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The Federal Democratic Republic of Ethiopia
Ministry of Finance and Economic Development

#TC EPP 33/22/14
Ref.No
#? 15 AUG 2002
Date

Mr. Horst Kohler
Managing Director
International Monetary Fund
1818 H. Street, N.W.
Washington D.C., 20431
USA

Dear Mr. Kohler;

I am pleased to forward to you copies of Ethiopia's Sustainable Development and Poverty Reduction Program (SDPRP) for the consideration of your Board of Directors. As you may recall, the Boards of the World Bank and the International Monetary Fund approved Ethiopia's Interim Poverty Reduction Strategy Paper (I-PRSP) in November 2000. We began the task of preparation for public consultations in June 2001. Ethiopia reached a decision point of the Enhanced HIPC in September 2001.

The Government has finalized preparation of the SDPRP by end July 2002 and has already submitted to the Fund and the Bank through Resident Representative and Country Director in Addis Ababa, respectively. My government has given serious attention and invested a lot of time in the preparation of the document. It has conducted extensive, transparent and inclusive consultations as an input. A number of technical studies on poverty, growth and poverty linkages were conducted to provide inputs. Mid-term and annual reviews of key sector development programs also contributed to the preparation of the document. Issuances of a number of White Papers have also helped to inform the strategy paper. On this basis care has been taken to address, critical issues of sustainable development and poverty reduction in Ethiopia. The Government believes the document provides a sound basis to continue the implementation of sustainable development and poverty reduction programme activities in a focused, strengthened and decentralized manner.

The 2002/03 Macroeconomic Framework in the SDPRP is consistent with our three year PRGF program with the IMF, while the outer years present a more ambitious scenario based on higher real GDP growth assumptions (7 percent per annum as against 6 percent in the PRGF) and larger financing requirements which could be covered by additional resources through mobilizing finance both from domestic sources and external resource inflows. Such acceleration in our development program would help reduce poverty at a faster rate. As agreed upon under the PRGF, we will assess the sustainability of possible increases in disbursement to ensure that macro stability is maintained and external debt sustainability is not jeopardized.

S
SUDHAN AIMEN
MINISTER

ስልክ
TEL 55 24 00, 55 28 00,
55 00 81,83,86,89

የፖ.ሣ.ቁ
P.O.Box 1905, 1037

ፋክስ
Fax . 251-1-55 13 55, 55 14 96
251-1-55 38 44

አዲስ አበባ፣ ኢትዮጵያ
Addis Ababa-Ethiopia



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The Federal Democratic Republic of Ethiopia
Ministry of Finance and Economic Development

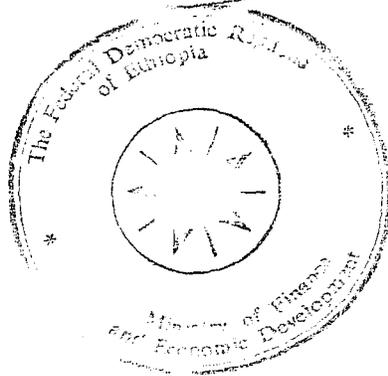
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Date

Regarding the PRGF, we will maintain as a baseline the macroeconomic framework indicated in the three-year PRGF but will adjust it accordingly as external financial assistance is firmed up.

Once again, let me take this opportunity to thank you for your continued support to Ethiopia.

Sincerely yours



[Handwritten Signature]
SUFIAN AHMED
MINISTER

*Ethiopia: Sustainable Development and
Poverty Reduction Program*

**Federal Democratic Republic of Ethiopia (FDRE)
Ministry of Finance and Economic Development (MOFED)**

**July, 2002
Addis Ababa
Ethiopia**

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List of Acronyms

| | |
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| AAU | Addis Ababa University |
| ADLI | Agricultural Development Led Industrialization |
| AGOA | African Growth and Opportunity Act |
| ARM | Annual Review Meeting |
| BCC | Behavioral Change Communication |
| BIS | Budget Information System |
| BSS | Behavioral Sentinel Surveillance |
| CBP | Capacity Building Program |
| CD | Cobb Douglas |
| CHA | Child Health Assistants |
| CO | Central Office |
| COPE | Community Oriented Practical Education |
| CPC | Community Project committee |
| CSA | Central Statistical Authority |
| CSE | Conservation Strategy of Ethiopia |
| CSRP | Civil Service Reform Program |
| CSW | Commercial Sex Workers |
| DAG | Development Assistance Group |
| DHS | Demographic Health Survey |
| DNG | Distribution Neutral Growth |
| DPPC | Disaster Prevention and Preparedness Commission |
| EARO | Ethiopian Agricultural Research Organization |
| EBA | Everything But Arms |
| EBDA | Expanded Budget Disbursement Accounting |
| ECM | Error Correction Model |
| EDG | Equally Distributed Growth |
| EEPA | Ethiopian Export Promotion Agency |
| EFSR | Emergency Food Security Reserve |
| EFY | Ethiopian Fiscal Year |
| EGS | Employment Generating Schemes |
| EHNRI | Ethiopian Health and Nutrition Research Institute |
| EIA | Environmental Impact Assessment |
| EMCP | Expenditure Management and Control Program |
| EPA | Environmental Protection Authority |
| ERA | Ethiopian Road Authority |
| ERP | Emergency Recovery Program |
| ERTTP | Ethiopian Rural Travel and Transport Sub-program |
| ESDP | Educational Sector Development Program |
| ESID | Ecologically Sustainable Industrial Development |
| ESRDF | Ethiopian Social Rehabilitation and Development Fund |
| EWS | Early Warning System |
| FA | Financing Agreement |
| FDRE | Federal Democratic Republic of Ethiopia |
| FDs | Families of the deceased |
| FFW | Food for Work |
| FGM | Female Genital Mutilation |
| FLHW | Front Line Health Workers |
| FS | Federal Secretariat |
| FSC | Federal Steering Committee |
| FSRA | Food Security Reserve Administration |
| FSS | Forum for Social Studies |
| FSS | Food Security Strategy |
| FTC | Federal Technical Committee |
| GDP | Gross Domestic Product |

| | |
|--------|--|
| GER | Gross Enrollment Ratio |
| GIF | Grassroots Initiative Fund |
| GOE | Government of Ethiopia |
| HICES | Household Income Consumption Expenditure Survey |
| HIPC | Heavily Indebted Poor Countries |
| HPS | Health Policy and Strategy |
| HRD | Human Resource Development |
| HRMIS | Human Resource Management Information System |
| HSDP | Health Sector Development Program |
| IAG | Inter Africa Group |
| IBCR | Institute of Biodiversity Conservation and Research |
| ICB | International Competitive Bidding |
| ICT | Information Communication Technology |
| IDA | International Development Association |
| IDPs | Internally Displaced Persons |
| IEC | Information Education Communication |
| ILO | International Labor Organization |
| I-PRSP | Interim Poverty Reduction Strategy Paper |
| MCB | Ministry of Capacity Building |
| MEFF | Macroeconomic and Fiscal Framework |
| MFI | Micro Finance Institution |
| MLCG | Minimum Learning Competency Guideline |
| MOA | Ministry of Agriculture |
| MOE | Ministry of Education |
| MOFA | Ministry of Federal Affairs |
| MoFED | Ministry of Finance and Economic Development |
| MOH | Ministry of Health |
| MORD | Ministry of Rural Development |
| MOTI | Ministry of Trade and Industry |
| MPSC | Multi Partner Sex Contact |
| MSE | Medium and Small Scale Enterprises |
| MTR | Mid Term Review |
| NAP | National Action Plan |
| NDPPF | National Disaster Prevention and Preparedness Fund |
| NEA | National Education Assessment |
| NGO | Non Government Organization |
| NMSA | National Meteorological Service Agency |
| NNFECS | National Non-food Emergency Contingency Stock |
| NPDPM | National Policy for Disaster Prevention and Management |
| NPEW | National Policy on Ethiopian Women |
| ODA | Overseas Development Assistance |
| OLS | Ordinary Least Squares |
| PFP | Policy Framework Paper |
| PHC | Primary Health Care |
| PHCU | Primary Health Care Unit |
| PHW | Primary Health Workers |
| PLWHA | People Living with HIV/AIDS |
| POCS | Prosthetic Orthodox Centers |
| PRGF | Poverty Reduction Growth Facility |
| RCS | Regional Conservation Strategy |
| RDS | Rural Development Strategy |
| ROs | Regional Offices |
| RS | Regional Secretariat |
| RSC | Regional Steering Committee |
| RSDP | Road Sector Development Program |
| RWG | Redistribution with Growth |

| | |
|--------|---|
| RWSS | Rural Water Supply and Sanitation |
| SDP | Sectoral Development Program |
| SDPRP | Sustainable Development and Poverty Reduction Program |
| SFYDP | Second Five Year Development Program |
| SI | Social Infrastructure |
| SNNPR | Southern Nations and Nationalities Peoples Region |
| SOE | Statement of Expenditure |
| SSA | Sub-Saharan Africa |
| SSI | Small scale Irrigation |
| STD | Sexually Transmitted Diseases |
| TB | Tuberculosis |
| TBA | Traditional Birth Attendants |
| TCB | Training Capacity Building |
| TGE | Transitional Government of Ethiopia |
| TIN | Tax Identification Number |
| TSS | Transitional Subsistence Support |
| TVET | Technical Vocational Education Training |
| UMCDO | Urban Management Capacity Development Office |
| UNCCD | United Nations Convention to Combat Drought and Desertification |
| UNDP | United Nations Development Program |
| UNECA | United Nations Economic Commission for Africa |
| USD | United States Dollar |
| VAT | Value Added Tax |
| VCT | Voluntary Counseling and Testing |
| VLTTTS | Village Level Travel and Transport Study |
| WDIP | Women's Development Imitative Project |
| WMS | Welfare Monitoring Survey |
| WSDP | Water Sector Development Program |
| WSS | Water Sector Strategy |
| WTI | Water Technology Institute |

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2.1.1 Explanatory Notes

- (1) "**Birr**": refers to Ethiopian Currency Unit equivalent to 100 cents denominations
- (2) **Meher (Main) Season Crop**: is any crop harvested from September to February.
- (3) **Belg Season Crop**: Any type of crop harvested during the months of March to August.
- (4) **G.F.Y**: Gregorian Fiscal Year is a period covering a twelve-month period running from July 8 to July 7 of the following year.
- (5) **E.F.Y**: Ethiopian Fiscal Year is a period covering Hamele 1 of the given year to Sene 30 of the following calendar year. For example, the 1992 Ethiopian Fiscal Year covers Hamele 1, 1991 to Sene 30 1992. This is equivalent to the 1999/00 G.F.Y.
- (6) "**1999/00**": stands for "1999/2000"
- (7) **Enumeration Areas (EA)**: is a unit of land delineated for the purpose of enumerating housing units and population without omission and duplication. An EA in rural areas usually consist of 150 - 200 households. On the other hand, an EA in urban centers constitutes 150 - 200 housing units.
- (8) **Urban Dwellers' Association (Kebele)**: is the lowest administrative unit in urban center with its own jurisdiction. It is an association of urban dwellers (commonly known as *kebeles*) formed by the inhabitants, and usually constitutes a part of the urban center.
- (9) **Farmers' Association Area**: is the lowest administrative unit in a settled rural area with its own jurisdiction. It is an association of rural dwellers formed by the inhabitants of a given area whose members are engaged either in agricultural and/or non-agricultural activities.
- (10) **Major Urban Centers**: Large urban centers in the country as designated by the Central Statistical Authority (CSA) for the conduct of the Population and Housing Census of Ethiopia
- (11) "**Other**" **Urban Centers**: urban centers in the country other than those designated "major" urban centers by the CSA.
- (12) **Household**: Constitutes a person or group of persons, irrespective of whether related or not, who normally live together in the same housing unit or group of housing units who have common cooking arrangements.
- (13) **Domestic Expenditure**: is defined as total expenditure incurred by the household or any of its members and includes expenditure on consumption as well as non-consumption items.
- (14) **Idir**: is traditional community based insurance scheme in which a household head contributes a predetermined amount of money to the membership in order to be insulated from cash shortfalls in the event of death of a specified member of his family or himself.
- (1.5) **Iqub**: Type of saving or revolving fund arranged by members of a community
- (1.6) **Region**: represents the second tier of government in the administrative structure of the Federal Democratic Republic of Ethiopia (FDRE)
- (1.7) **Woreda**: The fourth tier of elected government in the administrative structure of the Federal Democratic Republic of Ethiopia (FDRE)
- (1.8) **Zone**: The third tier of government in the administrative structure of the Federal Democratic Republic of Ethiopia (FDRE). This structure has not been explicitly recognized as an administrative structure in the Constitution.
- 1.9) **Reporting Level**: refer to an administrative entity (rural or urban) or any other entity representing group of zones in larger regions (Oromiya, Amhara, and SNNPR) or major urban centers or 'representatives' of 'other' urban areas in each regional state for which it is deemed reliable to generate and report indicators based on the national sample (HICE survey data sets).

Executive Summary

For some countries, economic growth is the primary policy goal, and poverty reduction is to be achieved through measures complementary to growth. This is not the approach of the Ethiopian government. Poverty reduction is the core objective of the Ethiopian government. Economic growth is the principal, but not the only, means to this objective.

