

Inclusive Growth and Inequalities in the Context of Structural Transformation: Evidence from Ethiopia*

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ABSTRACT *Ethiopia's structural change has yielded impressive economic growth. With various forms of inequalities weakening the poverty reducing impact of this growth, there is increasing pressure for equitable and shared growth. This article investigates the forms of inequalities in Ethiopia and offers possible remedies. It shows that urban inequality remains higher than rural inequality, despite a slight narrowing because of favourable pricing for agricultural commodities and a large-scale social safety net programme. Key to addressing inequality is: sustaining the social protection intervention; providing decent jobs; enhancing opportunity; and fair representation.*

KEYWORDS *structural transformation; inequalities; labour market; inclusive growth; Ethiopia*

Introduction

The post-2015 development agenda features five priority areas, namely: structural transformation and inclusive growth; science, technology and innovation, people-centred development; environmental sustainability and natural disaster management; and financing and partnerships (The Africa Report, 2014). This article focuses on the first of the five priority areas. Ethiopia is currently developing the second Growth and Transformation Plan that emphasizes inclusive growth and is aligned with the post-2015 agenda framework. We will review both income and non-income dimensions of inequalities in Ethiopia, and highlight some of the policy measures that can be considered.

Inclusive growth and transformation

Ethiopia tries to provide equitable economic, social, and political opportunities to its population in its growth process. For those who are vulnerable and food insecure, it has one of the largest social protection programmes on the African continent, that is, the Productive Safety Net Programme (PSNP). However, inequality remains the main challenge, further exacerbated by data and measurement problems (Ravallion, 2003;

Geda *et al.*, 2009; McKay and Perge, 2009; Kedir, 2012). Here we attempt to provide evidence using various data sets on a variety of inequality indicators. Even if there is a structural change in Ethiopia, the country has to make progress in economic diversification and competition (Martins, 2014). For instance, the poor are concentrated in the poorly performing informal or self-employment sector, which constitutes the bulk of the service sector activities.

This article is organized as follows: The first section provides evidence on income inequality using longitudinal data from urban and rural Ethiopia (Kedir *et al.*, 2011). The second section focuses on social inequality, specifically education and health. Owing to the importance of labour markets, we also discuss gender and labour markets in detail in this section. In conclusion, we briefly outline some recommendations on what can be done to address the varied dimensions of inequalities in Ethiopia.

Income and spatial inequality

Here we discuss the relevant literature and the various complex inequality issues followed by econometric evidence on income inequality in Ethiopia. In this section, we will outline the possible drivers of inequality as well as its effects in the context of growing economies such as Ethiopia and other developing countries.

Growth and income inequality

Kuznets (1955) argued that growth leads to a deterioration of income distribution at the early stages of development. In later stages of economic development, the majority will migrate to urban areas for industrial employment, thus reducing income inequality. This hypothesis is, however, challenged by other theories and empirical studies. For example, Ravallion (2003) showed that growth tends to be distribution neutral on average. Medgyesi and Toth (2009) used a simple two-sector economy, that is, (high-productivity modern sector and low-productivity/low-wage sector), to analyze the different growth effects on the distribution of labour income. They argued that growth

does not necessarily change income distribution if employment increases with the same proportion.

Gelaw (2009) shows that growth and change in inequality significantly affect the poverty gap in Ethiopia. However, initial/baseline inequality had insignificant effect. Hence, inequality plays a role in perpetuating poverty. Geda and Abreha (2006) showed a significant change in poverty and inequality across urban households but a very small one at national level. They suggest the need for a better understanding of the workings of the labour market in informing poverty reduction policies. Geda *et al.* (2009) reported a strong positive correlation between growth and inequality.

Using longitudinal data sets collected through the Ethiopian Rural Household Survey and the Ethiopian Urban Household Survey, we discuss the Atkinson inequality measure estimates for the period 1994–2004. Note that inequality measure is based on the total monthly household consumption expenditure for the urban data sets while it is based on both consumption expenditure and the size of land owned (asset) for the rural sub-sample. Our results show more inequality in rural (0.67) than urban areas (0.32). Within rural areas, there is more inequality across households (0.73) when land ownership is used as a key variable to rank households than when total household consumption expenditure is used (0.67).

