somali face the longest travel times in order to reach a populated centre with 100 000 inhabitants: 9 and 10 hours on average, respectively.

Figure 1.30. Accessibility to cities of at least 100 000 inhabitants



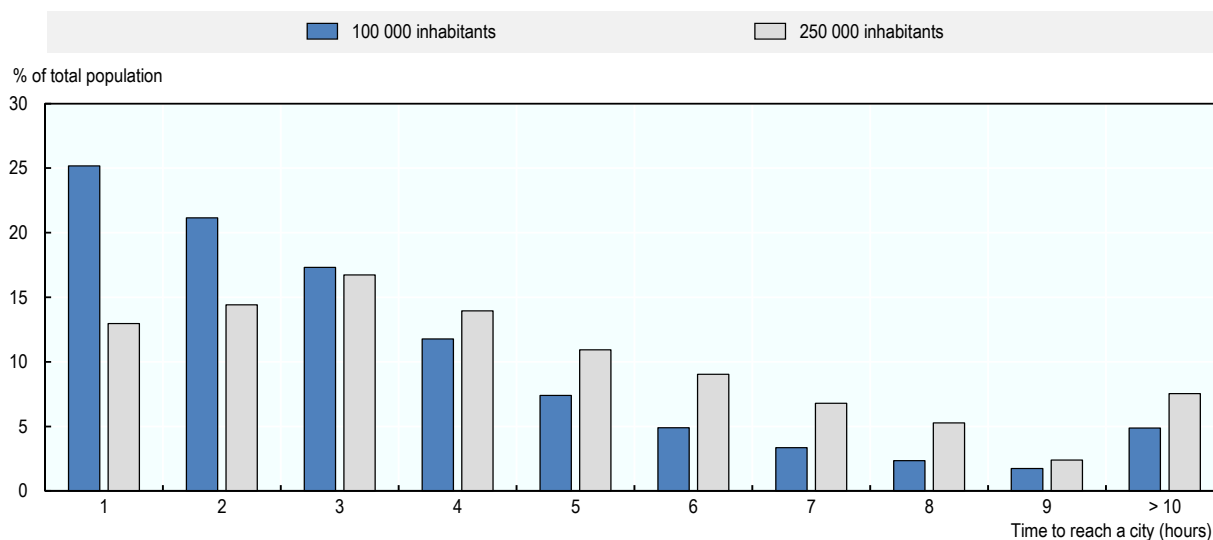
Note: Data on both city populations and accessibility are from 2015.

Accessibility refers to the time (in hours) needed to reach a population of 100 000 inhabitants or more.

Source: Authors' calculations using Geographic Information Systems (GIS) data from Africapolis (SWAC/OECD, 2018<sup>[34]</sup>) and Weiss et al. (2018<sup>[39]</sup>).

Although average time to reach medium-sized and large cities is high, a large share of the population can access these populated centres within 5 hours. Figure 1.31 shows the percentages of the population that can reach cities with 100 000 and 250 000 inhabitants by time threshold. Almost 64% of the population can reach an agglomeration with at least 100 000 people within 3 hours. Moreover, 44% of Ethiopians can access a city with at least 250 000 inhabitants within this time frame. In contrast, almost 12% of the population needs at least 7 hours to reach a city with 100 000 people; while 10% of the population needs 9 hours or more to reach a populated centre with at least 250 000 inhabitants.

**Figure 1.31. Accessibility to cities with 100 000 and 250 000 inhabitants**



Note: Data for 2015.

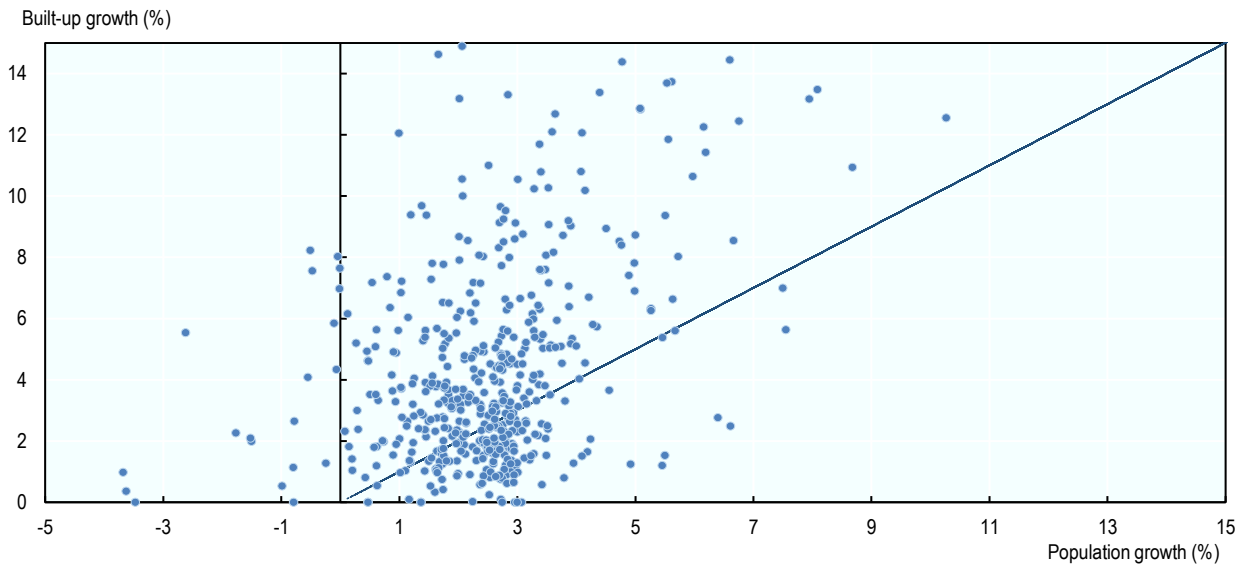
Source: Authors' calculations using Geographic Information Systems (GIS) data from Africapolis (SWAC/OECD, 2018<sup>[34]</sup>) and Weiss et al. (2018<sup>[39]</sup>).

### ***Urban expansion is making cities less dense, further affecting rural areas***

Ethiopia's rural-urban transformation is taking place by low-density urban growth. Urban population growth has further translated into a consistent expansion of built-up areas across Ethiopia. Built-up areas can be broadly considered as roofed constructions above ground that are used for sheltering humans, animals or materials; the production of economic goods; or the delivery of services (Pesaresi et al., 2019<sup>[40]</sup>). As cities grow, built-up areas expand. However, in many developing regions, built-up areas are growing at a faster rate than the urban population, making cities less dense (Angel et al., 2016<sup>[41]</sup>). This commonly leads to increasing transportation and service delivery costs and deterioration in overall environmental quality. Moreover, rapid city expansion can create tensions and even conflicts between urban and rural dwellers.

Ethiopian cities seem to be following this process. Estimates suggest that, between 2000 and 2010, Addis Ababa's density decreased by an annual average of 3.1%, while its built-up area expanded annually by an average of 5.9% (Angel et al., 2016<sup>[41]</sup>). However, this phenomenon is not limited to the capital city. A large number of Ethiopian cities are facing a rapid expansion of built-up areas that have outpaced the cities' population growth rates. Figure 1.32 shows the average yearly growth rate of both built-up areas and the population across Ethiopian cities between 2000 and 2014. The line extending from the origin to the top right corner represents a 1:1 growth trajectory, i.e. when both population and built-up area growth are increasing at the same rate. The figure shows that for a significant share of cities, the built-up area is expanding at a faster rate than the urban population. On average, across all agglomerations, the built-up area is growing twice as fast as the population. However, the built-up area expansion process seems to differ across cities of different sizes. Between 2000 and 2014, cities with more than 200 000 inhabitants (in the year 2000), experienced built-up area growth that was, on average, 14% faster than the population growth, while cities with fewer than 200 000 inhabitants, built-up area expansion overtook population growth by an average of 82%.<sup>16</sup>

Figure 1.32. Urban expansion and population growth, 2000-14



Note: Both built-up area and population growth rates account for yearly average growth between 2000 and 2015.

Source: Authors' calculations based on the Global Human Settlement Layer Urban Centres Database (GHS-UCDB) produced by Eurostat, Florczyk et al. (2019<sup>[42]</sup>).

## The evolution of well-being in rural areas

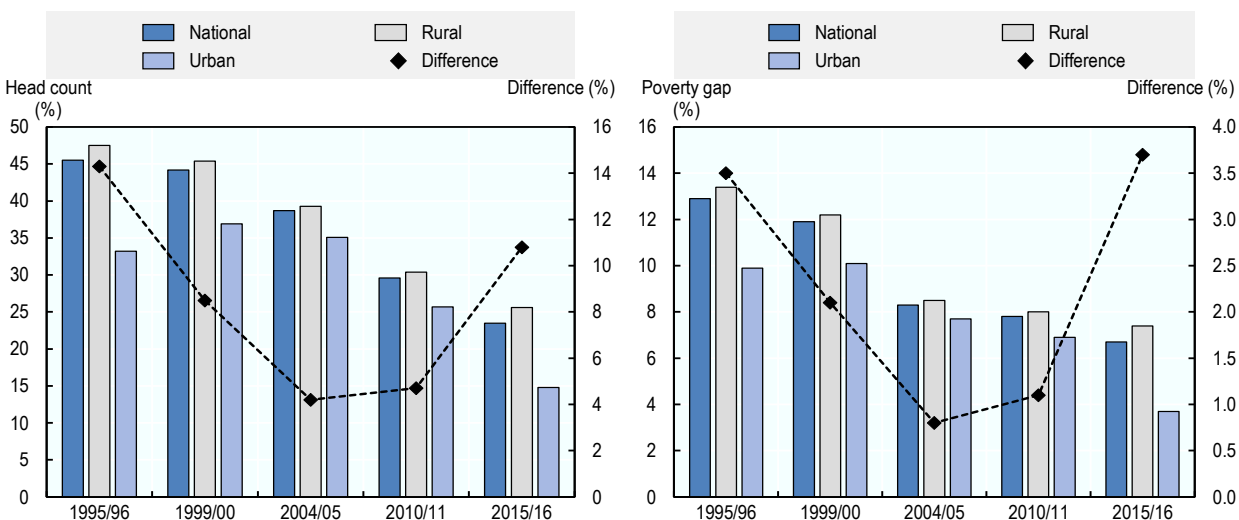
### ***There have been important improvements in rural well-being, but there is an increasing gap between rural and urban areas***

Rural poverty has been significantly reduced since the late 1990s. Between 2000 and 2016, the rural poverty head count – i.e. the share of the rural population considered poor – decreased from 45% to 25% (Figure 1.33). Moreover, the intensity of poverty in rural areas also decreased during this period. The poverty gap across rural areas – i.e. the ratio by which the mean income of the poor falls below the poverty line – decreased from 12% in 2000 to 7.4% in 2016 (Figure 1.33).

Despite the success of poverty reduction in rural areas, since the mid-2000s, the gap between urban and rural areas has increased. Poverty in urban areas has been lower since the mid-1990s. In 2000, the poverty head count in urban areas was close to 33%, i.e. almost 14 percentage points lower than in rural areas; by 2005, this difference was four percentage points, but by 2016, the difference had increased by almost 11 percentage points (Figure 1.33). A similar process has taken place with the poverty gap. In 2005, the difference between urban and rural areas was less than one percentage point, but by 2016, this difference had reached almost four percentage points.



Figure 1.33. Evolution of poverty in rural and urban areas



Note: Difference refers to the difference between urban and rural areas for either poverty head counts or the poverty gap in each year.  
Source: Authors' calculations using data from NPC (2017<sub>[12]</sub>).

Beyond monetary poverty, rural areas are particularly affected by limited access to basic services and lower levels of human capital. Table 1.3 shows a selected number of indicators describing differences in health, household characteristics and education across urban and rural areas in 2016. Overall, rural areas have lower outcomes in all these areas. At the household level, in 2016, access to electricity remained an area for further improvement, since less than 9% of rural households had access to electricity; in contrast, more than 93% of urban households had access to this service. This is also the case for access to water, since only 6% of rural households had access to water in their premises, compared with 77% of urban households. Moreover, more than half of rural households have to spend 30 minutes or more round trip in order to fetch water.

Ethiopia has maintained a steady progress in achieving Goal 2 of the Millennium Development Goals (MDGs). Indeed, primary school enrolment reached 93% in 2014. However, despite the improvements, enrolment in secondary school only reached 20.2% in the same year (UNDP, 2014<sub>[43]</sub>). Furthermore, education is a welfare dimension in which striking differences between rural and urban areas prevail: almost half of the population (aged 6 years or older) in rural areas has no education, while in urban areas the illiterate population only represents 19% (Table 1.3). There is also a big gap between rural and urban areas in terms of attendance to secondary and higher education institutions. In 2016, the percentage of the Ethiopian population with secondary education living in urban areas was five times higher than that of the population living in rural areas. Moreover, during the same year, less than 1% of the rural population had attended higher education, compared with 17% of the population in urban areas.

In spite of these marked differences across urban and rural areas, there has been significant progress in some of these indicators. Table 1.3 also shows the growth rate of the selected group of indicators between 2011 and 2016. Access to water has been an area of significant progression for rural households, increasing by 34% during this period. Access to mobile phones shows a similar progression, growing by almost 30% among rural households. Indeed, in 2016, 47% of rural households had access to a mobile phone. Secondary education has also progressed in rural areas, growing by 17% during the period 2011-16.

**Table 1.3. List of selected welfare indicators across urban and rural areas**

Welfare indicators	2016		Change, 2011-16 (%)	
	Rural	Urban	Rural	Urban
Children stunted	39.9	25.4	-2.89	-4.21
Households possessing a mobile telephone	47.2	88.0	29.82	6.18
Households possessing a telephone	0.6	15.2	24.57	-4.36
Households possessing a television	2.1	59.4	13.81	7.13
Households with electricity	8.4	93.3	11.84	1.83
Households with water on the premises	5.6	76.8	33.92	8.79
Households using an improved water source	56.5	97.3	6.26	0.59
Households with water 30 minutes or farther away round trip	52.6	12.6	-3.36	-7.79
Population aged 6 years and over who attended higher education	0.9	17.2	0.00	7.65
Population aged 6 years and over who attended primary education	47.8	41.3	0.86	-3.90
Population aged 6 years and over who attended secondary education	4.3	21.9	16.54	7.16
Population aged 6 years and over with no education	46.9	19.4	-1.70	-2.48

Note: All indicators refer to the share (percentage) of households or people. The general fertility rate accounts for the 3 years preceding the survey expressed as the number of live births per 1 000 females of childbearing age (those between the ages of 15 and 44 years).

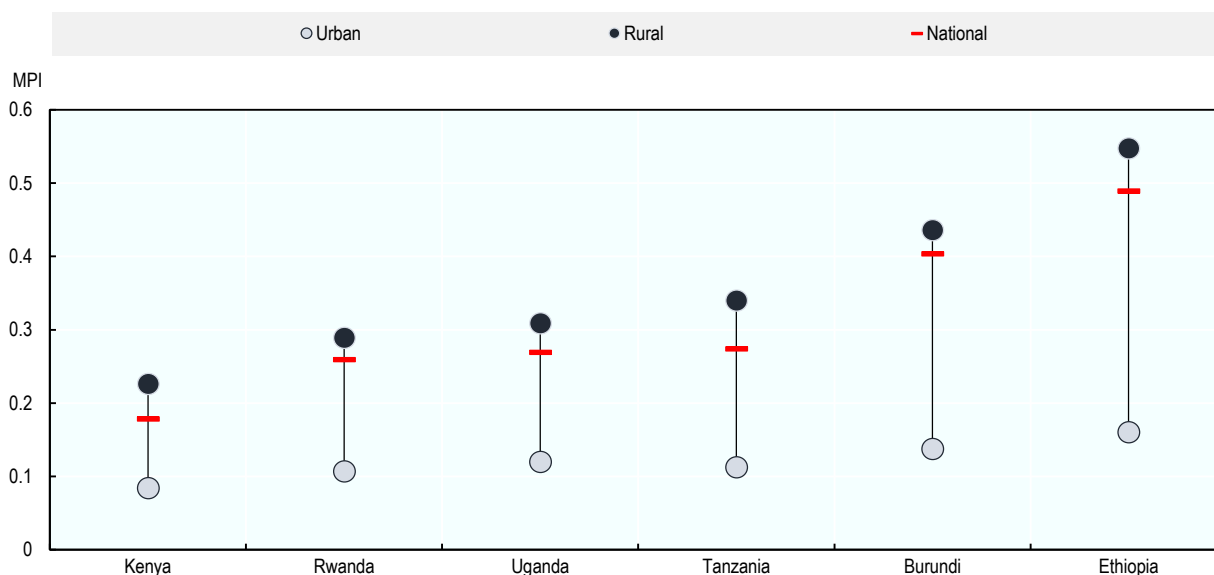
Source: ICD (2016<sup>[11]</sup>). The DHS Program STATcompiler.

### ***Although monetary poverty has decreased, multi-dimensional poverty remains high***

Compared to neighbouring countries, Ethiopia shows a high level of deprivation across different welfare dimensions at the national level. Overall, differences in welfare can be measured through the Multidimensional Poverty Index (MPI). The MPI captures differences across dimensions of well-being – health, education and living standards – providing a general picture of the extent of deprivation. The MPI ranges from 0 to 1, with 1 representing a high level of deprivation. The MPI is the product of two partial indices: the headcount ratio and the intensity of poverty.<sup>17</sup> In 2016, at the national level, Ethiopia's MPI sat at 0.48, the highest value across those East African countries for which data are available (Figure 1.34). The total incidence of multidimensional poverty stood at 84%, i.e. 84% of the population in Ethiopia is considered multidimensionally poor (Alkire, S et al., 2019<sup>[44]</sup>). This number contrasts with the monetary poverty estimate from Figure 1.36, in which only 24% of the population is considered poor.

Ethiopia also shows a large gap in multidimensional poverty between urban and rural areas. In 2016, rural areas' MPI stood at 0.55, while in urban areas it stood at 0.16 (Figure 1.34). Breaking up this value by incidence and intensity shows a more challenging picture in terms of future development. Indeed, the incidence, i.e. the share of multidimensionally poor people in rural areas, reached almost 92% of the total rural population; in contrast, urban areas' incidence was close to 16% (Alkire, S et al., 2019<sup>[44]</sup>). In other words, amongst the almost 74 million people living in rural areas in 2016, close to 68 million were multidimensionally poor. Rural areas are also more affected in terms of intensity, i.e. the average proportion of deprivation experienced. During the same year, poor people in rural areas were deprived in almost 60% of the dimensions, while urban people were deprived in 43% of them. It is important to keep in mind that these estimates account for urban and rural areas at the national level. Estimates across Ethiopian regions presented in Box 1.4 show that important disparities prevailed across multiple regions.

Figure 1.34. Multidimensional poverty in selected East African countries, 2016



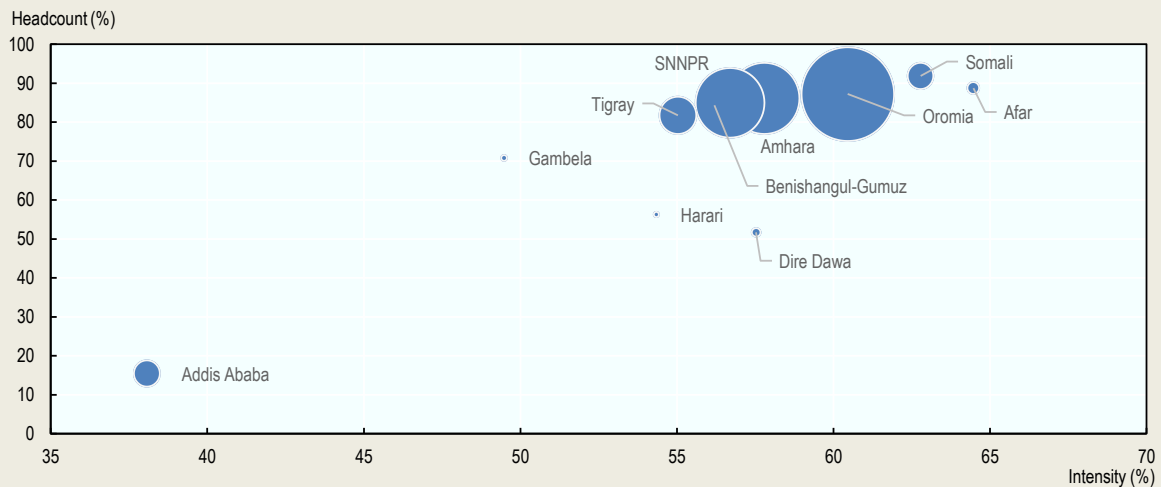
Source: Elaborated by the authors using data from Alkire et al. (2019<sup>[44]</sup>).

Deprivation in rural areas is mainly a consequence of low education levels and low living standards. Annex Figure 1.A.4 in Annex 1.A presents the percentage of people who are poor and deprived across the dimensions of welfare considered by the MPI for both urban and rural areas (see also Box 1.4 for more on MPI across different Ethiopian regions). This figure also shows the contribution of each dimension to overall poverty. The first thing to notice is that, although the percentage of people who are poor and deprived is systematically higher in all dimensions for rural areas, the contribution of each dimension to overall poverty differs across places. For instance, in rural areas, almost 58% of the population is multidimensionally poor and has a malnourished person at home, compared with 24% in urban areas; almost 60% of the rural population lives in households where no member has completed more than 5 years of schooling, compared with 14% in urban areas; more than 85% of the population in rural areas is multidimensionally poor and lacks electricity, drinking water or adequate sanitation facilities, while at most 35% of the urban population lacks access to one of these services (left side of Annex Figure 1.A.4). Nutrition and years of schooling are the dimensions that contribute the most to both urban and rural poverty. However, nutrition has a higher weight in urban areas than in rural areas, contributing 24% and 18%, respectively (right side of Annex Figure 1.A.4). Conversely, limited access to electricity, drinking water and assets contributes more to overall poverty in rural areas than in urban areas.

### Box 1.4. MPI across Ethiopian regions

Needless to say, there are important differences in terms of MPI across regions. Figure 1.35 presents the poverty headcount and intensity for all Ethiopian regions. In 2016, the region experiencing the lowest multidimensional poverty was Addis Ababa (MPI = 0.05), followed by Dire Dawa (0.29), Harari (0.30) and Gambela (0.35). Not surprisingly, these regions are also the ones with the highest shares of urbanisation. There are, however, striking differences in the extent and intensity of multidimensional poverty across regions. In Addis Ababa, only 15% of the population is considered multidimensionally poor, whereas in Dire Dawa and Harari, this share is higher than 50%, and in Gambela it reaches up to 70%. In spite of the latter, the intensity of multidimensional poverty in Gambela (49) is lower than in Dire Dawa (57) and Harari (54). In contrast, Somali and Afar are the regions with the highest MPI (0.57). In both regions, close to 90% of the population experiences multidimensional poverty.

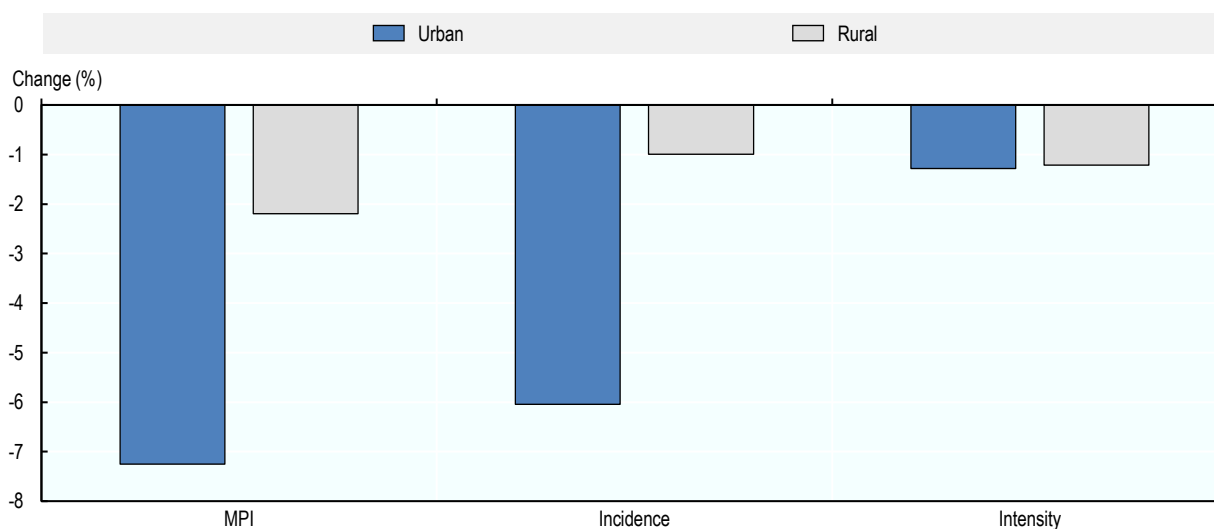
Figure 1.35. Headcount and intensity of MPI across Ethiopian regions, 2016



Source: Elaborated by the authors using data from Alkire et al. (2019<sub>[44]</sub>).

The reduction in multidimensional poverty is advancing faster in urban areas. Between 2011 and 2016, multidimensional poverty was reduced in both urban and rural areas. However, the MPI in urban areas decreased from 0.23 in 2011 to 0.16 in 2016; i.e. the MPI experienced an average annual decrease of 7% during this period. The overall rural MPI went from 0.61 to 0.54, representing an average annual decrease of 2%. For both urban and rural areas, this change was propelled by a decrease in the proportion of people who ceased to be multidimensional poor (the incidence of poverty) in each area, not by the intensity of poverty (Figure 1.36). In urban areas, the proportion of people considered multidimensionally poor decreased from 50% to 37% between 2011 and 2016. In rural areas, this value only decreased by five percentage points, going from 97% to 92%. For both areas, the intensity of poverty experienced an average annual decrease of approximately 1.3%.

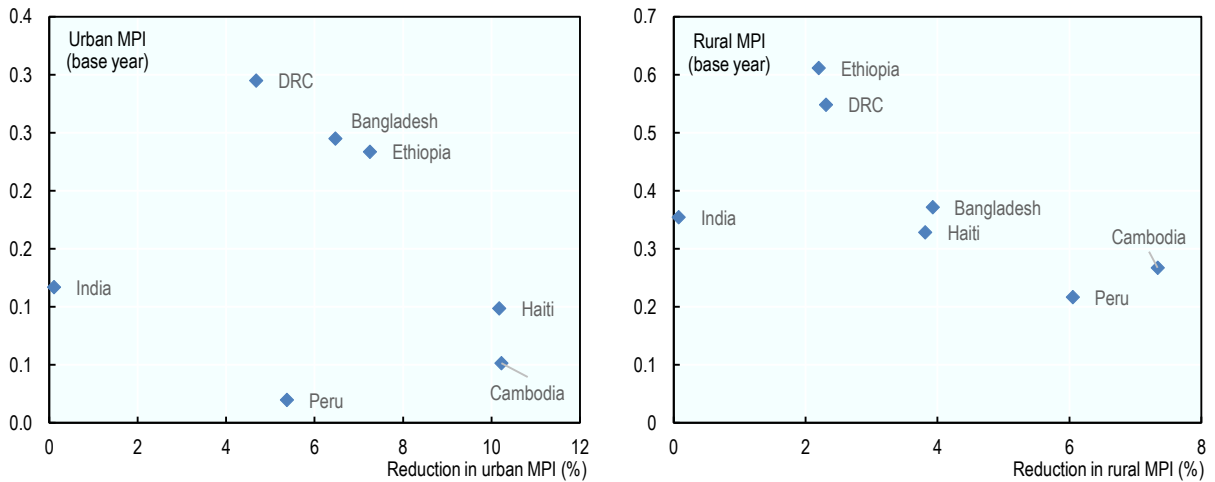
Figure 1.36. Annualised change in multidimensional poverty, 2011-16



Source: Elaborated by the authors using data from Alkire et al. (2019<sup>[44]</sup>).

Where does Ethiopia stand in terms of multidimensional poverty reduction compared with other countries? Ethiopia fares very well when it comes to urban areas, but there is room for improvement among rural populations. Figure 1.37 shows the value of Ethiopia's MPIs in urban and rural areas for 2011 (vertical axes) and their relative change between 2011 and 2016 (horizontal axes); this figure compares these estimates with those of Bangladesh, Cambodia, the Democratic Republic of the Congo, Haiti, India and Peru.<sup>18</sup> Ethiopia and Bangladesh started at the same level and achieved similar decreases in multidimensional poverty among urban areas, of 7.2% and 6.4% on average per year, respectively. Among the seven included countries, Ethiopia achieved the third-largest reduction in MPI in urban areas. When it comes to rural areas, Ethiopia started with the highest MPI of the group (0.61), followed by the Democratic Republic of the Congo (0.54). Both countries achieved similar decreases in MPI, of 2.1% and 2.3% on average per year, respectively. Ethiopia outperformed only India in reducing MPI across rural areas.

Figure 1.37. Changes in MPI across selected countries



Note: These figures are based on those countries for which the MPI has been estimated at two periods of time. The vertical axis accounts for the value of the MPI during the first survey. The horizontal axis accounts for the annual relative change in the MPIs between the first and second time period. For all countries, the change has been negative. Thus, these figures refer to the decrease in the MPI across urban and rural areas in positive terms. The periods for which the MPI has been estimated differ across countries, as follows: Bangladesh: 2004-14; Cambodia: 2010-14; Democratic Republic of the Congo: 2007-13/14; Ethiopia: 2011-16; Haiti: 2012-16/17; India: 2005/06-15/16; Peru: 2006-12.

Source: Elaborated by the authors using data from Alkire et al. (2019<sup>[44]</sup>).

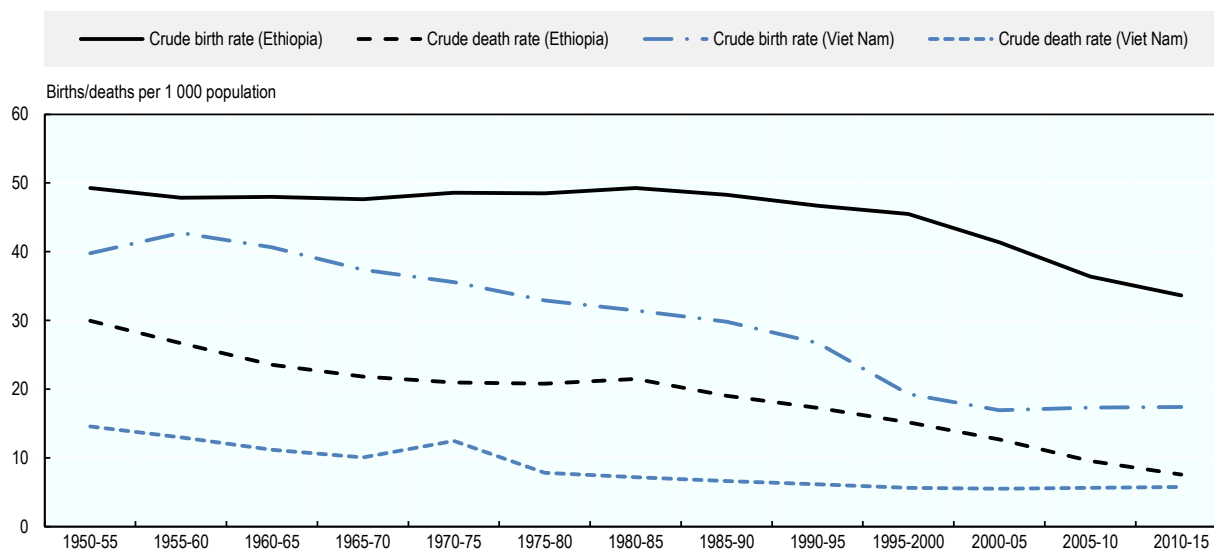
## Conclusions

Ethiopia is a fast-growing economy with strong potential for development. Addressing rural development will be key to achieving national development goals and, more importantly, for improving the well-being of a large share of the population. The three transformations described in this chapter will bring important changes in both the economy and the society that will further affect rural areas. Rural development will require policy actions that account for these transformations through an integrated and holistic approach.

Ethiopia has implemented a series of strategies that led to reduction in poverty and promoted economic development across rural areas in the country. However, rural areas are still confronted with limited development opportunities and are increasingly lagging behind urban areas. As will be discussed in Chapter 3, the current policy framework for rural development has a strong sectoral focus that do not account for the roles and potential of urban areas. Indeed, although urban development has received increasing attention in the last 5-10 years, rural and urban policies appear as mutually exclusive interventions. Addressing the challenges and reaping the opportunities resulting from the tree mayor transformations experienced by Ethiopia will require going beyond the rural-urban divide and create strategies that create policy complementarities between urban and rural areas. To this end, additional attention should be paid to the roles of intermediary cities for rural development (see Chapter 2).

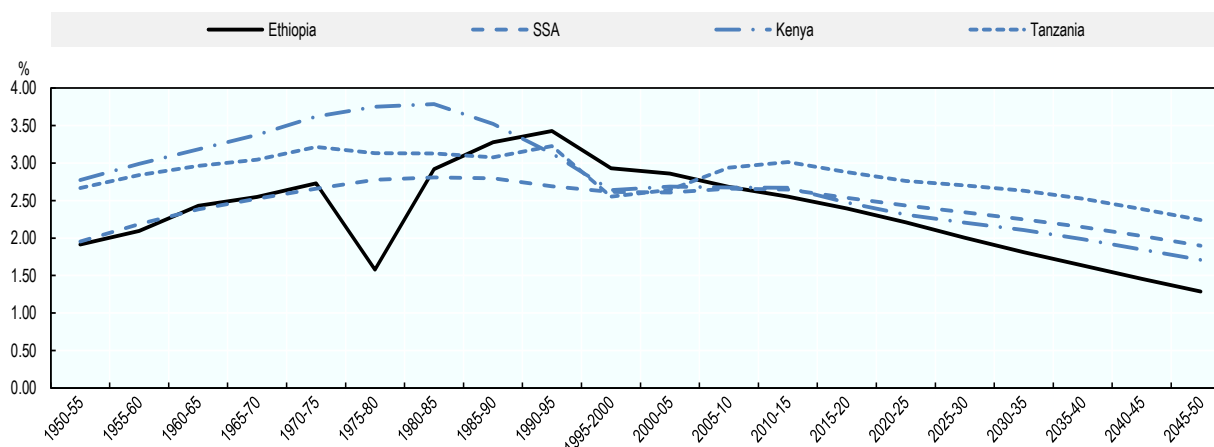
# Annex 1.A. Additional figures and tables

Annex Figure 1.A.1. Demographic transitions in Ethiopia and Viet Nam



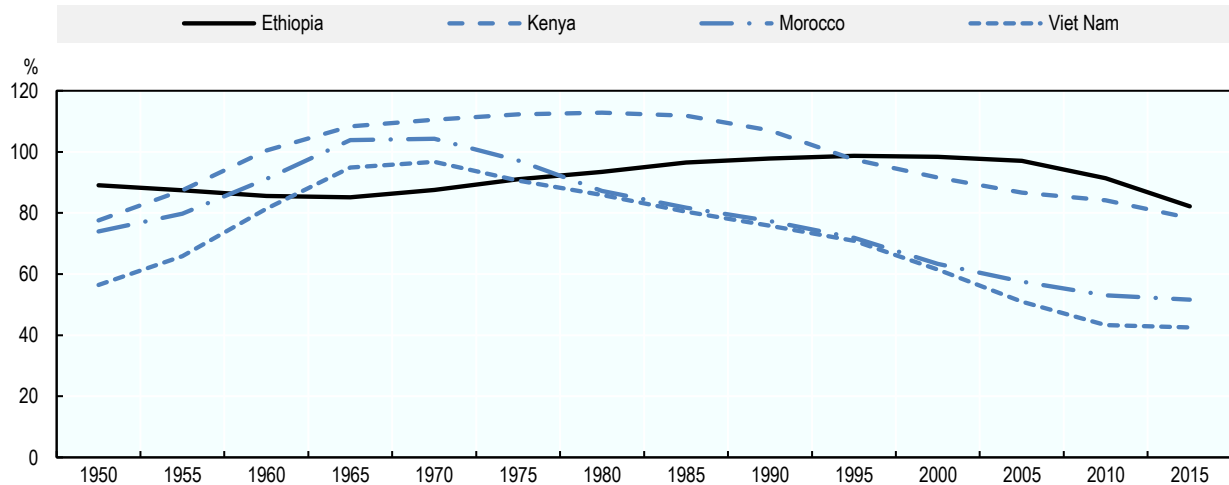
Source: UNDESA (2018<sub>[24]</sub>).

Annex Figure 1.A.2. Population growth rates in selected East African countries and region of Sub-Saharan Africa



Source: UNDESA (2018<sub>[24]</sub>).