The FDRE recognises that in the absence of proactive development policies, it is impossible to create an enabling environment for accelerated development and attainment of improvements in the standards of living of the people. Based on the materials presented in chapters I, II, III, and IV of the main strategy document entitled “**Sustainable Development and Poverty Reduction Program (SDPRP)**”: **Socioeconomic Performance and Poverty Profile of Ethiopia, Analysis of Growth and Poverty Linkage, Major Outcomes of the Consultation Process, Overview of Ethiopia’s Development Challenges**, respectively, and the practical experiences and lessons learnt over the past ten years, and an assessment of the development experiences of countries that have attained rapid economic development; the FDRE has formulated policies and strategies to guide over all development with focus on rural and agricultural development. The fundamental development objectives of the FDRE are to build a free-market economic system in the country, which will enable:

- a) The economy develop rapidly,
- b) The country to extricate itself from dependence on food aid; and
- c) Poor people to be the main beneficiaries from economic growth.

The Major Thrust of Ethiopia’s Sustainable Development and Poverty Reduction Program

The broad thrust of Ethiopia’s strategy during the Sustainable Development and Poverty Reduction Program (SDPRP) period thus consists of:

- Overriding and intentional focus on agriculture as the sector is the source of livelihood for 85 % of the population where the bulk of the poor live. The government gives overriding primacy to the welfare of rural populace. Agriculture is also believed to be a potential source to generate primary surplus to fuel the growth of other sectors of the economy (industry);
- Strengthening private sector growth and development especially in industry as means of achieving off-farm employment and output growth (including investment in necessary infrastructure);
- Rapid export growth through production of high value agricultural products and increased support to export oriented manufacturing sectors particularly intensified processing of high quality skins/leather and textile garment;
- Undertake major investment in education and strengthen the on going effort on capacity building to overcome critical constraints to implementation of development programs;
- Deepen and strengthen the decentralization process to shift decision-making closer to the grass root population, to improve responsiveness and service delivery;
- Improvements in governance to move forward in the transformation of society, improve empowerment of the poor & set framework/provide-enabling environment for private sector growth and development;
- Agricultural research, water harvesting and small scale irrigation;
- Focus on increased water resource utilization to ensure food security;

a) Overall Objectives of the Sustainable Development and Poverty Reduction Program

The overarching objective of the government’s poverty reduction strategy is to reduce poverty through at the same time maintaining macroeconomic stability. According to HICE 1999/2000, poverty head count ratio is projected to decline by about 10 %(about 4 percentage points) by the end of the poverty reduction strategy program period (2004/05) from its 1999/00 level of 44 percent. Real GDP is targeted to grow by at least 7 percent on average during

the program period. While recognizing the seriousness of the challenge, the Government is committed to and works towards meeting the Millennium Development Goals (MDGs) of 2015.

b) Required Growth to Meet the Millennium Development Goals (MDGs)

The government has calculated the elasticity of poverty with respect to growth based on the latest Household Income and Consumption Expenditure (HICE) Survey data (1999/2000), taking explicitly into account the likely changes in income distribution. This analysis implies that the Ethiopian economy must grow in real terms by 5.7% per annum until 2015 to reduce poverty by half from its current level. Modest improvements in institutional efficiency, such as the reform of the legal system, enforcing contracts, ensuring property rights, maintaining peace and stability, and improving the functioning of public services, can help reduce this growth requirement to about 4.7%. This is likely to be achieved as the government has already embarked on almost all fronts (capacity building, devolution and empowerment, justice system and civil service reform, anti-corruption, etc).

c) Macroeconomic Strategy to Achieve the Required Growth

The key elements of the medium term macroeconomic strategy are the continuation of the program by reorienting the budgetary resources towards poverty reducing sectors, laying the foundation for a strong revenue performance through the tax reform program, improving the monetary and financial sector reform, and capacity building and regulatory reforms to promote private sector development. **Specific objectives in the medium term are to achieve an annual average real GDP growth of about 7 percent and maintain stable prices** (i.e., an inflation rate in the single digits, preferably no more than 5 percent) as well as a foreign exchange reserve to cover 4-5 months of import of goods and non-factor services.

The **fiscal policy** in the medium term is aimed at reducing the deficit to a sustainable level while at the same time re-orienting investment and current spending towards key sectors such as agriculture (food security), natural resource, education and health and road construction. On the revenue side, the Government is determined to lay the foundation for strong revenue performance during the program period. Tax revenue is forecast to increase from 14.3 percent of GDP in 2000/01 to 17.7 percent in 2004/05.

Monetary policy will remain geared toward containing inflation and achieving the international reserve target. The net domestic assets of the central bank will remain the key aggregate in steering monetary policy. The central bank will continue to closely monitor developments in reserve money and broad money. Progress in fiscal consolidation, supported by substantial disbursements of foreign aid, is expected to facilitate a rebuilding of net international reserves, while leaving for adequate growth in domestic credit to the private sector.

In the case of the Financial Sector, the government is committed to the enhancement of efficiency and competition in the sector. To attain this objective, it will adopt by June 30, 2002, a medium-term strategy covering the period 2002/03-2004/05. The strategy that is envisaged will proceed along three lines: first, creating a favourable external environment of banking; second, building the internal dynamics of banks; and third, fostering contestability of markets within the banking sector.

d) Equitable Growth and Social Impact of Policies

As indicated earlier, the expected annual average GDP growth rate is 7%. All sectors will contribute to this growth. Given the overriding emphasis on the transformation of the rural economy in general and the agricultural sector in particular, agriculture is expected to grow at annual average rate of 7.5% during the program period. The modern goods producing sector (industry) is expected to grow at 7.8%. Within industry, large and medium scale manufacturing, electricity & water, and construction are expected to show higher annual average growth rates. The distributive service sector is expected to increase at the rate of 8% per annum while the other service sector is forecast to increase at the rate of 5.4% per annum. These levels of growth must be achieved in such a manner that ensures equitable growth and a positive social impact.

Building blocks: Interaction of the Economic and Political Processes

Economic strategy has to be viewed in conjunction with the political process for it to be an effective development promoting and poverty-reducing instrument. Given poverty reduction will continue to be the core of the agenda of the country's development, the strategy is built on **four pillars (building blocks)**. These are: Agricultural Development Led Industrialization (ADLI), Justice system and civil service reform, decentralization and empowerment, and capacity building in public and private sectors. Such a four-pronged approach is believed to be effective in a fight against poverty and ensure sustainable development.

a) ADLI & Food Security

Ethiopia's existing realities reveal that there is an acute shortage of capital. In contrast, the country is endowed with a large number of working age population and a potentially cultivable land although land is still relatively scarce in some part of the country, particularly the northern and central high lands. It is believed that faster growth and hence economic development could be realized if the country adopts a strategy that help raise the employability of our labour resources and enhance productivity of land resources aimed at capital accumulation. Pursuing a development strategy that does not make extensive use of the manpower and intensive use of the land resources forfeits the considerable contribution that these resources could make to growth and capital accumulation.

ADLI is seen as a long-term strategy to achieve faster growth and economic development by making use of technologies that are labour using, but land augmenting, such as fertiliser and improved seeds and other cultural practices. During the first stage of ADLI, agriculture is to play a leading role in the growth of the economy. But the extremely small ratio of urbanization of the country threatens to make inadequacy of domestic demand a critical constraint. This implies that agriculture has to be made internationally competitive, and that part of its production has to be oriented towards exports.

For agriculture to continue serving as an engine of growth in the coming years, through the domestic economy and international trade, there has to be progress in terms of commercialization, with more intensive farming, increasing proportion of marketable output and correspondingly decreasing ratio of production for own consumption. Aside from deepening technological progress, it will mean greater market interaction on the part of the farmer. Extension of credit to the small farmer will gain importance with commercialization of agriculture, and give impetus to the establishment of rural banks. Cooperatives play important roles in facilitating input and output marketing as well as in promoting the provision of rural finance. The problem of food security and agricultural growth in pastoral areas is being conceived in terms of the development of the pastoral economy in its entirety.

Unless industry (secondary-modern goods producing sectors) and services (tertiary-distributive and other services) grow in conjunction with agriculture (primary –agriculture and allied activities), it is not possible to ensure accelerated growth and sustainable development. In an agrarian economy such as Ethiopia, the resources for the development of the industrial sector need to be generated via primarily creating strong bondages between agriculture and industry and subsequently exploiting these linkages via the concerted efforts of non-state actors, particularly the **non-peasant private sector**.

In this regard, the government has already recognized the key role that the non-peasant private sector is expected to play in directly taking part in agricultural production, agricultural marketing and processing agricultural products. The government will make every effort to enhance and buttress the contribution private sector (domestic and foreign) will make to agricultural development endeavors. The federal government, in collaboration with regions, will work hard to allocate land for commercial farming, make sure that there are adequate infrastructure facilities, and streamline and make efficient land lease procedures for entrepreneurs who wish to set up large - scale commercial farms. For those who want to rent land from farmers and take part in agricultural activities, the federal government, again in collaboration with the regions, will work out an efficient arrangement, which will safeguard the interests of all parties concerned.

b) The Justice System and Civil Service Reform

Cognizant of the urgent need to address the wide array of capacity constraints that hindered the performance of public institutions in Ethiopia, the Government embarked on a comprehensive Civil Service Reform Program (CSRP) in 1996. Indicative of Ethiopia's "first generation" capacity building efforts, the CSRP sought to build a

fair, transparent, efficient, effective, and ethical civil service primarily by focusing on strengthening core technocratic systems within the public sector.

Of greatest importance now are the second-generation reforms. Key challenges for the Government in this “full implementation phase” of CSRP will be to ensure a regional and *woreda*-level focus, maintain strong coordination across line ministries and tiers of government, provide clear incentives for behavioral change among civil servants, and establish benchmarks against which to measure impact.

c) Governance, Decentralization, and Empowerment

Decentralization is an outcome of the adoption of a federal system of government in Ethiopia. With the devolution of power to the regional governments, implementation of economic policies and development programs is shifting, to a large extent, from the center to the regions. The application of fiscal federalism ensures a single system of taxation, allows some revenue collection by the regions and some revenue sharing with the federal government while putting the majority of the revenue under the central authority, provides budgetary subvention to the regions, and grants the regions full autonomy in budgetary expenditures.

By way of deepening and broadening the decentralization process, measures are currently under way to pave the ground to render districts (*Woredas*) the center of socio-economic development. By way of ensuring their autonomy on resources, it is already planned to effect block grants directly to districts (*Woredas*). This will provide a basis for a meaningful participation by the people in local development programs. Typically this will entail primary education, primary health care, rural water supply, rural roads and agricultural extension. Other activities such as small-scale irrigation, market infrastructures, and cottage industries could also be included depending on financing, capacity building and private investment. Gender equality will continue to be emphasized in the process of decentralization and empowerment.

As the Government seeks to implement these decentralization efforts in a relatively short period of time, it faces immense fiscal and institutional challenges. To be sustainable, this second wave of democratic decentralization will require a systematic approach to developing enabling legislation for local governments within regions including the re-demarcation of financing viable local jurisdictions and the harmonization of various forms of local government (including *Woredas* and municipalities). In addition, regions will formally assign expenditure and revenue responsibilities within regions in ways that maximize operational efficiency. Concurrently measures are also being taken in the area of capacity building, as technical capacity limitation is believed to be the major constraint in the course of implementing the decentralization process, which in turn is expected to foster socio-economic transformation at the grass-root level. The establishment of the new Capacity Building Ministry is one testimony for the government's commitment to further deepen the decentralization process.

Accordingly, the role and functional restructuring of regional bureaus (including sustainable redeployment of staff) will be undertaken in line with the above-mentioned expenditure assignments, and in parallel, *Woredas* and municipalities will be appropriately restructured to ensure that they take on new functions and develop required core competencies. The democratic aspect of decentralization will also depend on strengthening the capacity of communities and civil society groups to federate and more effectively take advantage of the opportunities for voice that decentralization affords. Finally, once capacitated and restructured, local governments will require fiscal support to build their capital stock consistent with their service delivery investment needs.

Besides, the devolution to *Woredas* and *Kebeles* which are instruments for deepening and strengthening democracy and good governance in Ethiopia, the Government will give priority to strengthening democratic institutions. Strengthening the council of peoples' representatives and operationalizing the Ombudsman and Human Right commission are priority actions.

d) Capacity Building

The government in December 1998 has prepared a strategy for capacity building and program framework. It is hoped that external assistance will be obtained and that it will be mostly implemented within the medium-term. The strategy and program framework of capacity building that has been formulated is designed to feed into ADLI,

judiciary and civil service reform, and decentralization and empowerment. Thus, it fits properly to the country's poverty reduction strategy.

Capacity building is taken to comprise the development of human resources, building and strengthening of institutions, and establishment of effective working practices in combination. The program is to be implemented in relation to smallholder agriculture, the private sector, and the public sector, including the judiciary. Training of farmers, supporting micro-financing institutions, and strengthening public and private sector organizations involved in the development of agriculture will be the main activities concerning smallholder agriculture. As to the public sector, capacity building will run parallel to the judiciary and civil service reform. Taxation will receive priority within the civil service reform.

Capacity building will include education in order to increase the stock of trained manpower in general and to upgrade the manpower within the civil service. The training needs of regional and district administrations will receive special attention. Various activities will be undertaken to develop the private sector. The activities include establishing industrial training institutes, strengthening of the financial sector, supporting the development of chambers of commerce and industrial associations, and improving the setting of product standardization.