However, recent data and a change of inequality measure (i.e., the Gini coefficient) shows that there is more inequality in urban than rural areas. In all regions, consumption expenditure of households is higher in urban than rural areas. The Gini coefficient for urban areas is 0.37 and for rural areas it is 0.27 (MoFED, 2014). However, urban inequality has declined over the last ten years while the gap between urban and rural inequality also narrowed mainly because of better prices for farm products and the large-scale social safety net programme, PSNP.

Spatial and sectoral dimensions of growth, poverty and inequality

Poverty has numerous dimensions including geography, level and type of employment, and sector of 513

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employment. First, with respect to spatial dimensions, World Bank (2009), McKay and Perge (2009) argued that growth is mainly associated with geographic concentration of economic activities, which creates spatial inequality across different geographical areas of a given country. Bigsten and Shimeles (2011) argued that intra-country poverty is more severe than inter-country poverty differences in many African countries. The causes of spatial inequality are adverse agro-climatic conditions, institutional failures and poor infrastructure. High-spatial inequality may be bad for poverty reduction as well as for growth rate itself (McKay and Perge, 2009).

What is the trend of the spatial inequality in Ethiopia? Inequality between rural and urban Ethiopia has decreased where rural regions average expenditures per capita was 63 percent of the urban level in 2010/2011 compared with 48 percent in 1995/1996 (CSA, 2010).

Ethiopia has diverse ethnic groups and most of its 91.7 million (2012) population live in rural areas. Only 17 percent of the population lives in urban centres, which is a much lower urbanization rate compared with other African countries. Ethiopia has a relatively well-developed secondary towns as well as emerging regions in various parts of the country. The emerging regions (e.g., Afar and Somali) are mainly pastoral areas, characterized by small, scattered, often nomadic populations, making it more challenging to provide basic public services.

Life expectancy differs across regions. Harari region has the highest life expectancy (70.5), followed by Addis Ababa (62.0). The remaining nine regions have similar figures close to the national average (59.5). The reverse is true of the poverty head count rate, suggesting a strong correlation between poverty and life expectancy. Therefore, the regions that enjoy longer life expectancy are also the ones with the lowest poverty incidence. Policies that target poverty reduction will have an important human development consequence, for instance, by raising life expectancy as demonstrated by the result above. However, immunization coverage across regions does not have a pattern. The best-served regions are

Region, Oromiya and Tigray, while the emerging regions such as Afar and Somali do not do as well. The worst region where immunization coverage needs to improve dramatically and with urgency is Gambella (MoFED, 2014). Over the past decade, improvements have been registered in health, nutrition, education and literacy, sanitation and access to services in rural areas. This is particularly true in water and sanitation, as well as primary school enrolment. However, the biggest differences are still between rural and urban residents, and policy focus needs to continue in this area in order to maintain the gains achieved in education, as well as to improve secondary enrolment.

Social, labour market and human development-related inequalities

Gender inequality

Gender disparities in education, health, labour markets, and other dimensions / outcomes are common and will be the focus of this section. We also look at the encouraging steps being taken by the Ethiopian government to address some inequality concerns. Gender inequality has far-reaching consequences for any society because it hurts not only women, but also society at large. A study by the International Monetary Fund shows that gender gaps in the labour market can cut GDP per capita by about 27 percent in certain regions (Elborgh-Woytek *et al.*, 2013). This is significant despite the common perception that classifies women's work and their contribution to society as 'invisible'. However, it is true that women play a key role for agricultural productivity in agrarian societies such as Ethiopia. 'Gender equality is smart economics', as stated by the World Bank Gender Action Plan and further described in the World Development Report on Gender (World Bank, 2012). We can adduce two reasons: first, women's economic empowerment is a goal to which all poor countries should aspire, for considerations of human rights and social justice as well as its economic benefits. Second, while much can be achieved by pursuing broad development policies, evidence of the heterogeneity of women as a group, and the stickiness of some gender-biased constraints, there is a place for

carefully designed, targeted interventions to support women's economic empowerment to further catalyze economic development.