## Annex Figure 1.A.3. Total dependency ratio in selected countries



Note: Total dependency ratio = ((age 0-14 + age 65+) / age 15-64). De facto population as of 1 July of the year indicated.  
Source: UNDESA (2018<sub>[24]</sub>).

## Annex Table 1.A.1. Rank-size regression results for East African countries

Country	$\beta$	Standard Error	<i>t</i>	<i>P&gt;t</i>	<i>R-squared</i>
Eritrea	-1.07786	0.163242	-6.6	0	0.9248
Ethiopia	-0.77527	0.11648	-6.66	0	0.7512
Kenya	-1.04327	0.187172	-5.57	0.001	0.9012
Rwanda	-1.27259	0.170013	-7.49	0	0.9158
Sudan	-1.08058	0.323564	-3.34	0.01	0.7734
Somalia	-1.29749	0.079386	-16.34	0	0.9599
South Sudan	-0.68496	0.022274	-30.75	0	0.9823
Tanzania	-1.11059	0.207861	-5.34	0.001	0.8929
Uganda	-1.0349	0.31318	-3.3	0.011	0.7762

Note: Estimates from Ordinary Least Square (OLS) regression with robust standard errors considering the ten largest agglomerations in each country.  
Source: Authors' calculations using data from Africapolis (2018<sub>[34]</sub>).

## Annex Table 1.A.2. Access to cities with at least 100 000 inhabitants, by region

Regions	1 hour	2 hours	3 hours	4 hours	5 hours	6 hours	7 hours	8 hours	9 hours	≥10 hours	Total
Addis Ababa	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Afar	1%	9%	10%	13%	9%	13%	11%	12%	5%	16%	100%
Amhara	14%	15%	16%	19%	13%	8%	6%	4%	2%	4%	100%
Benishangul-Gumuz	0%	1%	9%	27%	19%	15%	10%	7%	6%	6%	100%
Dire Dawa	94%	3%	0%	0%	2%	0%	0%	0%	0%	0%	100%
Gambela	0%	0%	14%	16%	6%	6%	18%	18%	3%	18%	100%
Harari	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Oromia	25%	26%	21%	11%	9%	4%	2%	1%	1%	1%	100%
SNNPR	33%	29%	19%	8%	3%	2%	1%	1%	1%	3%	100%
Somali	6%	7%	5%	8%	4%	7%	7%	8%	9%	40%	100%
Tigray	15%	28%	23%	14%	7%	5%	4%	1%	0%	2%	100%

Note: Percentages may not sum to 100% due to rounding.

Source: Authors' calculations using Geographic Information Systems (GIS) and data from Africapolis (SWAC/OECD, 2018<sub>[45]</sub>) and Weiss et al. (2018<sub>[39]</sub>).



**Annex Table 1.A.3. Alternative typologies for classifying settlements in Ethiopia**

Typology	Share	Extended typology	Share
Urban centres	28.3%	Urban – close	24.8%
		Urban – remote	3.5%
Suburbs	0.1%	Suburbs – close	0.1%
		Towns – close	4.3%
Towns	6.3%	Towns – remote	2.0%
		Villages – close	2.7%
Villages	4.0%	Villages – remote	1.3%
		Rural – close	31.8%
Rural	61.3%	Rural – remote	29.5%
		<b>Total</b>	<b>100.0%</b>

Note: “Close” and “remote” define those settlements where inhabitants can reach a city with at least 100 000 population in less than or more than 3 hours, respectively.

Source: Authors’ calculations using data from (Pesaresi et al., 2019<sub>[40]</sub>).

**Annex Table 1.A.4. Types of internal migration in Ethiopia (%)**

	March 1999	March 2005	June 2013
Rural-rural	37.6	46.0	34.5
Rural-urban	23.5	24.3	32.5
Urban-rural	15.7	12.1	11.6
Urban-urban	23.2	17.7	21.3

Source: Adapted from (CSA, 2014<sub>[26]</sub>).

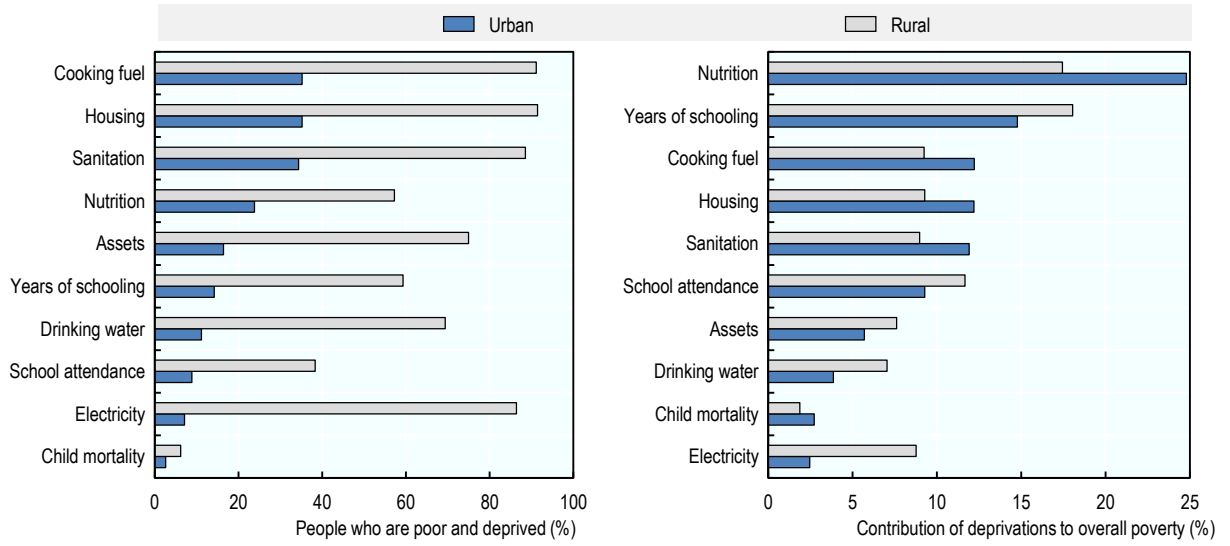
**Annex Table 1.A.5. Components of multidimensional poverty by type of area**

Area	MPI	Incidence (%)	Intensity (%)	Vulnerable	Severe
Urban	0.16	36.83	43.47	18.14	10.89
Rural	0.55	91.82	59.61	7.23	70.49
National	0.49	83.50	58.54	8.88	61.48

Note: *Vulnerable*: the proportion of people who experience deprivation across “20 to 33.3% of the weighted indicators”; *Severe*: proportion of people experiencing deprivation in 50% or more of the poverty dimensions

Source: Elaborated by the authors using data from Alkire et al. (2019<sub>[44]</sub>).

Annex Figure 1.A.4. Multidimensional poverty by type of deprivation



Source: Elaborated by the authors using data from Alkire et al. (2019<sup>[44]</sup>).

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## Notes

<sup>1</sup> Due to methodological differences that allow for cross-country comparison, the estimates from the Africa Sector Database (ASD) may not necessarily match the ones from Ethiopia's Labour Force Survey. However, contrasting these estimates and comparing across countries allows us to have a better understanding of Ethiopia's ongoing structural transformation.

<sup>2</sup> This study focused on the regions of Tigray, Amhara, Oromiya, and SNNP.

<sup>3</sup> Based on soil fertility and slope measures.

<sup>4</sup> According to the Central Statistical Agency CSA (2014<sub>[26]</sub>), the informal sector is considered as a group of production units, such as household enterprises or unincorporated enterprises owned by households. People engaged in subsistence farming and those who work in private households are exempted. Government employees, government development organisation employees, non-governmental organisation (NGO) employees, and members of cooperatives were considered part of the formal sector. Employers, private organisation employees, the self-employed, and apprentices were asked about whether the business/enterprise they were engaged in fulfilled the following criteria: a) the enterprise has an accounting book; b) the enterprise has a licence; or c) the product/service of the enterprise is marketable. Employed persons who satisfy at least one of the above conditions ('a' or 'b') were considered as working in the formal sector. For those who did not fulfil either 'a' or 'b' but did fulfil 'c', the activity was considered as informal. Those who did not know the main activity/business/enterprise, with respect to the criteria above, were considered as "not identified".

<sup>5</sup> The percentage increase was calculated by the authors as follows:  $[(\text{Yield } c, t+5 / \text{Yield } c, t) - 1] * 100$ .; where C stands for crop and t for the years 2000, 2005 and 2010.

<sup>6</sup> The remaining share was mainly produced by commercial farms.

<sup>7</sup> In order to define whether the person interviewed was a migrant or not, the Labour Force Survey asked a different question depending on the location where the survey took place. For urban areas, the question asked referred to the number of years the person had been continuously residing in the town or city, while in rural areas, it referred to the number of years the person had been continuously residing in the rural part of their woreda of enumeration (CSA, 2013<sub>[10]</sub>).

<sup>8</sup> Whether those cities are just a departure point for migration or a transition point requires further study.

<sup>9</sup> Calculations made by the authors using data from UNDESA (2018<sub>[24]</sub>).

<sup>10</sup> The Africapolis dataset estimates urban growth across various agglomerations size in Africa. Africapolis is built by detecting continuously built-up areas using satellite images, and then defining a continuously built-up area as an area with less than 200 m between buildings and constructions. The boundaries of the identified area are then overlaid with a map of the smallest officially defined local administrative units in the country. The populations of all local administrative units that are covered by at least 50% of the identified continuously built-up area are added up and counted as the population of the urban agglomeration. The minimum population threshold used by Africapolis to consider an agglomeration as urban is 10 000 inhabitants. The agglomeration takes the name of the local administrative unit that is highest in the administrative hierarchy and/or population. See <https://www.africapolis.org/data> for detailed information about the methodology.

<sup>11</sup> However, it is not adequate to think about polycentricity and monocentricity in a discrete way; instead, it is better to consider it as a gradient from low to high population concentration. The extent to which a country or a region is considered polycentric or monocentric is commonly captured by analysing the relationship between cities' populations and their corresponding rankings within an urban system. This is referred to as the rank-size distribution.

<sup>12</sup> Polycentricity is measured as the coefficient ( $\beta$ ) resulting from regressing city rank over city population under the following specification:

$$\log(\text{rank}_i) = \alpha + \beta \log(\text{population}_i)$$

When the coefficient  $\beta$  is higher than 1, the system tends to be polycentric; when it is lower than 1, it tends to be monocentric. The slope is estimated using the top ten largest cities in order to avoid bias linked to the large number of small towns (Meijers and Sandberg, 2008<sup>[46]</sup>). This exercise builds on Africapolis data that do not rely on administrative borders, which allows better separation of the nodes of the urban system. In particular, this avoids the mistake of capturing places that are part of a single integrated area, such as a municipality (Brezzi and Veneri, 2015<sup>[47]</sup>).

<sup>13</sup> Urban primacy refers to the size of the largest city with respect to other agglomerations in the country. In this case, primacy is measured as the ratio of the population in the largest city over the population of the second-largest city in the country.

<sup>14</sup> Ethiopia's share of urban population is expected to increase from 14% to 40% between 2005 and 2050.

<sup>15</sup> Authors' calculations using data estimates from the CSA (2013<sup>[33]</sup>), Ozlu et al. (2015<sup>[37]</sup>) and MoUDH (2016<sup>[35]</sup>).

<sup>16</sup> Between 2000 and 2014, the mean value of the average yearly population growth and built-up area growth across all cities was 2.54% and 4.64%, respectively. The built-up area growth rate is thus 82% higher than the population growth rate.

<sup>17</sup> The headcount ratio is the share of poor people in the population; the intensity shows how much deprivation poor people experience on average. See (Alkire et al., 2017<sup>[48]</sup>) for additional information on the MPI.

<sup>18</sup> These countries were selected due to the availability of MPI estimates across time. Please note that periods between MPI estimates differ across countries.



## **2** Ethiopian intermediary cities and their roles for rural development

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Ethiopia is urbanising at an unprecedented rate and intermediary cities are at the centre of its urbanisation process. The growth of Ethiopia's intermediary cities can foster rural transformation and facilitate the development of a more balanced urban system. However, the potential for rural-urban transformation depends on creating strong reciprocal linkages. This chapter analyses a number of Ethiopian intermediary cities, and their roles in facilitating rural development. It highlights that Ethiopia's intermediary cities serve as market hubs for rural goods, act as key destination for rural migrants, and provide employment opportunities. However, it is argued that some of the linkages between rural and urban areas remain weak, limiting the scope for rural-urban transformation. It calls for development of stronger knowledge base on Ethiopia's intermediary cities and their roles for rural development, as well as better co-ordination between rural and urban policies in order to promote an inclusive rural transformation process.

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## Introduction

Addressing rural development in Ethiopia requires putting intermediary cities at the forefront of the development agenda. Ethiopia will remain a predominantly rural country between now and 2050. Indeed, by 2050, the rural population in Ethiopia is expected to account for more than 60% of the total population (UNDESA, 2018<sup>[1]</sup>). However, the country is experiencing rapid urbanisation, which is mainly propelled by intermediary cities (see Chapter 1). These agglomerations will experience social and economic changes, which in turn will present a range of opportunities for rural development and structural transformation. This is due to the fact that urban and rural areas are intrinsically connected. Reaping these benefits will require a deeper knowledge on the channels linking urban and rural areas, as well as improving the co-ordination of urban and rural policies. To this end, this chapter aims to better understand the way in which intermediary cities interact with, and facilitate the development of, rural areas. More precisely, this chapter analyses a number of large intermediary cities in Ethiopia by contrasting statistical evidence in the literature with the roles commonly played by intermediary cities.

Evidence shows that Ethiopian intermediary cities are growing, and that such growth can potentially benefit surrounding rural areas. Indeed, intermediary cities in Ethiopia act as market hubs for rural commodities; they are key destinations for rural migrants, and some of them even provide better employment opportunities in certain sectors than are provided in Addis Ababa. Therefore, it is argued that Ethiopia's intermediary cities can serve as a key catalyst for rural transformation, while promoting a more balanced urban system. Nevertheless, the extent to which these agglomerations ultimately contribute to rural development will depend on the strength of their linkages to rural areas. Today, some of these linkages are weak, thus limiting the benefits of urban growth.

This chapter is structured as follows: the first section highlights, from a general perspective, the role of intermediary cities in Ethiopia's urbanisation process. The second section assesses the roles for rural development of a selected group of intermediary cities in Ethiopia. The third section focuses on key challenges in relation to the development of intermediary cities in Ethiopia. The fourth section looks in detail at the city of Adama, one of the most important intermediary cities in Ethiopia. The final section of the chapter provides a brief conclusion, indicating the way forward.

## Intermediary cities play an important role in the urbanisation process of developing countries

### ***Urbanisation is increasingly recognised as a key factor in development***

There has been a shift in the way we perceive the role of urbanisation in national development. For a long time, urbanisation was seen as a side effect, resulting from a structural transformation process in which labour was released from agricultural activities into high-value activities in developed economies (Michaels, 2010<sup>[2]</sup>). However, since the late 1990s, an increasing number of countries (notably in sub-Saharan Africa) have been challenged by urbanisation without industrialisation (AfDB/OECD/UNDP, 2016<sup>[3]</sup>; Gollin, 2016<sup>[4]</sup>). Urbanisation without industrialisation, coupled with limited socio-economic outcomes taking place in large agglomerations, has highlighted the need to reconsider the degree in which urbanisation is a key factor in development (Duranton, 2015<sup>[5]</sup>).

Cities contribute to development in different ways. They provide agglomeration economies, i.e. benefits for firms and individuals resulting from being located near each other. These benefits derive from lower transportation costs, labour market pooling and knowledge spillovers, among other factors (Glaeser, 2010<sup>[6]</sup>). Cities further facilitate trade and commerce by providing large markets that offer consumers a wide range of goods and services. Cities also offer services that are key for enabling development, including transport and communication infrastructure, electricity, water and sanitation, in addition to being

centres of politics, administration and governance. Moreover, urban centres play a key role in the process of social transformation, innovation, as well as facilitating educational and cultural development (UN-Habitat, 2012<sup>[7]</sup>). These features have enabled cities to attract knowledge, accumulate human capital and management capabilities, and generally achieve high levels of productivity. Another key feature of urban economic growth is that its benefits can spread across space and contribute to both rural and national development. Intermediary cities play a key role in this process.

### ***What is an intermediary city?***

Intermediary cities are agglomerations which – for geographic, historical and economic reasons – act as bridges between metropolitan and rural areas. In parallel, they are strategic nodes within urban networks at national or international level. Their population, depending on the country or region, can range from 50 000 to 1 million inhabitants, usually accounting for the largest share of the urban population (UCLG, 2016<sup>[8]</sup>). Indeed, in 2015, 60% of the world's urban population resided in cities with fewer than 1 million inhabitants (UNDESA, 2018<sup>[9]</sup>). However, intermediary cities can be further identified according to their functions and economic status (Hardoy and Satterthwaite, 1986<sup>[10]</sup>; Roberts and Hohmann, 2014<sup>[11]</sup>). See Box 2.1 for more information on the definition of intermediary cities.

#### **Box 2.1. How are intermediary cities identified?**

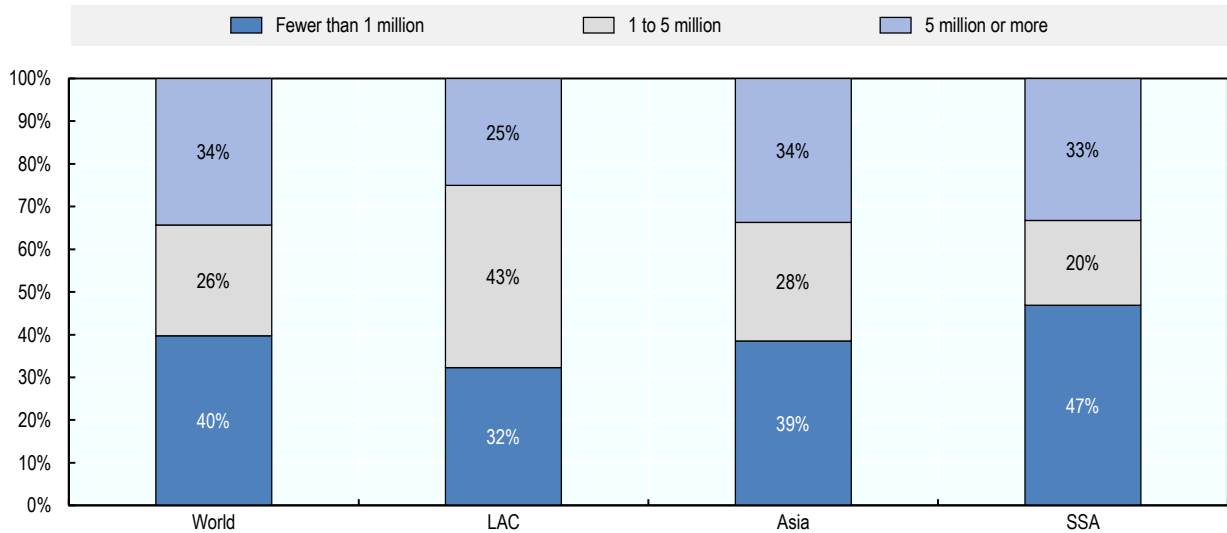
Intermediary cities are growing and attracting more attention in national and international development agendas. However, there is still no universal consensus on a definition that captures intermediary cities' multidimensional characteristics and roles. There are four main approaches to defining intermediary cities:

- By population size: UN Habitat defines intermediary cities as those with between 100 000 and 500 000 inhabitants. The comparable World Bank definition is between 250 000 and 500 000 inhabitants, whereas other sources, including Berdegué and Proctor (2014<sup>[12]</sup>), define intermediary cities as those with fewer than 500 000 inhabitants.
- By population density: the European Commission defines towns and suburbs or small urban areas as contiguous grid cells with a density of at least 300 inhabitants per km<sup>2</sup> and a minimum of 5 000 inhabitants.
- Urban cluster classification: Roberts (2014<sup>[13]</sup>) and Cities Alliance (CA) define intermediary cities according to the structure of the urban system, and consider intermediary cities as those with populations ranging between 10% and 50% of the population of the country's largest city. CA includes additional criteria in which intermediary cities share common features in terms of their fast growth rate, economic and governance structure, and whether they face common challenges, including lack of capacity and strategic planning.
- By economic function: Rondinelli (1983<sup>[14]</sup>) defines intermediary cities in terms of their serving economic and social functions for their inhabitants and nearby areas. United Cities and Local Governments (UCLG) uses the population threshold of between 50 000 and 1 million inhabitants, in addition to taking into account the economic functions of the agglomerations.

Intermediary cities are at the centre of the urbanisation dynamics of emerging regions. The number of intermediary cities will increase until 2035, and, in many cases, these cities will outpace the number of metropolises. In Southeast Asia, some intermediary cities are poised to more than double in size between 2017 and 2025, while their peer capital cities are expected to grow by an average of less than half this figure (Boyd, 2017<sup>[15]</sup>). Similarly, in South Africa, intermediary cities are expected to grow at a rate of more than 33% faster than the larger metropolises during the same period (SACN, 2016<sup>[16]</sup>). Moreover, intermediary cities will contribute the most to urban population growth up until 2035. For instance, cities

with fewer than 1 million inhabitants are expected to contribute to total urban population growth with up to 39% in Asia and 32% in Latin America between 2015 and 2035. In sub-Saharan Africa, this rate could reach up to 47% (Figure 2.1).

**Figure 2.1. Contribution to urban population growth by city size, 2015-35**



Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa. Amounts may not sum to 100% due to rounding.

Source: Calculations made by the authors using data from UNDESA's World Urbanization Prospects (2018<sup>[9]</sup>).

### ***Intermediary cities can play a key role in development***

From a national perspective, intermediary cities help promote a more inclusive urbanisation process and help create a balanced urban system. Indeed, these agglomerations can enhance the living standards of urban dwellers by alleviating pressure from megacities in terms of housing, infrastructure, transportation and public service provision (Berdegué et al., 2015<sup>[17]</sup>). They can absorb the administrative capacities of areas outside the main cities, and they can serve as new centres for social transformation. Furthermore, they can reduce regional inequalities and redistribute the benefits of urbanisation to rural areas, in addition to playing a positive role in reducing poverty (Otiso, 2005<sup>[18]</sup>).

Intermediary cities play a pivotal role in economic development (see Box 2.2). In particular, intermediary cities can promote national development by supporting the agglomeration effects needed for increasing investment and diversifying the national economic structure. Indeed, they can provide the hard and soft infrastructure needed for attracting private and public investment outside the capital city and metropolitan areas, and into manufacturing and other non-farm activities. Intermediary cities can also provide a conducive environment for firms to benefit from agglomeration effects and economies of scale, leading to knowledge spillovers, development of specialist knowledge hubs, and access to skilled and unskilled labour outside metropolitan areas. For example, some of Viet Nam's intermediary cities, in particular Thái Nguyên and Bắc Ninh, have developed a significant manufacturing base by attracting private investment. Both cities host assembly plants and manufacturing complexes for Samsung and Foxconn (Cao, S Et al., 2016<sup>[19]</sup>).

Their linkages with both metropolitan areas and rural areas make intermediary cities key players in the economic transformation process. For this reason, well-managed intermediary cities can facilitate a rural-urban transformation and contribute to developing countries' structural transformation process. For instance, depending on their location, intermediary cities can serve as strategic locations for co-ordinating the logistics needed for the development of industrial and agricultural value chains; they can also enhance

agricultural productivity by providing storage facilities for perishable rural goods, by providing infrastructure such as roads, and transportation networks and services to facilitate agricultural exports (AfDB/OECD/UNDP, 2015<sup>[20]</sup>).

### Box 2.2. Urbanisation recognised as a key driver for development in Ethiopia

The Government of Ethiopia (GoE) has increasingly recognised that urbanisation is conducive to economic growth and structural transformation. As a result, the government has implemented a series of policies and initiatives in order to facilitate sustainable urbanisation. These policies and initiatives have been embedded in national development plans such as the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and the Growth and Transformation Plan II (GTP II). In addition, the GoE launched its first National Urban Development Policy in 2005; since then, the Ministry of Urban Development, Housing, and Construction (MoUDHCo) has launched a series of other sectoral policies to enhance the economic contribution of urban areas, and their sustainability (Gebre-Egziabher and Yemeru, 2019<sup>[21]</sup>). The effects of these policies on urban growth have been amplified by the national decentralisation process which started at regional level in 1995, and at woreda level in 2001.

In addition, the MoUDHCo commissioned two broad and comprehensive studies aimed at informing and improving urbanisation strategies. The two studies were conducted by the World Bank and the Ethiopian Development Research Institute (EDRI) in collaboration with the Global Green Growth Institute (GGGI) and the New Climate Economy (NCE). Both studies reviewed Ethiopia's urbanisation strategies and identified seven intermediary cities (Mekele, Bahir Dar, Dessie-Kombolcha, Hawassa, Adama, Dire Dawa and Jimma) to function as urban growth poles. A number of these cities are also integrated into some of Ethiopia's Special Economic Zones (SEZs). These cities have been identified as areas with high economic potential and are located close to Addis Ababa along transportation, road or communication corridors. The recommendations of these studies have not yet been fully adopted by the MoUDHCo; however, they helped inform the ministry's strategies and the inclusion of urban areas in GTP II (Gebre-Egziabher and Yemeru, 2019<sup>[21]</sup>).

## The increasing importance of intermediary cities in Ethiopia's urbanisation process

### *Ethiopia's urban system is changing...*

Ethiopia is one of the least urbanised countries in Africa, but it is urbanising rapidly. This process is linked to changes in both the economy and society, which have further affected the spatial distribution of Ethiopia's economic activities and population. Today, the urban population in Ethiopia is close to 19 million, but this number is expected to almost double by 2030, reaching 37 million (UNDESA, 2018<sup>[9]</sup>).

This change is taking place in the context of a monocentric urban system. Addis Ababa is the only agglomeration with more than 1 million inhabitants (and the largest agglomeration in the country), as well as being the economic engine of Ethiopia. Indeed, as discussed in Chapter 1, Addis Ababa is at least eight times larger than the second-largest city; furthermore, historically, it has maintained a strong dominance in Ethiopia's urban system as a whole.

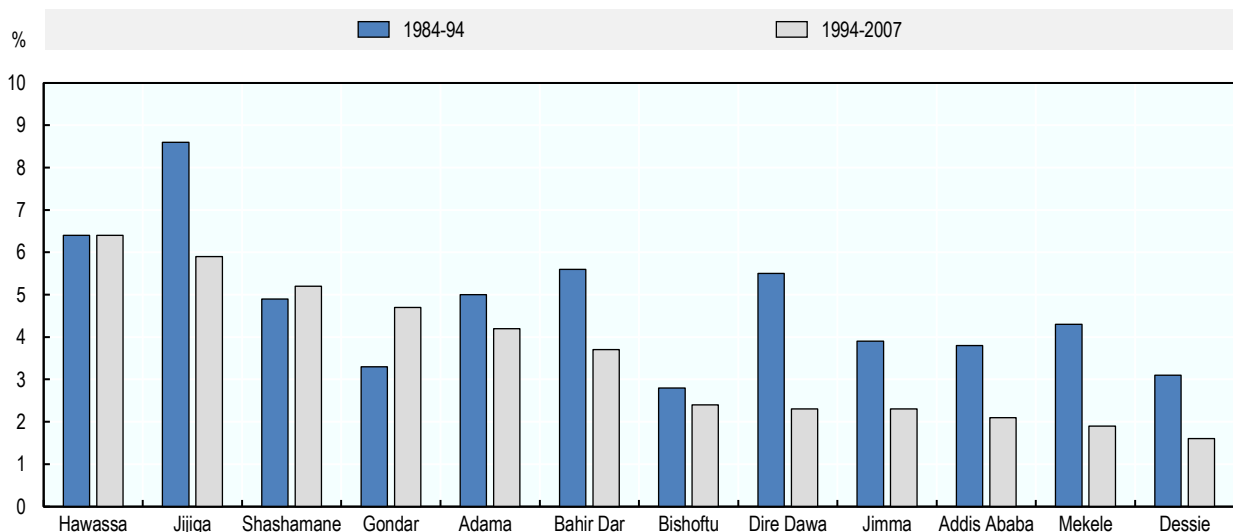
Ethiopia's economic and spatial landscape is gradually changing, and intermediary cities are at the centre of this process. Despite Addis Ababa's pre-eminence, a number of urban clusters of diverse sizes and functions are being formed; they are linked to the capital city following transportation and road infrastructure investment since the mid-1990s (MoUDC, 2015<sup>[22]</sup>). Addis Ababa is establishing strong functional linkages

with these new dynamic urban centres, especially those located along new highways and economic corridors, such as the development corridors linking Addis Ababa to Djibouti, and to the northeastern and southwestern regions of Ethiopia (Cities Alliance, 2016<sup>[23]</sup>). Most of Ethiopia's largest urban centres are located in the highlands, or in the northern half of the country, with the largest urban centres functioning as regional capitals (Gebre-Egziabher and Yemeru, 2019<sup>[21]</sup>). If well managed, these cities have the potential to contribute to a more balanced urban system but can also be key actors in rural development.

### ***... and intermediary cities are becoming more dynamic***

Intermediary cities are growing faster than the capital, Addis Ababa. During the periods 1984-94 and 1994-2007, most intermediary cities grew faster than Addis Ababa (Figure 2.2). In fact, the capital city's contribution to Ethiopia's urban population has declined from 28% in 1994 to 23% in 2007 (CSA, 2007<sup>[24]</sup>). Additionally, with the exceptions of Shashamane and Gondar, all intermediary cities experienced faster growth rates than Addis Ababa during the period 1984-94. It should be noted that these figures arise from comparing census data (the latest census took place in 2007).<sup>1</sup> Nevertheless, recent forecasts suggest that this growth will continue, and that between now and 2030 cities with a population of between 50 000 and 500 000 inhabitants will, on average, grow twice as fast as Addis Ababa, reaching an average annual growth rate of approximately 6.3%, compared with 3.3% for the capital city (MoUDC, 2015<sup>[22]</sup>).

**Figure 2.2. Average annual population growth rate during 1984-94 and 1994-2007**



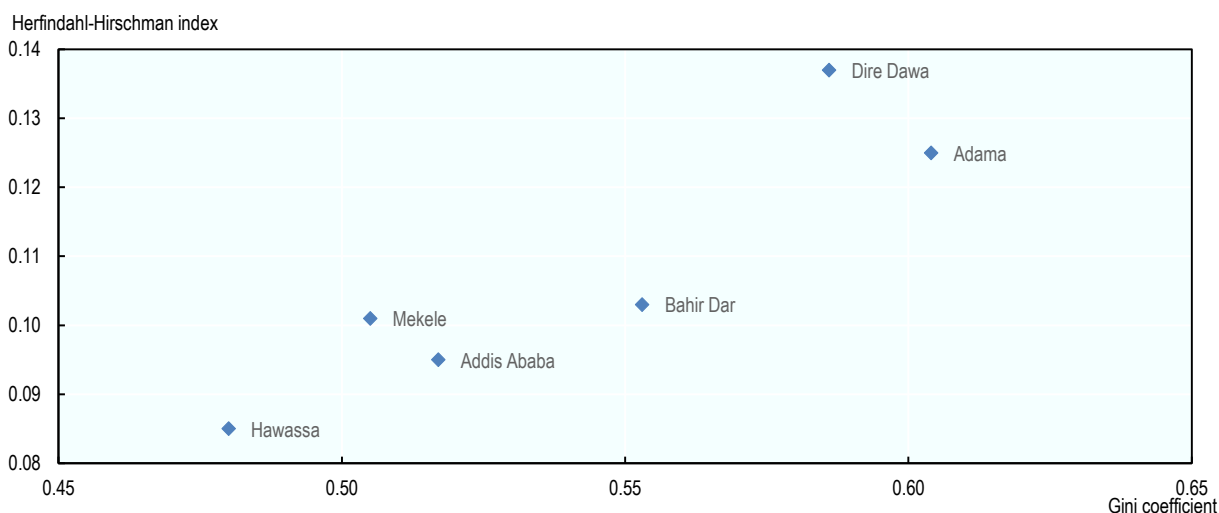
Source: Authors' calculations using data from the CSA (1984<sup>[25]</sup>; 1994<sup>[26]</sup>; 2007<sup>[24]</sup>).

Addis Ababa's contribution to total urban employment has also slowly declined. In 2005, the capital city accounted for 23% of employment in Ethiopia. However, by 2013, this share had decreased to 20%; this implies that 80% of urban employment in Ethiopia takes place in other agglomerations (MoUDC, 2015<sup>[22]</sup>). For instance, cities located near the capital (such as Bishoftu and Sebeta) are experiencing a larger increase in economic growth compared with that of Addis Ababa, which has experienced slow economic activity, with gross domestic product (GDP) per capita declining between 1994 and 2012 (Ozlu, 2015<sup>[27]</sup>).

Nonetheless, Addis Ababa remains the main centre of economic activity in Ethiopia. It generates 28% of national GDP and is the main recipient of public and private investment. Moreover, it has the highest concentration of high value-added industries and logistics sectors, and it hosts the majority of firms' headquarters (MoUDC, 2015<sup>[22]</sup>).

Some intermediary cities show higher levels of diversification compared with Addis Ababa. Figure 2.3 shows the Gini and Herfindal-Hirschman indexes for Ethiopia's five largest intermediary cities.<sup>2</sup> These indexes measure inequality across sectors; the higher the value of these indexes, the higher the concentration of economic activity in each of the respective cities. This figure shows that Dire Dawa, Adama and Bahir Dar are less diversified compared with Addis Ababa. Hawassa has the lowest values in both indexes, which suggests that it is the most diversified city in the group. This follows from the fact that employment shares across sectors in Hawassa are very similar, suggesting that the city has a slightly more diversified economy compared with the rest of the cities examined.

**Figure 2.3. Herfindal-Hirschman and Gini indexes**



Source: Authors' calculations using the CSA's Labour Force Survey (2014<sub>[28]</sub>).

There is a negative relationship between intermediary cities' distance from the capital and the extent of their diversification. Annex Figure 2.A.1 in the Annex 2.A shows this relationship for both the Herfindal-Hirschman and Gini indexes. The correlation between the Herfindal-Hirschman index and the distance is  $-0.21$ , whereas for the Gini index this value equals  $-0.47$ . However, this value should be interpreted with caution given the small number of cities analysed. Moreover, it may suggest that intermediary cities where the capital's influence is weaker tend to be more diversified in order to address the needs of their regional urban system. Greater distance from the capital may also strengthen local autonomy, as rural dwellers can increase their revenue thanks to the economic activities in their nearest urban centre.

A location close to the capital has a positive spillover effect on surrounding cities. For example, Adama has historically played a key role in the Oromia region, developing a comparative advantage in the textile sector (including an industrial park built in 2018) thanks to its proximity to Addis Ababa and its strategic location in the Ethiopia-Djibouti transportation corridor. Furthermore, other cities located close to Addis Ababa, including Bishoftu and Sebeta, largely benefit from their proximity to the capital, and have better road infrastructure access.

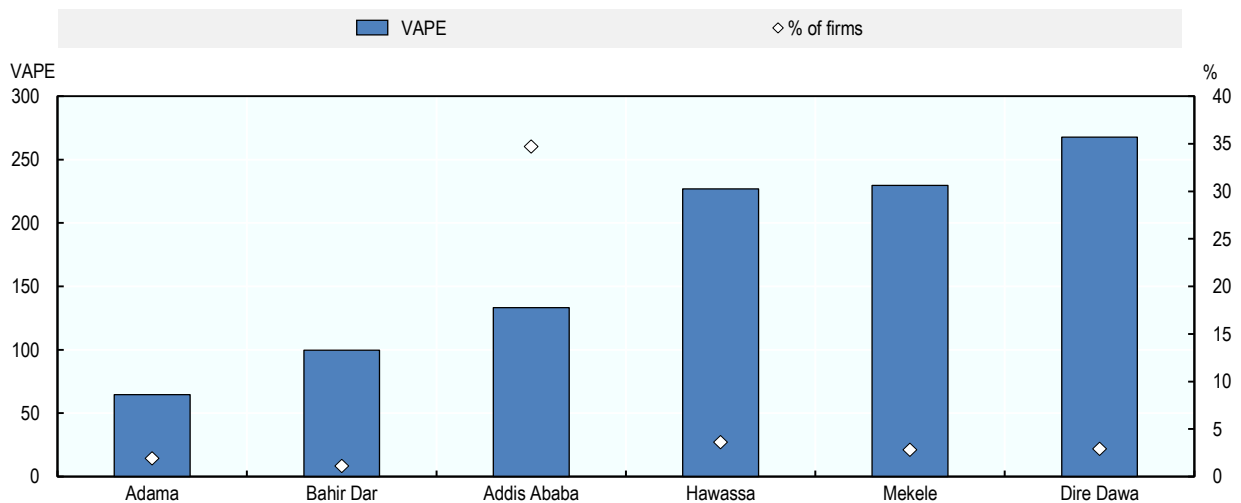
Large- and medium-scale manufacturing (LMSM) also contributes to job creation in intermediary cities, but to a lesser extent than in Addis Ababa. LMSM firms are important for the creation of employment opportunities in the formal sector. However, the development of these firms and their potential for job creation depends on availability of the requisite infrastructure. As such, improved road infrastructure in Ethiopia's intermediary cities and their rural hinterlands through the 1997-2010 Road Sector Development Program (RSDP) has contributed to the increase in the number of manufacturing firms. In addition, improved road infrastructure has also contributed to the increase in the size of entrant firms, which tend to

offer better quality jobs and have a better chance of surviving in the market (Shiferaw et al., 2012<sup>[29]</sup>). Indeed, between 1996 and 2009, the number of firms with more than ten workers increased from 617 to 1 713.