Key Sectoral Measures and Cross-cutting Issues

a) Agriculture

Some of the proposed measures in the agricultural sector during the program period are:

- Introduce menu based extension packages to enhance farmers choice of technologies;
- Expand borrowers' coverage of micro-financing institutions;
- Establish an institute for diploma-level training of extension agents and expand agricultural Technical Vocational Education Training (TVET);
- Measures for the improved functioning of markets for agricultural inputs (fertilizer, seed) and outputs;
- Organize, strengthen and diversify autonomous cooperatives to provide better marketing services and serve as bridges between small farmers (peasants) and the non-peasant private sector;
- The possibility of establishing an agricultural products exchange market will be studied, and, if found feasible, implemented;
- Agricultural research, water harvesting, and small-scale irrigation;

The number of farming households to be covered by the Extension Package Program is expected to increase from the current 4 million (2000/01) to 6 million by the end of the program period. There were only 32,000 farmers when the package was introduced in 1994/95.

b) Food Security

Agricultural growth will also contribute to improving the conditions of food security in the country. There are indications that excepting conditions of drought, even the present extension program could have sufficed to bring about a satisfactory level of national food security. However, as it stands now droughts occur far too often and food security in all its dimensions could not be sustained. Irrigation would have to be introduced in a significant way for a sustainable attainment of food security at the national level. However, food insecurity at the household level could still persist despite growth of food and cash crops at national level. The solution would have to come predominantly from within agriculture. The salient features of the ongoing food security strategy are outlined in section 7.2. (Chapter VII) in the main SDPRP document.

The medium-to long-term target is to reduce the absolute size of the food insecure rural population substantially and make them exit from food aid. In the short-run, the objective is to rely on fiscal transfer of resources to support a relatively small numbers of food-deficit households. For the country as a whole, tackling food insecurity at the household level is, arguably, the most effective and direct way of poverty reduction being envisaged by the government, and, no doubt, among the most important programs.

During this transition, there will be continued reliance on food aid. There are two main issues in this regard; ensuring a timely intervention to avoid lack of food, and using the resources of food aid to build the potential of agriculture and rural infrastructure. The concept of linking relief with development has been applied since the late 1980s. Various activities of environmental protection such as soil and water conservation, terracing and afforestation carried out over the years have shown positive results, and will be improved and continued in the future. Emergency capabilities have also been strengthened in the past few years by reorganizing the Disaster Prevention and Preparedness Commission (DPPC), and establishing a Food Security Reserve Administration (FSRA). Monitoring, surveillance, early warning, and strategic food reserves capabilities will continue to be augmented to better deal with emergency situations of famine.

The profile of shocks, extent of vulnerabilities and coping strategies put in place are, articulated and discussed in Chapter IX of this document.

c) Education

Ensuring access to elementary education for all citizens along with improving quality and relevance to socio-economic development is the objective of the ESDPII.

With regard to primary enrollment, one of the program targets is to achieve a GER of 65% by the end of the program (2004/2005). To ensure that this target can be met, while ensuring that quality does not suffer, the enrolment increase will be accompanied by construction of facilities, training and deployment of new teachers for primary level, development of syllabi and textbooks for primary schools, and the use of quality assessment mechanisms for education in primary schools.

With regard to Secondary Education, the secondary first cycle will expand in line with the high coverage observed in the primary education. As the content of education at this level is to prepare students for various training programs and subsequent learning, considerable attention will be given to the quality of education. The secondary school second cycle will expand in line with the desired intake capacity for higher educational institutions.

The program target is to achieve a GER of 16% for the first cycle of secondary education and a GER of 8% for the second cycle by the end of the program period (2004/2005). Efforts will be made in the construction of facilities, revision of syllabi, provision of textbooks, development of assessment mechanisms for the quality of education, and the training and deployment of new teachers in secondary schools.

With regard to TVET, the program target for TVET institutions is to enroll 130,000 students (or equivalently 55,000 annual intakes) by the end of the program period (2004/05), along with significant measures to enhance quality of education and management of TVET institutions.

With regard to Higher (Tertiary) Education, the program targets are to expand the undergraduate intake capacity of all higher education institutions in the country to reach 30,000 per annum by the end of 2004/05, and expand the postgraduate intake capacity of higher education institutions to reach 6,000 by 2004/05. Efforts will be made to carry out construction of facilities, training, curricula reform, and quality assessment.

d) Health Services

Health Extension Package (HEP) is a new initiative included in the HSDPII. It is an innovative community-based health care delivery system aimed at creating healthy environment as well as healthful living. The main objective of HEP is to improve access and equity through community/kebele based health services with strong focus on sustained preventive health actions and increased health awareness.

The health extension service will be provided as a package focusing on preventive health measures targeting households particularly women/mothers at the kebele level. A new cadre of health workers (75% females) will be trained and deployed utmost two in each kebele and they will be accountable to health centers of their areas. The implementation is expected to start in FY 2002/03 on pilot basis using the existing Primary health Workers.

The overall objective of the HSDPII is to increase access for health services. The program (HSDP II) gives priority to the prevention of diseases. Preventive health service, health service coverage (expansion and maintenance), and quality of healthcare will be given priority during this program period. One of the key targets of the HSDPII is to increase health service coverage from 52% in 2001/02 to 65% by the end of the Program period (2004/05).

e) HIV/AIDS

HIV/AIDS is already putting a brake on economic growth in the worst affected countries through diversion of investment, deficit-creating pressures on public resources, and loss of adult labor and productivity. Ethiopia is one of the Sub-Saharan African countries where the HIV/AIDS infection is high; one out of every thirteen adults is believed to be infected. In urban areas, more than one out of every six adults is being infected.

The government of Ethiopia approved a comprehensive HIV/AIDS policy in 1998 with the overall objectives of guiding the implementation of successful programs to prevent the spread of the disease, decreasing the vulnerability of individuals and communities, caring for those living with the disease, and reducing the adverse socio-economic consequences of the epidemic. It has also developed the Strategic Framework for the National Response to HIV/AIDS, 2000-2004. Reducing the level of transmission is the key element in the overall prevention and control of the disease.

To support the AIDS control program through capacity building, training of people from all sectors, the youth, and other community groups will be conducted. This includes strengthening the secretariat offices at the regional, zonal and *woreda* levels to be able to provide appropriate treatment for STDs and extend support to people living with HIV/AIDS and their relatives.

The major objective regarding HIV/AIDS is to reduce prevalence of the epidemic. The instruments (measures) devised to achieve this objective are:

- Establishment of functional institutional framework at federal, regional, and *woreda* levels;
- Define work programs to facilitate the functioning of *woreda* (district) councils;
- Increase the number of clinics providing voluntary counseling and testing by 10 %;
- The target is to reduce the level of HIV transmission by 25% within 5 years.

f) Roads

The objective of first phase of the Road Sector Development Program (RSDP I) was mainly aimed at upgrading and rehabilitating the existing road network. The RSDP II has given attention to the expansion of the existing network in order to enable the road infrastructure support the country's endeavor to attain economic development and poverty reduction. The first three years (2002/03-2004/05) of RSDP II target is to:

- Increase the rate of acceptable roads from an average 57% for all road types to 82% by the end of 2004/05;
- Increase the road density from the current 29-km/1000 km² and 0.48-km/1000 people to 47-km/1000 km² and 0.70-km/1000 people by the end of 2004/05 (including low class roads).

The government has already recognized the challenges towards meeting these targets and is already taking measures to strengthening the institutional and organizational capacity of federal and regional road agencies for sustainable implementation of the RSDP and up-keep of the road network. The role of local private contractors is also already internalized. To this effect, the Government plans to assign 40% of road maintenance works (in sub-sector terms), to private sector contractors in the short term and increase the level to 100% in 10 years time.

An important aspect of RSDP II is that it introduces a new dimension covering the requirements of travel and transport at village level: the Ethiopian Rural Travel and Transport Sub-Program (ERTTP). Throughout Ethiopia many rural villages are cut off during the rainy seasons, and women head loading undertakes transport predominantly. The ERTTP is expected to better support agricultural and other commercial activities in the regions, and thus provide a sound and sustainable foundation for the on-going economic development and poverty reduction effort in the country.

The ERTTP, is therefore, an integrated rural development initiative that revolves around rural travel and transport and it envisages the following activities during RSDP II:

- Construction of substantial amount of low level rural roads,
- Provision and expansion of a conventional and intermediate means of transport,
- Expansion of facilities and optimization of facility, and schemes that raise the rural household income level.

g) Water and Sanitation

The overall objectives of the national water resources management policy of Ethiopia is to enhance and promote efforts towards an efficient, equitable, and optimum utilization of the available water resources and contribute to the country's socioeconomic development on sustainable basis.

During 2002/03-2004/05 water supply coverage of urban, rural and country level is expected to reach at 82.5%, 31.4% and 39.4% respectively. With respect to the urban sewerage, coverage will increase annually by 3.5% from its current level of 7%.

During the program period (2002/03-2004/05) irrigation program aims to develop a total of 29,043 hectare of new land, which bring the total area under irrigation to 226,293 hectare by the end of 1997 making 114,390 household beneficiaries. The small scale irrigation schemes for the period (2002/03-2004/05) is expected to cover an area of 23,823 ha benefiting about 93,510 households.

h) Gender and Development

In almost any country, women and men have different access to critical economic resources and varying power to make choices that affect their lives, as a consequence of the state of gender relations that exists in a given society. The direct result of this is seen in the unequal roles and responsibilities of women and men. Core dimensions of poverty (opportunity, capability, security/risk, and empowerment) differ along gender lines, and function to heighten the vulnerability of women. For these reasons, the inclusion of gender in any effort to alleviate poverty is non-negotiable.

The government of Ethiopia is committed to eradicate poverty, particularly addressing its gender dimension. Over the last decade, the government has renewed its commitment to address gender inequalities that deter long-lasting change and equitable development. Apart from endorsing the National Policy for Ethiopian Women, the government has created supportive constitutional provisions to establish women's equality with men.

The Women's Development Initiatives Project (WDIP) is an example of an initiative that offers particularly poor women in rural settings critical economic opportunities to help fight their desperate situation. Recent changes in the family code, and attempts by the sector ministries, commissions, and authorities to institute sectoral policy guidelines to address gender issues within their operational framework, have resulted in an improvement in the policy environment and programmatic directions. However, over time it has been observed that progress in women's lives is not proportionate to the progress made in the policy and legal environment. This calls for expediting the socio-economic development process with the required gender sensitivity.

Women are a critical component of the rural economy and are engaged in agricultural production. They contribute significantly to off-farm production/employment, cash and food crops, subsistence farming, and reproduction of male agri-labour forces. Nonetheless they lack adequate access to extension services.

The level of education attained has had a direct bearing on poverty. The literacy rate in general and that of women in particular is far away from what the government of Ethiopia wishes to achieve. Women's education is one of the important aspects of their self-development, and is closely related to their participation in productive activities, control over their own life and body, the education of their children (particularly daughters), and their negotiation ability vis-à-vis institutions and men. That is why expediting the implementation of ESDP II is given high priority by the government.

The government of Ethiopia recognizes the need for gender sensitivity of the health system for equitable development. Addressing existing biases within the health system is extremely important, and the government is committed to further strengthen the implementation of Health Sector Development Programme.

Women have greater vulnerability to HIV/AIDS than men because of epidemiological, biological and socio-cultural reasons. There is a need for strengthening and devising mechanisms for implementation of gender responsive HIV/AIDS prevention and community level coping measures in collaboration with the National HIV/AIDS Council and Secretariat. These include activities ranging from awareness creation/raising, information delivery methods and systems, availability of counseling services, peer group education, laboratory set-up, gender sensitive human resources development, challenging social taboos, training, and research.

The Role of Development Actors in SDPRP

The Government is working towards effective mobilization and coordinated use of the resources of the public, private, NGOs and communities to ensure rapid, broad-based development and effectively attack one of the most serious challenges that Ethiopia is facing-deep and wide poverty.

The Government has made a political choice to further deepen the democratization and devolution process by transferring a number of responsibilities from regional governments to Woredas and Kebles. This will be accompanied by fiscal empowerment. This is a fundamental shift in the history of Ethiopia, which mandates communities through their elected councils to plan, allocate budget and implement to address their socio-economic problems. This is a key process that will unlock the energies of communities to face the challenge of poverty at its root. They will be provided with budget grants to make their empowerment effective and complement their local resources, which for sure they will mobilize to address their own problems, by themselves.

The government recognizes NGOs as an important development force and partner. They are already involved in the core poverty oriented sectors-agriculture, health, education, water, rural roads and other rural development activities. The Government will facilitate so that these experiences and resources are brought in and coordinated with in the SDPRP framework.

The donor community is also important development force and partner in Ethiopia. Donors have been and are assisting Ethiopia's development effort and have been active in the PRSP preparation.

Given the level of poverty and the low level of per capita ODA Ethiopia currently receives (below the Sub Saharan average), there is expectation for increased inflow of ODA resources to support the country's strategy and priority programs for broad-based development and poverty reduction. It is also expected that aid flows are not impeded by traditional aid delivery mechanisms. There is a clear and strong preference for budget support, which becomes an imperative with the ongoing decentralization from Regions to *woredas* and *kebles*. The DAG has expressed its readiness to support SDPRP and some members of DAG have decided to move towards budget support in their aid delivery and the government will create conducive environment for its realization.

