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Poverty to Progress and Distress to Viability: Breakthroughs in Ethiopia

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Abstract
Good News in Africa was uncommon. But Ethiopia is harvesting it in the current century in Economic progress, Fiscal viability and Stability among others. The purpose of this study is to assess economic progress and External Public debt in Ethiopia during the recent three planning periods: Sustainable Development and Poverty Reduction program (SDPRP) Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and the Growth and Transformation Plan (GTP) periods which covers decade of 2003-2013. To this end, secondary data on public debt and other relevant macroeconomic issues of the decade under study were collected, adjusted and collated. Economic progress indicators such as GDP, percapita income, poverty level, unemployment, income inequality and Debt indicators such as Liquidity Monitoring Ratios, Debt Burden Ratio, Present Value Indicators, Debt Structure Indicators, Dynamic Indicators and Fiscal Indicators were collected/ computed and analyzed to measure economic progress and the debt service capacity of the country. The result from descriptive analysis of secondary data over the last 10 years showed that: The country registered uninterrupted and historic economic growth with an average rate of 10.9 percent during the decade. The rate of investment grew to 33 percent. Domestic saving rose to 17.7. Import shares about 28 percent of GDP and per-capita GDP grew to 550 USD, un employment reduced to 17.5, poverty level came down to 26 percent and income in equality to 29 percent. The growth in debt accumulation and debt service cost did not compromise economic growth, equity, employment and poverty reduction. The country's debt utilization and management capacity significantly increased. External Public debt of Ethiopia is well managed. There is no alarm of debt distress, no significant manifestation of debt crises risk as it has track record in economic growth history and favorable growth potential along with not high present value of external debts outstanding. The 1990's debt problems are not issue of worry now. The potential of the country to mobilize external debt finances at international level is improved. The country was rated as B and B+ by leading international raters for its credit worthiness. More over the country stayed as an island of stability in very unstable neighborhoods. In the other side, researches about private sector development and policy advise papers show absence of easy access, unavailability and unafordability of finance for private sector and weakness of institutional and policy environment. In this paper, the national policy makers and implementers are advised to work on institutions and infrastructures required to make easy access of finance for private sector and optimum use of debt finance, reducing bureaucracy, complex regulations and improving transparency to attract and retain foreign finance and reduce primary deficit and growth in current expenditure, raise efficiency of borrowing, reforms in debt management to sustain viability and look for non commercial and concessional external borrowings for present an next GTP financing.
Keywords: Public External Debt, Economic growth, Debt distress, Fiscal Viability.

Introduction

Borrowing is an important source of development finance. Researchers have examined a number of reasons why governments borrow from internal and external sources. The reasons include: to meet budget deficit, to maintain economic stability, to finance development plan, to finance wars, to allocate resources, to create social overheads, to finance public enterprises. **(Source).** To countries with limited taxable capacity, worried about macroeconomic stability and having the will to economize, debt finance becomes Hobson's choice.

The role and effect of public debt has been a matter of controversy among economists in the literature of public finance. Recently, economists and policy makers have changed their mind from the debate of whether external debt is important to the growth and transformation of a country to how much is needed in keeping fiscal viability. An important role of public debt in developing country is economic growth by pushing an economy in state of rest and catalyzing economic processes. The negative effects include the debt overhang effect, uncertainty and the liquidity constraints which affect the confidence of both loan providers and recipients about the repayment of loan together with its services and future resource inflows. In almost all of its history, Ethiopia has not been able to raise its own adequate domestic financial resources to finance its development planes. The country has been suffering from the problems of resource gap and forced to rely on external debt finance.

Ethiopia has been known to the world in two white and black faces. The former was related to its un-colonization, early civilization, large productive population, untapped natural resources and 13 months of sun shine while the latter was due to its poverty, famine, drought, war, inequality and lack of economic, social and political progress, debt distress and the likes among others. Two decades ago, the country was below threshold in almost all African development indicators. Income inequality was wider. One third of population lives under poverty line and GDP was very small (10.5b in 1991) and the changes in GDP were below 5 percent. Unemployment was more than 26.1 percent. It was a highly indebted poor country with fragile micro economic condition and big debt overhang problem when the present government comes to power in 1991. Nihal Kappagoda,(2004)

Recently, this unique old Sub Saharan African country has shown its will and commitment to sustainable growth and development in its legal frame works including constitution and now harvesting the fruits of its political, economic and administrative will and commitments. A number of macro-economic reforms were undertaken to recover and establish stable micro economic environment, resume growth and to put the country at the right side of debt distress problem. Due to this, this least developed country walked up on the ladder of growth and was ranked as the third fastest growing economy in the world next to china and India in2011 and as the first of the five fast growing countries in Africa in 2014(World economic Forum 2011,2014).