While intermediary cities were among the top recipients of new firms, they account for significantly lower shares of LMSM firms compared with Addis Ababa.<sup>3</sup> Only 12% of all LMSM firms in Ethiopia are located in the five intermediary cities studied in this report, and Addis Ababa accounts for almost 35% of all LMSM firms in Ethiopia (Figure 2.4).

The LMSM firms in some intermediary cities are more productive than those based in Addis Ababa. Figure 2.4 also shows the share of LMSM firms across the selected intermediary cities and Addis Ababa, as well as their respective value added per employee (VAPE). The VAPE ranges from ETB 64 000 (Ethiopian birr) per employee in Adama to ETB 267 000 per employee in Dire Dawa. It is important to note that Addis Ababa does not have the largest VAPE. Mekele, Hawassa and Dire Dawa have VAPEs almost two times higher than that of Addis Ababa.

**Figure 2.4. VAPE and share of LMSM firms**



Note: VAPE = value added per employee at basic price (ETB 1 000); share of firms with regard to all firms in Ethiopia.  
Source: Authors' calculations using the CSA's Large and Medium Scale Manufacturing (LMSM) Survey report (2015<sup>[30]</sup>).

The changes in Addis Ababa's role further reflect the Ethiopian government's efforts to establish a more balanced urban system. These efforts manifest in several ongoing policies, such as the development of industrial activities in regional capitals or intermediary cities. This is leading to faster employment growth in those cities compared with that in Addis Ababa. Following policy strategies, such as the promotion and establishment of export processing zones and industrial parks, cities like Adama, Adwa, Hawassa, Bishoftu, Sebeta and Mekele are expanding their manufacturing base (Ozlu, 2015<sup>[27]</sup>). However, the population increase in these agglomerations largely outstrips employment creation.

### What is driving Ethiopia's urbanisation and the growth of intermediary cities?

The natural growth of urban areas and the reclassification of new urban centres are the main factors contributing to urbanisation in Ethiopia. Natural growth is the largest contributor to urban growth, accounting for between 38% and 42% of total annual urban growth in the period 2008-17 (Ozlu, 2015<sup>[27]</sup>).



Urban centres are expected to continue to naturally grow and contribute to one-third of the total urban population in Ethiopia by 2037 (Gebre-Egziabher and Yemeru, 2019<sup>[21]</sup>).

Reclassification is an additional underlying cause of Ethiopia's rapid urbanisation. A number of rural areas have been upgraded to urban centres, due to the government's plan to upgrade rural villages to urban areas according to a set of criteria established by regional governments (Ozlu, 2015<sup>[27]</sup>).<sup>4</sup> However, the official projections of the Central Statistical Agency (CSA) do not accurately reflect the contribution of the newly formed urban centres to Ethiopia's urbanisation. Nonetheless, projections from Ozlu (2015<sup>[27]</sup>) highlight that newly classified urban centres accounted for an estimated increase of between 14% and 31% in total urban growth in the period 2008-17. In addition, a number of urban centres were developed as a result of the formal expansion of existing cities. As a consequence, small villages and towns located close to larger urban centres were incorporated into nearby expanding urban centres, which is estimated to account for between 2% and 4% of annual urban population growth in the period 2012-32 (Ozlu, 2015<sup>[27]</sup>).

New sectors, including universities, tourist sites, and the presence of large non-agricultural natural resource assets, have led to the creation of new urban centres or the expansion of existing ones, and are attracting rural migrants (MoUDC, 2015<sup>[22]</sup>).

### ***Migration to urban areas is an increasingly important driver of urban population growth***

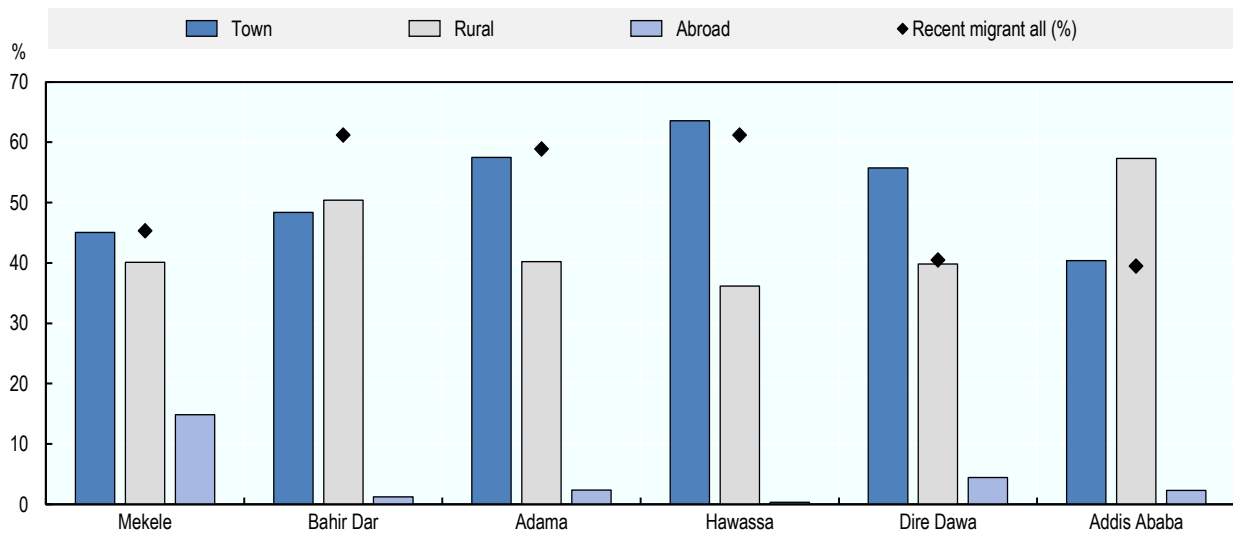
Rural-to-urban migration is a rising phenomenon in Ethiopia. Although Ethiopia's internal migration has historically been dominated by rural-to-rural flows, the share of rural-to-urban migration is gradually increasing. Rural-to-urban migration is expected to keep growing as urban centres continue to provide attractive opportunities to rural migrants.

Large public investments in infrastructure, factories and public services, as well as employment opportunities, have fuelled rural-to-urban migration. Investments in factories, nearby sugar plantations and irrigation project sites, highways and other sectors continue to attract rural labour into cities and encourage urbanisation, especially in intermediary cities (Ozlu, 2015<sup>[27]</sup>). In addition, the government's investment in industrial parks across intermediary cities has positioned these cities as potential employment generators which will foster industrial development and attract labour from surrounding rural hinterlands.

Internal migration is fuelling urban population growth. Figure 2.5 shows the share of recent migrants<sup>5</sup> (with regard to total population) in 2013 for the selected group of intermediary cities and Addis Ababa. For cities such as Bahir Dar, Hawassa and Adama, recent migrants accounted for the majority of their populations (61%, 61% and 59%, respectively). For Addis Ababa, recent migrants accounted for a lower (although still significant) share of its population (40%).

Rural migration is not always the main contributor of population growth across intermediary cities. Figure 2.5 also shows the shares of recent migrants coming from rural areas, towns and abroad. In contrast to a common belief, in most of the selected intermediary cities, the largest share of recent migrants came from small towns and not from rural areas. This is the case in Hawassa, Adama and Dire Dawa, where in 2013 recent migrants of urban (town) origin accounted for 64%, 57% and 56% of the recent migration flow, respectively. In contrast, for Addis Ababa, close to 57% of recent migrants come from rural areas. In most of these cities, recent migrants coming from abroad represented less than 5% of the migration flow. The only exception is Mekele, where migrants coming from abroad represented almost 15% of the recent migration flow and almost 7% of the total population in 2013.

Figure 2.5. Origin of migrant population, among selected cities



Source: Authors' calculations using the Labour Force Survey (2013<sub>[31]</sub>).

## Intermediary cities have significant potential for rural development in Ethiopia

### *Intermediary cities contribute to rural development in diverse ways*

In practice, intermediary cities contribute to rural development in various ways, and their contribution mainly is subject to the flow of goods, services, population and ideas across urban and rural areas. The strength and nature of these flows depend on the specific context of the city, including the land ownership structure, the supply and quality of infrastructure, and conditions at the national and international levels. However, despite local differences, small and intermediate urban centres generally contribute to rural development in the following ways (Satterthwaite and Tacoli, 2003<sub>[32]</sub>; Cali and Menon, 2013<sub>[33]</sub>):

- **Markets:** urban centres are markets for agricultural producers from the surrounding region, either for local consumers or as links to national and export markets.
- **Provision of goods and services:** urban areas act as centres for the production and distribution of goods and services in their proximate rural regions. Services include agricultural extension, health and education (and access to other government services), and energy, as well as banking and other financial services. Conversely, rural areas provide urban centres with skilled and unskilled labour, and agricultural goods, in addition to providing industrial inputs.
- **Employment:** small and medium-sized agglomerations have the potential for growth and for consolidating non-farm activities and employment; they do so through the development of small and medium-sized enterprises, or through the relocation of branches of large private or parastatal enterprises.
- **Migration:** urban centres act as the main destinations for rural migrants. Their strategic locations facilitate circular migration, while helping to reduce the cost of migration for rural migrants.
- **Financial flows:** money transfers and family remittances flowing from urban to rural areas are an important source of revenue for a large number of rural households in developing countries.
- **Prices:** city expansion leads to a higher demand for agricultural land close to city limits, pushing the price of land upwards. In parallel, city expansion can also lead to a decrease in consumer prices, due to increasing competition among producers and thicker markets (factors such as labour and goods). In both cases, city expansion can potentially benefit rural dwellers.

Increasing evidence suggests that intermediary cities can play an important role in enhancing rural well-being. They can help reduce poverty by enabling better access to employment, health and education services, and urban infrastructure (Christiaensen, Luc and Todo, Yasuyuki, 2013<sup>[34]</sup>; Turok, 2014<sup>[35]</sup>). In addition to providing access to basic services, intermediary cities enable flows of remittances between urban and rural areas (Christiaensen, Luc and Todo, Yasuyuki, 2013<sup>[34]</sup>). Their role in linking the two territories facilitates the circular or seasonal migration of rural households, and it also enables rural households to diversify their livelihoods and sources of income beyond the subsistence agricultural sector (AfDB/OECD/UNDP, 2016<sup>[3]</sup>; Berdegúe et al., 2015<sup>[17]</sup>). However, the growth linkages between urban and rural areas depend on a number of factors, notably on the physical and market distances between areas (Veneri and Ruiz, 2016<sup>[36]</sup>).

The interactions between urban and rural areas can, in theory, follow an iterative process that can lead to the diversification of rural economies and higher productivity. This process is summarised in Figure 2.6. Rural households increase their income – derived from the production of agricultural goods – by accessing urban markets. This increases their demand for consumer goods, which in turn promotes the creation of non-farm employment opportunities and income diversification in cities located close to rural areas. Additionally, it leads to the absorption of rural labour surplus while simultaneously boosting demand for agricultural goods. As a result, both the productivity and income of rural households increases. Furthermore, income diversification in rural households located close to intermediary cities allows farmers to take more risks and to experiment with new methods of production, which in many cases has a positive effect on overall agricultural productivity. This process is commonly referred to as the virtuous circle for rural-urban development (Evans, 1990<sup>[37]</sup>).

**Figure 2.6. Virtuous circle for rural-urban development**



Source: Adapted from (Evans, 1990<sup>[37]</sup>).

### ***Promoting an enabling environment is key for positive rural-urban interactions***

Rural and urban areas exist along a continuum, with multiple types of flows and interactions happening between them. Between these two spaces, there also exist small towns and peri-urban areas, which also play a key role in connecting rural areas and cities. However, the degree of interlinkage across these spaces is influenced by the efficiency and effectiveness of infrastructures, markets and institutions (Von Braun, 2007<sup>[38]</sup>).

Such a self-reinforcing development process linking urban and rural areas, however, requires an adequate enabling environment. Urban and rural development support one another, since every role that the city plays in development has a reciprocal role played by the rural surroundings (Douglass, 1998<sup>[39]</sup>; Gebre-Egziabih, 2007<sup>[40]</sup>). Nevertheless, the extent of the benefits from urban and rural interactions relies on a number of conditions.

The first of these conditions is a marketable surplus of agricultural production. For agricultural markets to function in towns, an adequate share of agricultural output has to reach urban markets. This is also the case for agro-based industries, which assume the ready availability of raw materials. In places where subsistence farming is predominant, agricultural products are imported from other regions or from international markets. When this is the case, the market linkage joining neighbouring rural and urban areas is weak.

Another condition is the capacity of rural areas to diversify their production. Addressing the needs of growing urban areas further requires revising the type of outputs produced. For instance, growing urban middle classes tend to be characterised by an increasing demand for dairy, horticultural products, meat, etc. If surrounding rural areas do not have the capacity to adapt to this demand, and instead continue to focus on producing staple crops, the benefits from rural-urban linkages will be limited.

Finally, agricultural intensification in rural areas requires the provision of certain goods and services – such as fertilisers, repair services, logistics and storage, as well as information on production innovation – from urban areas. If this third condition is missing, or is provided at the wrong time, neither a marketable surplus nor diversification will take place.

### ***Ethiopia's intermediary cities provide significant scope for facilitating rural-urban transformation***

Intermediary cities in Ethiopia play a number of complementary roles in rural development, as well as in improving the national urban system. This section contrasts the usual roles attributed to intermediary cities in the literature with evidence provided by selected cities in Ethiopia (Mekele, Bahir Dar, Adama, Hawassa and Dire Dawa). This is accomplished by analysing the rural-urban linkages that exist between intermediary cities and the rural areas surrounding them.

It is important to highlight that there are significant knowledge gaps with regard to Ethiopia's medium- and small-sized cities, notably in terms of access to data. Consequently, this section draws on a number of information sources in order to better understand the role of intermediary cities in the country's development. Sources include household surveys and administrative datasets, the literature, and interviews with public representatives in Bahir Dar, Adama and Hawassa, which are the capitals of Amhara, Oromia, and the Southern Nations, Nationalities, and Peoples' Region (SNNPR) regional states, respectively.<sup>6</sup> Some of the secondary datasets analysed include the Labour Force Surveys (2005<sup>[41]</sup>; 2013<sup>[31]</sup>) by the CSA, different years' large- and medium-scale manufacturing industry surveys, census reports (1984<sup>[25]</sup>; 1994<sup>[26]</sup>; 2007<sup>[24]</sup>), and administrative data from city municipalities.

Evidence shows that Ethiopia's intermediary cities contribute to rural development in the ways identified in the literature. This includes the fact that they enhance market linkages between rural and urban areas (Vandecastelen et al., 2018<sup>[42]</sup>); they also provide employment opportunities in the non-farm sector

(Schmidt and Bekele, 2016<sup>[43]</sup>), and while doing so, they act as hubs for rural migrants. However, some of these linkages are weak, which limits the scope of mutual benefits for urban and rural areas.

*Intermediary cities serve as market centres for agricultural goods...*

Ethiopia's intermediary cities provide significant scope for the development of forward and backward linkages between rural and urban economic activities. Farmers linked to these urban centres can benefit from backward linkages, with better access to fertiliser, chemicals, seeds and farming equipment. In parallel, rural households can also benefit from forward linkages through higher urban demand for agricultural commodities, as well as (intermediary) inputs for urban industries, including manufacturing and agro-processing.

Intermediary cities serve as intermediators between rural areas and large catchment areas, providing access to domestic and export markets. They add value to agricultural outputs by providing post-farm services, and by creating significant scope for the development of value chains. This is achieved through the development and provision of logistics services, storage services and trade, and agro-processing within these agglomerations.

Ethiopia's intermediary cities provide market centres to support the distribution of commodities produced in their hinterlands to their respective regions and to other parts of the country. The locations of Bahir Dar, Adama and Hawassa, as well as the agricultural specialisations of their respective regions, define the types of cereals or crops traded. Each city specialises in the primary or major agricultural commodities produced in the region. Bahir Dar and Adama are located at the centre of the main cereal production area of Ethiopia, while Hawassa is at the centre of a permanent grain production area. As a result, these cities serve as market centres for the distribution of commodities. For instance, Adama serves as a market centre for teff, which is traded to eastern parts of Ethiopia (particularly to Harari and Dire Dawa), as well as to the southern regions (notably to Hawassa). Similarly, Bahir Dar serves as a market hub for the northern part of the country, particularly to the cities of Gondar and Mekele. Table 2.1 shows the main agricultural outputs for Bahir Dar, Adama and Hawassa. In parallel, these three intermediary cities serve as centres for the production and distribution of agricultural inputs including fertiliser, chemicals and pesticides, and other manufactured commodities such as salt, sugar, edible oils, kerosene, and commodities that have been imported from national and international markets.

**Table 2.1. Cities, rural hinterlands and major agricultural crop commodities**

City	Rural hinterland zone	Major products
Bahir Dar	West Gojjam	Teff, maize, finger millet
	South Gondar	Teff, wheat, maize
Adama	East Shewa	Teff, wheat, maize
	Arsi	Barley, wheat, maize, sorghum
Hawassa	West Arsi	Wheat, maize, potato
	Sidama	Permanent crops, especially coffee, sugar cane, chat and banana

Note: Commodities are considered major products if the zone produced more than 100 million kilogrammes of a commodity. Above are the cities that data was collected for, for the purpose of this study.

Source: Crop and Livestock product utilization Report, CSA (2016<sup>[44]</sup>).

*...and have growing potential to increase agricultural intensification and enhance diversification towards higher value-added agricultural goods*

Ethiopia's intermediary cities can influence agricultural production in their rural hinterlands and enhance diversification. Recent research by Vandercasteelen et al. (2018<sup>[42]</sup>) shows that farmers in the rural hinterlands of Addis Ababa receive higher prices for their outputs (teff), and achieve higher levels of

agricultural intensification, compared with farmers in the hinterlands of intermediary cities such as Adama and Bahir Dar. However, if there were no intermediary cities, it would not be profitable for farmers based far away from the capital city to commercialise their outputs. Indeed, farmers located far from Addis Ababa are much more influenced by the demand of intermediary cities than by the demand of the capital, and are thus more responsive to the market signals originating from intermediary cities.

This finding is in line with other findings in the literature on the positive contribution that intermediary cities and better access to roads make to crop production. In fact, Dorosh et al. (2012<sup>[45]</sup>) highlight the correlations between distance to urban centres, access to road infrastructure (measured in travel time) and crop production in sub-Saharan Africa. The study highlights that at 4 hours distance from an urban centre of 100 000 inhabitants, total crop production relative to potential<sup>7</sup> stood at 45%. However, when the distance from cities of the same size is increased to 8 hours, this figure drops to 5%. As such, the authors find that reducing a travel time of 24 hours to 4 hours can lead to a 16-fold increase in the ratio of actual over potential crop production (AfDB/OECD/UNDP, 2016<sup>[3]</sup>; Dorosh et al., 2012<sup>[45]</sup>).

Closer proximity to intermediary cities increases economic activity in surrounding rural areas, and may benefit a larger share of the population. Intermediary cities facilitate access to markets for agricultural inputs such as fertilisers, machinery and quality seeds. Providing farmers with access to modern inputs and technology will allow them to further intensify their production.

Furthermore, rural producers can harness and benefit from rising demand for agricultural products in Ethiopia's growing urban centres. Increased urban demand can lead to production of higher-value crops, as well as higher demand for processed goods and higher-quality (and higher-value) agricultural goods. In fact, thanks to increased urbanisation and a higher quality of life, increasing numbers of Ethiopian urban dwellers are consuming higher value-added food. This includes higher demand for fruits and vegetables, animal products, and processed cereals, which in turn results in higher incomes for rural producers. Hassen et al. (2016<sup>[46]</sup>) find that food expenditure in Ethiopia's intermediary cities is very similar to the levels in Addis Ababa. As a percentage of total household expenditure, spending on animal products accounted for 16.1% in intermediary cities compared with 16.2% in Addis Ababa; spending on fruits and vegetables accounted for 9.1% in intermediary cities and 8.4% in Addis Ababa; and spending on oil and fat accounted for 8.6% in intermediary cities and 9.9% in Addis Ababa (Hassen et al, 2016<sup>[46]</sup>). As a result, rising urban demand in intermediary cities has significant potential to transform Ethiopia's agricultural sector and facilitate the development of agricultural value chains.

*However, in most cases, market linkages need to be strengthened*

Strengthening the current market linkages between rural and urban areas can enhance Ethiopia's rural-urban transformation. Ethiopia's predominantly subsistence agriculture-based economy limits the scope for the development of technologically advanced farming and commercialisation. In addition, the scope for commercialisation is subject to spatial variation, as different areas of the country are endowed with different agricultural production potentials, and therefore, different commercialisation characteristics of farmers. This is further reinforced by limited local purchasing power, which constrains producers' ability to specialise and upgrade their production.

Additionally, there are major constraints in providing an adequate supply of agricultural goods for industrial use or agro-processing in intermediary cities. In fact, more than half of the existing agro-processing sites are not operating at their full productive potential, due to inadequate quality and quantities in the supply of raw materials. Conversely, when assessing backward linkages, most of the manufactured inputs that rural areas require are imported from outside the region or from international markets, as none of the selected intermediary cities are producing direct manufactured inputs for improving agricultural production, such as fertilisers and other necessary goods.

As a result, there is significant scope for strengthening Ethiopia's rural and urban linkages and strategically integrating smallholders in order to provide them better access to urban markets. This will require

strengthening the connectivity between rural and urban areas through investment in infrastructure and transportation, as well as facilitating access to information on urban markets in order to provide rural producers (including smallholders) with better access to urban markets and agribusinesses operating in urban areas (Proctor and Berdegué, 2016<sup>[47]</sup>). At the same time, rural and urban administrators ought to address the bottlenecks in both the supply and demand sides of the agricultural sector.

### *Intermediary cities can provide employment opportunities*

The rate of job creation in some of Ethiopia's intermediary cities is surpassing that of the capital city. Government-led policies and investment in the manufacturing sector are facilitating job creation, especially in cities such as Adwa and Mekele in the north; Adama, Sebeta and Bishoftu in the Oromia region; and Hawassa in SNNPR. Table 2.2 shows the 2013 employment rates for Mekele, Bahir Dar, Adama, Hawassa, Dire Dawa and Addis Ababa. With the exception of Hawassa, all of these cities benefitted from higher employment rates than Addis Ababa. In Mekele, the employment rate reached 92%, whereas in Bahir Dar, Dire Dawa and Adama, it was more than 80%. In Addis Ababa, the employment rate was close to 75%.

Ethiopia's intermediary cities have potential for generating employment in key economic sectors. Table 2.2 shows the employment share by economic sector for five intermediary cities and Addis Ababa. The wholesale and retail trade sector is one of the biggest sources of employment in Ethiopia's intermediary cities. The prevalence of this sector highlights the important function of urban areas as market and consumption centres. Moreover, the wholesale and retail sector has significant potential for the development of new businesses and, consequently, job creation, due to the relatively low start-up costs associated with this sector.

**Table 2.2. Employment share by sector, 2013**

Sector	Mekele	Bahir Dar	Adama	Hawassa	Dire Dawa	Addis Ababa
Manufacturing	<b>16%</b>	12%	<b>19%</b>	<b>11%</b>	<b>17%</b>	<b>12%</b>
Wholesale and retail trade	<b>19%</b>	<b>18%</b>	<b>23%</b>	<b>16%</b>	<b>16%</b>	<b>30%</b>
Construction	12%	<b>15%</b>	9%	8%	11%	8%
Transportation and storage	5%	6%	9%	7%	8%	8%
Education	8%	7%	6%	10%	7%	5%
Accommodation and food service	4%	12%	8%	8%	5%	5%
Activities of households as employer	7%	6%	5%	9%	8%	9%
Public administration	5%	4%	3%	5%	3%	4%
Agriculture, forestry	3%	2%	2%	3%	2%	3%
Other sectors	<b>20%</b>	<b>19%</b>	<b>17%</b>	<b>24%</b>	<b>24%</b>	<b>16%</b>
<b>Total</b>	100%	100%	100%	100%	100%	100%

Notes: The three highest shares of employment in each city are presented in bold text. Amounts may not sum to 100% due to rounding.  
Source: Authors' calculations using the CSA's Labour Force Survey (CSA, 2013<sup>[31]</sup>).

Cities such as Adama and Dire Dawa in particular benefit from a comparative advantage due to their geographic locations. Indeed, both of them are located in the Ethiopia-Djibouti transport corridor. Moreover, the recently completed Addis Ababa-Djibouti railway provides additional scope for increased commerce, trade and employment, as well as enabling the development of enterprises along the transportation corridor. It can also support the transportation of processed and unprocessed agricultural goods from their rural hinterlands to the domestic and export markets. Both the Adama and Dire Dawa municipalities can maximise the advantage that their location grants them by strategically tapping into the growing potential of the transportation corridor.

The light manufacturing sector is also a growing source of employment for intermediary cities. The sector accounts for one of the biggest sources of employment, especially for cities such as Mekele, Adama, Dire Dawa and Hawassa, accounting for 16%, 19%, 17% and 11% of employment, respectively. Government and private investment in industrial parks, as well as in SEZs, positively contributes to the growth of the manufacturing sector in these agglomerations. Table 2.3 shows the number of industrial parks in operation or in the planning stage across Ethiopia, and Table 2.4 shows the jobs created following the launch of selected operational industrial parks.

Moreover, as Ethiopia's intermediary cities grow, there has been a booming construction sector. In fact, construction contributes more than 10%, on average, of the active labour force across cities due to the growth in demand for housing, infrastructure, etc. In the case of Bahir Dar, the accommodation and food services sector accounts for more than 12% of the city's employment, the highest share that this sector contributes among the selected cities.

However, there is large variation in job creation across Ethiopia's intermediary cities. For instance, employment opportunities are being created across several industries in cities such as Adwa and Mekele, whereas other large cities – such as Dire Dawa created jobs in some industries while losing jobs in others. Harar had a net gain in the number of jobs, whereas Dire Dawa experienced net job losses, despite being one of the selected growth poles in GTP II (Ozlu, 2015<sub>[27]</sub>).

**Table 2.3. Mapping industrial parks in Ethiopia**

Regions	Cities and towns	Name of industrial park	Status	Production type
Oromia	Dukem	Eastern Industrial Zone	Operational	Mixed
	Adama	Adama Industrial Park	Operational	Textiles and garments, machineries
	Jimma	Jimma Industrial Park	Inaugurated	Garments
	Bulbula	Bulbula Integrated Agro-Industrial Park	Planning	Agro-processing
	Mojo	Mojo George Shoe Industrial Zone	Operational	Shoes
Amhara	Kombolcha	Kombolcha Industrial Park	Operational	Garments
	Debre Birhan	Debre Birhan Industrial Park	Inaugurated	Textiles and agro-processing
	Bahir Dar	Bahir Dar industrial Park	Under construction	Assembly, textiles, food
	Arerti	Arerti Industrial Park	Under construction	Construction goods
	Bure	Bure Integrated Agro-Industrial Park	Planning	Agro-processing
Tigray	Mekele	Mekelle Industrial Park	Operational	Garments
	Mekele	Velocity/Vogue Industrial Park	Operational	Textiles
	Baeker Town	Baeker Integrated Agro-Industrial Park	Planning	Agro-processing
SNNPR	Hawassa	Hawassa Industrial Park	Operational	Textiles
	Yirgalem	Yirgalem Integrated Agro-Industrial Park	Planning	Agro-processing
Dire Dawa	Dire Dawa	Dire Dawa Industrial Park	Under construction	Assembly, garments and food processing
		Kingdom Linen Industry Zone	Planning	Linen
Addis Ababa	Addis Ababa	Bole Lemi Industrial Park	Operational	Mixed
		Huajian Industrial Park	Operational	Shoes
		Kilinto Industrial Park	Under construction	Pharmaceuticals, medical equipment
		Airlines and Logistics Park	Planning	Transportation

Source: Cepheus research & Analytics (2019<sub>[48]</sub>).



**Table 2.4. Number of jobs created by selected industrial parks**

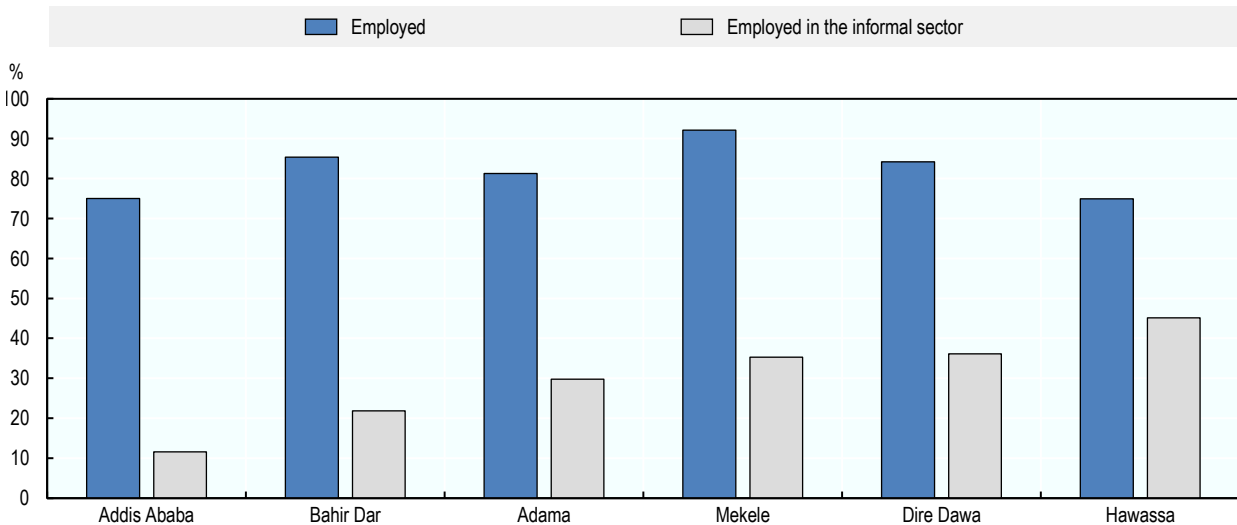
Industrial park	Number of jobs created
Hawassa Industrial Park	21 733
Bole Lemi Industrial Park (Addis Ababa)	15 383
Eastern Industrial Zone	14 906
Huajian Industrial Park	4 489
Mekelle Industrial Park	3 038
Velocity/Vogue Industrial Park	1 635
Kombolcha Industrial Park	1 366
Adama Industrial Park	1 605
Mojo George Shoe Industrial Zone	353
<b>Total</b>	<b>64 508</b>

Source: Cepheus research & Analytics (2019<sup>[48]</sup>).

### ***Compared to Addis Ababa, a large share of these jobs is in the informal sector***

Despite having higher employment rates, intermediary cities are characterised by a larger informal sector compared with Addis Ababa. Almost one-quarter of Ethiopia's urban jobs are in the informal sector (CSA, 2014<sup>[28]</sup>). Nevertheless, there are significant differences between cities. When compared with Ethiopia's five largest intermediary cities, Addis Ababa has the lowest share of employment in the informal sector, at 11% (Figure 2.7). And among these top five intermediary cities, Hawassa, Dire Dawa and Mekele have some of the highest rates of informal employment – 45%, 36% and 35%, respectively – and are above the national average for the share of informal employment, which stood at approximately 26% in 2013. Informal employment is particularly prevalent among female rural migrants, who tend to be engaged in trade, domestic work, and service sectors, including restaurants and hotels (Ozlu, 2015<sup>[27]</sup>). Intermediary cities seem to have a higher capacity than the capital to absorb rural and urban job seekers; however, special attention must be paid to the vulnerability of the workers in informal sectors.

**Figure 2.7. Employment and rural migrants' participation in the informal sector as a percentage of total employment, at city level, 2013**



Note: A person is considered as working in a formal sector if the enterprise the employee is engaged in has a licence or has an accounting book; otherwise, if a person is employed by an enterprise that produces products or services for the market without fulfilling either of the two previously mentioned criteria, they are considered an informal employee. But those who are government employees, government development organisation employees, non-governmental organisation (NGO) employees, and members of cooperatives are considered as formal sector employees. A person is considered unemployed if they are “without work” or “available for work”, and have a readiness to take on self-employed activities with necessary resources and facilities (CSA, 2014<sup>[28]</sup>).

Source: Authors' calculations using the Labour Force Survey (2013<sup>[31]</sup>).

### ***Intermediary cities promote financial flows***

Ethiopia's intermediary cities play a crucial role in facilitating financial flows between urban and rural areas in many different ways.

Intermediary cities host the headquarters of growing numbers of microfinance institutions (MFIs). In fact, MFIs began emerging in Ethiopia in 1994. They tend to cater to the needs of low-income households (both rural and urban) which are unable to access larger formal institutions, and they provide small-sized loans. Although traditional commercial banks operate in intermediary cities, especially in the regional capitals, they do not provide adequate financial and loan services to surrounding rural households. As a result, there is a large unmet demand for financing from rural areas. MFIs can help reduce these financing gaps, especially for the most vulnerable rural households.

MFIs, which are mainly located in Ethiopia's intermediary cities, play a critical role in catering to the needs of low-income rural and urban households. In 2017, there were 35 MFIs operating in the country, and the total capital and total assets of MFI reached ETB10.7 billion (USD 335 million) and ETB 49.6 (USD 1.5 billion), respectively (NBE, 2017<sup>[49]</sup>). The outstanding credit has increased by 28.5% relative to 2015, thus enabling MFIs to play an increasing role in addressing low-income groups in both rural and urban areas. The top five MFIs, including Amhara Credit and Savings Institution, Dedebit Credit and Savings Institution, Oromia Credit & Savings, Omo Microfinance Institution, and Addis Credit and Savings Institution, accounted for 83.7% of the total capital, 93% of savings, 88.6% of credit and 90% of MFIs' total assets. Most of the MFIs' main offices are located in intermediary cities. As a result, intermediary cities also facilitate financial interactions between the largest urban centres – mainly Addis Ababa – and their rural hinterlands.