Ethiopia has a long history of discrimination against women in social and economic spheres through oppressive social norms and unequal pay in labour markets. It ranked 133rd out of 154 countries in 2012 on the Social Watch Gender Equity Index that measures three dimensions of the gender gap: education, economic participation, and political empowerment. This clearly shows that the country has a daunting task to bridge the gender gap at various levels of society and across many dimensions. Among some ethnic groups, women are not allowed to inherit assets and, until recently, family law prevented them from autonomous decision making in asset ownership and participation in business and other occupations. Further, there are traditional norms that perpetuate some harmful traditional practices such as early marriage and lack of agency, which subsequently lead to limited-economic empowerment for women.

Ethiopia-specific data and analysis clearly show that married women tend to work fewer hours in the labour market and more in the household, while the reverse is true for married men. The average share among married respondents in Ethiopia employed in the past twelve months was 56 percent for women and 99 percent for men (CSA, 2012). Hence, there is a large gap between men and women in terms of gainful employment and a significant gender-based pay-differential for the employed.

Using the 2005 Labour Force Survey, we see a number of interesting gender disparities in terms of time allocation for market and non-market work between Ethiopian men and women. Women work much more than men do, and are double-burdened with continued household work despite engagement in market work. On average, women allocate 16 hours to men's 29 hours for market work per week. With regard to housework, the average time allocation is 36 hours for women and seven hours for men. In addition, almost all women do housework, while half of men are not involved in any of the household activities. There are also gender differences within household work.

The proportion of women fetching water and collecting firewood is twice that of men. Hence, investments in access to basic services inevitably become a gender issue. Gender inequalities are even more apparent in domestic activities – 92 percent of women are engaged in domestic activities, as compared with only 27 percent of men. This pattern remains consistent when we investigate the time allocation using other surveys such as the Urban Employment and Unemployment Survey (UEUS) of 2010 and 2012. In terms of hours per week, on average, women allocate 27 hours to domestic work and men only three hours according to UEUS.

What is Ethiopia doing to address these prevailing gender inequalities? There are encouraging initiatives in Ethiopia targeted at gender inequality and we highlight a couple of these measures that are believed to have profound impact. According to a study by Hallward-Driemeier and Gajigo (2011), the Ethiopian government amended the family law in 2000 which led to significant advances in women's empowerment and their ability to self-advocate, work for fair wages and own property. The family law amendments include raising the legal age of marriage from 15 to 18, giving women greater say over marital property, and removing the ability of one spouse to deny the other an opportunity to work outside the home. The effect of the reform of the family law appears to be positive for Ethiopian women, especially for those who are young and unmarried, because it has helped them to engage in gainful occupation, stay in school longer, with an improvement in life prospects. Other dimensions of gender inequality can be seen via unfairness in intra-household resource allocation, which favour boys (Kedir *et al.*, 2014) and, in agricultural extension service provision that gives little attention to female farmers.

Besides the family law amendments, there are other commendable measures taken by the Ethiopian government at the sectoral level. With the recognition of the role of Ethiopian women for the development of the country's agricultural sector, the Agricultural Transformation Agency (ATA) has developed a gender-mainstreaming strategy to promote gender equality across all of its

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programming and organizational development processes. This strategy aims to ensure that all of the ATA's work contributes to gender equality by monitoring and adjusting the impact of its programmes and activities on both women and men. The strategy includes: increasing the participation of women and girls in the ATA's prioritized programme areas; creating more opportunities for women and girls to have equal access to, and control over vital resources; balancing the workload rural women and girls invest in agricultural activities; and, addressing challenges to existing attitudes and practices that perpetuate gender inequalities in the agriculture sector. The ATA's Gender Mainstreaming Unit is also collaborating with the Ministry of Agriculture and the Women's Affairs and Affirmative Action Directorate to strengthen the gender equality and women's empowerment efforts of both institutions.

In addition to legislative and sector-specific measures, other initiatives clearly show the commitment of the government of Ethiopia to issues of gender inequality. The government created a Ministry of Women, Children and Youth Affairs, with a mandate to work in areas that affect children and youth regardless of their gender. The government also designed a land certification programme and targeted vulnerable and food insecure families including those headed by females through its PSNP.

Another important development is aimed at increasing the political empowerment of women. In comparison to other countries that are at a similar level of development, Ethiopia is doing very well according to at least one indicator: the proportion of national parliament seats held by women.