This paper examines the journey of Ethiopia in debt and growth path and its transition from poverty to progress and distress to viability and to identify risk factors that may hinder Ethiopia from maintaining the sustainability of its future debt and growth path. The term economic growth and economic development are conventionally used to describe a long term cumulative process of economic change involving the progressive development of the productive base of the economy and leading to self sustaining, increasingly higher levels of economic activity Gerald M and Robert E. (1957). . This study examines economic performance of Ethiopia within the last one decade. So the synonymity of growth and development does not work and the analysis is done in the sense of economic growth by comparing the economic performance (growth) of the country and its effect on employment creation, poverty reduction and equity aspects within and before the study period.

Debt viability analysis of Ethiopia was conducted in reference to the initiative and frameworks set by the World Bank to identify countries under actual or potential debt distress for IDA grant eligibility. The World Bank has used Highly indebted poor country (HIPC) imitative concerned with debt overhang problem poor countries resulting from their past borrowing using single debt service ratio as an indicator and Debt Sustainability framework (DSF) which focuses on future indebtedness by measuring the public and publically guaranteed loans as proportion of the size of economy and export in addition to the strength and weakness of the country in policy and institutional environment. The World Bank allocates funds for low income countries based on need and performance. Countries performance is measured using CPIA organized into four major categories related to (Economic management, Structural policies, policies for social inclusion and equality and public sector management and institution) including about twenty elements associated to the major category. Based on the country policy and institutional assessment (CPIA), Ethiopia was classified as medium performer. The threshold for medium performer is as follows. Debt to export: 150, Debt to GDP: 40, Debt to Revenue: 250, Debt Service to Export :20,Debt Service to Revenue 30,Present Value(PV)of Debt to Export and Remittance: 135, Debt Service to Export and Remittance:18,Debt to GDP and Remittance:36

Literature

Andrew B.Abel (2001) defined Public debt as the total value of government loan that are outstanding at any particular time. It includes internal and external public debt. External debt (or foreign debt) is that part of the total debt in a country that is owed to creditors outside the country. The debtors can be the government, corporations or private households. The debt includes money owed to private commercial banks, other governments, or international financial institutions such as the IMF and the World Bank. In the Ethiopian context public debt mainly includes: The Central government external debt, loan contracted b/n foreign creditors and MoFED:

> *the Government guaranteed external debt that comprises loan and suppliers credit contracted by State Owned Enterprises(SOE): (Ethiopian Electric Power Corporation (EEPCO), Ethiopian Sugar Corporation,(ESC) Ethiopian Railway Corporation, (ERC) ,Ethiopian shipping lines (ESL) granted by MoFED and state owned Commercial Bank of Ethiopia(CBE) .the Non-Government guaranteed external debt that Contains loans contracted by SOE especially Ethiopian Air Lines and Ethiopian Telecommunication Corporation (EAL and ETC) the internal debt which include the debt of the national government raised through direct bank advances, Treasury Bill and Bonds. (MoFED, 2013)*

The concept of external debt as such was condemned earlier by classical economists like Hume and Adam Smith who considered that it would compel the government to tax the public and hence lead to disequilibrium in the economic system. Later the Great Depression of 1929 brought about a marked change in economic thinking of which J.M. Keynes was the pioneer. It was felt that external debt would raise the national income, lead to effective demand in the economy, and increase employment and output. Hence it was after the Second World War that external debts came to occupy a prominent place in the budgets of governments.

Modern fiscal policy endorses unbalanced government budgets for purposes of stimulating economic growth and stabilizing the economy, its application leading to a growing external debt. Growth of external debt has been quite substantial in almost all developing economies in recent years**.** According to Rostow (1960) external debt will act as a catalyst to capital formation in developing nations especially at the second stage of development i.e. preparation for takeoff.

There is another side(negative role) to the external debt in economic development. If externally held debt is incurred in reckless spending it would obviously result in a burden. The payment of interest and principal require the transfer of a portion of real output to other nations. Excessive external borrowings as well as their irrational deployments can become obstacles to economic development, if borrowed resources are not properly utilized. One burden of external debt is extra taxes have to be imposed to finance the interest payments. These taxes lead to some loss of real output because of their distorting and disincentive effects. It does contribute to the negative effects of the tax system. Thus dead weight loss is borne year after year as the interest payments continue to be met.