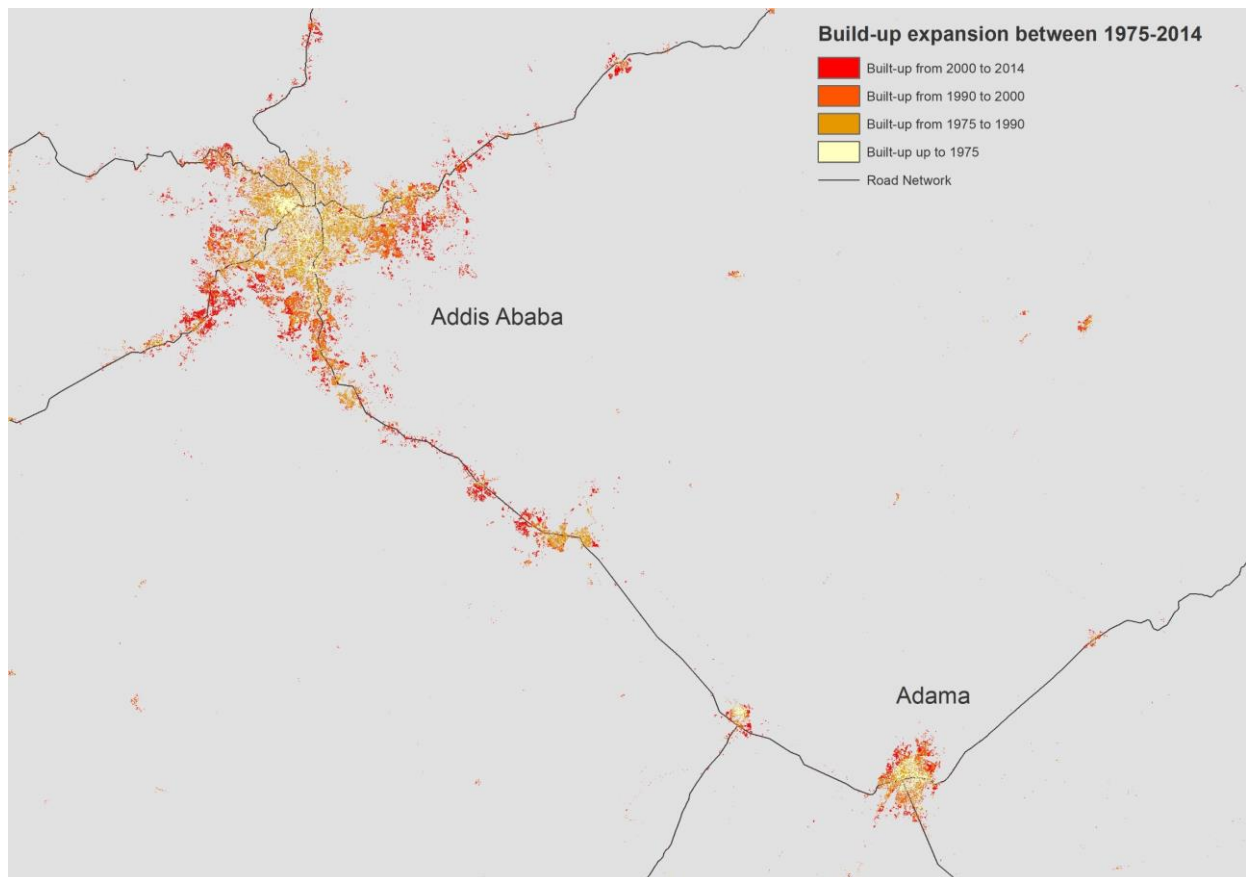
Remittances from intermediary cities to rural areas is another form of financial flow that follows from the opportunities developed across intermediary cities. Despite the lack of data regarding the flow of remittances from intermediary cities to rural areas, interviews with government representatives in Adama, Bahir Dar and Hawassa highlighted the relevance of remittances for enhancing and diversifying rural household incomes, and for reducing rural poverty and vulnerability.

### Case study: Adama

#### ***Adama is one of the most important agglomerations in the Oromia region***

Adama benefits from its strategic location. The city, formerly known as Nazareth, is located along a major transportation corridor and is part of an urban cluster. The city is close to Addis Ababa (see Figure 2.8) and is situated along the railway stretching between Addis Ababa and the Port of Djibouti. Adama has a strong connection with Addis Ababa, and with other intermediary cities such as Mojo (which is also Ethiopia's national dry port, where there are plans to develop an international airport) and Bishoftu, through the recently completed highway. In addition, another highway is being completed which will link Adama with Hawassa along the southern transport corridor, creating an intra-regional link with SNNPR.

**Figure 2.8. Built-up expansion of Addis Ababa and Adama**



Source: Made by the authors using data from the Atlas of Urban Expansion 2016 Edition Angel et al (2016)<sup>[50]</sup>.

Adama is made up of 14 urban and 4 rural kebeles, which are organised in six sub-cities. The rural kebeles are located in peri-urban areas of the city.

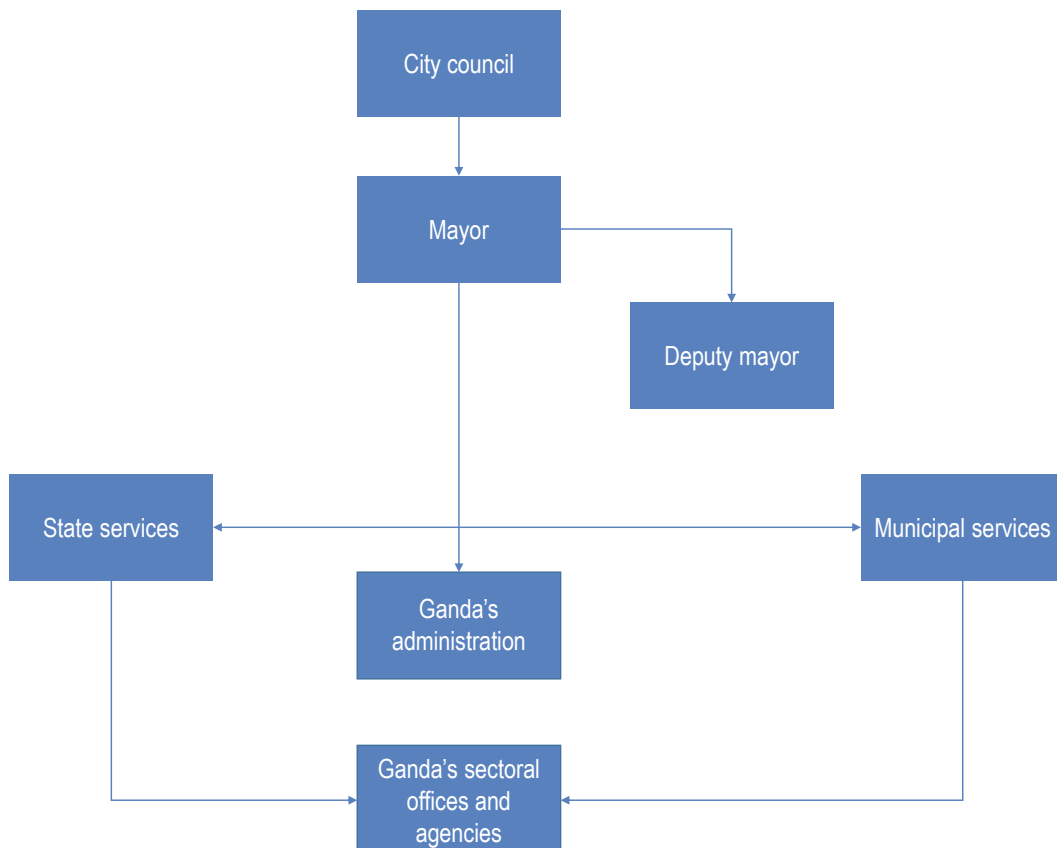
Adama is one of Ethiopia's fastest-growing cities in terms of population, urban built-up areas and economic function. According to CSA projections, the city's population grew by 4.8% annually between 2010 and 2015; by 2016, the total population was expected to reach nearly 400 000 (BoFED, 2017<sup>[51]</sup>). Adama's demographic composition is characterised by a large working age group: 28% of Adama's total population is under 15 years of age, and its working-age population (those aged 15-64 years old) accounts for 69.7%.

Adama's growth is underpinned by natural urban expansion, as well as rural-to-urban migration. In fact, the city's population is predominantly made up of migrants both from surrounding rural areas and rural areas in other regions, as well as from other urban areas. In 2013, migrants accounted for 59.2% of the city's total population, and they predominantly originated from surrounding rural areas (see Figure 2.5).

### **Governance structure and financing**

Adama's administration is organised into two main government bodies. These are the city council and the mayor. The mayoral committee and municipal administrators operate under the leadership of the mayor office. The mayor is assigned by the regional government and approved by the city council. The mayor is at the head of all the legislative, judicial and executive branches of government. The mayoral committee and municipal administrators support the mayor's mandate by running sectoral offices and agencies. Figure 2.9 shows the city's governance structure.

**Figure 2.9. Adama's governance system**



Source: BOFED (2017<sup>[51]</sup>).

The city's governance structure is divided into two functions: state and municipal. The state administration is in charge of economic and social services. The mayoral committee heads these services; and 38 sectoral offices implement them. More precisely, the sectoral offices manage the provision of public services addressing education, health, trade, investment, labour and social services, revenue collection, transport, justice and public security, land management, etc. On the other hand, the municipal administrators are in charge of municipal services. These services include environmental and waste management, and infrastructure construction at the sub-city and Ganda levels (lowest levels of administration, equivalent to the *woreda* level) (BoFED, 2017<sup>[51]</sup>).

Adama is currently operating under its own five-year plan (2015-20). The process of devising the five-year plan reflects Adama's policy delivery approach. The plan compiles sectoral development trends, progress and budgets at kebele level. Once all sectoral plans are compiled and a budget for plan implementation has been estimated, the city's plan is then transferred to the regional government for approval, and then submitted to the federal-level City Council. Upon approval by the City Council and the regional government, the plan is then sent back to the municipality, including the final budget for implementation.

### ***Adama has a strong economic potential***

Adama is a vibrant and growing city which is making an increasing economic contribution to the region as well as to the country. Adama's three top sectors by share of employment are wholesale trade, manufacturing and construction, accounting for 23.2%, 19.0% and 9.4% of the city's total employment, respectively. Nonetheless, other sectors – including transportation and storage, service industry (real estate, hotels, food and services), retail, and construction – play a major role in the city's economy (Esayas and Mulugeta, 2015<sup>[52]</sup>). Adama gains major advantages due to its close proximity to highways, railways, the dry port in Mojo, and the transport corridor between Addis Ababa and Djibouti, which fuel the city's retail and wholesale sectors. In fact, most of the country's exported and imported goods pass through Adama, and the city's approximately 500 warehouses accommodate a significant share of these goods (BoFED, 2017<sup>[51]</sup>).

Furthermore, in line with the GoE's efforts to industrialise the country, Adama's first industrial park was inaugurated in 2016. The industrial park is mainly a production site for textiles, agro-processing and light manufacturing, with a plan to create 25 000 jobs in the future (Embassy of Ethiopia, 2018<sup>[53]</sup>). In addition, both the federal and local governments have put considerable effort into the development of micro and small enterprises (MSEs) as a pro-poor strategy for employment creation. As of 2019, there were 11 382 MSEs in Adama, and these are important sources of employment across the manufacturing, construction, trade, services and urban agriculture sectors (BoFED, 2017<sup>[51]</sup>). MSEs are promoted in order to encourage entrepreneurship and facilitate job creation, especially targeting rural youth migrants.

As highlighted previously, a large proportion of Adama's population is made up of migrants from surrounding rural areas, who are predominantly attracted to the city with the intention of seeking employment. A large number of rural migrants are employed in the city's construction, service and retail sectors. At the same time, a significant majority of migrant rural youth are engaged in the informal sector, especially in the construction and service sectors. The informal sector employs an estimated 29.8% of total rural migrants working in Adama (CSA, 2014<sup>[28]</sup>).

Adama's demographic and economic growth since the 1990s provides a significant scope in enabling the city to play a central role in Ethiopia's national urban system, while also developing strong linkages with its surrounding rural areas. The efforts of both the GoE and the municipal government have been key in the growth prospects of the city.

The gradual growth of the manufacturing sector, as well as the efforts to develop agro-processing firms, can help diversify Adama's economic activities and facilitate stronger rural-urban linkages. Currently, the agro-processing sector accounts for 71% of the total number of firms among Adama's major industries

(BoFED, 2017<sup>[51]</sup>). In addition, Adama's newly built industrial park will host agro-processing firms. However, Adama's current agro-processing firms tend to be small-sized firms, with limited capacity to employ the high supply of labour within the municipality and its surrounding hinterlands. Moreover, agro-processing firms face challenges in attaining an adequate supply of inputs, both in terms of quality and quantity. Additionally, as highlighted below, infrastructure deficits – including inadequate electricity supply, water supply, and transportation services – create additional challenges in enabling firms to operate effectively.

Adama's other important economic sectors include the light manufacturing, metal engineering, textile and chemical sectors. If complemented with effective policies, these sectors could provide significant scope for forward and backward linkages with the economies of surrounding rural areas and become a source of employment for the large number of urban and rural youth migrating to Adama.

Adama is linked with its surrounding rural hinterlands predominantly through production-consumption linkages and rural-to-urban migration. The city heavily relies on its surrounding rural areas for the supply of agricultural and livestock products, both for household consumption and for wholesale trade by local enterprises. In addition, rural areas function as sources of skilled and unskilled labour.

In parallel, Adama provides a range of goods and services to its surrounding rural hinterlands. Rural households sell their agricultural goods in the markets set up by the municipality; they also store their goods in the city's public and private warehouses for sale to local wholesale traders, as well as to the rest of the region. Furthermore, Adama is a distribution centre for agricultural inputs, including fertilisers, herbicides, insecticides and other farming equipment. In addition, markets in and around Adama allow rural households access industrial and processed goods, including soap, edible oil, wheat flour, sugar, etc., which are produced in Adama. Adama also provides access to other goods, including textiles and imported industrial and agricultural commodities, by linking rural households with urban retailers, wholesalers and producers based in the city.

At the municipal level, Adama incorporates the rural kebeles and surrounding rural catchment areas into its master plan (BoFED, 2017<sup>[51]</sup>). The master plan proposed initiatives for improved agricultural production, especially through the introduction of modern technologies into the farming system. These agricultural initiatives promote activities including animal husbandry, poultry and dairy production, and animal fattening (BoFED, 2017<sup>[51]</sup>).

Additionally, a range of infrastructure and services facilitate Adama's links with its surrounding rural hinterlands. The GoE's investment in road and transportation infrastructure, especially the Road Sector Development Program (RSDP), has better connected Adama and strengthened the city's link to surrounding small towns and rural areas. As a result, not only has the road infrastructure facilitated the flow of goods and services between rural and urban areas, but it has also enabled surrounding small towns to be better connected to the city and to access its public infrastructure.

Adama also provides a range of public services – including education, health, power, water and other services – which are difficult to access in rural areas. In fact, Adama hosts seven technical and vocational education and training (TVET) centres and a university, which students from both surrounding rural areas and other regions across Ethiopia attend. In 2016, 9 037 students were enrolled in Adama's private and government TVETs. The number of students enrolled in Adama Science and Technology University is estimated to be between 20 000 and 25 000 (BoFED, 2017<sup>[51]</sup>).

However, as highlighted by municipal representatives, there is still significant scope for strengthening the linkages between Adama and its surrounding rural areas. The current weak rural-urban linkages stem from a range of constraints, including economic and policy constraints, which limit Adama's ability to build functional linkages with surrounding rural areas. This is largely because the economic planning for the municipality and the zone are conducted separately, limiting the scope for integrated and harmonised planning between the two levels of government. Furthermore, two additional fundamental issues constrain

Adama's ability to build strong rural-urban linkages: infrastructure constraints (including roads, public services and transportation), and the city's inability to sufficiently generate productive jobs.

### ***Lack of adequate infrastructure and financing limit Adama's future development***

Despite Ethiopia's large improvements in infrastructure nationwide, Adama continues to face major constraints in providing infrastructure and public services to its growing population. This is additionally fuelled by the growing rate of rural migrants moving into the city. Infrastructure constraints, including transportation and energy, hinder the city's ability to achieve economic growth and ensure that the urban growth taking place since the 1990s leads to structural transformation. For example, while Adama's city plan allocated 30% of urban land for road development, currently only 10% of the total allocated area has been used for road construction (BoFED, 2017<sup>[51]</sup>). Furthermore, additional constraints – including the lack of an effective waste management system, as well as flooding – negatively impact the city's development.

The aforementioned infrastructure challenges also limit the scope for rural-urban linkages, thus reducing rural households' access to the urban centre and creating barriers in their ability to transport their agricultural products into the city for higher returns. Infrastructure deficits, inadequate transportation, and municipal authorities' weak logistical capacity, also limit the growth prospects for Adama's agro-processing industry. In fact, although the federal, regional and municipal governments have been promoting the development of the agro-processing sector as a viable strategy for rural-urban transformation, there are still major challenges due to shortages in the supply of agricultural inputs. This is primarily due to the fact that rural farmers do not produce enough agricultural goods to supply the agro-processing sector. Limited access to effective transportation services and long distances between urban centres and rural farmers also have significant implications in terms of supply constraints.

Lack of infrastructure financing instruments present additional challenges in facilitating effective rural-urban linkages. Ethiopia's municipalities rely heavily on their own municipal revenue to fund their infrastructure needs (Ozlu, 2015<sup>[27]</sup>). However, Adama remains highly reliant on transfers from the central and regional governments; inadequate resources for investing in public services, along with infrastructure and services that cater to rural populations in addition to their own inhabitants, will also create major challenges in expanding infrastructure to Adama's surrounding rural hinterlands.

Adama holds city status, which provides the municipality with autonomy in the administration of the city. Thus, the municipality has the autonomy to collect its own revenue; it is also entitled to create its own sectoral plans, which are then transferred to the regional government for approval and budget allocation. The plans are then sent back to woreda-level representatives, along with the budget for the policies' implementation.

Despite its autonomy to collect local revenue, Adama is highly reliant on transfers from the regional government. Transfers from the regional government make up approximately 75% of the city's total annual revenue. Furthermore, the regional government also establishes the level of tax collection and allocation of resources to the Adama municipality. Local revenue, retrieved from local sources (including taxes from land use, services, private or commercial rent, and state taxes), accounts for less than 25% of the city's total annual revenue. In addition, Adama receives additional grants for capacity building from the Urban Local Government Development Program (ULGDP) budget.

**Table 2.5. Adama municipal revenue and transferred grants, 2012-16**

Sources of revenue and grants	2012	2013	2014	2015	2016
<b>Total own revenue</b>	<b>298 160 000.00</b>	<b>435 800 000.00</b>	<b>694 600 000.00</b>	<b>672 450 000.00</b>	<b>772 860 000.00</b>
<b>Total subsidies and grants</b>	<b>144 562 956.04</b>	<b>118 389 769.10</b>	<b>177 553 488.30</b>	<b>139 952 266.72</b>	<b>141 965 019.86</b>
Road fund	5 498 655.16	6 987 750.00	6 615 635.93	6 600 000.00	
International Development Assistance	111 978 336.88	90 332 874.10	105 077 263.77	102 580 732.72	99 903 365.32
Oromia government	27 085 964.00	21 069 145.00	65 860 588.60	30 771 528.00	33 558 046.20

Source: Adapted from BoFED (2017<sup>[51]</sup>)– Adama City Revenue Authority and Adama City Finance and Economic Development.

### ***Creating employment opportunities is becoming a priority***

Adama is no different from the rest of Ethiopia with regard to its urgency in meeting the employment demand for its growing population. In 2018, the city's unemployment rate reached 9% of its total population, with approximately 14 208 registered job seekers. Rural migrants make up a large proportion of the job seekers in Adama. Those migrating to Adama tend to be educated rural youth in search of off-farm employment, or those who have either lost their land or do not have access to an adequate amount of land.

Adama city representatives have launched a range of initiatives to address the employment gap. First, as highlighted in the Economic structure and employment section, micro and small enterprises (MSEs) are promoted as a strategy to address the increasing demand for employment within and around the city. Second, the municipality prioritises rural farmers who have lost their land due to the expansion of the city for employment in the newly completed industrial park, urban agriculture, and in activities including livestock fattening, poultry farming, etc. The municipality also provides vocational training to facilitate access to employment in both farming and non-farming sectors.

However, despite these efforts, low levels of private investment limit the scope for employment creation in the city. Indeed, although Adama benefits from an optimal location, it still faces significant challenges when it comes to attracting private investment. This is particularly due to limited availability of land, infrastructure and effective financing instruments. The municipality provides a range of incentives to attract private investment, including the provision of land, tax breaks, loans and infrastructure. Nonetheless, investments to date have not led to large gains, with approximately 60% of the investment projects undertaken since 1991 not having developed as expected, often due to budgetary or financing constraints, or due to shortages in foreign currency shortages.

Job creation will continue to be one of the most significant challenges facing the municipality of Adama. As the city is projected to grow, due to both natural growth and increasing rural-to-urban migration, and with an overwhelmingly young population, employment creation will continue to be a crucial aspect of urban development.

The industrial park built in co-operation with the Hunan Province of China, is expected to increase employment generation for both urban inhabitants and rural migrants. In fact, the number of jobs created jointly between the industrial parks in both Adama and in Jimma (another intermediary city in Oromia) is expected to reach 25 000 in the near future. This will result in Adama accounting for 2.3% of employment for the municipality's total labour force and 7.9% of the urban labour force in Oromia (Schmidt et al., 2018<sup>[54]</sup>).



### ***Adama could benefit from policies that build on its linkages to rural areas***

Sectorally and spatially fragmented policies are some of the causes of weak rural-urban linkages between Adama and its surrounding rural hinterlands. Policies at subnational and sub-city level are established separately and address rural and urban economies in isolation. In fact, most policy plans – which are passed from the kebele-level governments to the municipal and regional governments – are treated in a vertical manner by the respective sectoral offices. Horizontal co-operation between rural and urban kebeles takes place informally or during local community gatherings. Thus, there are no official, institutionalised platforms to facilitate information flows both between the municipality's rural and urban representatives and with representatives of surrounding rural areas.

Fragmented spatial or sectoral policies fail to capture the intricacies of, and interdependencies between rural and urban areas, and tend to reinforce spatial segregation. Sectoral policies do not take account of the blurring rural-urban divide, and overlook the extent of flows both in terms of goods and services, and of human movements, between these two areas (CIRAD, 2018<sup>[55]</sup>). In the case of Ethiopia, there is a major knowledge gap with regard to the interactions between rural and urban areas.

Furthermore, the fact that Adama is run by an autonomous municipal government, whereas its surrounding rural hinterlands fall under the zonal authorities, creates further challenges in co-ordinating policies to facilitate rural-urban linkages. In addition, the substantial knowledge and capacity gap among municipal and zonal administrators for the surrounding rural hinterlands create further challenges in drawing up policy strategies that strengthen rural-urban linkages.

### **Challenges faced by Ethiopian intermediary cities**

Despite their growing role in the national and global economies, intermediary cities face major challenges. In most developing countries, these challenges include inadequate public transport and infrastructure; issues related to access and management of land; weak governance; low private and public investment, and low adaptive and mitigation capacity to respond to climate change-related disasters (Cities Alliance, 2019<sup>[56]</sup>; Roberts, 2014<sup>[13]</sup>). These issues are not exclusive of intermediary cities, i.e. they are also present in larger cities, including capital cities. However, these issues tend to have a disproportionate effect on intermediary cities.

As in the case of other countries, Ethiopian intermediary cities are challenged by three fundamental gaps that affect their contribution not only to rural development but also to overall national economic growth. These are knowledge, policy and financing gaps.

#### ***Knowledge gap***

The knowledge gap is probably one of the most important constraints facing intermediary cities in Ethiopia. This knowledge gap stems from two main factors: lack of data availability and lack of knowledge about the ways in which these agglomerations contribute to economic development.

Data on intermediary cities are either hardly available, or they are unreliable. This is because most data collection concerning urban areas tends to primarily focus on large cities and the capital city. Overall, there is a significant gap in the availability of reliable and representative empirical knowledge across Ethiopia's urban areas. Current empirical information on urbanisation trends, as well as on the functions and dynamics across all of Ethiopia's urban areas, remains incomplete and is not representative at district level (Gebre-Egziabher and Yemeru, 2019<sup>[21]</sup>). However, Ethiopia's intermediary cities face an even bigger challenge in terms of the availability of empirical knowledge and statistical information. While it is clear that these agglomerations are growing at unprecedented rates, there is very limited statistical knowledge and empirical studies that provide data on their economic activities, functions and other vital information

required for informed policy making and urban planning. This is predominantly due to local governments' limited capacity to collect and analyse data at district level. Moreover, the high prevalence of informal sectors in intermediary cities creates additional challenges in terms of collecting adequate data on their socio-economic dynamics.

Furthermore, the lack of empirical data on Ethiopia's intermediary cities is reinforced by the fact that policies and studies targeting rural and urban areas tend to be sectoral and treat these two areas in isolation. As a result, intermediary cities and small towns are overlooked, and their functions and dynamics are not captured appropriately either in data collection or in policy design.

### ***Policy gap***

The policy gap concerns the lack of co-ordinated policies addressing the needs of intermediary cities, while accounting for their potential role in the urban system. Despite their fundamental roles and growth, intermediary cities remain overlooked in national urban policies. Indeed, national urban policies tend to primarily focus on large agglomerations. In addition, policies do not use a place-based approach and continue to rely heavily on the binary assumptions of rural and urban divide. As a result, policies targeting rural and urban areas treat the two territories in isolation, leaving intermediary cities to fall between the cracks of the urban and rural divide. Furthermore, the deployment of sectoral policies overlooks existing rural-urban linkages and the intricate socio-economic interdependencies of these two territories, whereby intermediary cities play a key role (OECD, forthcoming<sup>[57]</sup>).

Policies improving both infrastructure and public service delivery will be key to enhancing intermediary cities' contribution to rural development in Ethiopia. Ethiopia's urban areas face significant issues in terms of infrastructure supply across the board; however, intermediary cities in particular are lagging behind. The GoE has made considerable investments in infrastructure, especially roads, electricity and water sanitation services. Nonetheless, Ethiopian intermediary cities still face major constraints in supplying adequate infrastructure and services – including water, sanitation and sewerage – to their growing populations.

Infrastructure gaps in water, sewerage and sanitation are some of the most acute challenges facing Ethiopia's intermediary cities. For example, cities such as Mekele face particularly significant challenges in their water service provision, with only 67% coverage and large water losses due to leakage. As another example, Hawassa's access to safe water only reaches 66% of its population, and given its estimated threefold growth by 2037, the city will face major constraints in meeting even higher levels of demand. Furthermore, intermediary cities face major constraints in the supply of other services, such as sewerage and sanitation, with disproportionate gaps in service provision between Addis Ababa and the rest of Ethiopia's urban areas. In fact, Addis Ababa is the only urban centre with a municipal sewerage system, and it serves only 10% of the city's population (Ozlu, 2015<sup>[27]</sup>; Cities Alliance, 2016<sup>[23]</sup>).

In addition, the development of intermediary cities in Ethiopia is hindered by local governments' capacity. Local governments tend to have low capacity and autonomy in attaining the adequate knowledge, data and financing instruments in order to implement effective policies targeting intermediary cities (OECD, forthcoming<sup>[57]</sup>).

Additional attention should be paid to the way in which climate change and environmental hazards are affecting intermediary cities and surrounding rural areas. Climate change and poor environmental management and regulations are particularly affecting intermediary cities, which tend to have low adaptive and mitigation capacity. Chronic droughts, water shortages, air and water pollution, inadequate solid and liquid waste management, and the limited capacity of sewerage systems are some of the main issues facing intermediary cities. Intermediary cities, including Dire Dawa, Mekele and Adama, are particularly prone to climate change-induced hazards, such as extreme temperatures, water shortages due to ground water depletion, and flooding (Cities Alliance, 2016<sup>[23]</sup>). In addition, a growing number of rural populations

are being displaced towards intermediary cities due to climate effects and loss of livelihoods. However, concrete evidence on climate induced migration remains limited in Ethiopia.

The fact that some intermediary cities host growing industrial production sectors without appropriate environmental management is leading to detrimental effects on the well-being of citizens. For example, cities such as Mekele and Adama experience the significant consequences of inadequate waste management, and of water and air pollution, due to industrial parks and individual households.

### ***Financing gap***

The lack of adequate finance, or the financing gap, is one of the main persistent and fundamental challenges facing intermediary cities. Local governments face multidimensional challenges in their financing capacity and financing instruments, and consequently, in their ability to govern intermediary cities effectively. Despite their increasing population, intermediary cities have limited financial resources, and therefore limited capacity to invest in the infrastructure and public services needed to meet growing demand.

Local governments' low financing capacity is characterised by their weak urban governance systems, low local autonomy and weak economic base. Across the board, local governments administering intermediary cities tend to be highly dependent on central government transfers, and they have very limited scope to raise their own revenue. This is coupled with the fact that intermediary cities' lack of economic diversification, and their dependence on primary sectors such as agriculture and mining, creates constraints in these cities' abilities to levy sufficiently high municipal revenue that would enable them to invest in the necessary infrastructure to support their development. In addition, intermediary cities tend to attract limited private and foreign investment, as most investors tend to focus on large cities or capital cities. The low level of private investment not only limits scope for generating tax revenue, but it also hinders the creation of employment and the subsequent multiplier effects of private investment (OECD, forthcoming<sup>[58]</sup>).

Municipal revenue is the main source of funding for urban infrastructure investment; however, across Ethiopia, municipal revenue only makes up 3% of total national revenue, and there is a substantial gap between municipal expenditure and revenue. Intermediary cities that have a low tax base from which to extract revenue, and those that attract a low level of investment, face even larger constraints in adequately financing their infrastructure investment needs (Ozlu, 2015<sup>[27]</sup>).

While municipal administrators are assigned numerous responsibilities by federal and regional governments, in practice they lack full autonomy to draw up and implement legislation. Municipal administrators also have little autonomy in their ability to enhance their local revenue, as they have limited capacity to establish tariffs, invest effectively in their public infrastructure, or implement regulations for effective land management in order to be able to extract additional land-based revenue (Ozlu, 2015<sup>[27]</sup>).

### ***Lessons from countries in the region***

Some African countries have recognised the importance of intermediary cities and put policy actions in place, which can serve as policy lessons for Ethiopia. For instance, South Africa launched the Integrated Urban Development Framework (IUDF) to manage inclusive and sustainable urban centres (see Box 2.3). It recognises the role of smaller urban centres and towns, and highlights the economic and social interdependencies of rural and urban areas. While the framework does not explicitly lay out a plan for intermediary cities, it highlights the unique challenges facing these agglomerations and takes into account the needs of smaller towns.

Ethiopia can derive two policy lessons from South Africa's intermediary cities. First, the objective of intermediary cities' development should not always be to transform them into large cities or metropolitan areas. Second, establishing a flexible and multilayered city categorisation to enable cities to move along

the urban hierarchy – in addition to considering factors other than city size – can benefit the urban system. Consequently, Ethiopia needs to take into account intermediary cities' function, and then adjust the support provided accordingly, such as intergovernmental transfers, planning and institutional support. Strengthening the network and linkages across these categorisations can serve as an important capacity-building instrument for the development of these agglomerations and surrounding rural areas (Marais, 2014<sup>[59]</sup>). Therefore, when devising development strategies for intermediary cities, it is imperative to take into account the local context, including market size, infrastructure availability, and links to domestic and international markets.

Another example is Rwanda. It has launched a series of policies and initiatives targeting intermediary cities, as well as integrating these urban centres into the country's National Urbanization Policy (NUP) (see Box 2.4). Moreover, Rwanda has placed a strong emphasis on the role of intermediary cities in relation to environmental issues and sustainable urbanisation.

Rwanda's plans for the development of intermediary cities provide important policy lessons for Ethiopia. First, strategic road and economic investment is needed in order to develop a linked and integrated network of intermediary cities. Second, development of industrial parks in these agglomerations will not automatically lead to economic transformation. For example, the GoR has encouraged and supported firms to move to the Kigali SEZ. This has enabled firms to achieve a 206% increase in sales, a 201% increase in value added (sales minus input costs), and an 18% increase in employment. It should be noted that these firms primarily targeted the local Kigali market. As such, it is not assumed that the replication of such a strategy in smaller agglomerations would translate to similar outcomes (Steenbergen and Javorcik, 2017<sup>[60]</sup>).

### Box 2.3. South Africa's intermediary cities

South Africa is one of the most urbanised countries in Africa, with urban areas accounting for 65% of the total population. By 2030, the country is expected to be approximately 70% urban. However, South Africa's urbanisation rate and urban areas are shaped by the country's complex historical context of apartheid policies, including policies to suppress urbanisation, especially between the 1950s and the 1980s. In addition, South Africa's national statistical system does not disaggregate data by rural/urban areas. However, South Africa has a well-defined decentralised system, whereby allocation of financial resources corresponds with the remits of each level of government. Nonetheless, local governments still face major constraints in terms of receiving adequate funding to invest in the development of their respective municipalities.

South Africa does not have a clear definition and established hierarchy of urban centres. Nonetheless, the National Treasury selected 22 intermediary cities for its Cities Support Programme in 2011, where selection was based on the cities' municipal budget, population size and economic activities. The South African Cities Network (SACN) also reviewed the 22 intermediary cities, and it is one of the few contributors of research on these types of agglomerations. In addition, South Africa launched the Integrated Urban Development Framework (IUDF) to effectively manage inclusive and sustainable urban centres. The IUDF aims to achieve a spatial transformation, with a connected and integrated urban system comprising varying sizes of cities and towns. It recognises the role of smaller urban centres and towns, and it highlights the economic and social interdependencies of rural and urban areas (Republic of South Africa, 2016<sup>[61]</sup>).

Intermediary cities in South Africa accounted for 23% of the country's population growth between 2001 and 2011. However, growth rates vary across these cities, with some intermediary cities experiencing negative growth during the same period. At the same time, intermediary cities have also seen growth in employment, recording 42% growth between 2001 and 2011, compared with 43% in large metropolitan areas during the same period. Employment growth was particularly high in intermediary cities located near large cities such as Johannesburg. Consequently, intermediary cities with growing employment rates have also seen faster growth in incomes when compared with large metropolitan areas (Marais and Cloete, 2017<sup>[62]</sup>; John, 2012<sup>[63]</sup>).

### Box 2.4. Rwanda's intermediary cities

Rwanda is undergoing rapid urbanisation. Between 2002 and 2015, urbanisation took place at a rate of 6.7% per year, and Rwanda's urban population grew from 15.8% to 26.5% of the total population. While growth occurred across all urban areas, there are large disparities in Rwanda's urbanisation rates, with some intermediary cities undergoing slower growth than the national average, which was 3.3% per year between 2002 and 2012. However, changes in Rwanda's definitions of urban areas between the last two censuses (in 2002 and 2012) create major challenges in terms of accurately comparing and estimating the urban population changes, especially in intermediary cities and small towns.

Despite Rwanda's predominantly monocentric urban system, with Kigali accounting for 50% of the country's urban population, intermediary cities have demonstrated promising growth potential. In fact, a number of intermediary cities, especially those located across some urban corridors, have been growing faster than Kigali. Intermediary cities located in the urban corridor along the border between Rwanda and eastern Democratic Republic of the Congo (from the Rubavu to Musanze districts), and in another corridor located in the southern region of the country (from the Muhanga to Huye districts), account for the majority of the urban population living outside of Kigali (Bundervoet, 2017<sup>[64]</sup>).

The Government of Rwanda (GoR) recognises urbanisation as a key catalyst for the country's economic transformation. Consequently, the GoR announced its goal to increase the country's urban population to 35% of the total population by 2020, in line with its Vision 2020 of becoming a middle-income country. Furthermore, the GoR has launched a series of policies and initiatives targeting intermediary cities as well as integrating these urban centres into the country's NUP. The GoR has identified six poles of growth (Huye, Muhanga, Musanze, Nyagatare, Rubavu and Rusizi). The aim is that these poles will balance the urban system and function as centres for the development of the non-agricultural activities outlined in the *Economic Development and Poverty Reduction Strategy II, 2013-2018* (EDPRS2). In addition, the GoR has adopted The National Roadmap for Green Secondary City Development in Rwanda in partnership with the GGGI in order to support the sustainable implementation of the government's poverty reduction strategy (Government of Rwanda and GGGI, 2015<sup>[65]</sup>).

## Conclusions

Ethiopia's intermediary cities are growing and present major opportunities to function as key catalysts for rural transformation, as well as to help balance the urban system. It is clear that these agglomerations are not only playing a growing role in the urbanisation dynamics of the country but they are also burgeoning agents of economic growth and development. This chapter has outlined some of the main means through which intermediary cities are serving their surrounding rural hinterlands and helping to build stronger rural-urban linkages. Intermediary cities are hosting growing numbers of urban dwellers, increasing economic activities, and offer employment and market opportunities to their surrounding rural hinterlands.

The linkages between intermediary cities and rural areas need to be strengthened. As such, urban policies targeting intermediary cities should take account of their surrounding rural hinterlands and aim to develop integrated and coherent rural and urban development strategies. As highlighted in Chapter 1, while Ethiopia's urban areas are growing rapidly, the rural population will also continue to grow; therefore, rural areas will continue to play an important role in Ethiopia's development. However, rural development cannot take place without creating strong linkages with the growing urban areas, especially intermediary cities and small towns. Linking rural economies, including the agricultural sector, to the economies and activities of the surrounding network of urban centres will contribute to an inclusive rural and urban transformation.

Urban areas can support the transformation of the agricultural sector by facilitating the development of agricultural value chains and enabling rural agricultural producers to enhance their incomes.

However, Ethiopia's intermediary cities need to create an enabling environment and achieve critical mass in order to facilitate an inclusive rural-urban transformation process. Diversifying local economies in order to create stronger linkages with surrounding rural areas can enhance the transformation process. In addition, intermediary cities need better urban planning, improved local capacity, better mobilisation of resources, and extensive empirical studies and statistical knowledge in order to be able to draft effective policies. The case of Adama highlights that although there is a high degree of interaction between the municipality and its surrounding rural areas, there is a substantial knowledge gap in the mechanisms through which these two territories interact. The lack of effective spatial policies and strategies that go beyond the urban and rural divide to encompass the capacities of the two territories further sustain the rural-urban gap.