Labour markets

The labour market is one of the key arenas in which inequality materialize. Hence, we provide detailed evidence on the Ethiopian labour market. We provide labour market-related statistical evidence based on the 2006 and 2012 UEUS of the Central Statistical Agency (CSA) of Ethiopia. First, we discuss labour force participation (LFP) and

education, presence of children, and other key variables of interest. LFP is defined on the basis of the response given by interviewees to the question: 'Did you engage in any productive work in the last seven days?' According to responses given to this question, except for the age group 30–34 and all age groups beyond 50 years, more females participated in the labour force than males in 2006. However, there is a reversal of the trend in 2012, whereby males have higher LFP than females in all age categories except in the 15–19 age bracket. More insight can be gained when we look at the data of employment and unemployment status. There is a clear monotonic pattern of unemployment among females at all age groupings in both 2006 and 2012.

LFP and education

When we look at labour market outcomes by education, there are more females in the labour force with low educational attainment (e.g., illiterate and primary level of education) in both 2006 and 2012. It is interesting also to see that there are more females with tertiary-level education in the labour force than males. It is only at secondary level that there are more males than females in the labour force. The unemployment figures associated with completion of various levels of schooling are more revealing about gender and labour market outcomes. At all schooling levels, more females are unemployed than males for both years. In addition, among illiterates, the number of employed females is greater than males.

LFP and marital status

Except for those who have never married, LFP of females is greater than males. This pattern remained unchanged in the 2006 and 2012 time-periods. In 2012, the UEUS data has one more marital status indicator included (i.e., 'living together'). Among those who reported to live together, LFP is greater among males than females. There is a clear concentration of females among the unemployed. For instance, more females are unemployed than males both in 2006 and 2012 – regardless of their marital status.

Gender-wage gap

A regression showing the determinants of monthly earnings summarized in Table 1 highlights the overall gender-pay premium enjoyed by males compared with females.

Young employees suffer wage penalties given the fact that all age categories except the omitted age group (i.e., 15 to 19) are significantly and positively

associated with the log of monthly wage. Marriage and living together are also associated with positive wage outcomes for individuals. All other marital status indicators (i.e., divorced, widowed, and separated) carry a wage penalty. This may be because of the stigma, discrimination, and lack of protection for workers who are without partners. Equally, it may be because they are less likely to have a higher level of reservation wage and work for

Table 1. *Multivariate analysis of determinant of earnings: OLS model of log of monthly wage*

Variable	2006	2012
	Coefficient (Standard error)	Coefficient (Standard error)
Male	0.454***(0.019)	0.431***(0.015)
Age (Reference category = 15–19)		
20–24	0.570***(0.036)	0.566***(0.031)
25–29	0.794***(0.037)	0.860***(0.031)
30–34	0.940***(0.040)	0.922***(0.035)
35–39	1.000***(0.043)	0.959***(0.036)
40–44	1.054***(0.046)	1.012***(0.039)
45–49	1.125***(0.049)	0.983***(0.042)
50–54	1.091***(0.055)	0.991***(0.045)
55–59	0.946***(0.066)	0.855***(0.054)
60–64	0.682***(0.091)	0.703***(0.067)
65+	0.735***(0.096)	0.470***(0.070)
Marital Status (Reference category = Never married)		
Married	0.049**(0.023)	0.034**(0.017)
Divorced	–0.338***(0.040)	–0.135***(0.034)
Widowed	–0.263***(0.049)	–0.179***(0.041)
Separated	–0.177***(0.073)	–0.181***(0.049)
Live together	—	0.123*(0.071)
Not stated	–0.276(0.193)	–0.210(0.495)
Public sector	0.678***(0.019)	0.443***(0.015)
Addis Ababa	0.166***(0.021)	0.218***(0.018)
Education (Reference category = Tertiary)		
Illiterate	–0.933***(0.029)	–0.813***(0.026)
Primary	–0.465***(0.045)	–0.474***(0.040)
Secondary	0.130***(0.019)	–0.090***(0.023)
R ²	0.58	0.43
F-stat (p-value)	470.0***(0.000)	364.8***(p-value)
Number of observations	7291	10864

N.B. *, **, *** = significant at 10 percent, 5 percent, and 1 percent level.