As the debt financing of public spending leads to the decline in investment, there would be another unambiguous loss of output. Future generation would inherit a small stock of capital, an economy with a smaller capacity to produce, hence a smaller output. Debt financing also reduces private investment. Further, the higher taxes to cover the interest must have some negative influence on investment. Finally, the existence of large debt may have psychological influence on business behavior. If people really get alarmed over the national debt, the loss of confidence may curtail their investment. The significance of this psychological factor is difficult to evaluate. The average citizen fears the debt mainly as a source of inflation. The debt represents past outlays that were not matched by taxes, hence it measures past government claims to resources that it could not pay for. If government engages in debt financing when the economy is already at full employment, existence of a large public debt tends to shift the consumption schedule upward. This shift will be inflationary.

There are a number of empirical studies in the literature of public finance dealing with the nexus of external debt and economic performance. Studies in Africa show that Africa's foreign debt to GDP is the highest in the world. Some of them use about fifty percent of their export earnings. Their earning potential to serve the increasing debt accumulation is limited. (Iyoha, 1999, cited in Mohamed and Demelash, 2010), Sachs (2002), Adepoju etal. (2007), (Hunt, 2007), Khan, 2000). Ubokudom,Ogunmuyiwa,(2011), Qiu,(2010). Mohamed and Demelash(2010) have critically examined the role and effects of public debt using time series macro economic data and fitting it into the regression equation using various econometric techniques and come up with scientific conclusions. Adepoju et al. (2007) note that developing countries are characterized by inadequate internal capital formation due to the vicious circle of low productivity, low income, and low savings. Therefore, this situation calls for technical, managerial, and financial support from international financial institutions and richer countries to bridge the resource gap.

Colaco (1985) explains debt service vulnerability in developing countries using three contexts. First, the size of external loans has reached a level that is much larger than equity finance, resulting in an imbalance between debt and equity. Secondly, the proportion of debt at floating interest rates has risen dramatically, so borrowers are hit directly when interest rates rise. Thirdly, maturities have shortened considerably in large part because of the declining share of official flows. The analysis by Amoateng andAmoaku (1996) on 35 countries for the period between 1970-1990 using granger causality tests declared that there is positive unidirectional relationship between external debt service and GDP excluding remittances.

Materials, Method and Variables

Substantial data to accomplish this research work has been sourced out of statistical bulletins, economic reports, press release reports and the likes of the National Bank, Ministry of Finance and Economic Development and Central Statistical Authority of the Federal Government of Ethiopia and reports of IMF and WB joint Debt sustainability analysis of Ethiopia. Descriptive method of research is employed to describe a situation, problem and phenomenon of the country in question systematically.

Description of Variables

EPPGDOSC:	*The central government and central government guaranteed external debt Outstanding at the end of every Ethiopian fiscal year.*
EPPGDS:	*Principal, interest and other payments related to central government Guaranteed External debt*
EPPGDDIS:	*The amount that has been disbursed from public and publically guaranteed loan Commitment*
EPPGDEXR:	*The ratio of disbursed debt outstanding EPPGD to export which measures the ability of the country to pay its debt in a single year from its export earnings.*
EPPGDGDPR:	*The ratio that compares the amount of disbursed debt outstanding to the Size of economy.*
EPPGDRR:	*The central government and central government guaranteed external debt to government Revenue*
EPPGDSEXR:	*The ratio of The central government and central government guaranteed external debt service to export of goods and service that are absorbed for debt service payment.*
EPPGDSRR:	*The ratio of the central government and central government guaranteed external debt service to export of goods and service that are absorbed for debt service payment.*
PVEPPGDEXRR:	*The present value of the central government and central government guaranteed external debt to government Revenue*
PVEPPGDGDPR:	*The present value of the ratio that compares the amount of disbursed debt outstanding to the size of economy*

Data, Discussion And Result

Ethiopian Economic Performance (2003-2013)

