

# **Transforming Ethiopia's Economy for Sustainable Development**

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## **1. Introduction**

This article discusses Ethiopia's economic transformation, which includes the transition from traditional agriculture to modernized agriculture, industrialization, services, and finally a knowledge-based economy. The focus on modernized agriculture aims to improve productivity, food security, and farmers' incomes through advanced practices, technologies, and research. The government actively solicits investment in sectors such as manufacturing, textiles, and agricultural processing through policies and initiatives such as industrial parks and special economic zones. Industrialization aims to increase production capacity, exports, and technological progress. The development of a dynamic service sector, including finance, telecommunications, tourism, logistics, and IT, is encouraged through an improved business environment and private sector engagement. Education, research, innovation, and technology are also emphasized to promote a knowledge-based economy, with investment in quality education, vocational training, and research facilities to stimulate entrepreneurship and attract a skilled workforce for economic transformation (FDRE, 2021).

From an Ethiopian perspective, the main tasks for industrialization, the service sector, and the transition to a knowledge-based economy are to establish industrial parks, diversify manufacturing, increase productivity, support export-oriented industries, strengthen the financial sector, develop tourism and hospitality, expand ICT infrastructure, improve logistics and transportation, invest in education and research, promote innovation and entrepreneurship, encourage technology transfer, and strengthen intellectual property rights protection. These tasks aim to boost economic growth, create jobs, increase competitiveness, and improve the standard of living of Ethiopian citizens (Nam, 2022).

While structural transformation involves a shift in production from lower to higher productivity sectors, Ethiopia faces challenges related to political stability, international partnerships, financing, technology, and human capital, and a tailored approach is needed to address these challenges and create a diversified and resilient economy that can generate sustainable and inclusive growth and

reduce poverty and inequality (FDRE, 2021). The following sections discuss the state of the Ethiopian economy, the challenges of transformation for sustainable development, and the way forward.

## **2. Ethiopia's National Condition and Its Economy**

Ethiopian agriculture plays an important role in the country's economy and contributes a significant share to GDP. In 2020, it accounted for 40% of the country's economic output. The sector also employs a large share of the labor force, with 75% of the labor force working in agriculture. Agricultural exports are critical to Ethiopia, accounting for 80% of the country's total exports. Livestock is particularly important within the agricultural sector, accounting for over 26% of the value of annual crop production. Ethiopia has an abundant livestock population and ranks first in Africa and fifth in the world in terms of livestock numbers.

Ethiopia aims to achieve prosperity by 2030 through a 10-year plan with strategic pillars focused on sectors such as agriculture, manufacturing, mining, tourism, energy, transport, and human capital development. The plan is in line with Agenda 2063 and the 2030 Agenda for Sustainable Development. The government has implemented economic reforms, participated in voluntary national reviews, and established monitoring and evaluation systems. Nevertheless, criticism has been leveled at the Ten-Year Plan. To achieve sustainable economic development, Ethiopia must prioritize industrialization, the service sector, and a knowledge-based economy. This requires a combination of strategies, including agricultural and industrial development, policy reforms, institutional changes, and infrastructure projects to attract private investment and create new economic opportunities (FDRE, 2021).

## **3. Challenges In Ethiopia's Economic Transformation**

To address global crises such as the pandemic, economic downturn, and inequality, Ethiopia must adopt innovative approaches to address related challenges to its economy. These include reducing dependence on imports and promoting local industries to produce goods for domestic consumption, creating employment opportunities for youth, addressing budget deficits, and stabilizing debt and political conditions. The country must cover its large budget primarily from domestic sources rather than relying heavily on foreign funding. Ethiopia's ongoing economic transformation process requires attention to several areas for sustainable development, including ensuring political

stability, developing human capital, improving infrastructure, facilitating access to finance, promoting technology and innovation, and improving the investment climate. Addressing these issues is key to achieving long-term economic growth(Nam, 2022).

Economic innovation in Ethiopia involves various sectors and tasks that contribute to economic development. In agriculture, it involves the introduction of advanced farming methods and the development of value-added agricultural products. In manufacturing, innovation is seen in automation and advanced technologies to improve efficiency and product quality. The service sector benefits from digital technologies and e-commerce, while innovation in tourism focuses on unique and sustainable experiences. Infrastructure innovation includes renewable energy projects, smart city technologies, and digital connectivity. Financial services innovation includes fintech and digital payment platforms. Support for entrepreneurship and startups is critical for economic diversification and job creation. Investing in research and development activities in all sectors promotes innovation and technological progress (World Bank Ethiopia, 2022).