Ethiopia can harness the benefits of its early urbanisation stage, as well as the leadership and efforts that have been made to date, to boost rural-urban transformation. The early stage of Ethiopia's current urbanisation, in addition to the federal government's efforts to recognise urban centres as key catalysts for the country's industrialisation plans, provide a large platform for designing and implementing effective urban and rural policies that recognize the interdependencies between the areas.

The development of SEZs across the intermediary cities studied can provide a platform for the implementation of cluster-based policies. This can be achieved by first linking the activities and firms within the SEZs to the assets and economies of the local area. This means clustering firms and actors based on their production, specialisation and their scope for job creation, while also providing the right support mechanisms for their effective functions. Second, local and regional governments can mobilise and facilitate horizontal co-operation between firms and suppliers from the hinterlands or from the cities themselves. Third, providing support and services for local or hinterland suppliers is also an effective way to encourage clustering and develop rural-urban linkages. This is particularly relevant for Ethiopia's intermediary cities, as one of the constraints for developing stronger linkages is the supply gap from surrounding rural producers. Boosting the capacity of local suppliers can also help them better integrate into the urban economy, as well as strengthen the interdependencies between rural and urban areas (AUC/OECD, 2019<sup>[66]</sup>).

## Annex 2.A. Additional figures and tables

**Annex Table 2.A.1. Rural migrants' employment status by sector and city**

Intermediary city	Employment status (%)			Rural migrant employment by sector (%)				Informal employment (%)
	EMP	UNE	NA	FOR	INF	ND	Total	
Mekele	92.1	4.1	3.8	61.9	35.3	2.8	100.0	16.4
Bahir Dar	85.4	4.8	9.9	70.5	21.8	7.7	100.0	17.0
Adama	81.3	5.5	13.2	70.3	29.8	0.0	100.0	21.0
Hawassaa	74.9	4.0	21.2	55.0	45.1	0.0	100.0	16.4
Dire Dawa	84.2	5.1	10.7	59.5	36.1	4.4	100.0	28.6
<b>Capital city</b>								
Addis Ababa	75.0	9.6	15.3	85.3	11.6	3.1	100.0	6.8

Note: EMP = employed; UNE = unemployed; NA = not active; FOR = formal; INF = informal; ND = not defined.

Source: Authors' calculations using Labour Force Survey (2013<sub>[31]</sub>).

**Annex Table 2.A.2. Source of migration by geographic area**

Intermediary cities	Number of migrants by previous residence				Total estimated population in 2013	Share of migrants in total population
	Town	Rural	Abroad	Total		
Mekele	58 028 (45.0%)	51 658 (40.1%)	19 134 (14.9%)	128 820 (100%)	284 298	45%
Bahir Dar	59 870 (48.4%)	62 334 (50.4%)	1 500 (1.2%)	123 704 (100%)	202 070	61%
Adama	96 640 (57.5%)	67 616 (40.2%)	3 914 (2.3%)	168 170 (100%)	285 466	59%
Hawassa	86 016 (63.6%)	48 910 (36.1%)	404 (0.3%)	135 330 (100%)	221 172	61%
Dire Dawa	59 591 (55.8%)	42 562 (39.8%)	4 709 (4.4%)	106 862 (100%)	263 773	41%
Addis Ababa	502 989 (40.4%)	714 152 (57.3%)	28 578 (2.3%)	1 245 719 (100%)	3 156 467	39%

Source: Authors' calculations using Labour Force Survey (2013<sub>[31]</sub>).

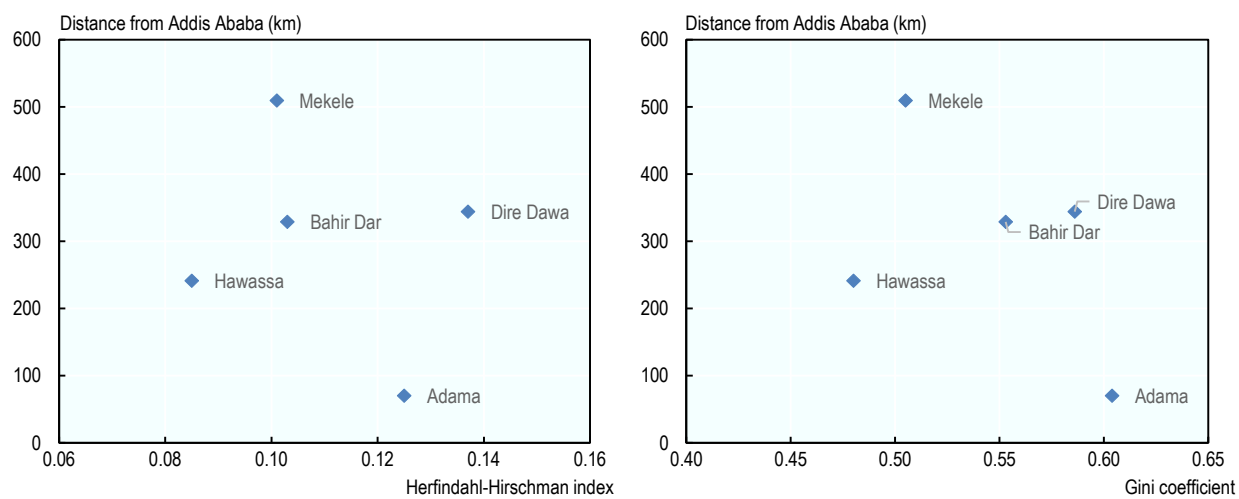
**Annex Table 2.A.3. Distribution of large- and medium-scale manufacturing firms across cities, number of employees, and value added**

City	Number of firms	Share of total firms in urban areas	Number of persons engaged	Share of total employees	Value added at basic price (in ETB thousands)	Share of total value added
Mekele	88	3%	13 696	4%	3 144 845	7%
Bahir Dar	36	1%	4 453	1%	444 167	1%
Adama	59	2%	5 336	2%	344 831	1%
Hawassa	114	4%	5 167	2%	1 171 982	3%
Dire Dawa	91	3%	5 641	2%	1 510 902	3%
Addis Ababa	1 092	35%	109 276	33%	14 563 532	31%
All urban centres	3 149	100%	333 084	100%	46 438 037	100%

Source: CSA Large and Medium Scale Manufacturing (LMSM) survey report (2015<sub>[30]</sub>).



### Annex Figure 2.A.1. Distance to Addis Ababa and economic diversification



Source: Authors' calculations using the CSA's *Labour Force Survey* (2013<sub>[31]</sub>).

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## Notes

<sup>1</sup> The census is the most reliable source of subnational demographic data in Ethiopia.

<sup>2</sup> This indicator is used to compute the Gini and Herfindal-Hirschman indexes. The use of this measure is common among practitioners and empirical economic literature. See for additional information.

<sup>3</sup> Other intermediary cities and small towns that are located close to Addis Ababa, such as Burayu and Sebeta, host large numbers of LMSM firms – 147 and 69, respectively. This enables these urban centres to gain from positive spillover effects through their better links to Addis Ababa.

<sup>4</sup> The criteria include: “...over half of the population are engaged in non-farming activities such as petty trading, service provision and the like; most of the residents in the area are benefiting from urban-based facilities like electricity, piped-water supply, telephones, schools, and health services; total population living in that particular location is 2 000 and above; and the area is believed to have potential for economic growth and attraction of migrants to engage in nonfarm activities” (Ozlu, 2015<sub>[27]</sub>).

<sup>5</sup> Recent migrants are those who changed residence in the last 5 years.

<sup>6</sup> The definition of their respective rural hinterlands is based on information gathered from interviews conducted with key informants, desk reviews of literature and secondary data, and geographic proximity. The rural hinterland area in the case of Bahir Dar includes areas located in the Zones of West Gojjam and South Gondar, East Shewa, and Arsi, and constitutes Adama’s rural hinterland. Hawassa city’s rural hinterland includes Sidama Zone and other rural areas located in the West Arsi Zone of the Oromia region.

<sup>7</sup> Total crop production relative to potential measures the ratio of actual crop production (in terms of value) to potential crop production (determined by agroecology, and the agronomic characteristics of crops and regions) (Dorosh et al., 2012<sub>[45]</sub>).





# **3**

## **The evolution of rural development policies in Ethiopia**

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Rural development is at the centre of Ethiopia's national development agenda. Indeed, the Government of Ethiopia has put considerable efforts and resources in establishing an explicit rural development strategy, as well as launching a series of sectoral programmes targeting the multidimensional needs of rural areas. This chapter reviews the evolution of Ethiopia's rural development policies since 1991. Moreover, given the growth in Ethiopia's urbanisation, and its catalyst role for rural development, it also reviews the progression of Ethiopia's urban policies and their interactions with rural policy. It highlights that, although national development plans are evolving and recognising the role of urban areas for structural transformation, rural and urban policies remain fragmented. It argues that fragmented policies can limit the scope for stronger rural-urban linkages. Thus, the chapter calls for better co-ordination of urban and rural policies in order to reap the benefits of Ethiopia's ongoing changes and facilitate rural-urban transformation.

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## Introduction

Rural development is at the heart of Ethiopia's national development strategies. Given the size of the rural population, and the importance of agriculture for Ethiopia's development, the country's efforts to effectively foster rural development constitute as a national development objective.

Rural policy is, however, constantly changing. These changes result from the structural transformation of rural economies, changes in the national economy and international markets, a shift in the political system, or a new ideology governing development interventions. For this reason, understanding the evolution of rural policy is a necessary condition to identify potential areas for reform. Moreover, this further requires understanding how national development plans have embedded rural (and urban) development efforts.

Despite its importance, the agricultural sector has not always taken a central role in Ethiopia's national development plans. Ethiopia's political ruling prior to 1991, encompassing the Monarchy (1941-74) and the Derg period (1974-91), prioritised the industrial sector. This was done through mixed strategies: export-oriented (mainly during the Monarchy period) and industrial development-based import substitution, while the agricultural sector was frequently used as a source of foreign currency.

In 1991, following changes in the political system, Ethiopia's development strategies dramatically changed. They went from emphasising industry to promoting agricultural development. This led to the establishment of the Agricultural Development-Led Industrialisation (ADLI) strategy, which promoted small-scale agricultural sector development. Under ADLI, agricultural sector development and rural areas were placed at the heart of the national development agenda. ADLI functioned as the main guiding framework for subsequent national development strategies (SDPRP, PASDEP, GTP I and GTP II). Alongside structural reforms, the new government also implemented a series of multi-sectoral flagship programmes to address the multidimensional needs of rural areas. These include large infrastructure and social protection programmes, which have enhanced rural residents' access to the nearest agglomerations, facilitated linkages across small towns and intermediary cities, as well as reducing poverty. For instance, Ethiopia's flagship social protection programme, the Productive Safety Net Programme (PSNP), reaches today almost 8 million beneficiaries (both in rural and urban areas), and has lifted 1.5 million Ethiopians out of poverty.

This chapter reviews the evolution of rural policy in Ethiopia since 1991. It highlights that, although ADLI has set the foundations for Ethiopia's economic success, Ethiopia's demographic, economic, and spatial transformations call for an update in the ADLI in order to better reflect current challenges. Notably, as urbanisation plays an increasingly important role for Ethiopia's development, policy actions affecting the urban areas will have a second order effect on rural populations. For this reason, the chapter also looks at the main changes in national urban policies and calls for better co-ordination between urban and rural policy.

This chapter is structured as follows. The first two sections briefly summarise the changes in national development approaches across two political systems prior to 1991, and the national development strategies since 1991. The third section highlights the main government programmes targeting rural areas, while the fourth section describes rural areas' governance and institutional frameworks, as well as the roles and responsibilities of subnational governments. To complement this analysis, the fifth section outlines Ethiopia's national urbanisation plans and the ways in which urban areas have been embedded into national development strategies. The chapter ends with a short conclusion.

## Brief overview of national development strategies in Ethiopia before 1991

### ***Monarchy period (1950-74)***

Ethiopia's national development strategy under the monarchy aimed to foster industrialisation. Export-oriented growth strategies were first adopted in order to attract foreign direct investments. Due to the unsuccessful outcomes of export-oriented strategies, the monarchy switched to import substitution industrialisation (ISI) strategies in order to develop an industrial sector.

Three five-year development plans were launched during the monarchy. The First Five-Year Development Plan (1957-62) promoted improved production of cash crops, including coffee, which accounted for 70% of foreign exchange earnings (Welteji, 2018<sup>[1]</sup>). Similarly, the Second Five-Year Development Plan (1963-67) continued to prioritise industrial development. Large-scale commercial farms for production of cotton, coffee and sugar were promoted as a source of income over small-scale subsistence farms, which accounted for 80% of cereal production (Alemu et al., 2002<sup>[2]</sup>).

The Third Five-Year Development Plan (1968-73) shifted its focus to the development of the agricultural sector in order to address the rising problem of food shortages in Ethiopia. The Integrated Rural Development project was also established to address rural development challenges and expand the agricultural commercial market system. It predominantly focused on improving the distribution of agricultural inputs, such as fertilisers and seeds used by commercial farmers, and expanding rural health services. Nonetheless, the monarchy continued to envision the development of the non-agricultural sector as the main driver of economic development (Alemu et al., 2002<sup>[2]</sup>).

During the monarchy, Ethiopia had a complex land tenure system, with very limited private ownership of land. The monarchy and the church had strong control over most of the agricultural land.

A combination of public dissatisfaction, food shortages and the rise of a military government led to the monarchy to be overthrown in 1974 (Clapham, 2019<sup>[3]</sup>)

### ***Derg period (1974-91)***

The Derg government changed the previous national development strategy, placing the emphasis on a centrally planned economy. Industry-led development was deployed as the main development strategy. Rural land and other productive assets were nationalised, and land was distributed among farmers. Commercial farms were put under GoE control, and land tenancy was abolished. Furthermore, private commercial labourers and commercial farming were marginalised, and large collectivisation programmes were promoted through resettlement and villagisation programmes (Welteji, 2018<sup>[1]</sup>). The military government maintained an overvalued currency and implemented marketing and pricing policies; in addition, the GoE established the Agricultural Marketing Corporation (AMC) to set pricing systems, for agricultural goods and set quotas for grain production which were significantly lower than market prices (Alemu et al., 2002<sup>[2]</sup>).

Following the severe drought of 1983-84, the government introduced the Ten-Year Perspective Plan. This plan primarily aimed to promote self-sufficiency in food production, as well as surplus agricultural production. The central government set production targets and utilised the AMC to increase the production surplus of agricultural resources (Alemu et al., 2002<sup>[2]</sup>). In 1987, the government unveiled a mixed economy strategy and the Ten-Year Perspective Plan was partially changed to focus on the production of staple food crops, until the plan was terminated in 1990.

Rural development was not part of the overall development agendas of either the Derg government or the monarchy. Investment in the agricultural sector was primarily used as a means to manage foreign exchange earnings or capital accumulation for investment in the industrial sector. However, by the end of

the period of the Derg government, and with the formation of the new government, national development strategies had shifted focus.

## Ethiopia's national and rural development strategies post-1991

### *Ethiopian People's Revolutionary Democratic Front (1991 to present)*

The Ethiopian People's Revolutionary Democratic Front's (EPRDF's) rise to power in 1991 resulted in a considerable shift in national development strategies. The EPRDF moved Ethiopia's development vision away from the previous centrally planned industrial development and towards a new agricultural-led development approach. Many of the previous governments policies were reversed, agricultural price controls were removed, and state farm assets were privatised. In addition, the new government adopted an export-oriented development strategy and implemented structural adjustment programmes (SAPs). In 1994, the home-born ADLI was launched as the foundation for national development, with the main objective of attaining food self-sufficiency by increasing agricultural productivity and output. Table 3.1 below highlights the changes in national development strategies across the three political systems.

**Table 3.1. Changes in Ethiopia's National Development Approaches 1950 to present**

Political ruling	Monarchy	Derg government	EPRDF
Period	1950-74	1974-91	1991 to present
National development strategies	Industrial development through import substitution and industrialisation	Centrally planned, industry-led development	Home-grown, agricultural-led, export-oriented development policies
Selected policies	<ul style="list-style-type: none"> <li>• Land was mainly owned by the state and the church</li> <li>• Establishment of large commercial farms producing coffee, as means of earning foreign currency</li> <li>• Prioritised the development of non-agricultural industries</li> </ul>	<ul style="list-style-type: none"> <li>• Nationalisation of land and other productive assets</li> <li>• Collectivisation of farms and promotion of villagisation programmes</li> <li>• Mixed economic policies (1988-89). Distortion of markets through price controls, and overvaluation of the Ethiopian birr</li> </ul>	<ul style="list-style-type: none"> <li>• Land remains state owned</li> <li>• Changed national development priority to agricultural development</li> <li>• Adoption of SAPs and export-oriented open economy</li> </ul>
Key rural development issues	<ul style="list-style-type: none"> <li>• Food shortages</li> <li>• Neglect of cereal production despite accounting for 80% of the cultivated area</li> </ul>	<ul style="list-style-type: none"> <li>• Severe droughts and famine in 1983-84 and food insufficiency</li> <li>• Civil conflicts</li> </ul>	<ul style="list-style-type: none"> <li>• Persistent food shortages</li> <li>• Rise in rural population</li> <li>• Environmental degradation and climate change-related shocks</li> </ul>

Source: Welteji (2018<sup>[1]</sup>), Alemu et al (2002<sup>[2]</sup>).

Since 1991, the EPRDF has implemented a series of national development plans, for which the ADLI still stands as the main pillar. Nonetheless, urban areas are now increasingly targeted to tap into the country's potential for developing a manufacturing sector.

### **Ethiopia's policy frameworks for national development since 1991**

#### *The ADLI has functioned as the guiding framework for national development*

Under the ADLI, the GoE envisioned agricultural sector-driven economic transformation. The programme entailed three main strategies: expansion of agricultural technologies; investment in agricultural infrastructure, including inputs; and boosting rural non-agricultural sectors. The programme aimed at boosting agricultural productivity by improving the use of fertilisers and seeds, with the ultimate aim to boost agricultural production to serve as input and drive industrial development (Dercon et al., 2019<sup>[4]</sup>).

The ADLI also encompassed wider socio-economic development programmes, including investment in infrastructure such as roads, telecommunication and electricity grids. Furthermore, the plan aimed at enhancing the flow of finance, local governments' administrative capacity, and the development of agro-processing industries (Mellor and Dorosh, 2010<sup>[5]</sup>). A series of investment plans were made under the ADLI, including rural technical and vocational education and training services (TVETs), the development of water resources (hydro power and irrigation), improvements in microfinance institutions, improvements in the marketing of agricultural products, and the restructuring of smallholder co-operatives.

The GoE heavily invested in extension programmes and introduced the Participatory Demonstration and Training Extension System (PADETES). PADETES was used to distribute fertilisers, seed and credit, as well as to spread information on better agricultural practices, to smallholder farmers. The ADLI remains the key pillar and guiding framework for other successive development plans, including the SDPRP, PASDEP, GTPI, and the current GTPII.

*The SDPRP (2002-05) affirmed agricultural development as a key sector for poverty reduction*

The SDPRP was the first poverty reduction strategy to be introduced by the EPRDF, and covered the period between 2002 and 2005. While the ADLI constituted as one of the four pillars of the SDPRP, the programme also encompassed wider sectoral reforms, including the reform of the justice system and civil service, decentralisation, and empowerment and capacity building in the public and private sectors. SDPRP objectives included poverty reduction, food security and macroeconomic stability (MoFED, 2002<sup>[6]</sup>).

The SDPRP recognised the need for a multisectoral, rural development strategy to expand beyond an agricultural sector focus. It built on the ADLI principles and policies of labour-intensive agricultural sector development as a way of reducing poverty and improving food security and growth. It promoted the expansion of the agricultural sector into international markets by increasing commercialisation and intensive farming through improved technologies and access to microfinance institutions. In addition, the SDPRP aimed to expand education and training programmes such as TVET, and to strengthen rural co-operatives in order to further develop the links between small-scale farmers and the non-agricultural private sector (MoFED, 2002<sup>[6]</sup>).

*The PASDEP (2005-10) tapped into the role of urban areas for poverty reduction while agriculture remained a national priority*

The PASDEP was Ethiopia's second poverty reduction strategy, covering the period between 2005 and 2010. The plan mainstreamed and built on the ADLI's main objective of attaining food self-sufficiency by increasing agricultural productivity and output. However, the PASDEP altered its approach to agricultural growth, changing from a focus on small-scale subsistence farming alone to larger-scale farmers; in addition, it called for "specialisation, diversification and commercialisation of agricultural production" (MoFED, 2006<sup>[7]</sup>).

The PASDEP promoted agricultural specialisation and diversification by encouraging farmers to focus on agricultural activities with the highest comparative advantage. The plan was aimed at increasing agricultural diversification by establishing high-value and niche markets, such as floriculture, production of spices, horticulture and mining. In addition, the PASDEP created a long-term programme of private sector engagement in the agricultural sector in order to facilitate the state's long-term progressive withdrawal from the sector (MoFED, 2006<sup>[7]</sup>). Moreover, under the PASDEP, the GoE promoted the provision of capacity building in technology use, and other skills training for farmers.

The PASDEP differed from previous poverty reduction strategies in that it focused on urban areas and promoted rural-urban linkages. Moreover, it widened its focus beyond rural areas and agriculture to include

urban areas, and it emphasised their role in industrial and rural development. The plan highlighted the need for rural-urban linkages, and for small cities and towns to create these linkages. As such, the plan called for the development of 600 small towns, each with 20 000 inhabitants, as a way of promoting rural-urban linkages (MoFED, 2006<sup>[7]</sup>). By 2012, the number of towns in Ethiopia with up to 20 000 inhabitants had exceeded 700 (EGIS International, 2015<sup>[8]</sup>).

The PASDEP contained a series of urban development-related objectives, including infrastructure development (such as road, market infrastructure), the creation of urban employment and the development of low-cost housing. It embedded the goals of the National Urban Development Policy, which was launched in 2005 (MoFED, 2006<sup>[7]</sup>)

*GTPI (2010-15) widens the national development agenda towards industrialisation*

GTPI was the third national development plan covering the period between 2010 and 2015. GTPI advanced the Ethiopian national agenda towards becoming a lower middle-income economy by 2025. Regarding agricultural sector growth strategies, GTPI highlighted the need to identify and scale up smallholders' best agricultural practices. It introduced new agricultural technologies aimed at helping to improve soil productivity, and it provided support to small-scale farmers through training and fertiliser provisions. In addition, GTPI promoted the production of high-value crops and set sector-based targets (MoFED, 2010<sup>[9]</sup>).

GTPI built on the PASDEP and widened its remit to include industrialisation as a way of creating structural transformation. The plan recognised the importance of urban areas and industrial development for structural transformation and for creating employment for Ethiopia's growing population (MoFED, 2010<sup>[9]</sup>). It promoted investment in labour-intensive micro and small-scale enterprises (MSEs), as they provide significant opportunities for processing of agricultural goods. The plan envisioned labour-intensive manufacturing MSEs as a strategy for creating linkages with the rest of the economy (including the agricultural sector), as well as a strategy for an import substitution and export-oriented industrialisation programme. GTPI also promoted investment in urban infrastructure, employment creation and promotion of low-cost housing (MoFED, 2010<sup>[9]</sup>).

*GTPII (2015-20) continues the industrialisation agenda, and taps into the potential of urban areas*

GTPII builds on the main objectives and pillars of GTPI. GTPII continues to operate within the framework of the ADLI and Ethiopia's agenda of becoming a lower middle-income country by 2025. Smallholder agriculture remains considered "the single most important source of economic growth" (NPC, 2016, p. 82<sup>[10]</sup>).

GTPII promotes agricultural sector development by encouraging the production of selected crops, including high-value crops, and the production of both industrial inputs and export commodities. In addition, GTPII recognises the wider developmental needs of rural areas. For example, under the new plan, the GoE aims to strengthen land rights through the provision of land use certificates for 7.2 million rural male- and female-headed households. Additional plans also include an increase in irrigation development, enhanced agricultural research programmes, increased private sector participation, and capacity building for rural workers (NPC, 2016<sup>[10]</sup>).

Under GTPII, the GoE envisions Ethiopia to become the leading light manufacturing hub in Africa. In this regard, urban development is an important feature of GTPII, as urban areas are projected to grow and play a key role in Ethiopia's industrial development. In return, it is expected that industrial development will propel urbanisation even further, and the plan advocates the development of urban infrastructure and an integrated housing development programme to meet the expected housing demand increase (NPC, 2016<sup>[10]</sup>).

The changes and progressions across Ethiopia's national development strategies reflect the changes in the socio-economic dynamics of the country, since 1991. Table 3.2 shows some of the main distinctions in policy approaches across the plans, and highlights some of the development strategies specifically targeting rural areas.

**Table 3.2. Evolution of Ethiopia's National Development Strategies since 1991**

	Period	Strategies and plans	Key policies
National development strategies	1994 to present	ADLI	A framework for all national development strategies, with agricultural sector development recognised as a catalyst for economic transformation
	2003-05	SDPRP	Builds on the ADLI, with primary focus on poverty reduction, macroeconomic stability and meeting the Millennium Development Goals (MDGs) standards
	2005-10	PASDEP	Within the ADLI framework, but promoted large-scale commercial farming, development of manufacturing sector; and stronger rural-urban linkages
	2010-15	GTPI	Reprioritised commercialisation of smallholder agriculture, set dual objectives of agricultural and industrial sector development. Urban areas recognised as a catalyst for industrial development.
	2015-20	GTPII	Builds on GTPI, mainstreams the ADLI and continues to position urban areas as catalyst for economic transformation and development of light manufacturing industry.
	2003	Rural Development Policy and Strategy (RDPS) (2003)	The first explicit rural development strategy. Promotes smallholder agricultural development-driven growth.
Policies targeting rural areas	2003	Food Security Program • PSNP • Resettlement Program • Household Asset Building Program	Attempts to provide systemised and consistent support to poor and food-insecure rural and urban households.
	1997-2010	Road Sector Development Program (RSDP)	Road infrastructure development programme to address the country-wide infrastructure gap. Programme focused on restoration of existing roads and building of new roads.
	2010-15	Universal Rural Road Access Program (URRAP)	Follow-up road infrastructure programme
	2010 to present	AGP	Investment in targeted high-potential agricultural areas to improve agricultural commercialisation and creation of value chains
	2017	RJOCS	A strategy for aligning rural job creation strategies within the framework and the objectives of GTPII

Source: MoFED (2002<sup>[6]</sup>) (2003<sup>[11]</sup>) MoFED (2006<sup>[7]</sup>) MoFED (2010<sup>[9]</sup>), NPC (2016<sup>[10]</sup>), MoA (2015<sup>[12]</sup>), MoA (2017<sup>[13]</sup>).

## Programmes targeting Ethiopia's rural areas

### ***Ethiopia's explicit rural development strategies***

#### *The Rural Development Policy and Strategy (RDPS) prioritised agricultural sector development*

Prior to 2003, Ethiopia did not have an explicit targeted plan for rural development. The new Rural Development Policy and Strategy (RDPS), launched by the MoFED, was the first comprehensive development plan specifically aimed at rural areas and at the well-being of rural populations. The plan was designed to address persistently low agricultural growth, food shortages, and disproportionately higher levels of poverty in rural areas (MoFED, 2003<sup>[11]</sup>).

The RDPS echoes Ethiopia's national development plans and establishes agricultural development as the main catalyst for overall rural development. Agricultural sector development is set to address some of

Ethiopia's most important development objectives. These include ensuring rapid and sustained economic growth, enhancing population well-being, eliminating food dependency, and promoting market-oriented economic development. The plan also highlights the importance of developing the financial infrastructure to improve rural finance, and calls for the establishment of a clear institutional framework to manage and co-ordinate rural development strategies (MoFED, 2003<sub>[11]</sub>).

The RDPS also highlights the need to follow an integrated development path and take into account the role of small towns and cities in fostering rural development. It highlights the need to integrate agricultural sector development plans with wider industrial development plans as well as investment in public services and infrastructure. It is acknowledged that urban areas play a key role in supporting rural development through their involvement in processing agricultural goods, as well as providing sources of non-agricultural employment for rural youth (MoFED, 2003<sub>[11]</sub>).

Land use and land laws, especially in rural areas, also have important roles to play in rural development and in the development of the agriculture sector (see Box 3.1).

### Box 3.1. Rural land policies in Ethiopia

Land tenure laws have a major impact on rural development trajectories. Having clearly defined land rights creates incentives for farmers to sustainably invest and efficiently manage the land, and reduce land degradation in the long term. With secure land tenure, farmers are also more likely to diversify their livelihoods and participate in non-farm activities, as they have a lower risk of losing their land. The gains from secure land tenure promote agricultural productivity and facilitate rural-urban migration (Zewdu and Malek, 2010<sub>[14]</sub>; Alemu, 2011<sub>[15]</sub>).

Ethiopia's land tenure laws have not significantly changed since early or mid-1990s. Under the 1995 Constitution, Ethiopia's federal government and the public bear the right of ownership and are the custodians of all land. The federal government is responsible for land distribution, and regional governments are charged with responsibility for overseeing administration of the land. The Ministry of Agriculture (MoA) is responsible for administering large-scale land deals (i.e. those above 50 km<sup>2</sup>), whereas regional governments continue to administer smaller land deals (Alemu, 2011<sub>[15]</sub>).

Households earning their livelihood from farming have the right to access a plot of land at no cost. Farmers operating at a large-scale agricultural production level have access to land on a long-term lease. Landholders must be permanent residents in the farming community, and the land cannot be sold, exchanged for other property or mortgaged. It cannot be used as collateral for bank loans. However, farmers can lease their plots of land to a third party, or use family labour to cultivate the land. In addition, land can be transferred, inherited or leased to investors for a determined amount of time.

Ethiopia's current land policies create a range of restrictions which limit the scale of its rural transformation. First, the small land sizes allocated per household limit agricultural outputs. In addition, families further split land plots among their children once the children establish their own family units, thereby further reducing land availability. This means that farmers have longer working hours and higher costs for small land units, ultimately leading to lower production. On a larger scale, this reduces the food flows from rural to urban areas, consequently reducing household income (Zewdu and Malek, 2010<sub>[14]</sub>). Second, policies on land use, where households must be involved in farming activities in order to be entitled to a plot of land, restrict individuals' ability to diversify their livelihoods beyond farm activities, and inhibit migration to urban areas for seasonal work. In addition, land use restrictions discourage farmers from transitioning from small-scale to larger-scale commercial farming (Zewdu and Malek, 2010<sub>[14]</sub>).



*The Agricultural Growth Program (2010 to present) continues to boost agricultural sector development in high-potential areas*

The Agricultural Growth Program (AGP) is one of Ethiopia's flagship programmes targeting the agricultural and rural sectors. It was first established in 2010, with the objective of improving agricultural productivity and enhancing access to markets. The programme aimed to enhance food security, facilitate agricultural transformation and tap into high-potential areas for agricultural production (MoA, 2015<sub>[12]</sub>).

The AGP has two components: 1) improvement of agricultural productivity and commercialisation of smallholder farmers through private sector participation, improved agricultural marketing and technology; and 2) provision and maintenance of rural small-scale infrastructure to develop and improve selected agricultural value chains.

The AGP is a multistakeholder and multidimensional programme. It contains multidimensional agricultural and rural sector components, including research, promotion of private sector investment, and providing livelihoods through infrastructure development. The AGP also fosters sustainable development, and it promotes the mainstreaming of climate-smart agricultural practices. The programme takes a value chain approach, and promotes forward and backward linkages across its various components and also with other national agricultural initiatives.

The AGP is currently in its second phase of the programme implementation process. The first phase targeted 96 woredas (i.e. districts or third-level administrative divisions), and an additional 61 woredas were targeted in the second phase of the programme across eight regions, including Dire Dawa. The objectives of the second phase of the programme are aligned with the agricultural objectives of GTPII, and these objectives aim to ensure increased participation of youth and women in economic activities in rural areas (MoA, 2015<sub>[12]</sub>). The AGP is co-financed between the GoE and multiple development partners. The programme is implemented at kebele level (i.e. the smallest administrative unit of Ethiopia), and complemented by capacity building programmes for implementation (MoA, 2015<sub>[12]</sub>).

*Large government investment in rural road development programmes led to improved rural welfare and access to urban centres*

Since 1991, the GoE has invested extensively in the road sector, and has launched a series of road development plans. These include the Road Sector Development Program (RSDP) (1997-2010) and the Universal Rural Road Access Program (URRAP) (2010-15), administered by the Ethiopian Road Authority (ERA). The RSDP was launched countrywide to address constraints related to road infrastructure access. During the first phase of the programme, the efforts mainly focused on the restoration and rehabilitation of old road networks, whereas subsequent phases focused on the construction of new roads (Worku, 2011<sub>[16]</sub>). In 2010, the GoE launched the URRAP, under GTPI, with the aim of enabling rural areas to access all-weather road connectivity, as well as improving rural livelihoods (Nakamura et al., 2019<sub>[17]</sub>).

Ethiopia's national road construction programmes have positively contributed to rural well-being. They have contributed to economic development and have facilitated rural-urban linkages by connecting rural areas to market centres. Under the URRAP, rural households increased their consumption level by 3.8% per year between 2012 and 2016. Furthermore, during the same period, farmers in remote rural areas were 16.1% more likely to sell their crops, due to their improved access to markets. In addition, thanks to the URRAP, households in remote rural areas have seen their access to paid employment increase by 2.8%, and the URRAP has particularly benefited rural women and youth (Nakamura et al., 2019<sub>[17]</sub>). Moreover, expansion of roads in rural areas, especially under the RDPS, has had a positive impact on enterprise development. Improved access to road infrastructure has led to an increase in the number of new firms being established, and it is positively linked to the survival of existing firms (Shiferaw et al., 2012<sub>[18]</sub>).

*Rural Job Opportunity Creation Strategy (RJOCS) (2017)*

The Rural Job Opportunity Creation Strategy (RJOCS) was launched by the MoA and was adopted by the Council of Ministers in 2017. The strategy aims to align rural job creation strategies with the objectives of ongoing national development plans (GTPII) as well as with Ethiopia's Climate-Resilient Green Economy (CRGE) initiative (MOA, 2017<sup>[13]</sup>). The RJOCS has eight objectives, including: strengthening rural-urban linkages and market expansion for job creation; facilitating labour mobility for decent employment; promoting rural entrepreneurship; enhancing the supply of decent sustainable and quality jobs; facilitating access to jobs for rural youth and women; and reducing overall rural unemployment (MOA, 2017<sup>[13]</sup>).

The RJOCS is a multistakeholder programme, engaging various ministries at the federal level, as well as woreda and kebele-level governments. The MoA is the main stakeholder and it holds responsibility for co-ordinating the strategy. However, other stakeholders include the Ministry of Labour and Social Affairs (MoLSA), the Ministry of Urban Development and Construction (MoUDC), and a number of other partners in the RJOCS have formal mandates within the programme.

The RJOCS is a comprehensive strategy that takes a multisectoral approach to rural job creation. It promotes employment creation beyond the agricultural sector and highlights the need for cross-sectoral linkages, it calls for better territorial linkages, and it highlights the importance of rural-urban linkages and the development of small towns for rural job creation. In addition, the RJOCS addresses the need to take a value chain approach to job creation and unlock job creation bottlenecks on both the supply and demand side of value chains.

Rural livelihoods and employment creation are at the heart of Ethiopia's national development agenda. Although the RJOCS is the main explicit job creation strategy, the GoE is also prioritising job creation initiatives across many programmes targeting rural areas. Programmes such as the PSNP, the Sustainable Land Management Programme (SLMP) and the AGP all include initiatives to improve livelihoods in various different ways. In addition, the GoE is also tapping on the agro-processing sector, as a means to create job creation as well as establishing agricultural value chains. Box 3.2 highlights the Integrated Industrial Park Program, one of Ethiopia's latest effort in the development of agro-processing industry.

### Box 3.2. The Integrated Agro-Industrial Parks (IAIP) programme in Ethiopia

In 2016, Ethiopia launched the Integrated Agro-Industrial Parks (IAIP) programme to accelerate the country's industrialisation and economic transformation agenda. The IAIP programme entails the development of a cluster of agro-processing firms and rural transformation centres (RTCs) in four pilot sites across four regions. The number of IAIPs will further increase to 17 sites based on agro-industrial growth corridors (AIGCs) identified during the programme feasibility study phase. Three of the pilot agro-industrial parks have now been opened.

The IAIP programme entails the development of agro-processing parks in small urban areas or towns, surrounded by a network of RTCs. The RTCs will be located in surrounding villages or catchment areas, and they will serve as collection and distribution points for raw materials and agricultural inputs. The RTCs will also serve as hubs for infrastructure and services to support the running of agro-processing parks, and to provide support services for farmers. Services provided in the RTCs will include information centres, training programmes, financial services and health clinics.