1. **Economic growth:** Ethiopia, an old and poor African country is harvesting good news in the horn of Africa. The countries will and commitment to grow and develop to assist the nation's competitiveness shown in five year plans enabled the country to achieve what it has not able to do in centuries. A lot of state financed huge development projects with long gestation period like rail ways, sugar mill, fertilizer factories, mega power dams, public housing and mobile network expansions are going on. During the recent three planning periods, the national economy was inching towards double digit growth. During the last decade, Ethiopian economy has grown by an average of 10.9 percent which is twice the African average growth .In the same period, an average growth rate of the world, Africa, India and china were 3.88, 5.7, 8.18 and 10.5 respectively. The country has shown sustained growth even during 2008 by recording 10.1 percent growth when the world and developed countries economies decreased by 0.6 and 3.6 respectively. Economic growth during the first decade of the present government (1991-2002) was about5.5 percent and it was only 1.7 percent for the entire Derg regime (1974-1991). The present day economic growth of Ethiopia is about double of the preceding decade and about 700 percent of the replaced government.
2. **GDP and per-capita Income**. Due to the strong efforts exerted by the government there was a tremendous increase in national outputs. Agriculture which is a source of growth in Ethiopia, improved its output to 235 million tons in 2012 from 62 million tons in 1991 which is more than 270 percent increase. 10 percent of which is accounted for within the present decade. Exports of the country jumped to 3.1 billion USD in 2012 from 276.4 million in 1991 and 601.8 million in 1998.(MoFED). Due to this and other factors, Real per-Capita income has grown by 9.8 percent between 2004 -2012. It was (1.0) during 1974-1991 and 2.6 between 1992 and 2003.
3. **Economic growth and Poverty:** Ethiopia's economic progress reduced urban and rural poverty in Ethiopia. About 45percent of people lived under poverty line in Ethiopia in1995. It was reduced to 29.6 in 2010 and come down to 26 percent in 2012. A report by (AUC, ECA, ADB and UNDP, 2012:1) also witnessed Ethiopia's fast growing economy which reduced poverty when the situation is not true for most African Countries. (AUC, ECA, ADB and UNDP, 2012:2) also confirmed and projected that Ethiopia is left with only 7 percent and to achieve its millennium development goal in 2014.
4. **Economic growth and inequality:** Equity matters. Fair distribution of the national output among people is essential. Even though it is difficult for developing countries to distribute what the economy has produced among the people without compromising reinvesting. Ethiopia has tried to do so. Ethiopia's income inequality as measured by Ginny coefficient which ranges between 0-1 is less than most nations in the world. It was 0.29 in 1997 and remained the same 29.98 in 2011. It did not increase proportional to economic growth.

5. **Economic growth and unemployment:** Any equitable economic growth is expected to bring employment or reduces unemployment. In Ethiopia, unemployment was a serious agenda for urban dwellers. In2002, more than 26 percent of Ethiopia's urban dwellers had no jobs or were under employed. It has shown significant improvement and was reduced to 23, 20.4, and 19.18 1nd 17.5 during the years (2003, 2008, 2009, 2010 and 2012 respectively.) During the last 10 years urban poverty in Ethiopia was reduced by 8.7 percent.

Economic growth and External Public Debt

The external debt of Ethiopia refers to the liability of Ethiopian government, public sector, private sector and financial institutions to foreign parties. External debt can be broadly divided into two groups. Long term bond: a Multilateral, Bilateral or IMF, W.B etc borrowing with maturity of more than one year and Short term debt which is a debt payable within one year period of time. The overall external debt of Ethiopia, comprises government and none government debt. The government debt is owed by government authorities both at federal and regional government where as non government debt is owed by private parties in Ethiopia. Government debt also classified as Central Government debt, government granted and non-granted. The non- granted debt comprises debts of Ethiopian Airlines and Ethiopian Telecommunication Corporation. None government granted debts of EAL and ETC are excluded from Ethiopia's external debt analysis because of their managerial independence, term of borrowing(commercial terms) ,profit motive and external reporting of audited financial statement.

During recent years public debt of Ethiopia has been growing at high rate. The underdeveloped nature of the economy and institutional credit deficiencies make the financing of economic development a complex problem. Hence the government has to play a key role in stimulating the rate of capital formation and in promoting the economic development of the country. Therefore public borrowing can be used by the state as a means of mobilizing financial resources.

The following tables shows the composition of Government and and Government Guaranteed public debt of the federal government of Ethiopia and debt indicator ratios for the period of 2003/4-2012/13

Table 1: External Public Debt of Ethiopia and its Ratios (2003/4-2012/3)