Development partners are also expected to facilitate market access, trade and foreign investment flows to Ethiopia to contribute to the realization of development and poverty reduction objective of Ethiopia. Support to capacity building for trade so that Ethiopia can effectively make use of existing market access opportunities such as AGOA and EBA becomes critically important.

Introduction

Ethiopia is land of contrast. She is the second most populous country in Sub-Saharan Africa with a population of 67 million in July 2002. The country has a long history, mosaic of peoples and diverse cultures. Ethiopia has reasonably good resource potential for development-agriculture, biodiversity, water resources, minerals, etc. Yet, Ethiopia is faced with complex poverty, which is broad, deep and structural. The proportion of the population below the poverty line is 44 per cent in 1999/2000. Thus, poverty eradication was and is the central development agenda of the government that guides its development activities.

In preparing its Sustainable Development and Poverty Reduction Strategy Program (SDPRP), on the experience of the 1990s, the Government has conducted extensive reviews of its agriculture and rural development policies; the performance and constraints of key sector programs on education, health, and roads; issuance of new water resource development policy and strategy and formulation of sector development programme for the same; strategy definition for HIV/AIDS and conducted technical analysis on the nature, dimension and causes of poverty; study on growth and poverty linkage as well as its good governance, decentralization and empowerment process.

The Government has also issued white Papers on Rural Development Policies and Strategies, Capacity Building and Democracy in Ethiopia, which have been and are being discussed at different fora. This, too, has contributed to the preparation of this document.

In October 2001, the Government reorganized its structure to provide effective guidance and support to the challenges of rapid economic growth and poverty reduction. This is also underpinned by political commitment towards deepening of the devolution process to *Woredas* and *Kebeles* facilitating the direct participation of the people in growth and poverty reduction endeavors.

These technical and political exercises are complemented by extensive, transparent and inclusive consultations conducted at *Woreda*; Regional and Federal levels with multi-stakeholders active participation - NGOs, private sector, communities and development partners.

On this basis, care has been taken to address, as far as possible, critical issues of sustainable development and poverty reduction in Ethiopia. The document provides a sound basis to continue the implementation of sustainable development and poverty reduction program activities in a focused, strengthened and decentralized manner.

However, the government also realizes that this document is not a perfect blueprint for all the technical issues relevant to Ethiopia's sustainable development and poverty reduction. Gaps will be filled through learning by doing since PRSP is a process not an immutable blueprint. Such dynamic conception would allow incorporating new changes as our understanding of critical issues of growth and poverty reduction in Ethiopia improves, underpinned by technical studies and implementation feedbacks through monitoring and evaluation system.

This document presents Ethiopia's Sustainable Development and Poverty Reduction Program. The first four chapters provide background-socio-economic performance and poverty profile of Ethiopia, growth-poverty linkages, the consultation process and outcomes, and challenges of development and poverty reduction in Ethiopia. It goes on to outline overview of the policies/strategies, goals, objectives and targets of SDPRP. Chapters that discuss strategies and programs for key sectors and crosscutting issues follow this. It then presents the macroeconomic framework and financing of the program. The last chapter deals with monitoring, evaluation and the role of development actors, which is followed by conclusions and appendices.

I. Socio-economic Performance and Poverty Profile of Ethiopia

1.1. Socio-economic Performance During the 1990s

Ethiopia with a population of about 67 million in July 2002 is the third most populous country in Africa. The country has long-standing history, diverse cultural heritage, and reasonably good resource potential for development. Yet, the majority of the population lives in absolute poverty. In this context, the 1980s was marked by a state of crisis. Thus, by the turn of the 1990s economic policies and management under the command economic system, protracted civil war and recurring drought left the economy in deep crisis which manifested itself, among others, in: weak economy where growth plunged in most of the years and accompanied by loss of productive capacity, competitiveness, and increased food insecurity; severe macroeconomic imbalance and instability, and social crisis involving millions of displaced persons, refugees, demobilized soldiers, homelessness and unemployed people.

It was against this background, that the then Transitional Government of Ethiopia (TGE) initiated a broad spectrum of reform measures to address both the immediate need of economic recovery and reconstruction to jump start the economy as well as the long-term structural problem of underdevelopment.

The primary notable achievement in Ethiopia in the early 90s was the end of internal conflict followed by successful transition made towards peace and democracy. Since then, a federal system of government has been put in place with the 1994 constitution guaranteeing democratic and human rights as well as laying the basis for devolution of decision making power and responsibilities to regional states, thus creating the foundation for participatory development and empowerment.

Thus, Ethiopia began the 1990s with a clear vision of reversing the socio-economic crisis of the 1980s and rapidly transforming the economy. In 1992/93, the government began its first series of economic reform programs. The reform program were aimed at reorienting the economy from command to market economy, rationalizing the role of the state and creating legal, institutional and policy environment to enhance private sector investment. The adoption of Agricultural Development Led Industrialization Strategy (ADLI) provided long-term development framework for economic transformation.

Adjustment policies focused on liberalization of prices and markets, removal of subsidies, reduction of tariffs, and current account convertibility. These were buttressed with fiscal and monetary policy discipline. The favourable policy environment created by the economic reform, coupled with macro-economic stability, invigorated the domestic private sector, which was suppressed during the Derg period. The smallholder farming family was made the focus of economic development with a massive agricultural extension and credit scheme, and expansion of primary education, primary health care, rural water supply and rural roads.

Macroeconomic indicators of the performance of the economy during the 1990s give an overall picture of a declining trend of poverty. GDP grew at an annual average rate of close to 5 percent during 1992/93-2000/01, with sectoral growth rates of 2.5 percent for agriculture, 5.3 percent for industry, 6.3 percent for distributive services (i.e. transport and communication trade and tourism), and 8.2 percent for "other" services. Within agriculture, crop sub-sector, had registered an annual average growth rate of 4.9 percent during 1992/93-2000/01. Inflation, another important variable affecting poverty stood generally at a low rate and has been checked on average within single digits (below 5 percent) from pre-reform two years level of 21 percent.

During the period 1992/93-2001/02, GDP per capita has been growing by 2.4 percent per annum (Table 1.1). Though still low, such a growth in per capita terms is believed to be encouraging given the situation Ethiopia was in during the last two years of the late 1990s, notably weather related shocks, Ethio-Eritrea border conflict and major terms of trade loss.

Table 1.1: Selected Socio-economic Indicators

| Indicators | 1980/81-1991/92 Average | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | Annual Average Growth Rates (%) |
|---|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------------------------------|
| Real GDP Growth Rate (%) | 1.7 | 11.9 | 1.5 | 6.2 | 10.6 | 5.2 | -1.4 | 6.0 | 5.4 | 7.7 | 5.0 | 5.8 |
| Real GDP per capita (Birr) | 243.3 | 228.7 | 226 | 231.6 | 248 | 253.2 | 242.8 | 250.6 | 260 | 275 | 286 | |
| % Change in GDP over the previous year (%) | -1.0 | 9 | -1.2 | 2.5 | 7.1 | 2.1 | -4.1 | 3.2 | 3.8 | 5.8 | 4.0 | 2.4% |
| Real Agricultural Value Added per capita (Birr) | 128.4 | 122.3 | 114.5 | 115.1 | 127.8 | 128.3 | 111 | 111.9 | 112.7 | 123.9 | 128.4 | |
| % Change in Agric. value added over the previous year | -1.44 | 3.2 | -6.4 | 0.15 | 11.0 | 0.4 | -13.5 | 0.8 | 0.7 | 9.9 | 3.6 | 0.2 |
| Non-Agricultural Value Added Per Capita | 114.9 | 106.4 | 111.5 | 116.6 | 120.2 | 125 | 131.8 | 138.7 | 147.8 | 151.1 | 157.5 | |
| % Change in Non-Agricultural Value Added over the previous year | -0.47 | 16.4 | 4.8 | 4.5 | 3.2 | 4.0 | 5.4 | 5.2 | 6.6 | 2.2 | 4.2 | 4.4% |
| Inflation (%) | | 10 | 1.2 | 13.4 | 0.9 | -6.4 | 2.33 | 4.8 | 4.2 | -7.2 | | |
| Mid-Year Population Growth Rate (%) | 2.83 | 2.8 | 2.9 | 2.9 | 3 | 3.2 | 3 | 3.1 | 3 | 2.93 | 2.89 | |
| Total Education Expenditure as % of GDP | 2.3 | 3.6 | 3.9 | 3.4 | 3.4 | 3.4 | 3.5 | 3.5 | 3.2 | 4.2 | 4.8 | |
| Total Health Expenditure as % of GDP | 0.7 | 10 | 1.2 | 1.3 | 1.3 | 1.3 | 1.5 | 1.4 | 1 | 1.8 | 1.9 | |
| Total Road Expenditure as % of GDP | | 0.7 | 1.5 | 2.2 | 1.8 | 2.3 | 2.2 | 2.5 | 1.7 | | | |
| Defense Expenditure as % of GDP | 7.9 | 2.6 | 2.3 | 2.2 | 2 | 2 | 4.9 | 8.7 | 13.1 | 6.4 | 5.9 | |

Source: Ministry of Finance and Economic Development (MOFED), various issues

The sharp increase in the productivity of crop production within the areas of reliable rainfall contributed towards improvement in the performance of the agricultural sector. Notwithstanding the negative effect of adverse climatic changes on total crop output and prices, the upward trend of crop production, which occurred in the 1990s, helped to secure a relatively low rate of inflation for most of the period. Parallel to this, the growth of exports, following the economic reform, coupled with the moderate balance of payment support the country obtained, helped to maintain a relatively stable exchange rate regime.

Production of major crops (cereals, pulses, and oil seeds) during both the main (Meher) small (Belg) seasons, which accounted for well over 60 percent of agricultural value added, has been increasing at the rate of over 6 percent during the decade ending in 2000/01. The highest growth in the production of major crops during this period was recorded in 1995/96 (about 32% for both seasons compared to the previous year) reaching over 98 million quintals. Production of major crops had not exceeded 68 million quintals during the 1980s. Main season production of major crops on average accounted for well over 95 percent of total production of major. The highest level of production of major crops is reached in 1996/97 (over 104 million quintals) during the 1990s. The lowest recorded during the decade was in 1991/92 (about 57 million quintals). In 1991/92, production of major crops dropped by about 18 percent compared to the previous year.

The downsides of agricultural performance has been in one way or another related to the performance of the crop sub-sector (major crops production) affected by weather related factors including EI Nino years which underlies the erratic performance of the agricultural sector. Notwithstanding this, the extension program adopted by the government has been positive in boosting agricultural production (crop production). This has, however, been accompanied by a decline in producers' prices of agricultural production (major crops) and equally affected the incomes of poor farmers. Despite successes with agricultural program there remain problems - the lack of markets, un-sustainability of current credit guarantee/fertilizer arrangements.

Concomitantly, the observed quick and substantial improvement in the performance of the non-agricultural sector reinforced the gain from agriculture. The non-agricultural sector value added per capita has been on average increasing at 4.4 percent per annum during the period 1992/93-2001/02 (Table 1.1). This in turn, was made possible in part by, increased private participation and efficiency gain in public enterprises. In this regard, it is believed that the restoration of stable macroeconomic environment accompanied with measures to correct cost and price distortions in the economy has improved the incentive environment. Particularly, the correction of exchange rate misalignment, rationalization of the level, structure and coverage of tariff, and the lowering of the distorting effect

of tax on the economy, the liberalization of labor and credit markets, institutionalisation of land market, commercialisation of public enterprises (PEs) and the initiative taken to privatise PEs have created positive environment for private sector.

With respect to foreign direct investment (FDI), the Government's commitment in creating conducive environment notably of liberal investment code, opened the way for attracting capital, technology and know-how. Over the period 1995/96 to 2000/01, 262 foreign investment projects received certificate, of which 56 have become operational. Ethiopia has made every effort possible to put in place an investment code in which measures for attraction, protection and guarantees of foreign and domestic private investment have been codified. The investment code has been revised three times, the latest in May 2002.

Following the end of the internal armed conflict in 1991, the country's public expenditure was re-oriented towards social and economic development. A sharp decline in defence expenditures was witnessed in the aftermath of the conflict of the 1980s. These trends in defence expenditure have allowed sizeable increases in poverty-related expenditures.

Accordingly, spending on human development (education and health) has been increasing in relative terms and has been even more pronounced subsequently after the launching of the Education and Health sector development programs in 1997/98. Total spending on education increased from 2.6% of GDP in 1992/93 to 3.5% in 1996/97 and remained at about 3.5% during 1997/98 and 1998/99. Public spending on education showed modest decline to 3.2% of GDP in (1999/00). It picked up in 2000/01 and 2001/02 (4.1% and 5.5% of GDP respectively). Spending on health has also followed the same trend increasing from 1% of GDP in 1992/93 to 1.4% in 1996/97 while it decelerated to 1% before it picked up 1.8% and 2.1% of GDP in 2000/01 and 2001/02, respectively.