The IAIP programme is aimed at fostering Ethiopia's structural transformation process, as well as fostering agricultural sector productivity. It aims to support agricultural sector commercialisation by changing the approach from a supply-driven development strategy to one that is demand driven. In addition, it is envisaged that the IAIP programme will increase rural job creation, reduce rural poverty, and facilitate strong linkages between the agricultural and agro-industry sectors, thus fostering the development of agricultural value chains. The IAIP programme also aims to integrate smallholder farmers into the supply chain in order to boost their income and reduce poverty.

The IAIP programme is a multistakeholder programme. The programme planning and implementation processes are conducted in partnership between the GoE, the United Nations Industrial Development Organization (UNIDO), other international development partners, and the private sector.

Source: (UNIDO, 2015<sup>[19]</sup>).

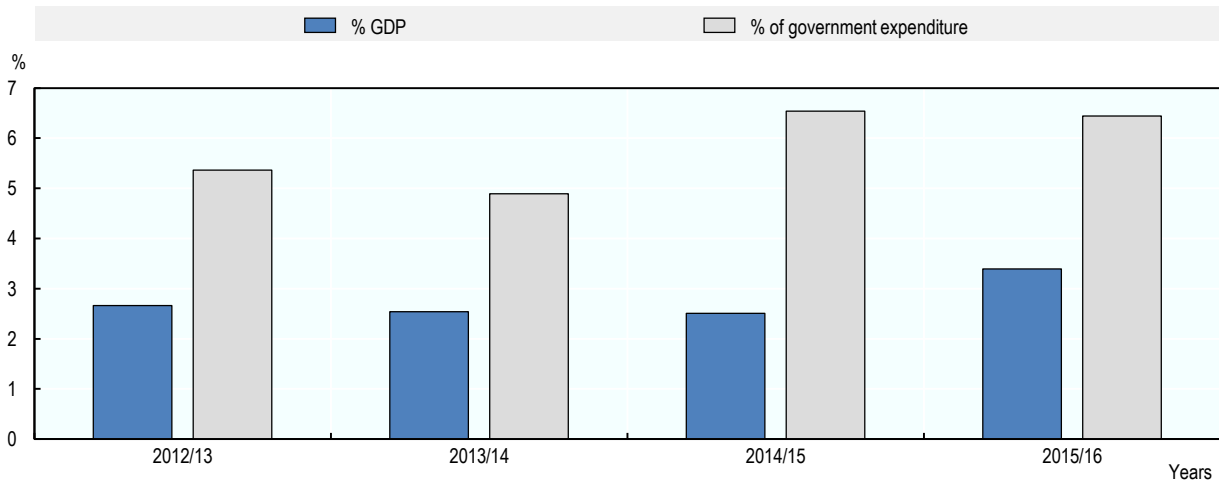
### ***Social protection programmes for poverty reduction and sustaining livelihoods***

Ethiopia's social protection programmes play a major role in rural poverty reduction. As such, the GoE has put significant effort and resources in a number of social protection programmes; it has expanded coverage and has established social protection as an integral part of the government's GTPII and as a way of boosting welfare (Endale et al., 2019<sup>[20]</sup>). Ethiopia's social protection programmes are aimed at addressing multidimensional issues such as food security, public service provision, and nutrition programmes, employment promotion, infrastructure development, and much more (MoLSA, 2012<sup>[21]</sup>).

The GoE has developed a number of policy frameworks, including the National Social Protection Policy (NSPP) in 2014 and the National Social Protection Strategy (NSPS) in 2016; it also implemented the Action Plan for NSPS in 2017 (Endale et al., 2019<sup>[20]</sup>). At the same time, Ethiopia's total government spending on social protection, in real terms, also saw growth increase from 2.8% to 3.4% of GDP between 2012/13 and 2015/16 (Figure 3.1 and Endale et al., (2019<sup>[20]</sup>)). The NSPP and the subsequent social protection frameworks, all aimed at establishing an integrated and co-ordinated framework for existing and future social protection programmes in both rural and urban areas, under the responsibility of the MoLSA (MoLSA, 2012<sup>[21]</sup>).

The frameworks highlight five focus areas: 1) promotion of safety nets; 2) enhanced employment and livelihoods; 3) improved access to basic services; 4) extended legal protection for persons vulnerable to violence and abuse; and 5) increased social insurance coverage (MoLSA, 2012<sup>[21]</sup>).

**Figure 3.1. Ethiopia's total expenditure on social protection (2012/13-2015/16)**



Source: Endale et al. (2019)<sup>[20]</sup> "Financing Social Protection in Ethiopia: A long-term perspective".

Safety nets in rural and urban areas are some of the most important components of Ethiopia's social protection programmes. These have been implemented through key flagship initiatives, including the Food Security Program (FSP), which includes the PSNP, the Household Asset Building Program (HABP), the Voluntary Resettlement Programme (VRP) and Complementary Community Investment (CCI). In fact, between 2012/13 and 2015/16, safety nets accounted for 71% of total expenditure on social protection. The primary objective of Ethiopia's FSP and safety nets, especially the PSNP, was to transition from emergency-led support to more predictable and consistent responses to food-related emergencies.

#### *Rural Productive Safety Net Programme (RPSNP) (2005 to present)*

The PSNP is a safety net programme which targets both selected urban areas and chronically food-insecure and vulnerable rural households. The PSNP is currently in Phase 4 and is one of the largest social protection programmes in Africa in terms of the number of direct beneficiaries. The Rural Productive Safety Net Programme (RPSNP) has two components: 1) the provision of direct food and cash transfers to vulnerable households, who are direct beneficiaries; and 2) the provision of financial support in exchange for supply of labour for public works. The first phase of the RPSNP was implemented in 2005, following severe droughts in 2002/03, in order to provide a comprehensive response to chronic food insecurity, droughts and shocks. The RPSNP has been successful in replacing previous emergency-driven support with a predictable support system, thus enabling rural households to achieve food security and build assets.

The RPSNP provides food and cash transfers for vulnerable households living in chronically food insecure regions. Recipient households contributing labour to public works receive transfers for a period of 6 months. Public works encompass participation in activities aimed at improving rural resilience and livelihoods, such as rehabilitation and conservation of water and land resources, and rural infrastructure programmes, such as building schools and rehabilitating rural livelihoods. Those with limited or no ability to provide labour receive RPSNP payments without any specific conditions, and they receive transfers for a period of up to 12 months. The RPSNP extends across eight regions of Ethiopia. It aims to ensure food security, and to protect and help develop assets for vulnerable rural households (Domelen and Coll-Black, 2012<sup>[22]</sup>). In addition, it aims to address the underlying causes of food insecurity through its work on infrastructure development and natural resource conservation, as well as training programmes aimed at improving livelihoods (MoARD, 2014<sup>[23]</sup>).

The RPSNP is managed by the MoA and other stakeholders. The federal Food Security Coordination Bureau (FSCB) manages the public works component of the programme, whereas the MoLSA manages the direct support component (MoARD, 2014<sup>[23]</sup>). Although the programme itself is financially supported by multiple donors and international development partners, its implementation is integrated into subnational governments and various ministries' mandates; this is co-ordinated by the MoA and the FSCB (Endale et al., 2019<sup>[20]</sup>).

The RPSNP currently reaches approximately 8 million people with its cash and food transfer programmes. The RPSNP plays a significant role in poverty reduction, and it accounted for the 1.5 million people who were lifted out of poverty between 2005 and 2014. In addition, the RPSNP contributed to the delivery of additional benefits, including better nutrition, enhanced agricultural productivity and better access to basic services. Nonetheless, there remains a significant resource gap in order to cater to the growing number of RPSNP beneficiaries, which it is estimated to increase to 8.3 million by 2019/20 (Endale et al., 2019<sup>[20]</sup>).

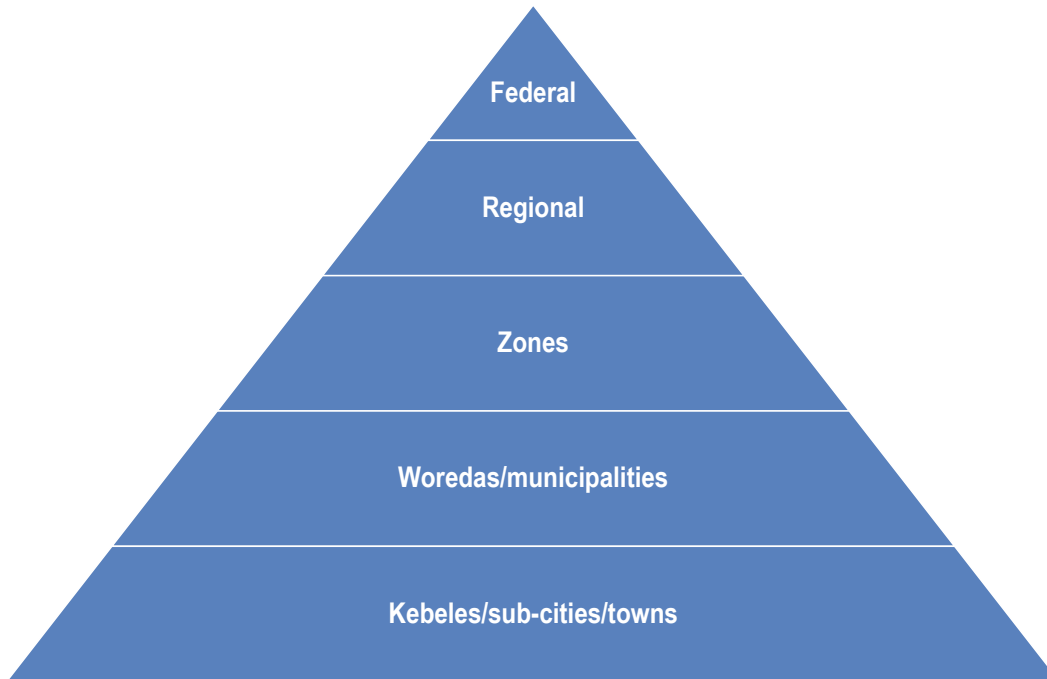
## Governance and institutional framework of rural development in Ethiopia

### *Local governance systems and decentralisation in Ethiopia*

Ethiopia has been operating under an ethnic federal governance system since 1991. The country underwent its first phase of decentralisation in 1991, transitioning from what was previously a highly centralised system. The federal government comprises nine regional states: Afar; Amhara; Benishangul-Gumuz; Gambela; Oromia; Harar; Somali; Southern Nations, Nationalities, and Peoples' Region (SNNPR); and Tigray; and two autonomous city administrations, Addis Ababa and Dire Dawa. The regional governments are further divided into three administrative units, known as zones and woredas, which are responsible for district-level administration, and kebeles (wards), which are responsible for local-level administration. Woredas can be either rural or urban, and their average population totals approximately 125 919 inhabitants per municipality. Kebeles, on the other hand, are smaller units, accounting for around 5 000 inhabitants each (Fenta, 2014<sup>[24]</sup>). Figure 3.2 shows Ethiopia's decentralised governance structure.

The first decentralisation process took place between 1991 and 2000 and was codified in Ethiopia's 1995 Constitution. With this process, many responsibilities were transferred from national-level to regional-level governments. Regional governments were given legislative, judicial and executive power, as well as oversight of progress in social and economic development within their respective jurisdictions. They were also given the authority to collect tax revenue. The second wave of decentralisation took place at the district level in 2001 and 2002, and it included the transfer of political and fiscal powers from regional-level to woreda-level administration. During this time, woredas were given the autonomy to plan and implement development activities within their capacities and resources. In addition, human and financial resources were re-delegated from zones to woredas.

Figure 3.2. Ethiopia's decentralised governance system



Source: Authors' elaboration.

Kebele-level governments did not experience any major changes throughout the decentralisation process. Their structures and powers remained unchanged from the period of the previous Derg government, when their primary function was to collect agricultural outputs from rural areas and transfer them to urban areas. Following the transition from the Derg government to EPRDF period in 1991, and second decentralisation process in 2001 and 2002, kebele-level governments were used to implement development plans designed by woredas (Bekele and Kjosavik, 2016<sup>[25]</sup>; OECD/UCLG, 2016<sup>[26]</sup>).

### ***Roles and responsibilities of subnational governments in rural and urban development***

The MoFED and the MoA are the two main rural development actors at the federal level. The MoFED is responsible for establishing country-level development strategies, including national development plans such as the ADLI, GTPI and GTPII. The MoFED is also responsible for establishing mechanisms for follow-up reviews as well as budgets for national development plans (Bekele and Kjosavik, 2016<sup>[25]</sup>). At MoFED level, a Council of Ministers, comprising 20 line ministers, is in charge of devising and implementing policies and strategies for rural development (USAID, 2013<sup>[27]</sup>).

The MoA is responsible for drawing up sector-based development plans, in particular agricultural and rural economic development strategies. The range of MoA responsibilities include developing land policies, formulating and overseeing the implementation of national, rural and agricultural policies, and supporting subnational governments that have weak capacity in the area of policy implementation (Tadesse and Tsegaye, 2014<sup>[28]</sup>). The MoA is further subdivided into a number of directorates. Each directorate has its own mandates and responsibilities to implement programmes. Some of the mandates include implementing agricultural extension programmes, setting up advisory and training programmes for smallholder farmers, mapping out priority areas for investment, establishing and overseeing policy impacts on the Policy and Investment Framework, etc. (USAID, 2013<sup>[27]</sup>).

Regional governments have the authority and the autonomy to create rural development policies; however, the policies must be approved at the federal level. Each region and woreda has a corresponding

representative of a federal ministry. At the regional level, the Bureau of Agriculture and Rural Development (BoARD) is the main rural development policy actor, and the Bureau of Finance and Economic Development (BoFED) corresponds to the MoFED at the regional level. The most highly populated regions have zonal-level administration, and act as an intermediary between regional and woreda governments. The roles of zonal governments vary by region; in some regions, they co-ordinate and monitor woredas, whereas in others they have an intermediary role and function as an arm of the regional government.

The regional rural development institutions are further decentralised, and have corresponding institutions at woreda level. For example, the BoARD is represented by the Woreda Office of Agriculture and Rural Development (WOARD), and it is also represented at kebele level. Woredas consist of between 20 and 30 kebeles, and they have the autonomy to establish and implement policies within their jurisdictions once the plans have been approved by regional governments. Overall, woreda-level governments are responsible for the implementation of local projects and policies deriving from regional governments; the delivery of local public services; and the distribution of extension services (Bernard and Spielman, 2008<sup>[29]</sup>). Woredas have the authority to collect local tax revenue, and the resources are allocated once the kebeles' main priorities have been compiled and compared against the available woreda budget (Snyder et al., 2014<sup>[30]</sup>).

Woreda-level governments play a key role in overseeing and implementing rural development plans. They are also responsible for overseeing service delivery in rural primary education and the distribution and implementation of extension services, as well as for the provision of rural infrastructure and water services. In addition, woredas have the autonomy to define their own district development plans, to co-ordinate them, and to establish monitoring and evaluation programmes, at the discretion of regional governments (MoFED, 2003<sup>[11]</sup>).

The role of kebeles is mainly to implement projects that have been authorised and agreed by woreda-level offices. Actors at kebele level have very limited autonomy to define policies or rural programmes, and their role mainly revolves around implementing rural and agricultural sector plans by mobilising communities, co-operatives and development agents. In doing so, kebeles mobilise large numbers of smallholder co-operatives and lower-level civil service organisations. Kebeles provide local training for farmers and mobilise development agents across the country to deliver capacity-building programmes.

Within the institutional framework of Ethiopia's rural development plans, each level of government has the mandate to train and establish capacity building programmes for their subordinate levels of government. Regional-level governments are responsible for providing political leadership for woreda governments in addition to facilitating the improvement of woredas' administrative and managerial capacity. Regional governments also train the staff members and technicians who are deployed to serve woreda and kebele-level governments (MoFED, 2003<sup>[11]</sup>). Ethiopia's rural development and governance is also influenced by various other formal and informal actors. Box 3.3 below highlights the various actors in Ethiopia's rural development policies and implementation, and Table 3.3 provides an institutional mapping of rural governance.

### Box 3.3. Governmental and non-governmental institutions with roles in rural development

A number of additional organisations play a fundamental role in the implementation of Ethiopia's rural development plans.

#### Smallholder farmer co-operatives

Smallholder co-operatives (SHCs) have had a long history in Ethiopia. Although their role has changed in line with various governance transitions over many years, they remain key players in Ethiopia's rural livelihoods and development. Since 1994, the GoE has put significant effort into developing and supporting SHCs, including ensuring the establishment of a new co-operative proclamation, which sets out key universal principles. In addition, the Federal Cooperative Agency was established as the main agency to guide and implement co-operative legislation and policies. The number of agricultural co-operatives increased from 6 825 to 15 568 between 2008 and 2014 (Ahmed and Mesfin, 2017<sup>[31]</sup>). At the regional level, SHCs are managed by the Bureau of Cooperative Promotion (BoCP). At the lower governance level, they are housed in, and co-ordinated by, woreda offices and they work closely with BoARDs (Bernard and Spielman, 2008<sup>[29]</sup>). Their importance is recognised at the state level, as illustrated by the introduction by the GoE of a five-year plan for co-operatives covering the period 2005-10 (Bernard and Spielman, 2008<sup>[29]</sup>).

The main objectives of SHCs are to improve smallholder agricultural productivity and facilitate the commercialisation of smallholder farming. SHCs stand at the intersection of the public and private sectors. In addition, SHCs play an intermediary role between formal and informal governance; they liaise between communities and kebele-level governments; they occupy a key position between the state, private sector and civil society; and they function as channels in which communities can access public services and articulate their views.

SHCs have multiple functions. First, they serve as implementation agencies for public sector-related programmes to support local governments with limited fiscal, technical and human resource capacity; they also support the provision of extension services, farmer training, and awareness raising on issues such as health. Second, co-operatives support local governments in mobilising resources for farmers, such as facilitating access to farming inputs provided by the state to communities at better prices than those offered by the private sector. For example, in 2010, co-operatives provided 56% of total chemical fertilisers distributed in Ethiopia. In addition, SHCs provide credit services for farmers in order to enhance farm production (Ahmed and Mesfin, 2017<sup>[31]</sup>).

#### Research and evidence-based institutions – influencing policy formulation

The GoE has established a number of research and data collection institutions to disseminate knowledge and support the policy-making process. The Central Statistics Agency (CSA) is the main source of national data, surveys and censuses as well as the main source of agricultural data; in addition, the CSA works directly with ministries, including the MoA and the MoFED. Research institutions, such as the Policy Study Institute (PSI), the Agricultural Transformation Agency (ATA) and the Ethiopian Institute for Agricultural Research (EIAR), are also key suppliers of knowledge for policy making at the federal and regional levels. Furthermore, there is an increased level of collaboration between international and national research institutes which have the capacity to contribute to government policy and programmes. For example, the International Food Policy Research Institute (IFPRI) and the PSI have joined forces and have launched the Ethiopia Strategy Support Program (ESSP 1 and ESSP 2). In parallel with this initiative, international development organisations and bilateral donors, such as the World Bank and the International Monetary Fund (IMF), have considerable influence on the Ethiopian policy-making process (Tadesse and Tsegaye, 2014<sup>[28]</sup>).



### Civil society organisations, non-governmental organisations and the private sector

Ethiopia has a large network of civil society organisations (CSOs) as well as local and international non-governmental organisations (NGOs) whose work is directly linked to the agricultural sector and rural development. Some of their areas of intervention include food security; health, including HIV awareness; provision of basic services, including water and sanitation; education; infrastructure; and environmental protection. However, the influence of NGOs and CSOs on policy formulation and implementation remains limited, as bureaucratic challenges still remain, including lengthy registration processes and restrictions on their ability to influence policy (Tadesse and Tsegaye, 2014<sup>[28]</sup>).

**Table 3.3. Mapping Ethiopia’s rural governance**

	Government level	Responsible ministry/agency	Roles	Governmental and non-governmental influencers
Policy formulation	National/federal level	MoFED and MoA (All other ministries are responsible for their respective sectors)	<ul style="list-style-type: none"> <li>• Planning agricultural and rural development policies</li> <li>• Co-ordinating food security programmes (FSCB)</li> </ul>	CSA Research institutions: EIAR, ATA, PSI
	Regional level	BoARD, BoFED and other ministry representatives	<ul style="list-style-type: none"> <li>• Autonomy to both draw up and implement policies, at the discretion of federal-level governments.</li> <li>• Support the MoA in co-ordinating and establishing rural and agricultural policies</li> </ul>	
	Zonal level		Intermediary role between regional and woreda-level governments	
Policy/plan implementation	District/woreda level	WoARD is the local point of reference for rural development-related tasks	<ul style="list-style-type: none"> <li>• Implementing agricultural and rural development plans</li> <li>• Distributing agricultural extension systems; collecting local tax revenues.</li> </ul>	
	Kebele level (rural and urban kebeles)	SHCs Development Agents	Delivering basic services; distributing agricultural extension systems; capacity building programmes; organising local labour; resolving conflicts through social courts; etc.	SHCs

Source: Authors’ elaboration.

### Ethiopia’s urbanisation plans

Ethiopia’s fast urbanisation process has large implications on rural development. As highlighted in Chapters 1 and 2, the lion’s share of Ethiopia’s urbanisation is taking place in intermediary cities and small towns, which tend to have a strong connection to rural areas. Indeed, despite shortages and vast knowledge gaps, there are intricate and dynamic socio-economic interactions between rural and urban areas, which entail flows of labour, goods and services, and information. Therefore, policies targeting either rural or urban areas will influence their linkages, as well as development outcomes in both territories. For this reason, in order to better understand the evolution of rural policy in Ethiopia, it is necessary to further understand how urban policy has evolved and been embedded in national development efforts. This section reviews the way in which national development strategies have incorporated urban areas.

### ***The inclusion of urban development in national development strategies***

Ethiopia's national development strategies have gradually expanded their remit to include the growing role of urbanisation and urban areas in national development. The Plan for Accelerated and Sustained Development to End Poverty (PASDEP), GTPI and GTPII recognise the key role of urban areas, especially in Ethiopia's industrial development agenda. The PASDEP is particularly distinctive among the national development plans, as it is the only plan which explicitly promotes the urban agenda, has a comprehensive urban plan, and integrates the National Urban Development Policy (NUDP) into the objectives of the development plan. The PASDEP is also the only plan that promotes rural-urban linkages as a pillar of urban development; in addition, it highlights the need for small town development and the need to better link rural areas to small towns through investment in road infrastructure, rural electrification and telecommunications (Dorosh and Schmidt, 2010<sup>[32]</sup>).

The GoE particularly recognises the importance of harnessing Ethiopia's increasing urbanisation rate in its GTPII objectives. Under GTPII, urbanisation is framed as a catalyst for economic growth and structural transformation. The plan highlights the need to embed urban areas into the national development strategy, as such urban development is considered to be a key foundation for industrial development. Furthermore, the plan calls for effective planning of a well-functioning and linked urban system, with urban areas that serve as centres of economic activity for surrounding rural areas (NPC, 2016<sup>[10]</sup>).

In this regard, the federal and regional governments, as well as the municipalities, have dedicated effort and resources to urban management. At the federal level, the Ministry of Urban Development and Construction (MoUDC) (formerly the Ministry of Urban Development and Housing (MoUDH)) is the main institution responsible for urban development and management. The ministry launched its first NUDP in 2005 and implemented a series of additional sectoral urban, housing and construction policies. In addition, the MoUDC has also been supporting municipalities and towns in designing urban plans. As a result, most of the major urban centres have produced urban plans, and an increasing number of small towns are also following suit. Table 3.4 shows the number of urban centres with urban plans in various regions across Ethiopia.

**Table 3.4. Ethiopia's urban centres with and without urban plans**

Regions	Total number of urban centres	Total number of urban centres with plans	Share of urban centres with plans (%)	Total urban population	Urban population (%)
Tigray	126	125	99	1 080 000	7.1
Amhara	629	543	86	2 783 000	18.3
SNNPR	445	445	100	2 419 000	15.9
Oromia	664	664	100	4 221 000	27.8
Gambela	13	4	31	110 000	0.7
Somali	94	74	79	716 000	4.7
Benishangul-Gumuz	34	34	100	165 000	1.1
Afar	48	32	67	256 000	1.7
Harari	1	1	100	117 000	0.8
Dire Dawa	1	1	100	276 000	1.8
Addis Ababa	1	1	100	3 046 000	20.1
<b>Total</b>	<b>2 056</b>	<b>1 924</b>	<b>94</b>	<b>15 189 000</b>	<b>100</b>

Note: Data extracted from CSA (2013) and NUSDP projections are used where the population figure is inaccurate.

Source: Data from the MoUDC, regional governments, and EGIS International (2015<sup>[8]</sup>).

In 2005, the GoE launched two sub-programmes, the Urban Development Package (UDP) and the Urban Good Governance Package (UGGP), as strategy documents to complement the PASDEP and the NUDP. The sub-programmes comprised Ethiopia's urban agenda, and were developed in line with PASDEP urban development strategies. Each sub-programme comprised a set of pillars, with the UDP focusing on the development of micro and small enterprises (MSEs), housing development, youth employment, provision of land and infrastructure services, and rural-urban and urban-urban linkages. By contrast, the UGGP mainly focused on policies and reforms for urban governance, land development and administration, service delivery and capacity building (UN-Habitat, 2014<sup>[33]</sup>). Both sub-programmes highlighted issues concerning the lack of strong rural-urban linkages, and unbalanced development across urban areas, as well as focusing on the needs of small towns and villages.

In addition, following the establishment of GTPI and GTPII, the Ministry of Urban Development, and Construction (MoUDC) was designated to prepare the sectoral policy for urban areas, and it launched the Ethiopian Cities Resilient and Green Growth Program Package for the period 2011-15. The plan is regularly revised and it focuses on broad urban development issues, including job creation in MSEs, housing development, capacity building, urban planning, infrastructure development, construction sector development, good governance and the greening of cities (UN-Habitat, 2014<sup>[33]</sup>).

### *National Urban Development Policy (NUDP) (2005)*

Ethiopia's National Urban Development Policy (NUDP) was launched in 2005 under the mandate of the MoUDC and it was approved by the Council of Ministers. The NUDP was fully endorsed by the PASDEP, and it currently functions as an overarching strategy for other urban policies falling under the remit of the MoUDC. The NUDP established a set of principles, which include co-ordinated rural and urban development, the strengthening of forward and backward linkages across urban centres, and the reduction of poverty.

The scope of the NUDP is wide, encompassing rural areas and small towns, and it highlights the interdependencies between rural and urban areas. Rural development is seen as the foundation for urban development, and in parallel, urban development is seen as a catalyst for accelerated rural development. As a result, the policy establishes the promotion of rural-urban and urban-urban linkages as one of its four main pillars. Furthermore, among other issues, lack of strong rural-urban and urban-urban linkages are presented as some of the main constraints inhibiting effective urban development, which could also benefit rural areas. The policy calls for the improvement of rural-urban linkages through the promotion of MSEs, expansion of investment in road links across urban and rural areas, and rural electrification and telecommunication; it also highlights the investment needed to facilitate market links between rural and urban areas (MoWUD, 2005<sup>[34]</sup>).

The NUDP is a comprehensive policy, which incorporates the wide range of issues facing Ethiopia's urban areas. The plan also highlights the need for effective autonomous and decentralised urban governance, investment in urban housing and infrastructure, and expansion of social services. In addition, it advocates for environmentally sustainable urban development. Furthermore, the plan also includes a set of principles for urban land regulations and allocations (MoWUD, 2005<sup>[34]</sup>).

### *The Urban Productive Safety Net Program (UPSNP) (2017 to present)*

In 2017, the GoE extended its flagship PSNP to urban areas, with the aim of targeting 4.7 million urban poor. Given the rapid rise of urbanisation in Ethiopia since mid-2000s, there is a growing need to cater to increasing rates of urban poverty and vulnerability. As such, the Urban Productive Safety Net Program (UPSNP) was established to address the aforementioned urban challenges to be delivered in a ten-year period. The first phase of the project was aimed at supporting 604 000 urban poor living in 11 of Ethiopia's largest cities (Endale et al., 2019<sup>[20]</sup>; World Bank, 2017<sup>[35]</sup>).

The UPSNP has three components: 1) a productive safety net, 2) livelihood services for poverty alleviation, and 3) programmes for institutional strengthening. The safety net component of the UPSNP is the largest programme and serves 84% of the total number of beneficiaries. The safety net is administered by the MoUDC, and delivers its services through three sub-programmes: 1) cash transfers in exchange for labour of able-bodied persons; 2) direct cash transfers to those unable to work, under the administration of the MoLSA; and 3) programmes to support safety nets through regularising wages and market prices. This component of the programme accounted for 85% of the total expenditure between 2015/16 and 2018/19 (Endale et al., 2019<sup>[20]</sup>).

There is strong demand for the UPSNP in Ethiopia's urban areas. The number of programme beneficiaries doubled between 2015/16 and 2016/17 (during the pilot phase of the programme), and by 2017/18 they were estimated to exceed 500 000. The UPSNP is endorsed by multiple national and international stakeholders, and has been mainstreamed across various sectoral programmes in urban areas (Endale et al., 2019<sup>[20]</sup>).

The UPSNP received substantial financial and technical support from international development agencies, in particular the World Bank. In fact, the UPSNP was co-financed by the World Bank, which covered USD 300 million of the total estimated cost of the first phase of the project, which amounted to USD 450 million. The GoE is currently financing the remaining costs. In the long term, however, GoE aims to increase domestic financing of the overall programme (Endale et al., 2019<sup>[20]</sup>; World Bank, 2017<sup>[35]</sup>).

The UPSNP is a comprehensive social protection plan and is embedded into Ethiopia's National Social Protection Policy. The GoE launched the Urban Food Security and Job Creation Strategy as a way of implementing the UPSNP, with the newly formed Federal Urban Job Creation and Food Security Agency acting as the implementing agency for the programme (World Bank, 2017<sup>[35]</sup>).

### **Other urban policies and initiatives**

The MoUDC has also implemented numerous dispersed initiatives which address the various needs of urban development. Table 3.5 lists some of the urban initiatives established by the MoUDC.

**Table 3.5. MoUDC urban development and related initiatives**

<b>Urban development initiatives and their sub-programmes</b>	<b>Description</b>
Urban Planning, Sanitation and Beautification Program	A capacity building programme to support cities, towns and the private sector in urban planning, urban beautification and sanitation
Housing development and management • Integrated housing development program (2007-10)	<ul style="list-style-type: none"> <li>• Urban housing development</li> <li>• Job creation through construction of affordable housing</li> </ul>
Construction industry development and management	Development of policies and strategies to support a competitive construction sector
Urban planning and land policies	<ul style="list-style-type: none"> <li>• National Policy Framework for Grading and Defining Urban Centres</li> <li>• Federal Urban Planning Law and Building Code</li> <li>• Federal Urban Lease Policy</li> <li>• Federal Urban Capacity Building Strategy</li> </ul>
Micro and Small Enterprise Development Policy and Strategy (2016)	<ul style="list-style-type: none"> <li>• To generate employment, increase income and reduce poverty</li> <li>• To create a foundation for industrial development and links to rural development</li> <li>• To attract development investors in urban areas</li> </ul>

Source: Authors' elaboration, adapted from EGIS International (2015<sup>[8]</sup>).

## Conclusions

Ethiopia's rural and national development strategies have paid off. The ADLI and related follow-up strategies have not only contributed to rural development, but they have also served as a foundation for Ethiopia's unprecedented GDP growth rate and poverty reduction. In addition, Ethiopia's Rural Development Policy and Strategy (RDPS), as well as the flagship programmes targeting rural areas (such as the National Social Protection Policy, the Productive Safety Nets, the Rural Job Opportunity Creation Strategy, and Agricultural Growth Programme) have attempted to address the multidimensional needs of vulnerable rural households. These efforts have led to significant improvements in reducing rural poverty.

Since mid-1990s, Ethiopia's rural and national development strategies have evolved to reflect the country's socio-economic transitions. We can observe that Ethiopia's approach to rural and national development evolved from mainly focusing on poverty reduction in mid-1990s and early 2000s (ADLI, SDPRP, and PASDEP), to promoting growth through industrialisation and development of light manufacturing sector since 2010 (GTP I and GTP II). In early 1990s, Ethiopia was in a post-conflict era, with a predominantly agrarian population, limited industrial development and with a long history of food insecurity and droughts. To this end, the ADLI responded to the needs of Ethiopia at the time by targeting rural areas and boosting small holder agricultural productivity.

As Ethiopia's economic growth started to accelerate in the early 2000s, national development plans set industrialisation as one of their development agenda. GTP I and GTP II widened their scope to include urban areas in their plans, as they were considered to be catalysts for industrialisation and structural transformation. Moreover, current government investment efforts in SEZs (including industrial parks), as well as investment in agro-processing parks (i.e. the IAIP see Box 3.2), reinforce the government's industrialisation strategy, and indicate changes in the developmental thinking of Ethiopia's authorities. These changes in development thinking will further influence the next national development plans.

There is scope for improvement in Ethiopia's national and rural development approaches. In the first place, the analysis presented in this report, along with the discussion that took place in two workshops in Addis Ababa, suggests that although the ADLI has served its purpose, it may now be reaching its limits. In the second place, Ethiopia's current rural and urban policies are highly fragmented, and policies targeting the two territories are not articulated together across most development plans. In fact, despite the integration of urban areas into the national development plans, there is limited attempt to promote reciprocal linkages between rural and urban areas. As a result, rural and urban policies are developed and implemented in silos, and do not sufficiently capture the diverse socio-economic interactions between the two territories. This fragmentation reduces the scope for policy complementarities and limits the positive effects of rural-urban linkages.

However, it is important to highlight that, PASDEP and the NUDP stand out in their approach. Both plans take broader spatial approach and recognise the need for stronger rural-urban linkages, for inclusive rural development and promote the development of small towns. The two plans are well co-ordinated, and PASDEP embeds the main objectives of the NUDP as part of its urban development agenda. However, this approach is not carried on in the following development strategies. This may be due to limited institutional capacity, which impacts policy continuity across Ethiopia's rural development strategies. For instance, the MoA underwent a series of changes in terms of mandates and responsibilities, as well as facing high turnover rates during the last 10 years. The latter may have reduced the capacity of the ministry, and in its ability to build an institutional knowledge base.

Ethiopia's ongoing spatial, economic and demographic transformations call for a shift in rural development strategies. Rural-urban transformation cannot take place without co-ordinated territorial policies that account for inherent links and interdependencies between rural and urban areas. For example, the success, and transformative outcomes of Ethiopia's current efforts in the investment of industrial sectors, agro-processing zones is partially dependent on their backward and forward linkages with the economies

of their surrounding rural areas. This requires strong reciprocal linkages across the chains along the rural and urban continuum. Therefore, as argued in Chapter 4, adopting wider territorial approaches could help better co-ordinate policies between rural and urban areas, facilitate backward and forward linkages across sectors, and provide the foundation needed for rural-urban transformation.

Furthermore, Ethiopia's rural development policies ought to account for the large heterogeneity across regions. Ethiopia's regions are highly heterogeneous in terms of population distribution, assets and agro-ecological zones. Some regions are located in the highlands, accounting for a large share of the total population and agricultural production, while there is lower population density in the lowland and pastoralist regions (Dorosh and Schmidt, 2010<sup>[32]</sup>). This has significant implications for Ethiopia's rural-urban transformation. Rural and urban policies ought to account for intra- and inter-regional heterogeneity in terms of institutional capacity, economic activities, assets and constraints in order to effectively foster inclusive rural transformation.

Finally, improved reporting on the implementation outcomes of Ethiopia's national and rural development strategies could help highlight policy gaps. Despite the numerous rural and urban development programmes, there is a large human and financing capacity gap in implementing and monitoring the progress these programmes have made. Improved reporting regarding the human and financial capacity needed to implement the programmes, could enhance overall rural development planning.

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# 4 Strengthening Ethiopia's rural development strategy

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Ethiopia is now at a critical moment of its rural-urban transformation process. Ethiopia's fast changing socio-economic landscape brings a series of new challenges and opportunities. This chapter builds on the analysis of Ethiopia's rural-urban transformation (Chapter 1), the role of intermediary cities for rural development (Chapter 2), and the evolution of rural policy (Chapter 3), as well as the extensive consultations held with key Ethiopian government representatives, academic and international experts. It highlights the need for a shift in paradigm towards rural development strategies and argues that the ADLI should be updated in order to effectively address Ethiopia's future development challenges. To this end, four main areas of reform are proposed: a new approach to agricultural development; mobilising resources and scaling up investment to improve the well-being of rural populations; enhancing co-ordination between rural and urban policies; and complementing the existing policy framework with a territorial approach.

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## Introduction

Ethiopia is facing key challenges that require the country to rethink its approach towards rural development. In the mid-1990s, Ethiopia embarked on a series of reforms that transformed the country from a stagnant into a dynamic economy. Since 2004, the country has benefitted from unprecedented economic growth that has further translated into poverty reduction and higher levels of welfare. This process has been driven by a series of reforms and development plans that aimed to create a conducive environment for structural transformation.