Year	PSED	PPGED	Disburs	Deb ser	Deb.rel	Gra.ele	EPPG/ GDPR	EPPGDS/ EXR	EPPGD/RR	EPPGD /EXR	PVEPD/ GDP	PVEXD EX	PVEXD/ RR	EDS/EXR
2003/4	7,317.84	7,096.02	551.7	99.37	94.69	59.68	0.813353	0.063646	0.074191	5.30026				
2004/5	5,917.04	5,598.14	497.98	108.67	1,837.39	56.8	0.564984	0.040868	0.062765	3.06683				
2005/6	5,998.53	5,676.27	423.16	108.26	339.16	36.92	5.123189	0.028657	0.442912	3.00789				
2006/7	2,314.56	2,033.09	357.79	99.38	4,090.40	60.96	1.655603	0.021891	0.377036	1.0753				
2007/8	2,766.15	2,521.40	394.1	88.67	43.85	56.52	1.842214	0.018174	0.332654	1.20814				
2008/9	4,352.16	3,365.43	1,750.20	77.16	18.69	73.74	2.219443	0.020309	0.264351	0.06969	9.1	80.9	65.4	1.3
2009/10	5,633.26	4,357.63	1,564.49	111.28	11.64	41.8	2.641283	0.031365	0.432939	2.01978	12.5	119.1	98.1	3.6
2010/11	7,807.60	5,765.29	2,081.47	241.88	9.12	40.99	3.178634	0.049312	0.542422	2.66473	17	132.7	122.5	5.7
2011/12	8,888.65	6,777.42	1,650.40	412.07	17.63	32.97	3.482474	0.069692	0.725844	3.05085	18.3	129	122.4	7.7
2012/13	11,117.22	8,517.38	2,679.15	550.59	9.5	38.94					18.7	124	118.5	7.7

Source MoFED and Own computation

1. **Debt Outstanding**: External Public debt of Ethiopia is very small. With the size of its economy, Ethiopia is yet to reach its debt ceiling. It did not show substantial raise as the national economy did so in recent decade During PASDEP, it has shown a decreasing trend. Total public sector external debt outstanding reduced to 4,352.16 million USD in June2008 from 7, 317.84 million USD in June 2003. During the same planning period, Public and Publically Granted External debt outstanding were reduced to 3,365.43 million USD in 2008 from 7,096.02 million USD in June 203. During the present five year planning (GTP) , due to massive public sector investments in mega projects, External debt of the country is increasing at an increasing rate. Total public sector external debt and Public and publically granted external debt reached to 11,117.22 and 8,517.38 Million USD respectively in June 2013 from 5,633.26 and 4,357.63 In June2010 which is more than 95 percent increase in both cases.
2. **Commitment and Disbursement:** The countries credit worthiness and paying capacity has been improved continuously. The country remained as an island of stability in very unstable neighborhood (Eritrean, Somalia and Sudan), increased its export in value, volume and destination, silent for international financial crisis and recorded an average of 10.9 percent annual economic growth for decade, rated as B+ and B by globally known raters (Moody's Fitch and P and S) for its credit worthiness, shown political will and commitment to grow even by its own resource at the wrest case and many other efforts , external financial assistance commitment and flow to the country is improved during the study period. Due to this, as it can be seen from the table annexed, new external public debt commitments and disbursements has shown significant increase for the decade as a whole and an exceptional growth during the recent five year (GTP). During the decade a total of 18800.91 million USD loan commitments was signed and about 11950.44million USD were disbursed. Of this total over 86 and 81 percents respectively were signed and disbursed in the recent five year.
3. **Debt Relief:** Optimum use of available debt relief possibilities is an important element of sound debt

management Ethiopia reached Highly Indebted Poor Countries (HIPC) completion point in 2004 and benefited from Multilateral Debt Relief Imitative (MDRI) in 2006. It has received significant amount of debt relief from most of its commercial and non commercial lenders. It has received about 6472.07Million USD from its Multilateral and Bilateral creditors during the last ten years. Ethiopia has enjoyed substantial debt relief, about 98.3% from World Bank, International Monitory Fund, and African Development Fund during 2006/7 due to HIPC and MDRI. In 2005/6 IMF has cancelled about 164.8 USD under HIPC and MDRI. The debt has come down to 2,324.8 million and become sustainable. Public and Publically Granted External public debt was reduced by five percent of GDP in 2006 from 23.4 percent in 2005 to 18.4 in 2006. Debt relief negotiation for 540.4 Million USD which accounts about ten percent of debt outstanding in 2009/10 is going on with some bilateral official creditors and Russia and some of it is advancing in good direction.