Political stability is critical to economic growth and attracting investment in Ethiopia. The country needs to address recent political challenges and social unrest to promote stability and boost investor confidence. Besides, developing a skilled workforce through improved education and training is essential for sustainable economic development. Investment in infrastructure, including transportation, energy, and digital connectivity, is necessary to support economic growth and attract investment. Access to finance should be improved, including the availability of credit for small and medium-sized enterprises (SMEs) and the introduction of alternative financing mechanisms. Promoting technology and innovation through research and development, technology transfer, and fostering an entrepreneurial environment are critical to maintaining competitiveness. Creating a favorable investment climate requires streamlined regulations, transparency, protection of property rights, and adherence to the rule of law. A comprehensive approach involving cooperation between the government, the private sector, and international partners is necessary. Addressing these issues can provide the foundation for sustainable economic development, job creation, poverty reduction, and improved living standards in Ethiopia. It is worth noting that the recent war in the Tigray and Amhara regions has affected the competitiveness of the manufacturing sector in Ethiopia(World Economic Forum, 2022).

The country also needs to focus primarily on educating a skilled workforce. The number of public universities in Ethiopia has increased dramatically from only two 25 years ago to 51 today. The number of private higher education institutions has increased from zero to over 325. The number of vocational training institutions is also increasing, and currently, there are about 631 public and over 800 private vocational training institutions. These institutions produce over 150,000 graduates each year and provide the labor market with various skills and disciplines. However, the quality of these graduates is problematic. Graduates also face various challenges in transitioning from education to work, resulting in long-term unemployment, full unemployment, or underemployment, which in turn create various economic, social, and political problems (Agezew, et.al.2022).

Ethiopia's population is expected to exceed 200 million by the end of 2049, increasing demand for food, and the conversion of significant forest land to agricultural land is imminent unless alternative measures are taken. Between 2001 and 2019 alone, Ethiopia lost 410,000 hectares of forest land, and the area under cereal crops increased from 7.2 million hectares in 2000 to 10.2 million hectares in 2016. The demand for agricultural commodities will inevitably increase by 70 to 100 percent by 2050 (Agezew, et.al.2022).

Another point is that Ethiopia's problem is also related to the global problem that the country cannot solve alone. Since the 1980s, all countries in the world have faced a steady increase in annual temperatures. This trend will most likely continue unless immediate action is taken. It is the poorest who suffer the most. Climate change, caused by greenhouse gas emissions, is having serious economic consequences today. Our current level of emissions suggests even greater challenges ahead. Climate change is expected to significantly affect agricultural productivity in the short and long term and lead to food insecurity. It increases public health risks and costs. The need of the hour is to urgently and significantly reduce CO<sub>2</sub> and greenhouse gas emissions from economic activities. The question is whether Ethiopia can afford to invest in low-carbon technologies (Nam, 2022).

The ongoing wave of technological change is transforming labor markets and society as a whole. While digital technologies have the potential to be a great equalizer by improving connectivity, financial inclusion, and access to public services, they also bring significant challenges. Rapid digitization is exacerbating many inequalities and creating a digital divide between developed and

developing countries, as well as within countries, which is a recurring challenge for development. Technological advances have led to job losses in the past, and digitization is transforming industries, business models, jobs, and the way people live and work (Nam, 2022).

The World Economic Forum projects that 85 million jobs could be lost globally by 2025 due to a shift in the division of labor between humans and machines, while 97 million new jobs could be created. Similar shifts will occur in the global transition to greener technologies. The International Labor Organization (ILO) estimates that the transition to a greener economy could create 24 million new jobs worldwide by 2030, through the adoption of sustainable practices in the energy sector, the use of electric vehicles, and greater energy efficiency in existing and future buildings (World Economic Forum, 2022).

In all economies where high growth rates are achieved and sustained, the adoption of knowledge and technology from the rest of the world is a critical factor. The adoption, extension, and adaptation of technologies are the basis for the development of new and more sustainable sources of growth. The development and diffusion of high-technology areas such as biotechnology and cyber technology have opened new avenues for growth. However, given the limited resources and high capital costs associated with these technologies, they can be risky avenues for Ethiopia's development because they require expertise and are highly competitive internationally. Innovation can also take place in other sectors with low technology standards and low value-added, such as basic services, agriculture, and mining. However, Ethiopia's innovation opportunities in low-tech sectors with high export opportunities are still in the early stages (World Economic Forum, 2022).