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whatever wage they are offered, often leading to low-return and low-paying jobs.

Workers in the capital city earn higher than those who work outside Addis Ababa. As we indicated above, the public-sector workers receive higher wages than private employees do. This might be because of the limited or absence of any bargaining power over wages and unregulated/exploitative-working conditions in the private sector. Relative to university or tertiary-level education, those who are illiterate and only finished primary schooling earn less and this is statistically significant. Those who finished secondary schooling have higher wages in 2006, but, in 2012, all schooling levels below university attract lower wages.

Human development

According to the UNDP Human Development Reports since 1990, Ethiopia has been consistently ranked among the least performing countries in the Human Development Index (HDI) and it has a long way to go before catching up with better performers in Africa. When looking at the Inequality-adjusted HDI, Ethiopia loses 32 percent of its HDI value, which is greater than the World average (23 percent loss). However, Ethiopia is ahead of countries at the same income level in primary school spending and low-birth rates. The county lags behind in literacy rates for both men and women, prenatal care for women and malnutrition of children under five (Gable and Kedir, 2013).

Even though girls and women are participating in the labour market or in schools, their availability may fall short because of pregnancy or even more likely because of maternal mortality. While there is an overall trend of decreasing birth rates for girls, maternal causes kill more 15 to 19 year girls than any other cause (Patton *et al.*, 2009).

Mortality

With a high level of early pregnancies, the risk of exposure during pregnancy and childbirth increases. Maternal mortality ranges from one of every eleven women in Afghanistan, to one of

every 11,400 in Sweden (World Bank, 2012). This obviously has a very direct effect on women's/girl's ability to reach their full potential in terms of the amount of girls that never reach the stage where they could have contributed to the economy. However, the very risk of high-maternal mortality has implications for educational investments. As the risk of dying in childbirth declines, educational investments increase (and more so for girls). Maternal mortality remains high in Ethiopia and its reduction proved the most challenging MDG to pursue by the government. When looking at age-specific numbers on the share of female deaths that are maternal, the extent of the problem becomes evident – on average 30 percent of female deaths are maternity-related. Comparing this data by age group with data on birth rates, we see that the number of maternal-related deaths, given the number of births, is expectedly increasing with age for the age groups 25–29 and higher. However, for the age group 20–24 the risk is higher than the older age group and even higher for the 15–29 age bracket, suggesting that giving birth at early ages poses much higher risks of death than in the late 20s.

Health and wealth

Most studies compare differences in average health outcomes such as life expectancy and under-five mortality. However, such between-group inequalities provide limited information about the individual distribution of health. Greater and more valuable insight for policymakers and public health researchers can be gleaned by looking at within-group inequalities (Asada, 2006; Starfield, 2007). To capture overall health inequality, Tranvåg *et al.* (2013) looked at length of life inequality in different population groups in Ethiopia. They used EDHS 2000, EDHS 2011, and 2010 Global Burden of Disease Study and found that there have been general improvements in health in Ethiopia, with an increase in longevity. Health inequality has declined over time but there needs to be more effort to reduce it among the poor and residents in rural areas. According to the study, inequality in length of life within wealth quintiles is considerably larger than between poor

and rural communities. The authors suggest that there needs to be an identification of factors beyond wealth that might account for health inequality in the country.

Conclusions and recommendations

We believe that increasing labour market access to individuals is one of the key steps to sustainable structural transformation of economies. The possibility of lifting time constraints (for instance for girls and women) in the future will depend on markets, formal institutions, and social norms and preferences, affecting the relative productivity of household work versus market work and the transaction costs of substituting one for the other (Gable and Kedir, 2013). To protect existing livelihoods and to insure

those who suffer from covariate and idiosyncratic shocks, Ethiopia can continue to provide social protection to disadvantaged and vulnerable households through its flagship Productive Safety Net Programme.

Removing gender inequality goes beyond closing the gender-pay gap and should include legislative measures that improve the situation of women. The 2000 amendment of the Family Law and the subsequent improvement of the economic empowerment of women is an important development in addressing some of the underlying issues of gender inequality. The government can play a role in improving the livelihoods of those who work in the informal sector by providing the necessary institutional arrangements to enhance access to productive capital and channel their activities towards the formal sector.

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