Reflecting the above developments social indicators (education and health) showed improvements. With regard to education, gross enrolment for both sexes at primary level (i.e. the two cycles grades 1 to 4 and 5 to 8 combined) increased from 35 percent in 1995/96 to 51 percent in 1999/2000, enrolment for girls increased from 26 percent to 41 percent per cent during the same period. Increases in gender gaps, repetition rates, and drop out rates are key problems that have had direct bearings on the quality of education in Ethiopia.

With respect to health services the assessment of HSDPI has indicated an increase in health coverage from 49% in 1995/96 to 52% in 2000/01. Infant mortality was also brought down to 97/1000 from around 110/1000 in the early 1990s.

Finally, looking at the nexus between policies and programs, on the one hand, and poverty, on the other, the main factors as of recent years appear to revolve around broad-based growth process and macro-economic stability. Making smallholder agriculture an important source of growth for a least-developed country such as Ethiopia clearly maximizes the inclusiveness of the growth process as it captures the rural population. This necessitates possession of assets of land, skill and capital by the smallholder farmer. Following the removal of the monarchy and the dissolution of feudalism in Ethiopia, farmers have access to land. Acquisition of skills is made possible through extension, and capital through credit. Furthermore, the labor asset of the farmer is augmented with primary education and primary health care. Macroeconomic stability enters the nexus in two ways: broadly by affecting growth through savings and investment and narrowly by affecting the rate and access to credit by the farmer.

A high rate of interest regime pre-empts a broad-based growth process involving smallholder farmers. In Ethiopia's case, it appears that fiscal discipline, non-expansionary monetary policy, sequentially ordered deregulation of financial markets, and exchange market liberalization limited to the current account in combination have closed the possibility of the emergence of a high interest rate regime. This underscores the importance of ensuring coherence between economic reform and ADLI strategy for the realization of poverty reducing growth.

Despite the visible overall improvement of the Ethiopian economy in the 1990s compared to that of the 1980s, poverty in Ethiopia is still among the highest in the World. The analysis that is presented below on the poverty profile of Ethiopia clearly shows the deep, broad and complex poverty situation in the country.

1.2. Poverty Profile of Ethiopia

Recent statistical data on poverty and other indicators of welfare are available from the Welfare Monitoring System, which has been managed by the Ministry of Finance and Economic Development (MOFED). Data on income poverty are available from two national Household Income Consumption and Expenditure (HICE) surveys carried out by the Central Statistical Authority (CSA) in 1995/96 and again in 1999/2000. Other data are also available from a series of welfare monitoring surveys (WM) conducted annually (save one year) since 1995/96. Most of the data reported in this chapter are derived from the HICE and the WM surveys. Further details are published in the Poverty Profile of Ethiopia (MOFED, 2002).

The sample households covered in the WM survey increased from over 11500 in 1995/96 to over 25900 in 1999/2000. The 1999/2000 HICE covered more than 17,000 households, most of which were also covered by the WM survey and is based on a sample that provided representative results for 15 major urban centres, 11 rural regions and 9 other urban areas. The 1995/96 HICE used much the same design, but was based on a smaller sample of about 12,000 households. As with all sample surveys, reported results are subject to sampling error and caution needs to be used when interpreting detailed results at low levels of aggregation. In both the HICE surveys, total consumption expenditure was used as the main money measure of household welfare.

1.2.1. Trends in Consumption Poverty: Inter-temporal and Spatial Dimensions

Analysing trends in poverty is extremely useful in determining the effect of policy on poverty reduction. In Ethiopia, the 1995/96 and 1999/2000 HICE surveys provide the opportunity to examine trends in expenditures and income poverty. However, when examining trends, one must recognize that many other factors can affect the level of poverty at any given time, including weather (especially drought), war, and external shocks (including changes in commodity prices). Therefore, when comparing the 1999/2000 survey results with those of 1995/96, one must keep in mind that agricultural output particularly crop production was affected by weather related factors during the two consecutive years preceding 1999/2000 and sporadic drought incidences were recorded in Somalí, Tigray, and some parts of Oromiya Regional States.

The 1995/96 agricultural seasons, on the other hand, was very good and production of most main products reached record levels. The Ethio-Eritrean border conflict was also at its climax in 1999/2000. One should also not lose sight of the fact that Ethiopia's coffee prices on the international market have been plummeting since 1995/96 and are still on the decline. Thus, the 1999/2000 HICE and WM survey results need to be seen against this background.

1.2.1.1. Trends in Per Capita Real Consumption Expenditure

Given that Ethiopia is a country with significant agro-ecological and cultural differences, substantial variation would be expected in terms of areas of economic activity, sources of income (subsistence or cash income), patterns of consumption expenditure, distribution of income, incidence, and depth and severity of poverty between regions.

According to the HICE survey results, the mean per capita consumption expenditure of Ethiopia for the year 1999/00 is estimated at 1057 Birr in constant prices of 1995/96. The real per capita consumption expenditure of rural people was 995 Birr and that of urban people 1453 Birr. These levels of real per capita consumption expenditure are equivalent to 139, 131, and 191 USD at national, rural, and urban levels respectively, based on the 1999/2000 annual market exchange rates. Poverty incidence was much higher in rural than in urban areas, the poverty head count indices being 45 and 37 percent, respectively, in 1999/2000.

Between 1995/96 and 1999/2000, per capita calorie intake apparently increased in rural areas and declined in urban areas (Table 1.2). The increase in calorie intake in rural areas is not inconsistent with the level of per capita spending on consumption. Rural people spend (use their produce) more on food than on non-food items, in fact a considerable proportion of total consumption is accounted for by own production. The surveys indicate that the food share in rural areas has increased from 60% in 1995/96 to 67% in 1999/00 while on the other hand food share in urban areas declined from 56% to 53% during the same period. However, it must be underlined that an increase in the calorie content of the consumption basket does not necessarily indicate an increase in food quality. A high proportion of the budget being allocated to basic food consumption is still an indication that people in rural areas are food insecure.

It is more difficult to interpret the changes in budget composition in urban areas and more analysis is needed to fully understand these. Some non-food expenses such as transport are more binding in urban than rural areas irrespective of level of poverty of the individual or household. The decline in poverty head count index in rural areas and the modest increase in urban areas, as discussed in subsequent sections, is however, consistent with the trend in calorie intake (rural versus urban) (Table 1.2). It should be noted, however, that the changes in mean consumption per capita in both rural and urban areas are not statistically significant.

Table 1.2: Trends in Real Consumption Expenditure and Calorie-Intake

| Items | 1995/96 | | | 1999/00 | | |
|--------------------------------------|---------|-------|----------|---------|-------|----------|
| | Rural | Urban | National | Rural | Urban | National |
| Real Food Expenditure Per Capita | 577 | 790 | 607 | 609 | 631 | 612 |
| Real Non-Food Expenditure Per Capita | 466 | 625 | 488 | 392 | 830 | 451 |
| Real Total Expenditure Per Capita | 1035 | 1411 | 1088 | 995 | 1453 | 1057 |
| Kcal Consumed Per Day Per Adult | 1938 | 2050 | 1954 | 2723 | 1861 | 2606 |
| Share of Food in total Expenditure | 0.60 | 0.56 | 0.60 | 0.67 | 0.53 | 0.65 |
| Household Size | 5.1 | 4.7 | 5.0 | 4.9 | 4.6 | 4.9 |
| Adult Equivalent Household Size | 4.2 | 3.9 | 4.2 | 3.9 | 3.8 | 3.9 |
| Gini Coefficient | 0.27 | 0.34 | 0.29 | 0.26 | 0.38 | 0.28 |

Comparisons among urban areas indicate that Addis Ababa has had the highest per capita consumption expenditure closely followed by Afar and Benshangul-Gumuz¹ in 1999/00. Taking each region by its own, Tigray has recorded the lowest per capita consumption expenditure in the country. Compared to the year 1995/1996, the per capita consumption level for 1999/00 has declined in Tigray, Afar, Somalie, Oromiya, Benshangul-Gumuz, Gamebella, and Harari. On the other hand, Addis Ababa, Amhara, SNNPR (though marginally), and Dire Dawa have witnessed increases in per capita real expenditure (Annex Table 1.1).

Comparisons between regional estimates derived from the 1995/96 and 1999/2000 HICE surveys, however, must be viewed with caution as, especially in the smaller regions, the means are derived from fairly small samples and are therefore subject to substantial levels of sampling error. In addition, most of the regions that show a decline in per capita consumption are those most affected by adverse weather conditions and the border war in 1999 and 2000(Annex Table 1.1).

Overall, urban areas witnessed an increase in per capita real consumption expenditure between the two survey years, but with considerable variation among regions.

Income distribution in Ethiopia seems to be more evenly distributed in both rural and urban areas compared to other Sub-Saharan Africa (SSA) countries. The overall consumption Gini coefficient for 1999/2000 is found to be 0.28. Income inequality appears to be higher in urban areas (0.38) than in rural areas (0.26). The low level of inequality is consistent with the overall picture of Ethiopia as a very poor country, with a low per capita income. In addition, the egalitarian land holding system might have contributed to a more equal income distribution in rural Ethiopia. While the data from the two surveys suggest that inequality has changed slightly between 1995/96 and 1999/2000, with a small decline in the Gini coefficient in rural areas and a small increase in urban areas, these changes are not statistically significant.

¹ The relatively high per capita expenditure figures for smaller regions could largely be attributed to population (sample) size and the levels should not be taken at face value and calls for careful interpretation. One should make note of the fact that these results are based on sampled households.

1.2.1.2. Trends in the Level of Consumption Poverty

To determine the incidence of poverty (number of poor), one has to establish a poverty line, a threshold level of per capita income or consumption below which an individual is considered to be poor. Establishing the poverty line starts with defining and selecting a "basket" of food items typically consumed by the poor. The quantity of the basket is determined in such a way that the given food basket meets a predetermined level of minimum calorie requirement. This basket is valued at nationally representative average prices to reach at a consistent poverty line across regions and groups. Once this is done, an allowance is made for the non-food component consistent with the spending patterns of the poor. This method yields a representative poverty line as it provides a monetary value of a poverty line that accounts for the food and non-food components.

The food poverty line used in Ethiopia is based on a basket providing 2200 kcal per adult equivalent per day. In 1995/96 prices, this basket cost Birr 647.8 per year. After adjusting for the non-food component, the total poverty line (both food and non-food) was estimated at Birr 1075.0 in 1995/96. The same "basket" and poverty line is used in 1999/00 to maintain comparability between the two survey years.

The proportion of people in Ethiopia who are absolutely poor (those whose total consumption expenditure was less than the total poverty line) during the year 1999/00 was 44%. The proportions of people who are classified as poor are 37% in urban areas and 45% in rural areas indicating that rural poverty is higher than urban poverty (Table 1.3). The moderate changes in consumption levels between 1995/96 and 1999/2000 have translated into small changes in poverty incidence. The data indicate that consumption poverty head count indexes have declined by about 3 percent at national level, by over 4 percent in rural areas and have increased by about 11 percent in urban areas. None of these differences, however, are statistically significant and the continuing high level and depth of poverty in Ethiopia clearly shows the challenge ahead. While little can be said about trends between 1995/96 and 1999/2000, the fact that poverty has not apparently increased, especially in rural areas, despite the considerable worsening of exogenous conditions between the two years does indicate that the government's development strategy and safety-net programme have been effective.

Table 1.3: Trends in Poverty Head Count Indices (Po) by Rural and Urban Areas
Percent

| Location | 1995/96 | 1999/2000 | % Change Over 1995/96 |
|----------|---------|-----------|-----------------------|
| Rural | 47.0 | 45.0 | -4.2 |
| Urban | 33.3 | 37.0 | 11.1 |
| Total | 45.5 | 44.2 | -2.9 |

The levels of consumption poverty also show significant variation among rural/urban areas and across regional states. By 1999/00, the highest rural poverty incidence was recorded in Afar followed by Tigray and Benishangul-Gumuz regional states. The lowest rural poverty incidence was recorded in Harari regional state followed by Addis Ababa and Dire Dawa city administrations.

Among the urban areas, the highest poverty was recorded in Tigray followed by SNNPR, Gambella, and Addis Ababa. The lowest poverty incidence (among urban areas) was indicated in Somalie followed by Afar and Benishangul-Gumuz regional states. In general, consumption poverty is higher in rural than urban areas of the country. While there has been some improvement in the depth and severity of rural and national poverty in 1999/00 compared to 1995/96, it was shown that the incidence of poverty has not improved much between the two survey years (Annex Table 1.2).

By 1999/00, a decline in poverty incidence has been witnessed in most of the major towns of Ethiopia. Gonder Town (Amhara) had the lowest poverty incidence followed by Bahir Dar town. The highest poverty incidence was observed in Mekele town (Tigray) followed by Jimma town in the same year. Poverty incidence, depth, and severity seem to have substantially declined in Gonder, Dessie, Bahir Dar, and Debre Zeit towns. A modest decline in poverty incidence, depth and severity has been indicated in Mekele and Nazreth towns. On the other hand, Jimma, Harar, Addis Ababa and Dire Dawa are urban areas where poverty incidence, depth and severity were more pronounced by 1999/00. Most of the changes are based on small samples and care needs to be taken in interpreting the results as large percentage changes from very small bases are unlikely to represent real changes in welfare.

Although urban areas in general witnessed an increase in consumption poverty head count index, there has not been significant increase in the depth and severity of poverty between the two periods. As is already indicated, income inequality measured by the Gini coefficient declined for rural areas and increased for urban areas while the per capita consumption of both urban and rural areas have not shown statistically significant changes (increase)(Annex Table 1.3).