Access to quality education and training, particularly in science, technology, engineering, and mathematics (STEM), which can build a strong pool of human capital and increase innovation capacity, is weak in Ethiopia. Many problems in developing entrepreneurship and small businesses can help drive innovation and create new economic opportunities in Ethiopia's economies. In addition, Ethiopia is still short on policy interventions that address financial inclusion, access to credit, especially microcredit, and promoting the ease of doing business through regulatory and tax relief (World Economic Forum, 2022).

#### 4. Solutions

Resource management, macroeconomic stability, and political stability are critical to the sustainable transformation of the Ethiopian economy. Efficient resource allocation and sustainable agricultural practices help conserve natural resources and ensure long-term food security. The development of renewable energy sources reduces dependence on fossil fuels and promotes clean energy production. Macroeconomic stability is achieved through fiscal discipline, effective monetary policy, and stable exchange rates, which promote investor confidence, savings, and investment. Political stability attracts investment, enables consistent policy implementation, and promotes social cohesion and inclusion. Together, these factors create a favorable environment for sustainable economic development, leading to long-term growth, poverty reduction, job creation, and improved living standards(Yigezu, 2021).

Ethiopia's resources must be managed for future generations. Achieving sustainable development requires a comprehensive and integrated approach that addresses economic, social, political, and environmental challenges. Collaboration between the government, civil society, the private sector, and international partners is critical to creating a sustainable and prosperous future for the country. Ethiopia is on the path to industrialization, but technological change can lead to deindustrialization of employment, especially in routine manufacturing jobs that are vulnerable to automation. Therefore, government support to improve skills and transition opportunities for the workforce into different sectors remains critical for a robust and thriving economy in the future. Government support is essential for the sustainable transformation of the Ethiopian economy. This can be achieved through a clear vision and favorable laws that promote sustainable development. The government can attract investment by providing incentives and supporting small and medium enterprises, while infrastructure development improves connectivity and access to basic services. Investments in education, health care, and social protection promote human capital development and encourage public-private partnerships to jump-start resources and innovation. Finally, implementing sustainable environmental practices and addressing the impacts of climate change contribute to long-term sustainability. By implementing these strategies, the government can facilitate the transformation of the Ethiopian economy toward sustainable development(World Bank Ethiopia, 2022).

Achieving macroeconomic stability is critical to Ethiopia's economic development, but the country faces price, exchange rate, interest rate, and fiscal volatility that can impede economic progress.

To achieve a more sustainable fiscal position, policymakers need to take steps to minimize the negative short-term effects of fiscal consolidation on economic activity, such as securing key poverty reduction expenditures, implementing growth-enhancing expenditures, and implementing tax reforms that encourage investment and revenue mobilization. Achieving macroeconomic stability requires a balanced approach that takes into account economic, social, and environmental sustainability, and policymakers must consider a range of factors to ensure that their policies promote long-term growth and development. The government should also work to build reserves consistent with domestic economic growth and poverty reduction (FDRE, 2021).

Finally, economic policy is inherently political. Any economic policy requires an understanding of *political economy*- the interconnectedness of politics and economics and the underlying power structures that determine their interactions. In most cases, especially in developing countries, economic elites often assume the mantle of political elites because they have the material resources and influence over their constituencies through pre-existing patronage systems to gain access to legislative institutions. Whether political influence perpetuates existing power constellations or creates substantial broad-based prosperity depends on how it is exercised within a country's institutional framework. Institutions determine and are determined by configurations of power (World Economic Forum, 2022).

## **5. Recommendations**

Political reform and good governance are critical drivers of sustainable economic development in Ethiopia. Government plays a critical role in promoting economic growth and development, and the development of robust and responsive institutions is essential for sustainable growth. Institutional reforms should be rooted in Ethiopia's local context and responsive to local needs and priorities. By empowering citizens to participate in the political process and holding those responsible accountable, Ethiopia can create a more inclusive and participatory political environment that fosters economic growth and development. Overall, addressing the challenges facing the Ethiopian economy requires a comprehensive approach that addresses political, institutional, and governance issues in addition to economic challenges. Governance is the exercise of authority and control over a country's resources and decision-making by a single government entity.

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