The Agricultural Development Led Industrialisation (ADLI) strategy has been the basis for these reforms. ADLI accounts for a number of different policies but its main objective is to increase agricultural productivity. This approach seemed adequate at the time, considering the socio-economic context and low base from which Ethiopia's growth process started. However, the country stands today at a different stage of its development path and faces different challenges from those that motivated ADLI at the time. These challenges result from the demographic, economic and spatial transformations that Ethiopia is currently experiencing. Addressing these transformations will require a shift in Ethiopia's approach to rural development. In other words, ADLI will need to be updated in order to better capture Ethiopia's new reality.

The objective of this chapter is to answer three key questions:

- Why should Ethiopia revise its approach towards rural development?
- How can Ethiopia strengthen its current rural development strategy?
- What can be done to further reinforce rural development?

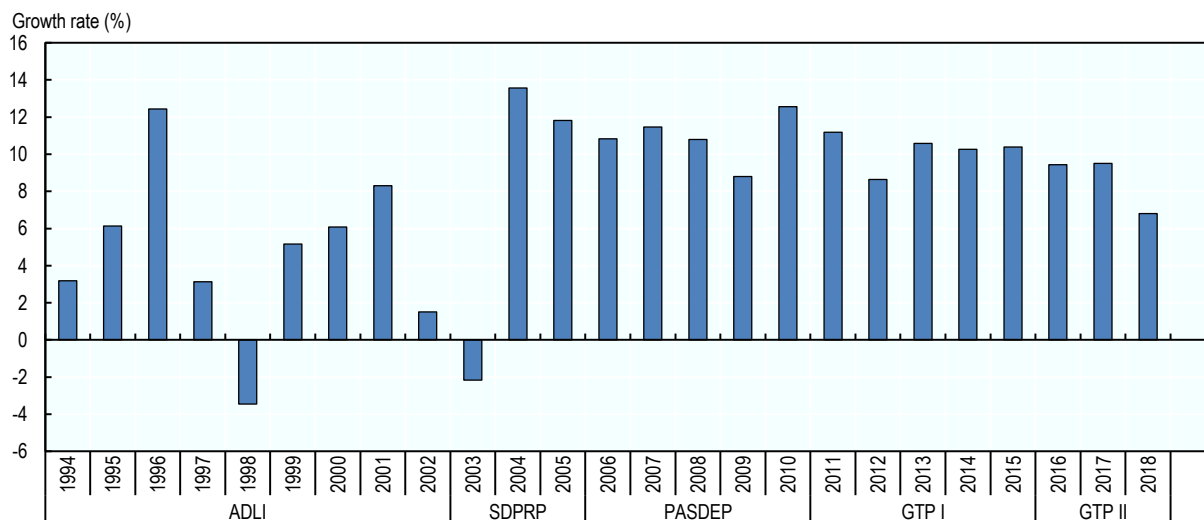
To answer these questions this chapter builds on the analysis presented in previous chapters, an extensive consultation process with government representatives, academia, and international experts, as well as two workshops held in Addis Ababa.

### Why should Ethiopia revise its approach towards rural development?

Ethiopia is seriously committed to rural development. Since the mid-1990s, it has been engaged in a series of successful strategies that have promoted economic growth and social progress, as well as improving the well-being of rural populations. Large government investment has focused on improving agricultural productivity, as well as addressing multiple needs of rural populations (including social security, basic services and infrastructure). This has led to reducing rural poverty by half over the period 1995-2015 (see Chapter 1). This process has been driven by a series of reforms and development plans that aimed to create a conducive environment for structural transformation. The backbone of these reforms is the Agricultural Development-Led Industrialisation (ADLI) strategy.

The ADLI is the policy framework that has been guiding rural development actions since the mid-1990s. It provided the basis for the following programmes (SDPRP, PASDEP, GTP I, and GTP II) and set the foundation for Ethiopia's successful growth path and two-digit average growth rate since mid-2000 (Figure 4.1). ADLI accounts for a number of different policies but overall its main objective is to increase agricultural productivity (see Chapter 3). So, although Ethiopia's rural development strategy has paid off, the new context requires rethinking the ADLI's core objectives.

Figure 4.1. Gross domestic product growth rate



Note: Annual percentage growth rate of GDP at market prices based on constant local currency.

Source: World Bank (2019<sup>[1]</sup>).

Three transformations in particular are underway in Ethiopia that will have major effects on the well-being of rural populations.

The first transformation is demographic. Ethiopia is in the early stages of its demographic transition, i.e. the country's population will continue to grow between now and 2050, which means that a large number of people will enter the labour market in the coming years. The increase will be particularly important for rural areas as these have higher fertility rates.

The second transformation is economic. Although the contribution of agriculture to gross domestic product (GDP) is decreasing, more than two-thirds of employment is still in agriculture. In addition, non-farm activities only account for a small share of rural employment. The premature state of the rural non-farm economy, questions the sector's reliability as a potential source of employment opportunities in the short or medium term. Overall, structural transformation seems to be taking place at a slow pace.

The third transformation is spatial. Ethiopia will remain a predominantly rural country until 2050, i.e. more than 50% of the population is expected to reside in rural areas. However, it is urbanising fast. Although the country is currently characterised by a monocentric urban system, the urbanisation process taking place is mainly being propelled by **intermediary cities**. Intermediary cities have a strong potential to contribute to rural development but are confronted with several binding constraints. These constraints include limited knowledge about socio-economic processes shaping agglomeration effects, lack of adequate policies or policies implemented in silos, as well as a consistent financing gap.

In addition to these three transformations, Ethiopia is challenged by an increasing gap between rural and urban areas when it comes to welfare. Indeed, poverty reduction in rural areas is not progressing as fast as in urban areas. Moreover, multidimensional poverty is particularly striking across rural households, who face limited access to basic services.

Effectively addressing the challenges resulting from these three transformations, and the increasing rural-urban gap, will depend on the capacity of institutions and policies to adapt to these changes. In practice, it will require a paradigm shift in Ethiopia's approach to rural development.

## How can Ethiopia strengthen its current rural development strategy?

Experiences from emerging economies and OECD countries provide guidance on how to strengthen Ethiopia's rural development strategy. The OECD's New Rural Development Paradigm (NRDP) builds on these experiences and provides an analytical framework for assessing rural development strategies in emerging economies like Ethiopia (OECD, 2016<sup>[2]</sup>). It is based on the lessons drawn from country studies, previous approaches and theories on rural development, as well as the experience of OECD countries (adapted to the reality of developing countries today).

Table 4.1 summarises the historical evolution of thinking and approaches to rural development, highlights some of the new challenges and opportunities, and enumerates some of the key elements of the NRDP for developing countries.

**Table 4.1. The evolution towards a New Rural Development Paradigm**

	Old paradigm	New context	New paradigm
<b>Principles</b>	<ul style="list-style-type: none"> <li>• Focus on rural areas only</li> <li>• Growth will follow agricultural and industrial development</li> </ul>	<ul style="list-style-type: none"> <li>• Widening inequalities between rural and urban</li> <li>• Climate change</li> <li>• Rapid population growth in many developing countries</li> <li>• Information revolution</li> </ul>	<ul style="list-style-type: none"> <li>• Rural areas inextricably linked to cities, regions and national context</li> <li>• Women critical for rural development</li> <li>• Governance capacity is key</li> </ul>
<b>Key target sector</b>	Agriculture, rural communities	<ul style="list-style-type: none"> <li>• Agriculture not able to provide sustainable livelihoods for growing populations</li> <li>• Urban areas not able to productively absorb large inflows of rural migrants</li> </ul>	Multi-sectoral: all economic sectors that can contribute to productive growth: agriculture, rural industry, services, tourism, ICT, biofuels.
<b>Main approach</b>	<ul style="list-style-type: none"> <li>• Project-based</li> <li>• Agricultural technology</li> <li>• Green Revolution</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable Development Goals</li> <li>• Multi-dimensional poverty assessment and Multi-dimensional Country Review</li> <li>• Community-driven development</li> </ul>	<ul style="list-style-type: none"> <li>• Tailored to the specific context (economic, social, and institutional)</li> <li>• Prioritised and realistic</li> <li>• Well-sequenced to maximise synergies</li> </ul>
<b>Key actors</b>	Agricultural ministries, agricultural research and extension, donors, local governments, farmers	Greater participation by non-state actors including the private sector, rural communities, CSOs, and foundations	Multi-agent: participation and collaboration of broad set of stakeholders across public and private sectors and from national to local

Source: OECD (2016<sup>[2]</sup>).

The NRDP stresses the need for strategies that are context-specific and maximise policy complementarities. It is composed of eight components that highlight the need for an integrated approach (see Box 4.1). For the NRDP, strategies need to be multi-sectoral, focusing not just on agriculture but also on rural industry and services, and not just on rural areas but also rural-urban linkages. Strategies have to be multi-agent and multi-level, involving not just national but also local and regional governments as well as the private sector, international donors, non-governmental organisations and rural communities. They also have to account for demographic challenges, give women greater rights and a greater role in economic decisions, and be inclusive and sustainable. Finally, enhancing governance capacity is necessary not just to develop but also to implement strategies.

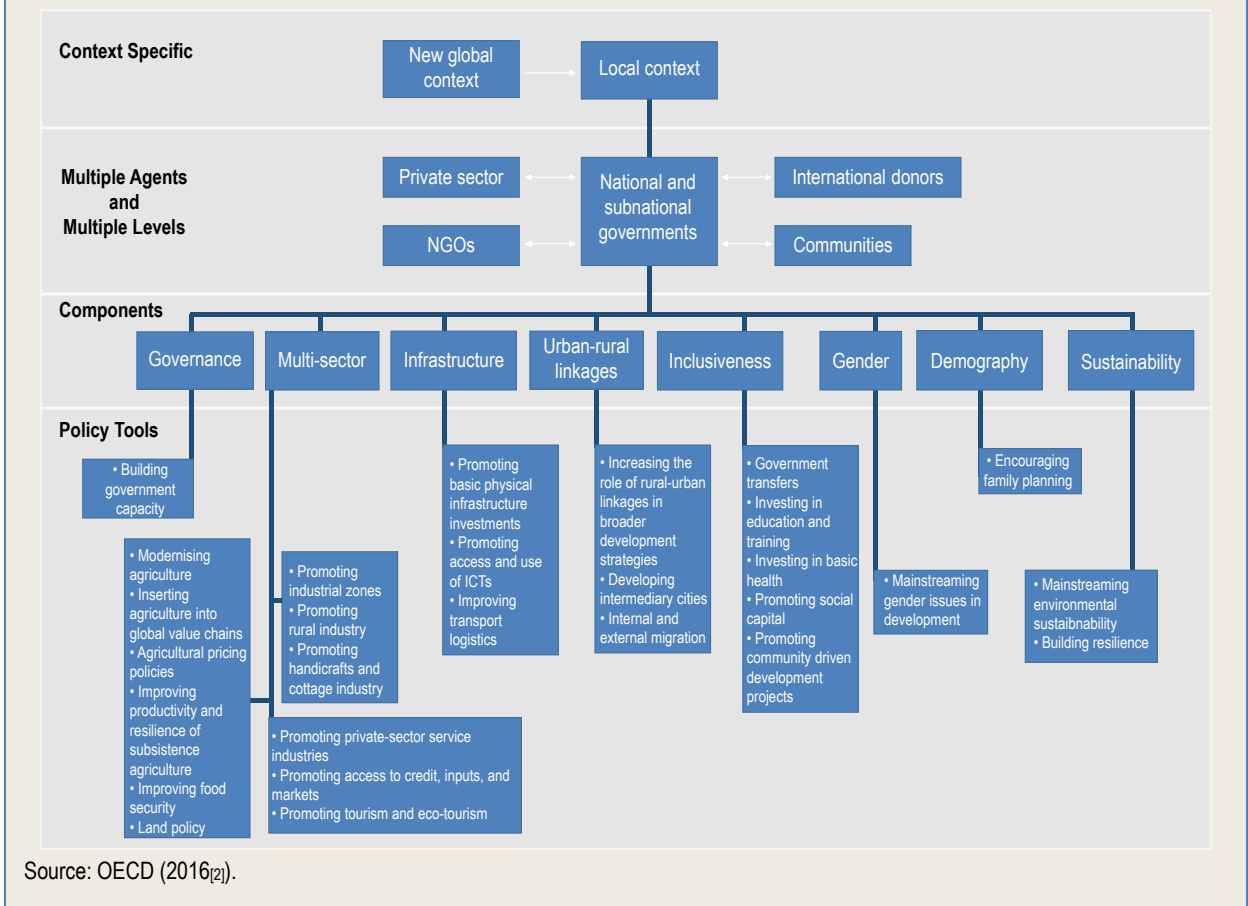
### Box 4.1. The new paradigm is based on eight components

The NRDP is driven by eight components that characterise the new context in which rural areas find themselves:

- **Governance.** A consistent and robust strategy is not enough if implementation capacity is weak. It is thus important for an effective strategy to build governance capacity and integrity at all levels.
- **Multiple sectors.** Although agriculture remains a fundamental sector in developing countries and should be targeted by rural policy, rural development strategies should also promote off-farm activities and employment generation in the industrial and service sectors.
- **Infrastructure.** Improving both soft and hard infrastructure to reduce transaction costs, strengthen rural-urban linkages, and build capability is a key part of any strategy in developing countries. It includes improvements in connectivity across rural areas and with intermediary cities, as well as in access to education and health services.
- **Urban-rural linkages.** Rural livelihoods are highly dependent on the performance of urban centres for their labour markets; access to goods, services and new technologies; as well as the exposure to new ideas. Successful rural development strategies do not treat rural areas as isolated entities, but rather as part of a system made up of both rural and urban areas.
- **Inclusiveness.** Rural development strategies should not only aim at tackling poverty and inequality, but also account for the importance of facilitating the demographic transition.
- **Gender.** Improving rural livelihoods should take into account the critical role of women in rural development, including their property rights and their ability to control and deploy resources.
- **Demography.** High fertility rates and rapidly ageing populations are two of the most relevant challenges faced by rural areas in developing countries today. Although the policy implications of these two issues are different, addressing these challenges will imply good co-ordination across education, health and social protection policies, as well as family planning.
- **Sustainability.** Taking into account environmental sustainability in rural development strategies should not be limited to the high dependence of rural populations on natural resources for livelihoods and growth, but also their vulnerability to climate change and threats from energy, food and water scarcity.

Figure 4.2 shows the structure of the NRDP, including the eight components.

Figure 4.2. A New Rural Development Paradigm for developing countries



The NRDP further highlights the need to promote participatory process in order to identify areas for policy reform. For this reason, the analysis in the report has been complemented with an extensive consultation process that involved government representatives, academia and international experts. Discussion took place in the form of interviews with several stakeholders, as well as two workshops<sup>1</sup> held in Addis Ababa.

Building on the analytical framework provided by the NRDP, the consultation process and the analysis presented in the previous chapters, there are four main areas for reform that could strengthen Ethiopia's rural development strategy:

1. **A new approach to agricultural development:** As Ethiopia transforms and the demand from urban areas grows, policy actions should not be limited to increasing agricultural production but further develop different segments downstream agricultural value chains.
2. **Mobilising resources and scaling up investment to improve the well-being of rural populations:** Improving rural welfare will require co-ordinated actions that improve the access to basic services across rural areas, as well as promoting job creation in both rural areas and intermediary cities.
3. **Enhancing co-ordination between rural and urban policies:** Ethiopia will benefit from increasing policy coherence and reducing fragmentation between rural and urban policies.
4. **Complementing the existing policy framework with a territorial approach:** Ethiopia's rural development strategy should account for the reciprocal linkages of rural and urban areas, for which intermediary cities could play a key role.



### Box 4.2. What are the lessons from rural development policies in OECD countries?

Rural development in OECD countries has occurred in a different context to that of developing countries today. OECD countries are not faced by a demographic boom, unlike many developing countries; instead their challenge lies in dealing with a shrinking and ageing rural population. A large share of labour force coming from rural areas in OECD countries was absorbed by manufacturing and services in urban areas. OECD countries are less challenged by immediate environmental sustainability and climate change. Moreover, explicit rural policies were only formed once OECD countries completed the transition to a predominantly urban and service-based economy, and were supported by stronger institutional capacity than generally exists in developing countries.

Nonetheless, there are a number of valuable lessons to be drawn from the OECD experience:

- National economic growth objectives can be best achieved by enabling all regions to realise their potential. The fact that rural regions are lagging behind might represent an incentive to encourage outflows of labour to be directed to the much faster-growing urban areas. However, there may be other considerations for investing in lagging regions. For instance, improving public services delivery can improve both welfare and social cohesion, which in turn can contribute to better outcomes in terms of education, health and income across the population of lagging regions.
- Rural policy that increases rural employment opportunities through investment-based mechanisms rather than subsidies can be a valuable way of reducing spatial inequality. Migration of low-income households from rural to urban regions may lower the rural rate of poverty, but it will increase the urban rate and may leave these people worse off since their skills are less likely to be relevant in an urban setting.
- Rural areas are not homogenous; their roles and economic activities have diversified along with national economic development. Making the most of this diversity requires shifting away from a top-down approach to a multi-level governance approach, which requires co-ordination mechanisms across different sectors and levels of government.
- Local governments and stakeholders have an important role in defining rural development policy. This ensures that policies account for the unique situation and distinct problems of specific rural areas, while making a better use of local assets. However, limited capacity at the local level is often a key constraint for bottom-up rural development, prompting the need for greater cohesion and improvements in local leadership capabilities.

These key lessons are still valid today, and should be considered in the design and implementation of rural development strategies in developing countries.

Source: OECD (2016<sup>[2]</sup>).

## What can be done to strengthen rural development?

### ***A new approach to agricultural development***

*Agriculture will continue to play a key role in Ethiopia's development path*

Increasing agricultural productivity has been, and will continue to be, key to reducing poverty. Better access to fertilisers and improved seeds, along with a major campaign to expand extension services, has led to increased crop yields since the late 1990s. This has been particularly the case of cereals, where yields almost doubled between 2000 and 2015. Today, cereal crops account for almost 80% of agricultural production in Ethiopia. Increasing cereal crop productivity has played a key role in Ethiopia's poverty reduction strategy. Indeed, estimates suggest that increasing cereal crop productivity has had a higher impact on poverty reduction, and has acted as a higher growth multiplier, than export crops (Beegle and Christiaensen, 2019<sup>[3]</sup>). However, although Ethiopia's agricultural productivity today is higher than that in many other countries in the region (e.g. Kenya, Rwanda and Tanzania), there is still scope for improvement. For example, in 2017, cereal yield (Kg per hectare) in Ethiopia represented 54% of that in Latin America and the Caribbean (LAC), 47% in Viet Nam and 35% in Egypt. In other words, Ethiopia's cereal productivity in 2017 stood at the level of Viet Nam in the early 1980s and of Egypt prior to the 1970s. At the same time, increasing the productivity of staple crops will continue to benefit a large share of Ethiopia's rural population, especially considering the large heterogeneity that characterises the cultivation practices and size of smallholders (Seyoum Taffesse, 2019<sup>[4]</sup>). Increasing staple crops' supply will also be necessary in order to support efforts to develop agro-processing industries, as well as to feed a growing population.

Moreover, increasing agricultural productivity will be fundamental for promoting off-farm job creation. As discussed in Chapter 1, non-farm employment opportunities in Ethiopia are very limited. Therefore, increasing agricultural productivity will be necessary to boost rural household incomes, which in turn will increase their demand for goods and services. Addressing this demand will open up non-farm employment opportunities and the diversification of household activities (see Chapter 2).

A set of co-ordinated actions will be necessary in order to continue to improve agricultural productivity. On the one hand, improving agricultural productivity will require expanding the adoption of modern inputs (improved seeds, fertilizer, and agrochemicals), in addition to supporting farmers in the adoption of mechanical technologies and better irrigation methods. Moreover, this will further require enabling better accessibility to both input markets and financing mechanisms. On the other hand, even if these conditions are in place, they may not be enough to improve crop productivity unless farmers know how to exploit improved inputs and new technologies. For this reason, improving the quality (and not just the quantity) of extension services will be key.

*However, as the country transforms, the approach to agriculture has to evolve from focusing mainly on improving agricultural supply to improving the productivity of all the elements composing agricultural value chains.*

Ethiopia's economic, demographic and spatial transformations are changing the dynamics of its food systems. Indeed, as Ethiopia urbanises the demand for agricultural goods will change, further influencing economic activities across the urban space, as well as the type of output and production factors across rural producers. However, this process is complex and characterised by mutual causality, i.e. changes in the urban demand influence the decisions of rural households, while farmers' actions influence the access of urban households to agricultural goods. Box 4.3 provides a framework to understand this based on the Asian experience.

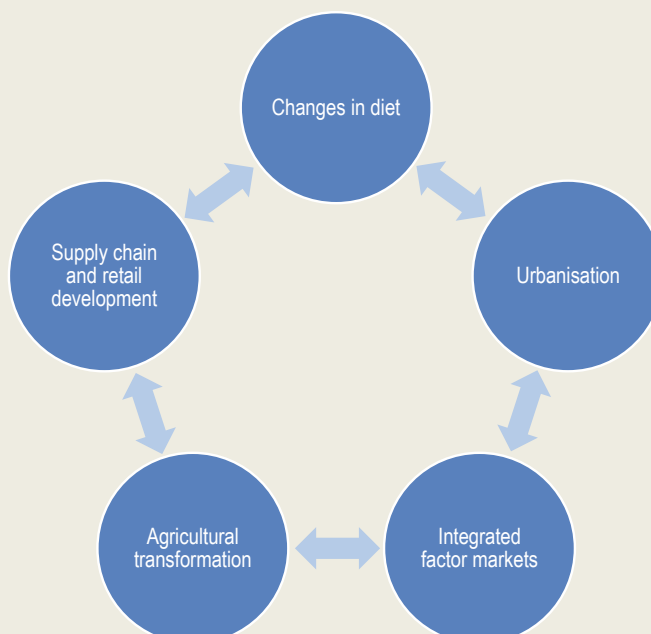
### Box 4.3. The transformation of food systems: Lessons from Asia

Reardon and Timmer (2014<sup>[5]</sup>) provide an analytical framework to understand the transformation process of food systems based on the experience of regions like Asia. According to this framework, the transformation of the agri-food system results from changes in the demand, the supply, and the intermediation mechanisms connecting them. This is a circular process that can be categorised into five components: urbanisation, change in diet, integration of rural factor markets, agricultural transformation, and supply chain and retail development. The forces driving this process can be summarised as follows:

- Changes in the demand for agricultural products take place, due to urban population growth and the dietary changes that follow a higher income and a city lifestyle. Indeed, urbanisation is commonly associated with an increasing demand for high value agricultural products (e.g. fruits, vegetables, etc.), animal products and processed agricultural goods; this change in diet further translates into a reduction in the consumption of staple crops, such as cereals (Bennett, 1954<sup>[6]</sup>).
- The intermediation supply chain then communicates that demand to rural areas and delivers the flow of food products; this process will prompt transformation in post farm-gate activities across the chain, i.e. activities linked to wholesale, cold chain, processing and retail.
- In parallel, across rural areas, profits from farming and income from rural non-farm employment allow investment in technological change, including a shift from human to animal, to machine power, as well as increasing use of fertilisers, pesticides and herbicides. This change further translates into higher rates of commercialisation and diversification (mirroring diet changes).
- During this process, rural factor markets tend to develop in order to respond to urbanisation and dietary changes. This includes labour markets (for farm and non-farm activities), credit markets, land markets, and markets for other farm inputs (i.e. fertiliser, chemicals, machinery, etc.).

The food system transformation takes place along the rural-urban continuum. In this process, intermediary cities play a key role as mediators of goods and services between large metropolises and rural areas.

Figure 4.3. Food systems transformation process



Source: Adapted from Reardon and Timmer (2014<sup>[5]</sup>).

Ethiopia's food systems will most likely experience a similar process to Asia and Latin America, as is the case of other sub-Saharan countries (see Box 4.4). In fact, this transformation has already started, mainly driven by fast urbanisation, better infrastructure connectivity, demographic growth and higher incomes (Minten et al., 2018<sup>[7]</sup>). In particular, as the country urbanises, food preferences are starting to change, as urban dwellers' demand for processed food and high-value crops increases. Estimates suggest that between 1996 and 2011, the share of cereals in total food expenditure in Ethiopia decreased from 46% to 36%; in parallel, the consumption of animal products and fruits and vegetables increased from 7.5% to 10.8%, and 3.7% to 6.4% (Worku et al., 2017<sup>[8]</sup>).

In order to develop and strengthen the food system, Ethiopia has a range of opportunities to tap into. First, Ethiopia's economic growth and projected demographic change (both in rural and urban areas) will continue to boost the demand for agricultural goods. These changes will transform food systems, while promoting non-farm activities in rural and peri-urban areas, as well as facilitating the intensification of agricultural production (Dercon et al., 2019<sup>[9]</sup>). Second, large public investment in transport infrastructure, and growth in the agricultural sector, serve as a foundation for the development of agricultural value chains (Minten et al., 2018<sup>[7]</sup>). Finally, the expected growth of small towns and intermediary cities, paired with better connectivity and infrastructure, can provide the critical mass needed to foster urban demand for agricultural goods; as well as creating a conducive environment for the development of wholesale, processing and retail activities along agri-food value chains.

#### Box 4.4. Transformation of food systems in West Africa

West Africa is experiencing changes in its food systems. This follows from the region's demographic and urban growth processes. West Africa's share of urban inhabitants rose from 10% in 1950 to 43% in 2010, with the urban population growing from 5 million to 133 million during this period (UNDESA, 2018<sup>[10]</sup>). The rise in urbanisation was underpinned by growth in the size of cities, as well as the development of urban networks comprising small towns and intermediary cities. The creation of better road and transportation links between urban centres facilitated the development of market and trade networks. Alongside urbanisation, there has also been a rise in the number of people belonging to the middle class (those with income per capita between USD 2 to 4 per day), especially in countries like Ghana, Senegal, Nigeria, Côte d'Ivoire, who are leading in terms of expenditure on high value agricultural goods (Statz and Hollinger, 2016<sup>[11]</sup>).

These changes are boosting the region's food economy and transforming agricultural value chains. As in the case of Asia, the rise in urbanisation in West Africa also led to a rise in food consumption. In 2010, the food economy accounted for 36% of the regional GDP, and processed foods accounted for 41% of urban food baskets compared to 36% for rural consumers (Allen and Heinrigs, 2016<sup>[12]</sup>). Food processing is a growing sector in the region. For example, Senegal's agro-processing industry has grown by 7% since 2000, and makes up 37% of the value addition in the manufacturing sector (Allen and Heinrigs, 2016<sup>[12]</sup>).

*Stronger policies are needed to better manage and co-ordinate newly rising activities in agri-food supply chains*

Addressing dietary changes and an increasing urban demand will imply managing an increasingly complex food system. Policy interventions will have to focus on developing both hard and soft infrastructure in the midstream and downstream segments of agricultural value chains. On the one hand, national and sub-national governments will play a key role for the development of processing, wholesales, distribution, and retail services. This will require additional investment in physical infrastructure that supports processing and storage facilities (both in small towns and intermediary cities). Moreover, investment in transportation

and infrastructure networks will be key for improving rural and urban connectivity, which is necessary for efficient distribution services. On the other hand, local governments can help improve the skills of the labour force in order to match the development of new activities. For instance, this could be done by promoting vocational training schemes in partnership with the private sector. Moreover, supporting the development of agri-food value chains will require creating a conducive environment for the entry of new actors, including small or large enterprises, especially in intermediary cities and small towns (Allen and Heinrigs, 2016<sub>[12]</sub>). Achieving these goals will further require a spatial approach that better co-ordinates local authorities in order to develop a network of urban centres with strong links to surrounding rural territories.

A series of institutional structures are needed to co-ordinate and regulate raising activities along agri-food supply chains. The development of regulatory mechanisms for food standards regarding agricultural goods are necessary, both in terms of safety and quality. Furthermore, co-ordination and management of various actors in the food production and distribution sectors will be required, as the development of food systems will increase the number new entrants into the sector (Allen and Heinrigs, 2016<sub>[12]</sub>). In this context, strengthening local institutional arrangements will be key; for instance, enforcing contracts and providing independent verification of product quality in contract farming schemes can support the development of agricultural markets (Devaux et al., 2018<sub>[13]</sub>).

Rural stakeholders can support the development of value chains. A first step will be to identify key crops and the sectors with high potential for the development of value chains. This could be enhanced through platforms or an enabling body at regional level that facilitates co-operation and co-ordination between suppliers of agricultural goods (i.e. smallholder farmers, farming cooperatives) and public and private enterprises, including micro and small size enterprises (MSEs) engaged in processing agricultural goods. The enabling body could also help monitor the quality and quantity of agricultural goods supply by rural hinterlands. Furthermore, regional and woreda governments could work closely, and in co-ordination with the private sector, to ensure that the processed goods are linked to the type of crop production in the surrounding hinterland.

### ***Mobilising resources and scaling up investment to improve the well-being of rural populations***

*Improving basic services in rural areas and intermediary cities remains key for consolidating rural development efforts*

The GoE has made major investments in infrastructure, especially in roads, electricity, and water and sanitation services. Nonetheless, striking differences between urban and rural areas prevail. In 2016, only 8% of households in rural areas had electricity and less than 6% had piped water on the premises; the comparable figures for urban households were 93% and 77%, respectively (Chapter 1). Furthermore, limited access to basic services not only contributes to the high levels of deprivation experienced in rural areas, but it also limits rural households' potential to diversify their economic activities. Indeed, additional investment in basic infrastructure is needed for improving rural welfare and limiting the increasing gap between rural and urban areas.

Limited access to basic services also affects the development of intermediary cities. Indeed, infrastructure gaps in water, sewerage and sanitation are some of the most acute challenges facing intermediary cities. For example, cities such as Mekele face significant challenges in their water service provision, with only 67% coverage, and large water losses due to leakage. As another example, Hawassa's access to safe water only reaches 66% of its population, and given its estimated threefold growth by 2037, the city faces major constraints in continuing to meet even that level of demand (Chapter 2). In addition, intermediary cities face major constraints in supplying other services, such as sewerage and sanitation, with disproportionate gaps in service provision compared to Addis Ababa. In fact,

Addis Ababa is the only urban centre with a municipal sewerage system, and it serves only 10% of the city's population (Ozlu et al., 2015<sup>[14]</sup>). Adequate infrastructure across intermediary cities is key to promoting the development of agricultural value chains and the transformation of rural areas.

In countries like Korea, providing basic services and improving the living conditions of rural populations was one of the first steps of its rural development strategy. Moreover, it was considered as a precondition for creating income generating activities that could curb the increasing development gap between rural and urban areas (see Box 4.5).

#### Box 4.5 Korea: From developing to developed country in a generation

Korea's rapid rise from a mainly agricultural nation and food-aid recipient to one of the fastest-growing OECD economies is inspirational. This case study explores the factors behind this transition, focusing on the role of rural development policy from the 1950s onwards. Of particular interest is the national programme for rural development known as Saemaul Undong, or new village movement. Korea's fast and successful industrialisation process involved large-scale migration from rural to urban areas, as well as an increasing rural-urban income gap. Saemaul Undong acted as a buffer during this transformation, redistributing wealth through subsidies for agriculture, increasing agricultural productivity, and providing infrastructure in rural areas. While Korea's set-up is unique, its approach offers a number of valuable lessons for developing countries.

Saemaul Undong was a multi-level and multi-sectoral strategy that improved living standards in rural areas while limiting the wage-gap between urban and rural areas following the successful Korean industrialisation process (Table 4.2).

Table 4.2. Components of Saemaul Undong's strategy

	First phase–Saemaul Undong (1970-1973)	Second phase–Saemaul Undong (1974-1979)
<b>Goal</b>	<i>Modernise rural villages</i>	<i>Create income-generating activities</i>
<b>Strategy</b>	Top-down actions to mobilise communities in order to identify local priorities and carry out projects to build or improve infrastructure.	Improve agricultural productivity and promote non-farm employment in rural areas
<b>Tools</b>	<ul style="list-style-type: none"> <li>• Combination of top-down and bottom-up planning and co-ordination mechanisms</li> <li>• In-kind transfers from the central government</li> <li>• Incentive-based mechanisms promoting competition across villages</li> <li>• Massive training of community leaders</li> </ul>	<ul style="list-style-type: none"> <li>• Subsidies to agriculture</li> <li>• Investment in rural infrastructure</li> <li>• Investment in health and education</li> <li>• Introduction of high-yielding crop varieties</li> <li>• Fiscal incentives to promote delocalisation of firms from urban to rural areas</li> </ul>
<b>Actors</b>	All levels of government and village leaders	All levels of government and village leaders as well as the private sector

Note: The categorisation of the two phases mainly follows the categorisation of Korea's Ministry of Home Affairs. It should be noted that while modernising rural villages was the main priority during the first phase, it continued until 1979.

Source: OECD (2016<sup>[2]</sup>).

Korea's success in rural development was the result of a combination of factors:

- The government's strong vision and ability to plan, co-ordinate and implement a multi-sectoral strategy. This included combining top-down and bottom-up approaches, monitoring and evaluation, and strong incentives for collective action.
- Consolidation of institutions for delivering national and rural development strategies that helped build the foundations for economic development and implement policies effectively.

- Previously implemented supportive policies, including the 1949 land reform and early investment in education, and the presence of a certain degree of social capital in rural areas for mutual co-operation, consensus building and collective action.
- Policies to enhance agricultural productivity, including technological advances and sustained investment in rural infrastructure.
- The very rapid industrialisation and the ability of urban areas to productively absorb migrants from rural areas.
- The ability to harness the demographic transition, driven in part by education and government family planning programmes.
- Strong support to farm households through a grain pricing policy and subsidies for key farming inputs.
- Promotion of rural industry and non-farm activities.

Source: OECD (2016<sub>[2]</sub>).

*Job creation will be necessary to reduce the rural-urban gap and promote the well-being of rural populations*

Rural job creation is at the heart of Ethiopia's rural and wider national development needs. In line with Ethiopia's high population growth, the labour force is increasing at a rate of 4% annually, and approximately 3 million job seekers enter the labour market each year (CSA, 2013<sub>[15]</sub>). Although growth in the agricultural sector has led to improved rural well-being since the 1990s, it may not be enough to create employment opportunities to absorb the increase in the supply of rural labour. As a result, effective strategies are needed in order to enhance off-farm job creation.

Ethiopia's rural off-farm economy is, however, still at a premature stage. The rural off-farm income level remains low, accounting for 18% of total rural income (Bachewe et al., 2016<sub>[16]</sub>). Rural jobs are particularly beneficial to rural poor, youth and female-headed households, because these households tend to diversify their sources of income and are more likely to engage in off-farm activities. This is particularly relevant since such households face a higher rate of landlessness. Schmidt and Bekele (2016<sub>[16]</sub>) show that youth-headed households (i.e. youth aged 25-34) are more likely to be engaged in non-farm enterprise work, as opposed to working solely on their own farms; female-headed households are less likely to work in wage labour, and are more likely to work in non-farm enterprises. However, the decision to engage in non-farm enterprises further depends on where such activity is located. Schmidt and Bekele also show that households located in high-potential agricultural areas have an increased probability of engaging in a non-farm enterprise. Overall, off-farm activities in rural Ethiopia, for the time being, seem to offer limited job creation opportunities.

Nevertheless, the development of activities along the downstream segments of agricultural value chains offers interesting opportunities, especially for the youth population. Indeed, fostering the development of economic activities in processing, wholesale, and distribution can serve as attractive sources of employment for rural youth. In this regard, the OECD (2018<sub>[17]</sub>) has analysed a large number of initiatives for rural job creation, and identified a series of success factors to ensure youth sensitive projects. These factors could be useful for Ethiopian authorities.

**Rural youth profiling:** Understanding the nature and conditions under which the different youth groups are engaged or excluded, and the generational and power dynamics along the value chains, will help identify the bottlenecks to be addressed when designing a youth-sensitive agricultural value chain project.

**Selection of high-potential value chain:** Young people should be involved in identifying a list of potential activities in their village and region which they consider themselves capable of doing and which at the same time represent potential growth sectors.

**Mentorship and role models:** Young people need role models to look up to and follow. Agriculture is associated with hardship and poverty and is considered as an unattractive option for young people. Local leaders and other youth farmers can help change the mentality of rural youth through mentoring and coaching. Mentoring can happen through incubator approaches, where young farmers learn how to operate a business or through regular meetings and interactions.

**Peer-to-peer learning:** The most effective way to convince young people is through other young people. Peer-to-peer learning has proven effective when providing agricultural extension services, for example.