The changes in poverty levels in Addis Ababa are not entirely clear. While there has been an apparent increase in mean total consumption levels, there has also been some apparent increase in the incidence of poverty. If these results represent real changes and are not just due to sampling error, then the implication is that income distribution has become more unequal between 1995/96 and 1999/2000. There are some indications that this is the case, but more detailed analysis is needed before more definitive conclusions can be reached.

1.2.1.3. Trends in the Level of Food Poverty

Households and the people living in them are defined as food poor if the food expenditure per adult equivalent is less than the food poverty line. Using this definition, the relative position of rural and urban areas in 1999/00 appears to have reversed compared to that of 1995/96. In the earlier period, food poverty was higher in rural areas than in urban areas. The results from the 1999/2000 HICE, however, indicate that the food poverty head count index was found to be lower in rural areas than in urban areas. There are a number of possible explanations for this and more investigation is needed to identify what exactly has happened. One possible explanation could be that spending in rural areas is weighted more heavily in favour of food items compared to the spending pattern of people in urban areas (compare the results in Tables 1.2 & 1.4). In rural areas at least, the picture presented in Table 1.4 is consistent with the apparent increase in calorie consumption reported in Table 1.2. It is also supported by the data in Tables 1.9 and 1.10 (subsequent section on stunting and wasting), which show some improvement in the nutritional status of young children.

Table 1.4: Trends in Food Poverty Head Count Indices (%)

| Location | 1995/96 | 1999/2000 | % Change Over 1995/96 |
|----------|---------|-----------|-----------------------|
| Rural | 47 | 41 | -12.6 |
| Urban | 32 | 47 | 43.7 |
| Total | 45 | 42 | -6.7 |

As indicated in Table 1.4, the proportion of the population under food poverty in rural areas is about 41% whereas the corresponding figure for urban areas stood at approximately 47% in 1999/00. Compared to 1995/96, the national and rural food poverty head count index declined by 6.7% and 12.6%, respectively. The urban food poverty head count index increased by 43.7 percent.

The food poverty head count index has increased in all regions save Amhara, Tigray, Oromiya and Dire Dawa. By 1999/00, urban food poverty head count index has increased compared to that of 1995/96 across regions save Dire Dawa. Among the rural areas, food poverty has declined in Tigray, Amhara, Oromiya, Addis Ababa and Dire Dawa (Annex Table1.4).

1.2.2. Distribution of National Poverty

In 1995/96, more than 50 percent of people living in consumption poverty resided in Amhara and SNNP regional states. By 1999/00, overall consumption poverty head count index in these regions had declined by 23 and 9 percent, respectively (Annex Table1.4). The influence of these two regions on the national consumption poverty is self evident given their weight in total population and agricultural production.

The income/consumption poverty analysis indicates that poverty is still a rural phenomenon as indicated by the contribution of rural areas to the poverty head count index. As indicated in Table 1.5, rural areas altogether contribute about 85 percent to total population while their contribution to total poverty head count index stood at about 88 percent in 1999/00. Urban areas altogether accounted for about 15 percent of total population while its contribution to total poverty head count index was a little over 11 percent in 1999/00. The contribution to total

poverty head count index has slightly increased in urban areas (about 1.3 percentage points) while it decreased by the same magnitude (1.3 percentage points) in rural areas in 1999/00 as compared to 1995/96.

Table 1.5: Contribution of Rural and Urban Areas to Total Poverty Incidence

| | 1995/96 | | 1999/00 | |
|----------|-----------------------------|--|-----------------------------|--|
| | Population Contribution (%) | Contribution to Poverty Head Count Index (%) | Population Contribution (%) | Contribution to Poverty Head Count Index (%) |
| Rural | 86.5 | 90.0 | 85.0 | 88.7 |
| Urban | 13.5 | 10.0 | 15.0 | 11.3 |
| National | 100.0 | 100.0 | 100.0 | 100.0 |

1.2.3. Household Characteristics and Poverty

The analysis on the main household characteristics of the population was based on the results from responses of households common to the HICE and WM surveys. According to the survey results, the average family size for Ethiopia stood at 4.9 persons per household. Comparing poor households with the richer ones, it was observed that poorer households tend to have larger family sizes (5.8 & 5.4 individuals per household in the 1st and 2nd quintiles, respectively), which stood in contrast to 4.7 and 3.9 per household in the 4th and 5th quintiles (Table 1.6). In general, poorer households in rural areas have a larger family size than their counter parts in the urban centres.

Table 1.6: Household Characteristics of the Poor (National) (1999/00)

| Household Characteristics | Expenditure Quintiles | | | | | Total |
|---|-----------------------|------|------|------|------|-------|
| | 1 | 2 | 3 | 4 | 5 | |
| Household Size | 5.8 | 5.4 | 5.0 | 4.7 | 3.9 | 4.9 |
| Dependency Ratio | 1.34 | 1.29 | 1.22 | 1.11 | 0.89 | 1.15 |
| Age of Household Head | 47 | 45 | 44 | 43 | 42 | 44 |
| Household head is Female (%) | 23 | 25 | 24 | 25 | 30 | 26 |
| Divorced Female Household Head (%) | 82 | 80 | 85 | 81 | 80 | 81 |
| Widowed Female Household Head (%) | 4 | 6 | 6 | 4 | 5 | 5 |
| Illiterate Household Head (%) | 83 | 77 | 74 | 68 | 60 | 71 |
| Household Head Completed Grade 1 to 3 (%) | 4 | 5 | 6 | 8 | 6 | 6 |
| Household Head Completed Grade 5 to 6 (%) | 3 | 4 | 5 | 5 | 6 | 5 |
| Household Head Primary Complete (%) | 2 | 2 | 2 | 3 | 4 | 3 |
| Household Head in Junior High School (%) | 1 | 2 | 4 | 3 | 5 | 3 |
| Household Head in High School (%) | 1 | 1 | 2 | 3 | 9 | 4 |
| Household Head in Post Secondary School (%) | 0 | 0 | 1 | 1 | 5 | 2 |

Family size is closely linked to the average dependency ratio². Poorer households tend to have larger proportion of dependents than richer households: 134 per hundred for the 1st quintile and 89 per 100 for the 5th quintile (Table 1.6). Though the ratios show the same trend in both rural and urban areas, they are larger for the former in each quintile. The differences between the rural and urban areas in this regard should, however, be interpreted cautiously as younger members of rural households are more likely to be engaged in productive activity. Poverty incidence, depth and severity also decrease with increases in the level of education (schooling) of the head of the household. However, as indicated in the table above no more than 5% of the population of household heads has completed primary school.

² Defined as household members older than 65 and younger than 15 divided by the complement of this set in sampled households.

Members of poorer household tend to have older household heads compared to richer ones. Females head 26 percent of the households in the country. This feature, however, is more dominant in urban than in rural areas. According to the 1999/00 HICE & WM survey results, females head 41 and 23 percent of the households in urban and rural areas, respectively. There is no significant difference in income poverty between male and female-headed households in rural areas. In urban areas, however, female-headed households have been found to have higher poverty incidence, depth and severity than their male counterparts (Table 1.7).

Table 1.7: Comparison of Poverty by Gender and Areas of Residence

| Survey Year | Poverty index | Sex of Household Head | National | | Rural | | Urban | |
|-------------|----------------|-----------------------|----------|------|-------|------|-------|------|
| | | | Index | SE | Index | SE | Index | SE |
| 1995/96 | P ₀ | Male Headed | 0.46 | 0.01 | 0.48 | 0.01 | 0.33 | 0.03 |
| | | Female Headed | 0.42 | 0.02 | 0.46 | 0.02 | 0.34 | 0.03 |
| 1999/00 | P ₀ | Male Headed | 0.44 | 0.01 | 0.46 | 0.01 | 0.34 | 0.02 |
| | | Female Headed | 0.43 | 0.02 | 0.45 | 0.02 | 0.49 | 0.01 |

1.2.4. Household Vulnerability to Shocks and Vulnerability Dimensions

Ethiopia has suffered from frequent disasters such as drought, famine, epidemics, flood, landslides, earthquakes, civil war, and mass displacement, as well as external shocks (for example, rapid declines in commodity prices). In assessing the vulnerability of individuals and the profile of shocks based on responses from the 1999/00 WM survey, it is clear that urban households were more vulnerable than rural households in the survey period, perhaps because rural households have access to assets such as land and livestock.

In 1999/00, households in certain regions, particularly Tigray, SNNP and Somalie, perceived that living conditions were lower compared to a normal year, and that residents of these regional states suffered a shock in terms of sudden change in well being. This perception may be attributable to the fact that mean monthly rainfall was lower and more erratic in 1999/00 than 1995/96.

According to the survey results, the majority of rural households were able to cope with the shocks of 1999/00 while the coping ability of urban households was more limited. As indicated in Table 1.8 below, the major *ex post* risk coping mechanism of rural people is the sale of animal products and other agricultural outputs and loan from relatives, while urban peoples' main *ex post* coping instrument is reserve savings and loans from relatives. The role of modern banks as well as traditional sources of finance such as *Idir* and *Iqub* appears quite limited in the provision of security for both rural and urban households.

Table 1.8: Sources to Obtain 100 Birr for Unforeseen Circumstances in a Week³

| Source to Obtain 100 Birr | Rural | Urban | Total |
|--|-------|-------|-------|
| Sale of Animals & Animal Products | 26 | 3 | 23 |
| Sale of Other Agricultural Products ⁴ | 17 | 2 | 15 |
| Reserved money | 2 | 16 | 4 |
| Bank or saving account | 0. | 3 | 0 |
| <i>Iqub</i> | 0. | 1 | 0 |
| <i>Idir</i> | 3 | 2 | 3 |

³ Percent of Households interviewed that indicated they would resort to these sources to finance the amount specified (ETB 100)

⁴ Include sales of grain and forest products

The various shocks and sources of vulnerabilities and strategic actions already put in place are discussed at length in Chapter VIII entitled “**Vulnerability and Response Capability**”. The sources of vulnerabilities referred to in this section are solely based on results from the WM surveys (1999/2000).

1.2.5. Temporal and Spatial Dimensions of Non-Income Poverty

1.2.5.1. Nutrition, Health and Literacy

Nutrition (Child Wasting and Stunting): The period between 1999/00 and 1995/96 saw a remarkable decline of 47 percent in the proportion of severely wasted children, albeit from a fairly low base. The improvement in severe wasting is for rural and urban areas alike but is more pronounced for rural areas. Notwithstanding the inherent fluctuations of measures of wasting, the marginal increase in the percentage of wasted children between the two survey years seemed to be partly attributed to the movements of children from a severely wasted category to wasted category (Table 1.9).

Table 1.9: Child Wasting⁵ as Percent of Children aged 6-59 Months

| | | 1995/96 | | | 1999/00 | | | % Change over 1995/96 |
|----------|-----------------|---------|--------|-------|---------|--------|-------|-----------------------|
| | | Male | Female | Total | Male | Female | Total | |
| Ethiopia | Wasted | 8.9 | 9.4 | 9.2 | 10.2 | 9.0 | 9.6 | 4.3 |
| | Severely Wasted | 3.3 | 3.6 | 3.4 | 1.9 | 1.6 | 1.8 | -47.1 |
| Rural | Wasted | 9.3 | 9.8 | 9.5 | 10.5 | 9.3 | 9.9 | 4.2 |
| | Severely Wasted | 3.4 | 3.8 | 3.6 | 1.9 | 1.7 | 1.8 | -50.0 |
| Urban | Wasted | 6.5 | 7.2 | 6.8 | 6.5 | 5.6 | 6.1 | -10.3 |
| | Severely Wasted | 2.3 | 2.4 | 2.3 | 2.0 | 1.0 | 1.5 | -34.8 |

Source: Dercon, 1997 for 1995/96; WMS 1999/00 for 1999/2000.

For Ethiopia as a whole, prevalence of stunting, which is a reflection of long-run malnutrition, is 57 percent by 1999/2000 while severe stunting stood at 31.3 percent during the same year. Both stunting and severe stunting are higher in rural areas than in urban areas. When compared between males and females, females registered lower than average stunting figures. Both stunting and severe stunting in 1999/2000 have witnessed tremendous declines (by 15-34 percent) from the levels observed in the 1995/96 survey, indicating an improvement in the long-run measure of malnutrition (Table 1.10).

Table 1.10: Child Stunting⁶ as Percent of Children aged 6-59 Months

| | | 1995/96 | | | 1999/00 | | | % Change over 1995/96 |
|----------|------------------|---------|--------|------|---------|--------|------|-----------------------|
| | | Male | Female | All | Male | Female | All | |
| National | Stunted | 68.1 | 65.1 | 66.6 | 58.1 | 55.5 | 56.8 | -14.7 |
| | Severely stunted | 45.2 | 42.2 | 43.7 | 32.0 | 30.6 | 31.3 | -28.3 |
| Rural | Stunted | 70.0 | 66.7 | 68.4 | 59.4 | 56.4 | 57.9 | -15.3 |
| | Severely stunted | 47.4 | 43.8 | 45.6 | 32.9 | 31.6 | 32.3 | -29.2 |
| Urban | Stunted | 56.6 | 55.2 | 55.9 | 44.0 | 45.0 | 44.5 | -20.4 |
| | Severely stunted | 32.1 | 31.9 | 32.0 | 21.5 | 20.4 | 21.0 | -34.4 |

Source: Dercon 1997, for 1995/96 ; and WMS 1999/2000 for 1999/2000

⁵ Wasting when weight over height's Z score is less than -2. Severe wasting when weight for height's Z-score is less than -3.

