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Major drivers for rural transformation in Africa: Job creation for rural growth

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Rural transformation processes: can we learn from other experiences?

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Executive Summary

Although Ethiopia's economy has grown rapidly over the past decade and urbanization is increasing, the country's economic and spatial transformation has only just begun. Ethiopia's share of agriculture in GDP in 2006 (48 percent) was the highest in the world, and more than double the average for low income countries (20 percent). Likewise, Ethiopia remains one of the least urbanized countries in the world (16 percent urbanization, compared to an average of 30 percent in Sub-Saharan Africa).

Nonetheless, important changes are underway. Agricultural growth accelerated in the second half of the first decade of the 2000s so that real agricultural GDP growth averaged 6.2 percent from 1998/99 to 2007/08. At the same time, inflows of foreign aid, workers' remittances and private transfers funded a surge in investment and a boom in the construction sector. Measuring urbanization in terms of spatial agglomerations of people in and near cities of 50,000 or more shows that urbanization growth rates between the population census years 1984 and 2007 are much higher (between 8 and 9 percent) than estimates based on official definitions of urban (4.2 percent).

As Ethiopia moves forward, it faces key development policy decisions. Since the late 1990s, the country has followed an Agricultural Development Led Industrialization (ADLI) policy emphasizing investments to increase agricultural productivity and spur growth linkages with the rest of the economy. At the same time, government policy has been designed to slow rural-urban migration through regulations prohibiting sale of land, loss of land rights for those who leave rural areas, and registration requirements for new migrants.

Allocation of public investments across sectors and across rural-urban space, together with land policies and various regulations on labor mobility, will likely be major determinants of the growth path of Ethiopia's economy and the extent of poverty reduction in the coming decade. This study shows that investments in increasing agricultural productivity, particularly in favorable agro-ecological environments and in a context of industrial productivity growth at rates similar to those in 2005-2009, still provide the best pathway for overall reductions in poverty in Ethiopia. Moreover, removing existing constraints to internal migration may speed the spatial and structural transformation of Ethiopia, promoting economic growth and urban industrial development. The key is a judicious balance of public investments to promote agricultural growth, while providing enough urban infrastructure and services to prevent a rise in urban congestion costs. In this way, Ethiopia may accelerate its development, achieving both rapid overall growth and rapid poverty reduction in rural and urban areas.

Source: Dorosh, Paul, Getnet Alemu, Alan de Brauw, Mehrab Malek, Valerie Mueller, Emily Schmidt, Kibrom Tafere and James Thurlow. 2011. The Rural-Urban Transformation in Ethiopia. ESSP-2 Monograph 1. International Food Policy Research Institute.