



POLICY Brief

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The State of Extreme Poverty and Inequality in Ethiopia

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1. Executive Summary

Economic development and social welfare can be evaluated through various indicators, including real GDP per capita and the Human Development Index (HDI). However, these aggregate measures fail to capture all facets of human welfare. To address the limitations of using GDP and its derivative as a measure of living standard, this study utilized alternative metrics to assess welfare at the household level using the latest three rounds (2015/16, 2018/19, and 2021/2022) of the Living Standards Measurement Study (LSMS). Absolute poverty and income inequality increased between 2015/16 and 2021/22, particularly in rural areas and in some regional states. Despite a reduction in food poverty, overall poverty rates worsened, with rural areas disproportionately affected. Income growth did not benefit the poor in several regions, pointing to a gap between policy design and poverty outcomes. The policy implications stress the need for targeted rural development, inclusive growth strategies, stronger redistributive policies, and continuous monitoring to ensure that pro-poor policies are effectively addressing poverty and inequality across Ethiopia.

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2. Background

Policies and programs aimed at poverty reduction require continuous monitoring and evaluation to assess their impact on welfare conditions and the effectiveness of interventions. Since aggregate indicators like GDP and HDI do not fully capture the intricacies of welfare, particularly at the household level, it is crucial to use more detailed measures such as poverty and inequality indices. These indices allow policymakers to better understand the disparities in income distribution and access to resources within and across population groups. Effective poverty reduction strategies must be grounded in evidence-based analysis of these welfare conditions, with a focus on how well development plans are addressing specific poverty reduction targets. By continuously monitoring and evaluating these interventions, adjustments can be made to ensure that growth is inclusive and that pro-poor policies are truly benefiting those most in need. In this way, the success of development plans and policies is closely tied to their ability to improve real living standards and reduce poverty and inequality, ensuring sustainable and equitable economic progress.

3. Data and Methods⁴

The study measures household welfare conditions using data from the latest three-panel surveys of the Living Standards Measurement Study (LSMS), with 6,191 households from 2018/19 and 4,959 households from 2021/22, covering Ethiopia's regional states and two city administrations. The 2015/16 estimates of poverty and inequality served as a baseline to assess changes over time, allowing for a comparative analysis of welfare dynamics between 2015/16 and 2021/22. The analysis employs a comprehensive distributive approach, including assessments of poverty, inequality, and pro-poor growth. The Foster-Greer-Thorbecke (FGT) measures are used to quantify poverty's incidence, depth, and severity, while decomposition techniques are used to reveal the effects of economic growth and redistribution on poverty. Additionally, poverty elasticities estimate the sensitivity of poverty reduction to changes in growth and income distribution. This multi-dimensional analysis provides a realistic picture of household living standards and evaluates the effectiveness of pro-poor policies in Ethiopia over the study period.

4. Key Findings

Absolute poverty increased in many regional states: Between 2015/16 and 2021/22, absolute poverty significantly increased in several regional states of Ethiopia, particularly in the Southern Nations, Nationalities, and Peoples' (SNNP) region, Somali, Oromia, Dire Dawa, and Amhara. The rise in poverty was more pronounced in rural areas, where poverty rates surged from 23.5% in 2015/16 to 33% in 2021/22, marking a sharp increase of 9.5%. This highlights the uneven distribution of economic growth across Ethiopia and the growing vulnerability of rural populations. In contrast, the absolute poverty rate in Addis Ababa remained relatively unchanged during the same period, reflecting a stark rural-urban disparity in poverty outcomes.

Higher levels of poverty were found in rural areas compared to urban centers: Absolute poverty in rural Ethiopia increased from 25.6% in 2015/16 to 47.5% in 2021/22 while urban absolute poverty increased from 14.8% in 2015/16 to 17.5% in 2021/22. This indicates that although both rural and urban areas experienced an increase in poverty, the rise was much more severe in rural Ethiopia, where nearly half of the rural population lived in extreme poverty by 2021/22. This finding underscores the rural-urban divide in Ethiopia, where rural areas, heavily reliant on agriculture, are more vulnerable to economic shocks, droughts, and the lack of infrastructure, exacerbating poverty conditions.

⁴ To account for the increasing cost of living experienced after 2015/16, the total and food absolute poverty lines are revised at ETB 8,262 and 4,348, respectively.

There was a reduction in absolute food poverty between 2015/16 and 2021/22 despite an overall increase in general poverty. Despite the overall rise in absolute poverty, there was a notable reduction in absolute food poverty across Ethiopia during the same period. Food poverty fell from 24.8% in 2015/16 to 19.1% in 2021/22, an annual decrease of approximately 1%. The reduction in food poverty was more significant in rural areas compared to urban centers, possibly reflecting the impact of targeted interventions, or improved agricultural production. However, the continued rise in overall poverty, despite food improvements in food security, suggests that other factors such as income, access to services, and non-food essentials contributed to worsened welfare conditions.