⁶ Stunting when height over age Z-score is less than -2. Severely stunted when height over age Z-score is less than -3.

Access to Health Services: Another important aspect of human capital is the health status of individuals in a society. Besides having a direct impact on welfare of individuals, their health status has repercussions on their potential productivity. The WM Survey questionnaire recorded responses by household members about their health status in the two months prior to the interview.

According to the result, a quarter of the population in the country reported being sick in the two months prior to the administration of the WM Survey questionnaire. In terms of gender, the results indicated that 24 percent of males reported suffering an illness. The figure for females was about 26 percent. While around 27 percent of the rural population reported sickness, only 19 percent of their urban counterparts reported the same.

Over 60 per cent of those reported to have been ill stated that they did not seek any form of medical treatment. This figure is only around 38 per cent in urban areas whereas it is about 62 per cent in rural Ethiopia. In terms of gender, males fare better in both urban and rural areas. While only 29 per cent of males reported to have been ill sought no treatment in urban areas, the figure for their female counterparts is about 38 per cent. Around 60 per cent of the males residing in rural areas received no medical treatment while two-third of the females experienced the same lack of treatment. The largest proportion of those who seek treatment did so in publicly owned facilities.

As indicated in Table 1.11, the distribution by expenditure quintile shows an interesting association between health care use and level of expenditures. As expenditure increases from the first to the fifth quintile (poor to rich) so does the proportion seeking treatment. This is true for all categories except for urban males to be treated in public facilities. There is a similar association between the proportion of individuals getting treatment in private facilities and level of expenditure.

Table 1.11: Health Care Use Conditional on Reported Illness by Quintile (1999/00)

| | Expenditure Quintiles | | | | |
|-----------------------------|-----------------------|----|----|----|----|
| | 1 | 2 | 3 | 4 | 5 |
| Urban Male | | | | | |
| Ill but not treated | 34 | 35 | 30 | 31 | 24 |
| Treated in public facility | 42 | 36 | 39 | 38 | 36 |
| Treated in private facility | 18 | 20 | 23 | 20 | 31 |
| Traditional healer | 7 | 9 | 8 | 11 | 8 |
| Urban Female | | | | | |
| Ill but not treated | 45 | 42 | 39 | 36 | 33 |
| Treated in public facility | 30 | 33 | 39 | 33 | 34 |
| Treated in private facility | 12 | 16 | 19 | 22 | 27 |
| Traditional healer | 12 | 9 | 3 | 10 | 7 |
| Rural Male | | | | | |
| Ill but not treated | 68 | 61 | 61 | 55 | 54 |
| Treated in public facility | 16 | 21 | 20 | 21 | 22 |
| Treated in private facility | 9 | 13 | 14 | 16 | 15 |
| Traditional healer | 7 | 5 | 5 | 8 | 9 |
| Rural Female | | | | | |
| Ill but not treated | 74 | 69 | 67 | 64 | 62 |
| Treated in public facility | 12 | 17 | 15 | 16 | 17 |
| Treated in private facility | 10 | 10 | 12 | 12 | 14 |
| Traditional healer | 4 | 4 | 5 | 8 | 8 |

Source: WMS 1999/2000

Literacy. The overall literacy rate⁷ in Ethiopia for 1999/00 is only 29 percent. The literacy rate has increased slightly from 27 percent in 1995/96 to 29 percent in 1999/00. The incremental increase in the literacy rate is more pronounced for males than for females (Table 1.12). Females have a lower literacy rate (20 percent) than that of males (40 percent). The literacy rate is also much higher in urban areas (70 percent) than in rural areas (22 percent).

Table 1.12: Trends in Literacy Rate (%)

| | 1995/96 | | | 1997 | | | 1998 | | | 1999/00 | | |
|--------|---------|-------|------|-------|-------|------|-------|-------|------|---------|-------|------|
| | Urban | Rural | All | Urban | Rural | All | Urban | Rural | All | Urban | Rural | All |
| Male | 82.3 | 29.2 | 36.5 | 81.0 | 25.1 | 33.4 | 81.0 | 28.8 | 36.3 | 82.1 | 33.0 | 40.0 |
| Female | 60.4 | 9.2 | 18.1 | 60.8 | 7.3 | 16.5 | 59.0 | 8.8 | 17.1 | 61.2 | 11.0 | 19.5 |
| Total | 70.0 | 19.4 | 27.3 | 70.0 | 16.2 | 24.8 | 69.0 | 18.8 | 26.6 | 70.4 | 21.8 | 29.4 |

Source: WMS 1997, 1998 and 1999/00 for 1999/2000; Dercon 1997 for 1995/96

Enrolment: Both gross and net primary and secondary enrolments rates have witnessed dramatic improvement between 1999/00 and 1995/96. Gross and net primary enrolment rates increased by 66 and 75 percent, respectively. The improvement has been more in favour of rural areas and females. In general, enrolment rates are higher for urban than for rural areas (Table 1.13).

Table 1.13: Trends in Gross and Net Primary Enrolment Rate by Gender and Geographic Area

| | | 1995/96 | | | 1999/00 | | |
|------|----------|---------|--------|------|---------|--------|-------|
| | | Male | Female | All | Male | Female | All |
| GPER | Urban | 98.2 | 94.6 | 96.4 | 103.1 | 107.6 | 105.4 |
| | Rural | 35.1 | 17.0 | 26.3 | 62.7 | 41.4 | 52.4 |
| | National | 43.0 | 27.6 | 35.5 | 67.4 | 50.0 | 58.9 |
| NPER | Urban | 65.5 | 62.0 | 63.7 | 74.1 | 74.8 | 74.5 |
| | Rural | 16.1 | 9.2 | 12.8 | 30.7 | 25.2 | 28.0 |
| | National | 22.3 | 16.4 | 19.4 | 35.8 | 31.6 | 33.8 |

Source: Dercon 1997, for 1995/96; and WMS 1999/00, for 1999/00

Results on enrolment based on sources from the Ministry of Education (MOE) also indicated the same trend. For instance, gross primary (grade 1 to 8) enrolment rate (i.e., the two cycles grades 1 to 4 and 5 to 8 combined) for 1999/00 for both sexes stood at 51 percent. For the same year (1999/2000) gross enrolment for boys and girls stood at 61 & 41 percent, respectively. In 1995/96, the enrolment rate was 35 percent for both sexes, enrolment rate for boys and girls being 43 and 26 percent, respectively. However, owing to differences in definitions between the WM surveys and the administrative information from the Ministry of Education (MOE) the results may not be directly comparable. The term “primary” for 1995/96 WM surveys (so does for 1999/2000) refer to grades 1 to 6 while the “primary” from the Ministry sources refer to grades 1 to 8. However, these definitional differences should not deter us from judging the improvements in access to education in Ethiopia. The enrolment rates from WM surveys are consistently on the higher side than the results on enrolment from the MOE for the corresponding survey periods (1995/96 and 1999/00). This is expected to be true given the disproportionately large number of students in grades 1 to 6 (covered by WM surveys) relative to grades 7 to 8 (which are accounted for in the calculation the GPER from the MOE).

⁷ Adult literacy in this study is defined as the percentage of population aged ten years and over who can both read and write with understanding a short and simple statement in the course of his or her daily life

1.2.6 Asset Ownership and Sources of Livelihood

Housing and Household Durables: About 85% of the households in Ethiopia live in low quality houses made of wood and mud and 65% of the houses are grass-roofed. Urban houses are relatively better quality than rural houses: 90% percent of house roofs in urban areas are made of corrugated iron sheets. About 15% of the houses made use of corrugated iron sheets in their construction in rural Ethiopia. For the country as a whole, only 17 percent of the households use latrines, indicating poor sanitation.

The average number of rooms per household is 1.6, and is larger for urban than for rural households. Addis Ababa is by far better off than other regions in terms of the number of rooms available for living. The proportion of households possessing a TV set was less than 2 percent, and such households are concentrated in Addis Ababa and Dire Dawa. Radio has a wider coverage with about 18 percent of the households in the country owning a radio.

Ownership of Farm Assets: The main means of livelihood in rural Ethiopia is agriculture. Thus, land ownership in rural areas becomes an important determinant of welfare. The WM survey includes information on whether households hold land, although it does not include information about the amount of land held by households. Based on the available information, almost all households in the rural areas of the country hold some amount of land. However, more male-headed households (98.3 percent) hold land than their female-headed counterparts (95.3 percent).

Neither the HICE nor the WM surveys provided information on holding sizes in any one of the survey years (1995/96 or 1999/2000). However, according to the annual agricultural sample surveys conducted by the CSA, about 63 percent of the households in Ethiopia had holding sizes less than 1 hectare in 1995/96. The figure for 1999/2000 had slightly increased to about 64 percent. This indicated to the growing problem of land fragmentation among rural households in Ethiopia.

According to the WM survey results, about 80 percent of the households in the country own cattle. However, the proportion has been skewed against female-headed households. While only 64 percent of female-headed households own cattle, 83 percent of their male counterparts do so. Rural households on average own 4.1 cattle per household. This average ranges between 14.1 for Afar, which is a cattle raising region to 3.6 in Amhara. The average number of cattle owned by the poorest households, as represented by the 1st quintile in the consumption expenditure distribution, is only 3.9.

Major Sources of Income: According to the HICE survey results sources of income for Ethiopian households in order of importance are: own agricultural enterprises in rural areas and wages & salaries and overtime payments in urban areas. According to HICE 1999/2000, own agricultural enterprises accounted for about 73 percent of total income in rural areas. In urban areas, wages and salaries and overtime payments and bonuses on the average accounted for over 41 percent of total income. The survey also indicated that well over 63 percent of total income is derived from own agricultural enterprises (Table 1.14).

Table 1.14: Sources of Income for Rural and Urban Households (1999/2000)(%)

| Sources of Income | Rural | Urban | Total |
|--|-------|-------|-------|
| Own Agricultural Enterprise | 72.5 | 4.6 | 63.3 |
| Household Enterprise Other than Agriculture | 5.4 | 30.3 | 8.7 |
| Wages and Salaries, Bonus, overtime and allowances | 2.9 | 41.2 | 8.0 |
| House and other Rents | 0.2 | 0.5 | 0.3 |
| Dividends and Profit Share as well as Bank Savings | 3.9 | 8.7 | 4.6 |
| Gift and Remittances | 3.5 | 8.1 | 4.1 |
| Other Receipts | 11.6 | 6.7 | 11.0 |

1.2.7. Access to Public Services and Economic Infrastructure

An important measure of access to public services is the distance between the residence of households and the facility at hand. This measure is particularly useful for large countries like Ethiopia where the efficiency of transport

network is quite low. The WM Survey questionnaire recorded information on the distance between various facilities and the residence of households. However, there was a large variation in the responses obtained for the estimated distance for a facility within a village. Thus, the median distance to each service in each village was taken as a basis for calculating the reported mean distances as shown in Table 1.15.

Table 1.15: Distance to Reach Public Services (km) in 1999/00

| Distance to Reach | Percentage of individuals | | | | | |
|--------------------------------|---------------------------|-----|------|------|-----|-------|
| | 5 | 25 | 50 | 75 | 95 | Mean |
| National | | | | | | |
| Primary school | 0 | 1 | 2.5 | 4 | 8.5 | 3.00 |
| Secondary school | 1 | 6 | 14.5 | 29.5 | 54 | 19.25 |
| Health centre | 0 | 2.5 | 6 | 10 | 18 | 7.01 |
| Drinking water in rainy season | 0 | 0 | 0 | 1 | 2 | 0.36 |
| Drinking water in dry season | 0 | 0 | 0 | 1 | 3 | 0.74 |
| Rural | | | | | | |
| Primary school | 0 | 1 | 3 | 4.5 | 9 | 3.38 |
| Secondary school | 3 | 9 | 18 | 31 | 57 | 21.90 |
| Health centre | 1 | 3 | 6 | 11 | 20 | 7.98 |
| Drinking water in rainy season | 0 | 0 | 0 | 1 | 2 | 0.41 |
| Drinking water in dry season | 0 | 0 | 0 | 1 | 3 | 0.85 |
| Urban | | | | | | |
| Primary school | 0 | 0 | 1 | 1 | 2 | 0.73 |
| Secondary school | 0 | 1 | 1 | 3 | 18 | 3.47 |
| Health centre | 0 | 0 | 1 | 2 | 3.5 | 1.17 |
| Drinking water in rainy season | 0 | 0 | 0 | 0 | 1 | 0.09 |
| Drinking water in dry season | 0 | 0 | 0 | 0 | 1 | 0.08 |

There has been a marked improvement in terms of average distance to public services compared to the results in 1995/96, when the average distance to reach a primary school in 1995/96 for the whole country was 3.8 Km, while for rural areas the figure was 4.3 Km. A quarter of the total population in Ethiopia was living 6 or more kilometres away from primary schools. Average distance to secondary schools has also gone down from the 1995/96 figures of 23.7 km for the country as a whole, 26.9 km for rural areas, and 3.7 km for urban centres.