4. **Debt Service:** Debt service refers to withdrawal of resources from a country due to payment of principal, interest and other payments related to debt management. A country is forced to export goods and services in amount to debt service without importing any or go for another new loan to service its existing external debt. If it is too huge, it can consume the substantial portion of exports and affects the countries capacity of import financing. So it should be with in moderate range. Ethiopia's debt service payment has shown an increasing trend during the last ten years in general and during GTP (as of late 2010) in particular. About 28140.73 million USD were spent as debt service in last decade. 22,859.31Million USD which accounts over 81 percent is disbursed as debt service during GTP.
5. **Concessionality:** Concessional loans are loans that are extended on terms substantially more generous than market loans. Concessional external debt conveys information about the borrower's receipt of aid from official lenders at concessional terms. Concessional debt refers to loans with an original grant element of 25 percent or more. The grant element of a loan is the grant equivalent expressed as a percentage of the amount committed. It is used as a measure of the overall cost of borrowing. The grant equivalent of a loan is its commitment (present) value, less the discounted present value of its contractual debt service; conventionally, future service payments are discounted at 10 percent. Loans from major regional development banks--African Development Bank, Asian Development Bank, and the Inter-American Development Bank--and from the World Bank are classified as concessional. About fifty percent of the total debt committed to Ethiopia during the last ten year was in concessional terms. The highest concessional loan with grant element of73.74 percent was committed in 2008/9 and the lowest with grant element of 36.92 was committed in 2005/6.
6. **Present values:** the present value of PPG external debt of Ethiopia is continued to increase to 14.4percent of GDP at the end of 2013/14 fiscal year and expected to rise to 19 percent of GDP in 2017/18. Even though it has showed increase and expected to increase, it was not beyond sustainability range and expected to be within the sustainability range. Two offsetting events that increase and decrease external public debt to GDP ratios are forecasted for the next five years. PPG external debt will raise due to the ambitious growth and Transformation Plan (GTP) which planned huge public sector investments to be financed from external debt sources and also the enhanced capacity of the country to raise loan at international level due to internationally recognized rating of B and B+ for its credit worthiness which will increase PV.of PPG external debt. On the other side GDP of the country is expected to grow due to the favorable economic conditions, the resilience of the economy to international distress and will and commitment of the government to economize. Therefore an increase in PPG external debt will be offset by an increase in GDP keeping PV of PPG/GDP with in sustainable limit. The debt to GDP ratio has reached about 348 percent in 2011/12 and continued to grow. According to the information obtained from Ethiopian Ministry of Finance and Economic development (MoFED), Ethiopia's external debt grown by over 95 percent during the last ten years .The main reason for increasing public debt in Ethiopia was the requirement of resources for financing the mega development projects and programs as both tax and nontax revenues were totally in adequate to finance the government expenditure. The external debt increased significantly during the five year growth and transformation plan (2011 to present) as it was utilized for import payments. Public and Publically Guaranteed External debt to exports of goods and services in Ethiopia was over 300 percent in 2011. Its highest value over the past 10 years was 530 percent in 2003/4, while its lowest value was 6.5percent in 2008/9. Public and Publically Guaranteed External debt as percentage of GDP was 348 percent in Ethiopia 21 as of 2011. Its highest value over the decade under study was 512 percent seen in 2005/6 while its lowest value was 0.56percent shown in 2004/5. In 2011/12 EPPGDRR reached to its maximum level of 72 percent of GDP over ten recent years. The minimum ratio was 6.27 percent shown in 2004/5.
7. **Management of public debt:** The growth of public debt puts burden on the citizens of the country. The burden of public debt adversely affects the growth and development of the economy. Therefore there is a need for efficiently manage public debt. Management of the public debt involves repayment of public debt, controlling the amount of borrowing, and the productive use of borrowed fund for development. In Ethiopia Public debt is well managed. The use of remittances from Ethiopian Diaspora throughout the world as an

important source of debt service payment significant improvement in Ethiopian export earnings, the countries efficiency in utilizing soft term loans and the resilience of the country economy to international financial crisis has helped the countries debt distress vulnerability to come down from moderate to low risk. There is no significant risk of debt un viability. Debt viability refers to the capacity of a country to service all its borrowings from any sources in any form and term without curtailing its long-term development aims and purposes. Countries use various debt indicators and levels to estimate sustainable levels of borrowing.