**Awareness campaigns:** The potential of agriculture and value addition is largely underestimated. Young people in rural areas need to be informed about the different activities possible along the value chain if their minds are to be changed about agriculture and related jobs. Campaigns should include information about market requirements, product standards, innovative tools and new production methods.

**Basic skills training:** The majority of rural youth are early school dropouts and have low skills. Programmes that provide apprenticeship and on-the-job training opportunities for rural youth can increase their employability. Vocational training programmes must also consider teaching soft skills in addition to basic literacy and numeracy skills. Improving entrepreneurship skills, for example, entails training not only in business management but also in negotiation, leadership and team building.

**Physical proximity:** Activities must take place close to young people's homes. This is especially relevant for young women who cannot travel far to attend training or take up a job.

**Financial or in-kind capital:** Access to land for young people is difficult, and rural areas are underserved by formal financial institutions. Furthermore, financial services are not adapted to the specific needs and constraints of youth (e.g. lack of collateral and financial resources). Activities aimed at helping young people engage in agriculture will need to support access to land, seed capital and/or materials to get started.

**Social capital:** Agriculture is foremost about know-how and linkages with actors along the value chain. Young people tend to lack both. Joining farmers' organisations or co-operatives will help gain trust and solidarity, as well as enabling access to quality inputs, services, finance and markets. However, hierarchical structures, high membership fees, access to land and other co-operative membership conditions, which young people cannot meet, exclude them from benefiting from these organised structures.

**Modern agriculture and rural areas:** For agriculture to become attractive to young people it has to be less labor-intensive and deploy modern technology. This can be in the form of mechanisation, such as tractors or improved post-harvest management techniques, as well as through the use of ICTs, to ensure that they have better access to information, services and markets.

On top of these factors, it is important to note that the economic and demographic growth across intermediary cities provides a good opportunity for rural off-farm job creation. Indeed, experience in other regions like Asia shows that aggregate demand sources and agglomeration economies in cities tend to promote rural non-farm employment in neighbouring areas; this is particularly the case of high potential farm areas close to cities (Reardon and Timmer, 2014<sup>[5]</sup>). Moreover, fostering the development of wholesale, distribution and commercialisation along agricultural value chains can support the development of new off-farm employment opportunities (see the case of Bangladesh in Box 4.6).



#### Box 4.6. Rural non-farm sector in Bangladesh

Bangladesh's rural non-farm sector plays an important role in poverty reduction and rural economic development. The 2010 Labour Force Survey unpacks the fast growth and significance of rural non-farm employment. In 2010, the rural workforce in Bangladesh accounted for 77% of the total workforce. Between 2003 and 2010, a higher proportion of non-farm employment was created in rural areas, representing 50% more than urban employment creation.

Income from non-farm employment in rural Bangladesh accounts for 41% of rural household income. Nonetheless, the majority of Bangladesh's rural households combine agricultural and non-farm income, as a coping strategy against poverty, and to enable them to reduce their vulnerabilities.

The main drivers for growth in the rural non-farm sector include growth in the agricultural sector and improved connectivity to urban areas. Firstly, growth in the agricultural sector has led to growth in demand for agricultural inputs and outputs, facilitating the establishment of new agricultural value chains and processing activities. Secondly, connectivity to large and intermediary cities facilitates the development of rural non-farm sectors, and provides employment for low skilled rural labour. Furthermore, the agglomeration effects of intermediary cities facilitate business activities in surrounding rural areas and create higher demand for rural non-farm goods and services. Whilst large cities, such as Dhaka, provide informal jobs, smaller intermediary cities provide better quality jobs and enhance economic activities.

Despite the growth rate of rural non-farm employment in Bangladesh, rural households and businesses still face constraints. Firstly, non-farm enterprises and traders face large transportation costs, shortages or lack of access to finance, an unfavourable environment for small or micro businesses, and a lack of access to quality infrastructure.

Source: Gautam and Faruquee (2016<sup>[18]</sup>).

#### *Creating a conducive environment for private sector participation in Ethiopia will be key to facilitating job creation*

Private sector engagement in Ethiopia's rural areas remains limited. The numbers of rural MSEs and entrepreneurs are slowly increasing and becoming sources of diversified income for rural households. However, MSEs still face significant constraints in terms of accessing credit and financial services, due to a limited credit and banking systems in rural areas. In addition, rural MSEs face significant constraints on their ability to operate at their full capacity, due to inadequate basic infrastructure (e.g. roads, electricity, water, telephone, etc.). Access to markets and transportation are also some of the major barriers that entrepreneurs and MSEs face (Kumilachew and Chinnan, 2017<sup>[19]</sup>; Alemu and Adesina, 2017<sup>[20]</sup>). Furthermore, MSEs operating in rural areas tend not to be integrated into the wider agricultural value chain. They often operate in isolation, with limited information on the supply and demand of their products. As a result, rural MSEs tend to leave the market at an early stage (Kumilachew and Chinnan, 2017<sup>[19]</sup>).

It is necessary to create effective incentive mechanisms for private sector engagement in rural and agricultural sectors. This includes facilitating access to formal credit services through effective financing systems (CTA, 2013<sup>[21]</sup>) and investment in infrastructure, including in telecommunication and ICT services. Public and private partnerships should be considered, particularly for small and medium sized enterprises with a high potential for job creation, along with targeted support through resources and capacity building, in co-operation with regional and woreda level governments. As previously discussed, these efforts should be complemented with additional investment in infrastructure for trading, storage and processing facilities in small towns and intermediary cities to facilitate access to producers in rural hinterland and private sector operators.

## **Enhancing co-ordination between rural and urban policies**

### *Ethiopia's multi-level governance framework provides scope for better governance*

Ethiopia's rural development strategies are influenced by the country's governance structure. The current decentralised governance system provides significant scope for effective multi-level governance. It also provides the opportunity for designing bottom-up rural development strategies, as it facilitates better local participation in policy design.

Ethiopia's decentralisation process has given local governments the responsibility for service delivery, implementation of rural policies and collection of local tax revenue. However, despite the GoE's significant efforts to establish a strong institutional framework for the development of rural areas, the governance mechanisms put into place still face major challenges.

Since the late 1990s, the GoE has launched a series of pro-poor interventions. These include strong support to infrastructure development (notably roads), initiatives aimed at increasing agricultural productivity (e.g. access to extension services, the adoption of improved agricultural inputs, etc.), as well as the Productive Safety Net Programme, which offers social protection to marginalised rural and urban households. These combined efforts have translated into a significant reduction in rural poverty. However, the ongoing spatial transformation occurring in Ethiopia requires better co-ordination between urban and rural policy actions.

Today, Ethiopia's rural and urban policies tend to be fragmented. Overall, there seems to be limited co-ordination of rural and urban policies; in other words, urban and rural areas seem to be treated in isolation. As a result, the socio-economic interactions between the two areas are not fully captured, and policies do not take into account and harness the changing dynamics of Ethiopia's urban and rural landscape. For instance, rural and urban plans established at woreda level tend to be co-ordinated vertically by the corresponding ministry representatives at different levels of government. In this process, there are limited horizontal interactions between rural and urban representatives, and few co-ordination mechanisms are used. Moreover, there is a persistent knowledge gap about rural-urban functions. For example, interviews with Adama municipality representatives highlighted that although there is significant interaction between the municipality and its surrounding rural areas, there is a substantial knowledge gap in the ways in which these two areas interact.

Co-ordination issues are not limited to the woreda and kebele levels alone. Lack of co-ordination across federal and regional levels of government hinders the effective implementation and expansion of projects at local level to a larger scale. In fact, projects carried out by bilateral organisations in partnership with local governments or ministries are often not effectively co-ordinated by, or known to, the Ministry of Agriculture. Furthermore, several studies commissioned by the GoE or donors have been conducted without effective co-ordination, and have contributed little to agricultural and rural development programmes or to the GoE's monitoring and evaluation capacities (MOA, 2010<sub>[22]</sub>). This has resulted in a series of scattered local initiatives, as well as joint initiatives with international development partners across various woredas, which are not systematised across rural areas or scaled up.

### *Addressing co-ordination issues between rural and urban policies will be key for improving well-being in rural and urban areas*

The GoE can implement a series of actions to enhance co-ordination between rural and urban policies. First, national and regional governments could establish a steering committee, made up of actors and policy makers from various sectors and across different levels of governments to help identify key issues and propose common solutions. The steering committee can also help facilitate policy co-ordination across sectors, and different levels of governments.

Second, policy co-ordination can be strengthened by combining top-down and bottom-up strategies. Regional and local governments can promote bottom-up strategies by fully engaging local stakeholders, in both rural and urban areas, in the design of development strategies and policies. This can be facilitated through various means, such as holding participatory and consultation meetings including municipal and kebele authorities, farmers' organisation, and civil society representatives. Local governments could promote trust by providing up to date information on the state of financing and development plans of rural and urban areas. Territorial policies, discussed below, could help in this regard.

From a top down perspective, national authorities can strengthen regional governments' supervisory role to improve policy co-ordination between rural and urban areas. This can be done by creating contractual agreements between national and regional governments, as well as promoting incentive mechanisms, such as establishing a budget for co-ordinated investment plans. For example, Poland's central government has promoted rural and urban co-operation by creating contracts with regional governments and allocating budgets for public investment. In this case, regions are in charge of formulating a Regional Spatial Strategy, and the national government allocated specific budgets for co-ordinated investment in public services across rural and urban areas, as well as small towns (OECD, 2013<sup>[23]</sup>).

Finally, national and local government can address existing institutional and legal barriers which reduce the scope for policy co-ordination. This requires reviewing conflicting policies on various issues including land use, local taxes and existing financial incentives that promote competition rather than horizontal integration.

*Improving the capacity of local authorities will be necessary to address the needs of a growing population*

Improved capacity is key for both woreda-level and kebele-level governments, as they face significant constraints on their role in planning and implementing public service programmes. They are both faced with a high demand for services and a shortage of skilled staff to ensure efficient public service delivery. For example, a study of two woredas in the Amhara region showed that following woreda-level decentralisation, the demand for services at district-level had increased, which led these woredas to face a persistent human capital gap. Between 2012 and 2013, the woredas faced a staff gap (the difference between the number of staff required and the number assigned) of 67% in road development, 63% in water service delivery, and 37% in the health sector (Alemu, 2015<sup>[24]</sup>).

Woreda-level representatives also face severe constraints in accessing the resources necessary to implement rural and urban plans. They have to contend with shortages of equipment and facilities, inadequate information and communications and technologies, and difficulties in finding work premises (MOA, 2010<sup>[25]</sup>). Furthermore, there are large disparities between the administrative capacities of regional and woreda governments. This is particularly so in the case of woreda administrators' service delivery capacity, especially those located in pastoral areas lag considerably behind in terms of providing primary health and education services (Fenta, 2014<sup>[26]</sup>).

Ethiopia's regional and local governments can implement a series of strategies to enhance local governments' financing capacity. In the short term, local government can create partnerships with research institutions and development partners, to help them identify new "low hanging fruit" sources for local revenues. Furthermore, local and regional governments can strengthen their financing capacities through implementation of land value capture instruments, including: land titling, debt instruments and user fees. However, land-based financing instruments ought to be aligned with land titling systems at regional and woreda level. Moreover, these partnerships can help develop training programmes for development of financial and management skills of local governments, including enhancing their capacity in budget planning, tax collection and effective allocation of financial resources. Additionally, improving and strengthening reporting mechanisms for financial mobilisation at local level can help facilitate transparency and identify inefficiencies.

Improving capacity is always challenging and financial constraints for capacity building are a recurrent issue. But even when resources are available, people who have built capacity often tend to leave the institution, which requires rebuilding capacity – in some cases – from scratch. A possible way to overcome part of these issues is through peer-learning mechanisms across sub-national authorities. If these mechanisms are institutionalised, authorities from different woredas or kebeles could regularly meet to learn from each other. It is nevertheless important to highlight that, although peer-learning mechanisms limit capacity loss and complement existing capacity through knowledge spillovers, they do not substitute proper capacity training for planning and management.

### ***Complementing the existing policy framework with a territorial approach***

#### *Facilitate the development of functional territories*

Ethiopia's ongoing spatial, economic and demographic transformations call for a shift in rural development strategies. Reaping the benefits of these transformations requires effective co-ordination and linkages between urban and rural development policies. This is because, as highlighted in Chapter 2, rural and urban development processes are inherently linked; as such, rural development cannot take place if it is not effectively linked with the development of small towns and intermediary cities.

Effective territorial approaches can capture the multi-dimensional needs of rural areas, their interactions and linkages with urban areas, as well as addressing the needs of the multiple rural stakeholders who contribute to rural transformation.

Experiences in other regions show that territorial development approaches can support rural-urban transformation. Territorial approaches have been at the heart of broad development strategies across OECD countries. Increasing concerns for new sources of growth, while enhancing social inclusion and environmental sustainability, have raised the need for policy tools that allow achieving these objectives in a more balanced and complementary way (OECD, 2011<sup>[27]</sup>). Against this backdrop, territorial approaches have found a place in promoting rural development across OECD countries, while highlighting the fact that rural areas are places of opportunity (OECD, 2016<sup>[28]</sup>). Moreover, an increasing number of international organisations are supporting the adoption of territorial approaches. For instance, territorial approaches are considered as key instruments for rural-urban transformation in the Africa-Europe Agenda for Rural Transformation supported by the European Union (Arnold et al., 2019<sup>[29]</sup>); also, UN-Habitat has developed a series of principles to serve as basis for the development of territorial approaches, which acknowledge the intrinsic connections between rural and urban areas (UN-Habitat, 2018<sup>[30]</sup>). Box 4.7 provides more information about Territorial Approaches and its implementation, while Box 4.8 summarises the key principles for rural-urban linkages developed by UN-Habitat.

Developing policies with a broader territorial approach, which promotes reciprocal linkages between rural and urban areas, can support an inclusive rural-urban transformation process. Thus, Ethiopia's policy framework ought to expand beyond the strict dichotomic assumptions of rural and urban boundaries, and aim to develop policies that account for the flows of information, labour, goods, services and capital within functional areas along the urban and rural continuum (Berdegué and Proctor, 2014<sup>[31]</sup>). The development of functional territories do not have to be limited to administrative boundaries, instead it should be developed based on existing socioeconomic interactions, and shared history and cultures (Berdegué and Proctor, 2014<sup>[31]</sup>).

Ethiopia's existing policy framework acknowledges the importance of urbanisation as a key driver for development. It also recognises the need to develop rural areas. However, it does not account for their linkages. A place-based approach could help the GoE limit the increasing disparities between urban and rural areas, as well as reaping the opportunities of the fast urbanisation process. This entails developing multi-sectoral policies that account for the different roles of national and subnational authorities and engage local stakeholders in the design, as well as in their implementation. However, implementing such approach

will require a learning process. Box 4.7 presents a general process for implementing a territorial approach based on the experience of several international organisations. Ethiopia could experiment with some pilot projects in certain zones and woredas. Based on the results from the pilot projects, the GoE could analyse the potential for extending this approach.

### **Box 4.7. Implementing a territorial development approach**

#### **Why a territorial approach to development?**

Territorial development takes a multi-sectoral and multi-stakeholder approach to the development of rural and urban areas. It accounts for interdependencies between different geographical areas and functional spaces, and as such, it advocates for strengthening rural-urban linkages as a means to development.

Incorporating a territorial approach into policy making and project design can have many benefits. Consultations incorporating a lens of spatial interaction, where interdependencies between different spaces are acknowledged, can improve policy and programme design, as well as monitoring and evaluation.

#### **Inclusive growth and participatory development**

A territorial development approach can make growth more inclusive since it requires stakeholder consultations, where different perspectives are considered in the creation of development plans. This can lead to better outcomes since local perspectives can bring to light barriers or constraints that might otherwise remain unforeseen. It is also empowering for stakeholders whose voices are sometimes marginalised. In addition, since territorial development accounts for spatial dynamics and flow of goods, people and services from rural to urban and urban to rural, it can focus on development and growth for all areas and not just metropolitan or urban areas.

Territorial development is also beneficial as it can leverage the participation of local governments and stakeholders to achieve not only local but also national and global goals, such as the SDGs, which are often integrated and require the development of rural areas.

#### **Guidelines for implementing a territorial approach**

As a general guideline, the first step to using a territorial approach requires an initial understanding of the territory in question and the dynamics of goods, people and services between the spaces within. This type of initial diagnostic can be informed by pre-existing literature and data. It should also include a consultation process with relevant stakeholders. They can provide a critical perspective on the preliminary diagnostic, and further bolster it with examples of real-life challenges, opportunities and any potential barriers to a successful policy or programme implementation. It must be a truly participatory approach and particular attention should be paid to stakeholders who are affected but may not normally be consulted.

This research and consultation process can result in a clearer understanding of the spaces that require the most attention, including the most influential channels in which to affect change. It can also provide guidelines for governance structures and implementation for policies and projects, as well as the monitoring and evaluation of projects.

#### **Challenges to a territorial approach**

In order to succeed with territorial approaches, solidifying human and financial resources is important for all governance levels. This will improve their ability to co-ordinate and contribute to planning. Local and national governments would also benefit from improvements in the capacity to collect, access and

analyse data. This would help inform the stakeholder consultation process that is important for territorial approaches, as well as other knowledge-sharing activities. In addition, when bringing all stakeholders together, indicators of success can be determined and established as a group, improving the efficacy of policies and development interventions. Decentralisation is also an important aspect, as it ensures local governments have the ability and authority to create programming and pursue policies. However, it requires double emphasis on capacity building, as decentralisation without know-how could lead to problems in implementation and planning.

Overall, territorial approaches allow for a more strategic, calculated development approach. They empower different stakeholders and levels of government, and leverage local information to improve policies or projects, for better implementation and better outcomes. They also encourage decentralisation and capacity building in order to be most effective and efficient.

Source: CIRAD et al. (2018<sup>[32]</sup>).

*Building functional territories, while reaping the benefits of urbanisation, will require policies that strengthen the linkages between intermediary cities and surrounding rural areas*

Intermediary cities act as market centres for agricultural production. They provide a platform for commercialising agricultural goods (in particular, cereal crops). However, intermediary cities' market linkages with neighbouring producers tend to be weak. This is due to the fact that only around 20% of smallholders' production is commercialised. Limited supply of agricultural inputs further constrains capacity to develop sustainable agribusiness. More than half of the existing agro-industries are not operating at full potential due to shortages of raw materials. A similar issue arises when assessing backward linkages to rural areas. Indeed, most of the manufactured inputs that rural areas require are imported from international markets, as manufacturing activities in Ethiopia's intermediary cities are still limited. This is also the case for industrial goods and inputs for improving agricultural production, such as fertilisers.

#### **Box 4.8. Guiding Principles and Framework for Action to Advance Integrated Territorial Development**

In 2018, the UN-Habitat launched its "Guiding Principles and Framework for Action to Advance Integrated territorial Development", with the objective to inform strategies and provide a framework for action for "functional rural-urban linkages". The guiding principles help governments, development partners, as well as research and grassroots organisations, to adopt integrated territorial approaches to development. This will enable the promotion of place based development, along the rural and urban continuum, and reduce regional inequalities through stronger rural-urban linkages. The ten guiding principles are:

1. *Locally Grounded Interventions*: Ensuring policy coherence across territories in implementation of international agendas such as SDGs and the New Urban Agenda. This requires, contextualising policies to local needs and assets, by mainstreaming rural-urban linkages to reduce territorial inequalities and leveraging from existing flows and interactions of people, goods and services across the rural and urban areas.
2. *Integrated Governance*: Integrate and localise rural-urban linkages across governance systems. This include *horizontally* integrating across municipalities, towns and rural hinterlands; *sectorally* integrating across agents of private, public sector, civil society, professional institutions etc.; and *vertically* integrated across different levels of governments.

3. *Functional and Spatial Systems-based Approaches*: Promote system-based approach in territorial, rural and urban policies to enhance the flows of people and resources. This should account for the different settlements across the urban to rural gradient, and take into account the existing linkages between rural and urban areas as well as functional territories.
4. *Financially Inclusive*: Secure and channel sustainable public and private financing and investment for stronger rural urban linkages. This will require investment in social and economic development of intermediary cities, small towns, peri-urban areas, rural hinterlands and villages. In addition, unequal access to infrastructure and public services, as well as access to finance for small holder associations and entrepreneurs need to be addressed.
5. *Balanced Partnership*: Promote partnerships across various rural, urban and other sectoral stakeholders. Promote capacity building and skills among public and private sector, civil society and other formal institutions, whilst also ensuring the effective inclusion of traditionally marginalised communities.
6. *Human Rights Based*: Adopting a human rights based approach to promote rights to access basic services (including education, health, food, housing, employment etc.), and ensure development policies in functional territories do not inflict on human rights. Promote protection of environment and biodiversity, as part of human right protection.
7. *Do No Harm and Provide Social Protection*: Strengthen rural-urban linkages to reduce inequalities and conflicts, and promote well-being through social protection programmes, along the rural and urban continuum.
8. *Environmentally Sensitive*: Mainstream the protection of the eco-systems and biodiversity, across the rural and urban continuum, in line with key principles of Rio and Rio+20. This will support the transition to resilient and low carbon economies across rural and urban territories.
9. *Participatory Engagement*: Ensure inclusive participation of all stakeholders including vulnerable and marginalised groups, and local institutions located along the rural and urban continuum. Create space and capacity building programmes for political participation of all communities including Indigenous Peoples, forcibly displaced groups, elders and vulnerable youth and women. Protect and preserve local indigenous cultures, and account for the importance of culture in relation to population movements and rural to urban migration.
10. *Data Driven and Evidence*: Identify and address data gaps, which can support better territorial planning and reinforce rural-urban linkages. This will require collecting data disaggregated by age, gender, socio-economic status, by territory (rural, urban, peri-urban) at national and sub-national level. Use participatory and transparent approaches to collection of data, which account for grassroots knowledge. Establish mechanisms for knowledge sharing and data accessibility for all.

Source: UN-Habitat (2018<sup>[30]</sup>).

*Improve the knowledge base regarding urban-rural processes and revise the existing definition of urban and rural areas*

Overall, there is a significant gap in the availability of reliable data and representative empirical knowledge across Ethiopia's urban and rural areas. Current empirical information on urbanisation trends, as well as on the functions and dynamics across all of Ethiopia's urban areas, remains incomplete and is not representative at district level (Gebre-Egziabher et al., 2019<sup>[33]</sup>). Moreover, Ethiopia's intermediary cities face an even bigger challenge in terms of the availability of empirical knowledge and statistical information. While it is clear that these agglomerations are becoming increasingly important, there are limited empirical studies that provide a better understanding on their economic activities, functions and other vital

information required for informed policy making and urban planning. This could be due to the fact that socio-economic surveys are not representative at city level; in many cases, local governments lack the means and capacity to collect and analyse data at local level. Furthermore, the lack of data and empirical analysis on Ethiopia's intermediary cities is reinforced by the fact that policies and studies targeting rural and urban areas tend to be sectoral and treat the two areas in isolation. As a result, intermediary cities and small towns are overlooked, and their dynamics and functions are not captured appropriately either in data collection or in policy design.

Improving empirical knowledge on spatial dynamics will further imply reinforcing statistical systems. The most detailed source of information at sub-national level is the census. However, this information is outdated (the latest census took place in 2007). Labour force surveys and household surveys provide valuable information but are only representative at the regional level. Although relevant, this statistical information remains limited for addressing rural issues within regions and across cities of different sizes.

The GoE can address the above constraints by investing in the production of empirical studies and statistical systems that inform on demographic growth, economic activities and sources of employment across cities, and the channels in which intermediary cities create agglomeration economies. Research centres such as the Policy Study Institute (PSI) can play a fundamental role developing this knowledge. This can be further strengthened by improving local government capacities in data collection and analysis. Furthermore, there is a strong need for a better understanding of rural-urban dynamics in the country. Ethiopia is characterised by large regions and a diverse geography. This undoubtedly leads to heterogeneous policy outcomes following sectoral policies. In order to improve the effectiveness of rural and urban development policies, it is necessary to better understand the channels that link urban and rural areas within and across regions.

A robust rural-urban typology, i.e. a classification for those places considered to be rural and urban, is the first step to understand spatial dynamics. Indeed, Ethiopian authorities could benefit from a more robust definition of urban and rural areas. The existing typology is mainly based on population size. Considering the fast-growing population process experienced by the country, this definition most likely overlooks key relevant issues for policy making.

Why does a typology matter? The extent of Ethiopia's rural-urban transformation process depends on the way in which urban and rural areas are defined. Populations, economic activities, and socio-economic processes are distributed in a continuous way across space. Classifying a place as rural or urban is just a way to simplify the complexity of human processes taking place across spaces. Although this classification is a practical approach to differentiate places with low and high population densities, it has some important caveats that may limit the effectiveness of certain policy actions. Notably, it relies on administrative boundaries and does not capture functional aspects of urban and rural interactions.

What would the distribution of Ethiopia's population be under a typology that does not rely on administrative boundaries and provides more detailed information about human settlements? Figure 4.4 (left side) provides a typology based on the Global Human Settlement Model grid (GHS-SMOD). This typology gives a more granular overview of the dichotomous notion of urban and rural. It does so by providing a palette of different types of agglomerations, going from cities and their suburbs, to towns, villages and rural areas. Under this typology, the current definition of rural areas is divided into different categories that account for populations in dispersed rural areas, villages and towns. These last two categories allow us to bridge the gap between low- and high-density populated places by accounting for semi-dense settlements close to medium or large settlements. Cities represent highly dense urban centres that are further divided into suburbs. In 2015, under this typology, dispersed rural areas accounted for 61% of the population, followed by cities (28%), towns (6%), villages (4%) and suburbs (less than 1%).



Figure 4.4. Alternative typologies for urban and rural areas



Note: "R" stands for remote and "C" stands for close to cities with at least 100 000 inhabitants.

Source: Authors' calculations using data from Pesaresi et al. (2019<sup>[34]</sup>).

Complementing this typology with information on accessibility provides a more robust picture of the rural-urban continuum. Extending this typology by considering access to big cities allows us to account for the share of Ethiopia's population across different types of settlements that can reach a big city (at least 100 000 inhabitants) in less than 3 hours. Figure 4.4 (right side) shows the distribution of Ethiopia's population across rural areas, villages, towns, suburbs and cities further classified as close (C) or remote (R). It is interesting to note the symmetry in terms of accessibility for the population residing in dispersed rural areas: half of the population resides within 3 hours of a big city, while the other half needs more than 3 hours to reach this type of agglomeration. In terms of the total population, rural (C) and rural (R) account for 32% and 30%, respectively. Not surprisingly, the population in urban centres that are close to big cities is quite large (25%), whereas only a small share of the population lives in remote urban centres (3%). The population live in towns close to a big city represents 4% of the total population, while people living in villages close to big cities only account for 3% of the total population. Overall, people living in remote areas only account for approximately 36% of the total population in the country.

It is important to highlight that this is just an exercise to show one of the different possible information tools available for improving statistical systems in Ethiopia. Although worthwhile, revising typologies is usually challenging for statistical agencies because it breaks time series and becomes impossible to compare different data sets. However, Ethiopian authorities could complement the existing typology with an additional one that results from a participatory process and consultation among key stakeholders.

#### *Carry out spatial planning at the regional level*

Regional authorities will benefit from a better understanding of spatial dynamics in their corresponding regions. This would endow authorities with key information for better co-ordinating rural and urban policies, as well as promoting policy complementarities. The federal government has already taken important steps in this direction through the National Urban Spatial Plan (NUSP) elaborated in 2015. As described in Chapter 2, the plan provides key information for understanding urbanisation processes across the country. A similar exercise that zooms into each Ethiopian region could provide valuable information for policy makers at sub-national level. However, it would be fundamental that regional authorities build the capacity to develop these plans in the long term. Although in an initial phase support from an international development partners will be necessary, technical and methodological knowledge should be transferred

to regional governments so they can elaborate their own plan in the future. The federal government could support this initiative by making sure that the regions follow a standardised methodology that would enable a comparison of outcomes and mutual learning. Furthermore, the federal government can help facilitate partnerships between regional governments and international development partners.

Table 4.3 summarises the proposed areas for reform, as well as the set of selected actions discussed above. It is important to note that some of these actions are repeated across different outcomes. This further highlights the need for a co-ordinated approach that builds on policy complementarities across different sectors. Moreover, these actions are not exhaustive, they aim to provide guidance on the way forward; they may also differ depending on the characteristics of each region or agro-environmental zone, and will eventually have to change in line with the evolution of Ethiopia's economy and society.

**Table 4.3. Summary of expected outcomes and selected actions for reform**

Expected outcomes	Actions	Key actors
<b>a) A new approach to agricultural development</b>		
Improve the productivity of the different elements composing agricultural value chains	<ul style="list-style-type: none"> <li>• Continue improving agricultural production through better quality of extension services, better access to both finance and production inputs, etc.</li> <li>• Improve rural-urban connectivity through investments in transportation, infrastructure networks and public services.</li> <li>• Create a conducive environment for the development of wholesale, processing, and retail services through investment in processing and storage infrastructure in small towns and intermediary cities.</li> <li>• Promote vocational training schemes - in co-operation with the private sector - for better tailored programmes and apprenticeships.</li> <li>• Improve access to basic infrastructure: electricity, water, and waste management.</li> </ul>	<ul style="list-style-type: none"> <li>• Regional, zonal and woreda level governments</li> <li>• Small-holder farmers and farming co-operatives</li> </ul>
Stronger policies to manage and co-ordinate newly arising activities across agri-food supply chains	<ul style="list-style-type: none"> <li>• Establish a platform or an enabling body to: co-ordinate newly arising activities; link agricultural suppliers and processing enterprises; and enforce regulatory frameworks for food standards.</li> <li>• Identify and support the production of key high-value crops.</li> <li>• Invest in adequate processing, distribution and storage systems.</li> <li>• Develop regulatory frameworks for quality and safety of food standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Public and private enterprises (i.e. MSEs)</li> <li>• Woreda level governments</li> <li>• Federal government</li> </ul>
<b>b) Mobilising resources and scaling up investment to improve the well-being of rural populations</b>		
Improve basic services in rural areas and intermediary cities	<ul style="list-style-type: none"> <li>• Expand coverage of basic services across rural areas, i.e. electricity, water and sanitation services.</li> <li>• Channel investment to develop public services in intermediary cities, i.e. transport, water, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Woreda level government</li> <li>• Municipalities</li> </ul>
Job creation in rural areas, small towns and intermediary cities	<ul style="list-style-type: none"> <li>• Promote employment downstream agricultural value chains.</li> <li>• Fostering the development of wholesale, distribution, and commercialisation services along agricultural value chains.</li> <li>• Engage youth in rural job creation strategies by mainstreaming and adopting youth sensitive approaches including: <ul style="list-style-type: none"> <li>- Developing youth skills through training in: leadership, management, negotiation, vocational training in literacy and numeracy skills and promoting peer-to-peer learning</li> <li>- Modernise agricultural sector through use of tractors, improved post-harvest techniques and promote ICT</li> <li>- Provide activities in proximity to location of youth to reduce mobility constraints, and help build social capital by supporting their access to farmers' organisations and co-operatives</li> <li>- Provide access to finance, land, seed and capital</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Woreda level governments</li> <li>• Municipalities (for autonomous intermediary cities)</li> <li>• Farmers organisations and co-operatives</li> </ul>
Create a conducive environment for private sector participation in rural areas, small towns and intermediary cities	<ul style="list-style-type: none"> <li>• Facilitate access to formal credit services through effective financing systems.</li> <li>• Investment in infrastructure, ICT and telecommunication services.</li> <li>• Promote public private partnerships, and provide targeted capacity building or allocation of resources for MSEs with high potential for job creation.</li> </ul>	<ul style="list-style-type: none"> <li>• Private enterprises</li> <li>• Woreda level governments</li> <li>• Municipalities</li> </ul>

<b>c) Enhancing co-ordination between rural and urban policies</b>		
Improve co-ordination between rural and urban policies	<ul style="list-style-type: none"> <li>• Establish a steering committee made up of actors and policy makers from various sectors and across different levels of governments to identify key issues and propose common solutions, as well as helping co-ordinate policies across sectors and governments.</li> <li>• Promote bottom-up development strategies, by fully engaging local stakeholders - both from rural and urban areas - in development strategies and policies. This include holding participatory and consultation meetings with municipal, kebele, farmers, and civil society representatives; as well as providing up to date information on state and financing of development plans.</li> <li>• Strengthen regional governments' supervisory role by establishing contractual agreements, and creating incentive mechanisms, i.e. establishing budget for co-ordinated investment programmes, such as connective infrastructure and public services.</li> <li>• Address institutional and legal barriers reducing the scope for policy co-ordination, i.e. reviewing conflicting policies on land use, local taxes and existing financing incentives that promote competition rather than horizontal cooperation.</li> </ul>	<ul style="list-style-type: none"> <li>• Regional, Zonal and woreda level government</li> </ul>
Improve the capacity of local authorities to address the needs of a growing population	<ul style="list-style-type: none"> <li>• Facilitating partnership between local governments and research institutions/ international development partners to help identify "low hanging fruit" sources for taxes for short term improved financing.</li> <li>• Strengthening land-based financing, through land value capture instruments including: land titling, debt instruments and user fees – this should be aligned with regional/woreda land titling system.</li> <li>• Improving transparency and strengthen reporting mechanisms for financial mobilisation at local level (woreda and municipal level), to facilitate transparency and identify inefficiencies. Focusing capacity training on the development of financial and management skills of local authorities (i.e. budget planning, tax collection and effective allocation of financial resources).</li> <li>• Facilitate peer learning mechanisms among different levels of governments.</li> </ul>	Regional, woreda and kebele level government
<b>d) Complementing the existing policy framework with a territorial approach</b>		
Facilitate the development of functional territories	<ul style="list-style-type: none"> <li>• Expanding rural and urban policies beyond strict dichotomic and administrative boundaries by considering their linkages - i.e. flows of people, goods, and services along the rural and urban continuum - for the design and implementation of policies.</li> <li>• Support development efforts through place-based policies that are multi-sector, consider the different roles of sub-national and Federal authorities, and engage local stakeholders for their design (and not just for implementation).</li> <li>• Experiment with the territorial approach through pilot projects in selected zones and woredas, and expand the experiments based on lessons learned and local context.</li> <li>• Improve public investment in connecting intermediary cities and small town to rural areas (i.e. roads, electricity, telecommunication, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>• Federal level government</li> <li>• Regional level governments</li> <li>• Municipalities</li> <li>• Woreda level government</li> </ul>
Improve knowledge base regarding rural and urban processes and revise the existing definition of urban and rural areas	<ul style="list-style-type: none"> <li>• Invest in empirical studies and statistical information on demographic growth, economic activities, and source of employment in small agglomeration and rural areas; as well as improving the knowledge base on the channels that lead to agglomeration economies across intermediary cities.</li> <li>• Extend the current rural-urban typology to include additional factors beyond population size, i.e. complementing current definitions with information on accessibility to urban centres and a more granular definition of urban and rural areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Federal level government</li> <li>• Woreda level government</li> <li>• CSA</li> <li>• PSI</li> </ul>
Carry out spatial planning at the regional level	<ul style="list-style-type: none"> <li>• Capacity building of regional representatives to carry spatial planning in the long term</li> <li>• Improve local government capacity in collection and analysis of data.</li> <li>• Facilitate partnership between regional representatives and international development partners for knowledge transfers</li> </ul>	<ul style="list-style-type: none"> <li>• Federal and regional government</li> <li>• International development partners</li> </ul>

Source: Authors' elaboration.

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## Note

<sup>1</sup> The workshops were attended by over 50 representatives, including governmental and non-governmental representatives, and national and international experts on rural and urban development.



## OECD Development Pathways

# Rural Development Strategy Review of Ethiopia

## REAPING THE BENEFITS OF URBANISATION

Addressing rural development is key for Ethiopia's growth process. A series of government-led structural reforms have contributed to sustained growth in the country over the last two decades as well as to considerable poverty reduction in rural areas. However, Ethiopia faces critical challenges it will need to overcome to meet the needs of a growing rural population. In practice, this will require updating the existing rural development strategy in order to better integrate the interaction of rural and urban areas. Policy approaches that account for the fast urbanisation process experienced in the country will therefore be key to improving the well-being of rural populations and promoting national growth.

This report takes a spatial approach to study Ethiopia's rural development strategies. It highlights the need to develop stronger and more functional linkages between rural and urban areas. As such, the development of intermediary cities and small urban centres provides large scope for inclusive rural transformation. The report is the result of rigorous analysis, and extensive consultations with national and international stakeholders. It identifies some of the key challenges faced by rural areas and provides a series of recommendations to enhance Ethiopia's rural development strategies.

Consult this publication on line at <https://doi.org/10.1787/a325a658-en>

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