There has been a rise in income inequality between 2015/16 and 2021/22: Income inequality in Ethiopia worsened during the study period, with the Gini coefficient increasing from 32.8% in 2015/16 to 39.3% in 2021/22. This widening gap between the rich and poor was particularly evident in regions of SNNP, Gambella, and Somali, where inequality surpassed the national average. In contrast, regions such as Benishangul-Gumuz, Addis Ababa, Dire Dawa, Amhara, and Harari saw relatively smaller changes in income inequality, reflecting less variation in income distribution. The rise in inequality complicates poverty reduction efforts, as income disparities can undermine the gains made in economic growth and social welfare.

Pro-poor growth policies are not effectively translated into tangible economic outcomes: An important finding from the study was that income growth in some regions and cities did not benefit the poor, particularly between 2018/19 and 2021/22. This suggests a potential disconnect between the design and implementation of pro-poor policies. While the policies aimed to reduce poverty, the actual outcomes of economic growth were counterproductive, leading to worsened poverty conditions for both poor and non-poor households. This was particularly evident in Oromia, Harari, and the two city administrations (Addis Ababa and Dire Dawa), where the poor did not benefit from income growth experienced during the period. This highlights the need for more inclusive and better-targeted policies to ensure that economic growth translates into improved welfare for all segments of the population, especially the most vulnerable.

4. Policy Recommendations

Implementing targeted rural development policies: The sharp rise in rural poverty calls for focused interventions in rural regions like SNNP, Somali, Oromia, and Amhara. Policies should aim at improving rural infrastructure (roads, irrigation), enhancing agricultural productivity, and expanding access to markets and essential services. Social safety nets and climate resilience programs must also be scaled up to help rural communities cope with economic shocks and environmental challenges.

Balanced regional development model: The Federal government should pursue a balanced regional development model to reduce regional disparities by increasing investments in poorer regions. Prioritizing education, healthcare, and employment opportunities in these areas will help prevent them from falling further behind. With nearly half of the rural population living in extreme poverty by 2021/22, policies must also focus on rural poverty alleviation. This includes expanding access to financial services (microcredit, savings), investing in rural infrastructure (roads, irrigation), and promoting sustainable agricultural practices to boost rural incomes. Diversifying rural economies through non-farm employment opportunities will be critical in reducing reliance on subsistence agriculture.

Strengthening social protection programs: Expanding and improving the targeting of social protection programs (e.g., cash transfers, and food security initiatives) can help shield vulnerable rural populations from falling deeper into poverty, especially during economic downturns or natural disasters.


Advancing nutrition and food security programs: Food security and nutrition programs should be reinforced to maintain the gains in food poverty. The success in reducing food poverty, though a slight decrease, particularly in rural areas, suggests that agricultural and food security interventions are working but could be further strengthened. These programs should focus on both short-term food assistance and long-term investments in sustainable agriculture, food storage, and distribution systems.




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Conflict of Interest

There is no conflict of interest between researchers.

Implementing comprehensive poverty alleviation strategies to tackle total poverty: Since food poverty reduction has not been accompanied by a decrease in overall poverty, policies should adopt a more holistic approach to poverty alleviation. This includes addressing non-food essentials such as housing, healthcare, education, and access to clean water, which are vital for improving overall living standards.

Implementing redistributive fiscal policies to narrow income inequalities: As the mismatch between policy goals and actual outcomes in regions like Oromia, Harari, and the two city administrations suggests the need for careful planning and monitoring. Policies must be better targeted to ensure that growth benefits the poor, with regular evaluations to adjust interventions as needed. This could involve more participatory planning processes that include input from local communities to ensure policies meet the specific needs of different regions and population groups. Strengthening pro-poor growth frameworks is equally important, focusing on sectors likely to generate jobs and income for the poor, such as agriculture, small-scale industries, and services. Additionally, policies must address structural barriers preventing the poor from fully participating in and benefiting from economic growth, such as limited access to credit, land, and markets. The effective implementation of pro-poor policies requires robust monitoring mechanisms.

Strengthening pro-poor growth frameworks: Pro-poor growth policies should be reinforced by focusing on sectors that are most likely to generate jobs and income for the poor, such as agriculture, small-scale industries, and services. Additionally, policies must address structural barriers that prevent the poor from fully participating in and benefiting from economic growth, such as limited access to credit, land, and markets. The effective implementation of pro-poor policies is crucial, requiring the establishment of robust monitoring mechanisms.

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