8. **Productivity of public debt**: Productivity of public debt is measured by the use of borrowed money for creation of productive assets. Ethiopia has relayed on debt sources to finance its huge state financed projects like :Road construction, Education, Health ,Mobile net work expansion, , Rail way, Erection of sugar miles, Fertilizer factories, Acquiring vessels, Creating whole sale companies, Mega power dams, Public housing and likes which are designed to enhance the nation's economic competitiveness under its Five year planes.
9. **Debt and Road:** Standard road net work availability is an essential infrastructure to make and sustain economic growth, product competitiveness, develop private sector and enhance the well being of nations among others. In Ethiopia, road transport is a leading type of transport which accounts more than 90 percent of goods and traveler transports. In Ethiopia, the road net works (asphalt, gravel, federal rural or community/woreda) are at premature stage. There are a lot of woredas and zones without a single km. asphalt road. According to Ethiopian Roads Authority (ERA), Ethiopia demands about 200,000 K.M roads to provide faire access to its people. In 2011/12, the total stock of federal rural and woreda roads network reached 63,083 km. Out of which asphalt accounts less than half. Construction of road is very costly and cannot be financed from the domestic capital. It is advisable to developing country to make huge investments in infrastructures by borrowed fund. To this end Ethiopian government has assigned substantial borrowed money from external and domestic sources to finance the federal, rural and urban roads during the last five year planning periods? Total of 96.5 billion borrowed birr was invested in this sector since 2004-2011. The annual investment expenditure in road has increased to 29 billiion birr in 2011/12 from 3.1 billion in 2004/4. It has shown over 900 percent change. During the period, the road density has improved from 0.50/1000 person and/or33.7/1000 sq.km to 0.75 /1000 person and/or 57.3/1000 sq.km. at the late 2015,GTP,planed to increase it to 123.7km/1000 person and 1.54km/1000sq.km. The following table show annual external debt disbursed to road construction.

Table 2: Debt finance in Road Sector (2004/5-2011/12)

F.Y	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
Debt finance	3,114.30	4088.1	6215.2	8977.5	10,930.4	15,038	19,490.9	28,616.3

Source: Ethiopian Road Authority (2013)

10. **Debt and education**: Education plays an important role in the process of economic progress. Educated person is an asset to given country. Ethiopian government has set strategic plan to improve education and training in Ethiopia in quantity and quality. About 20 percent of national budget has been assigned to the sector in average during the recent ten years and it exceeded quarter of national budget in 2011/12. The number of educational institutions and the number of student were increased significantly during past years. The ratio of student in relation to: School, section, teacher, book and other indicators has improved from primary to tertiary level. As it is consuming large share of national budget, its share of external finance is also significant. The table below external debt allocated to education sector during the recent ten years.

Table 3: Public External debt disbursement for education *in Million USD, (2003-2012)*

Year	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2010/11	2011/12	2012/13	2013/14
Debt finance	8.65	23.95	25.01	51.58	39.34	49.78	28.14	54.88	38.27	15.68

Source: MoFED 2014

11. **Sustainability of public debt:** However Ethiopia has carried a mounting debt owed to foreign creditors and its external debt is ever increasing; the national debt stock is well managed. The debt sustainability ratio is very good and it is on the right side of the debt distress problem. The government did not crowd out private investment. According to the Govt. of Ethiopia private sector domestic borrowing increased by 17% in2014.This shows debt financing in Ethiopia did not caused liquidity holdup. A combination of revenue from exports, flow of foreign direct investment, and an increase in remittances have contributed to lifting off Ethiopia from the list of moderate risk countries to low risk countries.

Conclusion and Policy Recommendation

Ethiopia, an old unique and early civilized African country was also known to the world as least developed poor Sub Saharan country. At this decade, this poor country is advancing in right direction to achieve the MDG target of reducing poverty by half in 2015.In Ethiopia, the depth of poverty reduced significantly with in the decade under study. It has come down to29.6 % in 2010/11 from 38.7 % in 2004/. During the same period, poverty gap

is also reduced. Nationally, the *Gini* coefficient for per adult equivalent consumption remained constant. In urban areas there was a substantial decline in inequality from 44 % in 2004/05 to 37.8 % in 2010/11 while it was increasing until 2004/05 at an alarming rate. The national economy was inching towards a decade with annual economic growth of double digit was historic for its uninterrupted expansion in Gross Domestic Product (GDP). The double digit economic growth is expected to continue for the next years due to enhancement in agricultural productivity, expansion in industrial investment and consequent growth in services.
Ethiopia was under serious external debt problem ten years before. It has very limited access and utilization capacity to external loan, not rated and not trusted for its credit worthiness by global lending communities and vulnerable to high debt distress risk. Within the recent decade,(2003-2013), it has made a breakthrough. It became low risk country with regard to its external debt sustainability. EPPGD and the overall national debt become sustainable, more debt relief has been taken, debts are on fixed interest long terms, grant elements are not less than 35 percent, Debt service, debt stock and risk of unsustainability come down due to the raise of HIPC and MDRI, Debt burdens are reduced and access to international finance is improved. At present, Public and publically granted external debt of Ethiopia is at the right side of debt distress problem. The significant improvement in this regard is due to enhancement of international trade and the inclusion of remittances as an important source of debt service. In this conclusion, the non Government granted debts of Ethiopian Airlines and Ethiopian Telecommunication Corporation are excluded even though they are parts of external public debt of Ethiopia. Recently their liability is exceptionally increasing at an increasing rate. Appropriate debt management for all granted and non granted debt is required to retain the present low risk level. Ethiopia government is advised to: Reduce primary deficit, Reduce growth of current expenditure by reducing: Government consumption expenditure, subsidies, capital assistance and subsidies to public enterprises, liquidation of public debt, and reduction of government civilian employment, Raising efficiency of borrowing programs of the federal government, Reform debt management of regional governments, Consolidate sinking fund, Improving the state of the debt market and Proper monitoring of expenditure reduce and repay public debt among others.

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Annexes

Annex.1. Real GDP Growth Rate of selected countries and regions

Country	**2003/**	**2004/**	**2005/**	**2006/**	**2007/**	**2008/9**	**2009/**	**2010/1**	**2011/1**	**Avera**
Ethiopia	**11.7**	**12.6**	**11.5**	**11.8**	**11.4**	**10.**	**10.5**	**11.4**	**11.1**	**11.34**
Sub Saharan	7.1	6.2	6.4	7.1	5.6	2.8	5.3	5.1	5.4	**5.67**
Gana	5.3	6.0	6.1	6.5	8.4	4.0	7.7	13.6	8.8	7.38
Botswana	6.0	1.6	5.1	4.8	3.0	-4.9	7.2	4.6	3.3	3.41
Moricious	5.5	1.5	4.5	5.9	5.5	3.0	4.1	4.1	3.6	4.19
Senegal	5.9	5.6	2.4	5.0	3.7	2.1	4.1	2.6	3.8	3.91
Kenya	4.6	6.0	6.3	7.0	1.5	2.6	5.6	5.0	5.2	4.87
Malawi	5.5	2.6	2.1	9.5	8.3	9.0	6.5	5.5	4.3	5.92
Mozambiqe	7.9	8.4	8.7	7.3	6.8	6.3	5.8	7.1	6.7	7.22
Ruwanda	7.4	9.4	9.2	5.5	11.2	4.1	7.5	8.8	7.6	7.86
Tanzania	7.8	7.4	7.0	6.9	7.3	6.7	6.5	6.7	6.4	6.97
Uoganda	6.8	6.3	10.8	8.4	8.8	7.2	5.9	6.7	4.2	7.23
Mali	2.3	6.1	5.3	4.3	5.0	4.5	5.8	2.7	6.0	4.83
World economy	**4.9**	**4.5**	**5.2**	**5.4**	**2.8**	**-0.6**	**5.3**	**3.9**	**3.5**	**3.88**
Developed	**3.1**	**2.6**	**3.0**	**2.8**	**0.0**	**-3.6**	**3.2**	**1.6**	**1.4**	**1.57**
China	**10.1**	**11.3**	**12.7**	**14.2**	**9.6**	**9.2**	**10.4**	**9.2**	**8.2**	**10.54**
India	**7.6**	**9.0**	**9.5**	**10.0**	**6.2**	**6.6**	**10.6**	**7.2**	**6.9**	**8.18**
Brazil	**5.7**	**3.2**	**4.0**	**6.1**	**5.2**	**-0.3**	**7.5**	**2.7**	**3.0**	**4.12**

Source: MoFED(2013)

Annex 2. Poverty in Ethiopia

Description	People living under poverty in percentile				
	1995	1992	2005	2013	2012
National	45.5	44.2	38.7	29.6	27.6
Rural	47.5	45.4	39.3	30.4	28.6
Urban	33.2	36.9	35.1	25.7	23.8

Annex 3. Real Gross Domestic Product and Real Per-capita GDP Growth Rate

Description	1972-1991	1994-2003	2003	2004-2011/12
Real GDP Growth Rate	1.7	5.5	(2.1)	11.4
Real Per-capita GDP Growth Rate	(1.0)	2.6	-	8.8

Source: MoFED (2014)

Annex 4. Income Distribution in Ethiopia (GINI Coefficient)

Year	Rural	Urban	National
1996	0.27	0.34	0.29
2000	0.26	0.38	0.28
2005	0.26	0.44	0.30
2011	0.274	0.371	0.298

Source: MOFED (2012).

ANNEX 5. UNEMPLOYMENT IN URBAN ETHIOPIA

Year	Unemployment Rate
2003	26.2
2004	22.9
2009	20.4
2010	18.9
2011	18.0
2012	17.5

Source: CSA (2012).