In general, access to education and health facilities has improved in the rural areas. This is reflected in the reduction of the distance required to reach these facilities. Urban areas, however, do not show much improvement and in some cases even witnessed deterioration. This could be as a result of new settlements in the outskirts of towns, which would increase the average distance to existing infrastructures.

Over all, drinking water from protected sources (tap and protected wells or springs) is a 'luxury' available to only a quarter of the population (only around 15 per cent in the rural areas). On the other hand, more than three quarters of the population in urban areas obtain drinking water from protected sources. There is a positive relationship between obtaining protected water and consumption expenditure quintiles implying that households in the richer quintiles have relatively better access to safe drinking water.

There is little variation in the sources of drinking water between the rainy and dry season. Amhara region has had the smallest proportion of its population accessing relatively safe drinking water (19 per cent). It is closely followed by Somalie, Benshangul-Gumuz, and Oromiya with 22, 22 and 23 per cent respectively of their population having access to safe drinking water. Relatively better off regions in this regard are Addis Ababa, Dire Dawa and Harar with 98, 86 and 76 per cent of their population, respectively, having access to safe drinking water.

Biomass is the main source of energy in Ethiopia. Most of the energy sources are not obtained from the market. Freely collected firewood remains to be the main energy source. Overall, 68 percent of the households in the country use collected firewood as source of energy. Urban centres use more purchased firewood: 41 per cent of their energy

use is obtained from purchased firewood. Rural households, however, obtain 76 per cent of their energy sources from collected firewood.

Electricity is used as a source of energy for cooking by less than one percent of the households in the country and it is largely used by urbanites. In urban areas kerosene is an important source of energy for cooking (22 per cent). The use of the various sources of energy does not show significant variation across regional states, with the exception of Addis Ababa.

1.2.8. Determinants of Poverty

Our knowledge of poverty analysis would have been greatly enhanced had there been enough information on the underlying causes that affect poverty. The foregoing analysis has provided the poverty profile of Ethiopia based on the 1995/96 & 1999/00 HICE and WM survey results conducted by the CSA. Household based panel data of national scope, preferably for different points of time, is required to have an adequate understanding of the determinants of poverty. In the absence of such sources of information, results from small-scale surveys conducted by the Economics Department of Addis Ababa University in collaboration with Oxford University is being used to coach the forthcoming analysis on the determinants of poverty in Ethiopia. The information obtained from the latter still refers to the year 1994 although no change in conclusion was observed even when analysis was carried out based on the survey conducted in 1997. The major findings are discussed and analysed for rural and urban areas separately below.

Findings for Rural Areas

In this analysis, the probability that a household is classified as poor is related to a number of explanatory variables including several household specific variables, such as age, size and composition of households, education of households, assets, institutions, etc.

Both in terms of its significance level (significant at 1%) as well as in terms of the magnitude of its marginal effect, the dependency ratio seems to be extremely important in affecting poverty status in rural areas. Accordingly, if the dependency ratio increases by one unit, a household's probability of falling into poverty increases by almost 31% at mean values. Those households with proportionally more number of children under the age of 15 years and older people above the age of 65 seem particularly vulnerable to falling into poverty. This underscores the importance of adult labour in the welfare of rural households. The policy implication of this result points towards the importance of decreasing fertility. Most of the high dependency ratio is explained by a large number of children under the age of 15; due to low life expectancy, the relative number of people over the age of 65 is small. Even though fertility decisions are affected by a host of socio-economic factors, improvements in birth control technologies and their propagation can contribute towards decreasing fertility that can lead to lower dependency ratios and poverty.

Besides household composition, as reflected in the dependency ratio, total household size also has an independent effect on the probability of falling into poverty. An additional household member increases the probability of the household being poor by around 3.2% at mean values (and its effect is significant at 1% level). But this is to some extent due to the fact that we have used per capita expenditure figures for defining poverty levels—ignoring the effect of economies of scale.

Compared to male-headed households, female-headed households face an 8.9% higher probability of being poor in rural areas (significant at 5% level) after taking into account other characteristics. In terms of magnitude, this variable seems to be one of the most important covariates of poverty. In rural areas the poverty rate among female-headed households is actually lower than for male-headed households. The fact of having a female head only becomes an important factor in determining poverty after allowing for other factors such as age, education etc. Using the fact of having a female head for targeting purposes, therefore, would be inefficient, unless these other and more difficult to observe, characteristics could be taken into account.

The age of the household head is also another significant demographic correlate of poverty. The marginal effect on the probability of being poor first increases, reaches a maximum and then declines with the age of the household head (as captured by the coefficient on its square). This pattern is the result of lifetime effects and corresponding changes in the composition of the household. Younger household heads have to cope with little children and lesser

amounts of accumulated wealth. As the children grow (and sometimes leave home), this may lead to increasing per capita consumption, wealth accumulation, and a decline in the probability of being poor.

Even though the primary education of the household head is not statistically significant, the primary education of the wife reduces the risk of poverty. If the wife in a typical rural household has completed primary education, the probability of poverty falls by around 21% (though the coefficient is significant only at 10% level). This result may be due to endogeneity; for example, only better-off husbands may tend to marry women with some level of education. The other possibility is that wives with some degree of education in rural areas are actually more efficient in contributing towards household income.

The crop types included in the regression are deliberately chosen to include a staple food that is not much traded (*Enset*), a staple food that is significantly traded in the domestic market (*Teff*), a traditional export crop (coffee), and a 'new' export crop (*chat*). *Teff* is one of the main domestically marketed crops in Ethiopia. Generally, rural households produce *Teff* for the market and it is an important source of cash income. Coffee and *chat* are also important export crops, the first being the most important export item of the country and the importance of the second increased during the recent past. While the cultivation of these crops by households has a tendency to decrease the probability of poverty (all four coefficients are negative), the significant levels and the marginal effects tell an interesting story. While the coefficient for *Enset* is not significant at all, that for *Teff* becomes significant around 10%, for coffee around 6% and for *chat* at 1%. Similarly, the marginal effects successively increase in absolute terms: -5.0%, -6.1%, -9.1% and -31.4% respectively. Households cultivating *chat* have a 31.4% lower probability of being poor as compared to households that do not.

Encouraging the expansion of exportable crops, particularly non-traditional crops, can have a large impact on poverty reduction. This tallies with the overall reform goal of encouraging the production of tradables. Promoting the cultivation of *chat*, however, is problematic given its obvious social consequences. Given the current role of *chat* in foreign exchange earnings, perhaps the only viable option in the medium and long-term is to take measures aimed at changing the incentive structures through market based mechanisms (levying high tax rates on *chat* producers and sellers). The provision of infrastructure and giving the right incentives that encourage the production of exportable agricultural outputs will have the win-win result of enhancing growth as well as reducing poverty.

Rural areas relatively nearer to big cities/towns have better access to markets and public services, and this closeness has a poverty-reducing effect. However, the effect of urban areas on rural poverty is not high owing to the low level of urbanization (only 15%).

The last group of variables are related to farm assets and off-farm activities. The amount of land cultivated by the household is not correlated to the probability of poverty. This result has been derived from just one small area survey and is difficult to take it at face value given the value attached to land by Ethiopian peasants. More extensive research based on nationally representative surveys is needed to better understand the relationship between land holding and poverty.

It seems instead that other farming assets are the more important constraints. As oxen are the most important sources of traction power (the ox-plough complex) in the majority of farms, the addition of one ox in a household results in a decline of 6.9% in the probability of being poor (significant at 1% level). Initiatives that improve the ox ownership of households therefore could have a significant impact on poverty.

Households that are involved in off-farm activities are 11.0% more likely to be poor than those that are not (significant at 1% level). In the case of rural Ethiopia, off-farm activity seems to be a coping mechanism for poor people rather than a way of accumulating more wealth and enjoying a relatively higher return to labour. Given the weakness of the non-farm sectors, especially in rural areas, this draws a realistic picture of conditions in Ethiopia.

Findings for Urban Areas

A similar analysis was conducted for urban households. While dropping the variables that are not relevant for urban areas, dummies were included identifying regional capitals and occupation of household heads. The occupation of household heads is classified into private business employer, self-employed worker, civil servant, public enterprise worker, private sector employee, casual worker, unemployed, and others.

Similar to rural areas, a factor that has a strong positive effect on the probability of being poor is the dependency ratio. A unit increase in this ratio is associated with a 32% chance of falling into poverty. The adverse effect of the dependency ratio at the household level both in rural and urban areas provides a strong case for often emphasized policy interventions: employment generation and family planning. In a country like Ethiopia where social security is limited, the burden of supporting the old mainly falls on the household or the community. The other important variable that impacts strongly on the probability of falling into poverty is location. Those households residing in the capital have a 15% higher probability of being poor. This somewhat surprising result needs more analysis to understand the factors that are at work in Addis Ababa.

In summary, poverty in Ethiopia is highly correlated with the size and composition of households, the education of the head of the household, the degree of dependency within the household, asset ownership (particularly ownership of oxen in rural areas), the occupation of the head of the household, and several institutional variables that provide access to public services.

1.2.9. What Has Emerged from the Analysis?

Poverty reduction is a long-term process of sustained growth and is not amenable to significant improvements in a short period of time. All the same one has still to monitor changes over time to assess how poverty reduction is progressing.

Although poverty has declined modestly in rural areas (by 4.4 percent), it still has remained a rural phenomenon as the rural areas harbour the bulk of the poor in Ethiopia. By 1995/96 rural areas accounted for over 86 percent of the total population while their contribution to poverty stood at 90 percent (i.e. more than the share in population). By 1999/00 the contribution to rural poverty has declined by a little over 1.3 percentage points while their population contribution declined by 1.5 percentage points. The egalitarian type of land distribution, access to extension and social investment in rural areas may have contributed to the decline. On the other hand, the cumulative impact of weather related factors coupled with the border conflict with Eritrea (via dislocation of people in war affected areas) is likely to have constrained the positive impact that would have been realized.

Ethiopia has made remarkable progress in terms of indicators of non-income dimensions of poverty between the two survey years. There has been a substantial improvement in long-run malnutrition (stunting) and literacy. Although there still is a challenge to narrow regional disparities and gender gaps as well as improving quality in education, gross and net primary and secondary enrolment have also shown substantial improvement. The improvement in enrolment rate is higher for rural areas and females than for urban areas and their male counterparts.

Notwithstanding these positive achievements, the analysis has brought out the following issues /challenges for future consideration in the fight against poverty in Ethiopia:

- a) Despite the improvements, rural areas are still the centre of mass poverty, requiring continued priority action.
- b) Food insecurity as reflected by the food poverty head count index is still a major contributor to poverty in Ethiopia. The challenge here is to expedite the implementation of the food security strategy.
- c) Households with larger family sizes, low levels of literacy, and older heads of household are more likely to fall into poverty than those with smaller family sizes, higher levels of literacy, and younger heads of household;
- d) No significant difference in either the incidence or depth and severity of consumption poverty has been observed between female-headed and male-headed households in rural areas in 1999/00. On the other hand, there has been a sharp contrast in the incidence, depth and severity of poverty between female and male headed households in urban areas in 1999/00. The number of people below the poverty line for male-headed households stood at about 34 percent in urban areas while the incidence for female-headed households was a little over 49 percent. Depth and severity of poverty were also consistently higher for female-headed households than male-headed households in urban areas in 1999/00.

- e) Access to public services and economic infrastructure has, on average, improved between the two survey years (1995/96 to 1999/00). For instance, the average distance to reach primary school declined from 3.8 to 3.0 kilometres by 1999/00. The same is true for services such as secondary schools, health centres, and drinking water. This obviously plays an important role in poverty reduction;
- f) Important risk coping instruments for poor households in Ethiopia include the sale of animals, animal products, and agricultural products in rural areas, and money reserves and loan from relatives in urban areas.
- g) The analysis shows a growing level of urban poverty, which requires further attention.

In the *Woreda* (district) consultations, however, many participants expressed the opinion that the level of poverty is increasing. On the surface, this seems inconsistent with the results of the quantitative analysis, which shows a level or declining trend in absolute poverty levels. Possible explanations for this discrepancy include the fact that the Household Income, Consumption and Expenditure survey as well as the Welfare Monitoring Survey were conducted in 1999/2000, before the significant declines in food crop and coffee prices. A participatory poverty assessment study could help clarify the reasons for this apparent disagreement.

II. Analysis of Growth and Poverty Linkages

For some countries, economic growth is the primary policy goal, and poverty reduction would be achieved through measures complementary to growth. This is not the approach of the Ethiopian government. Poverty reduction is the core objective of the Ethiopian government. Economic growth is the principal, but not the only means to this objective. This policy approach raises fundamental questions:

- a) What are the sources of economic growth in Ethiopia and what is the potential for growth in the future?
- b) What are the mechanisms and conditions by which economic growth translates into poverty reduction?
- c) How do initial poverty and inequality affect the prospect for sustained and rapid economic growth?
- d) What are the links among economic growth, income distribution and poverty in the short and long term?

The material upon which this discussion is based is the study undertaken by Alemayehu G, Abebe S, and J Weeks entitled **"The Pattern of Growth Poverty and Inequality in Ethiopia: Which way for a Pro-poor Growth?"**; **April 2002**. The study was sponsored and coordinated by the Economic Policy and Planning Department (Welfare Monitoring Unit) of the Ministry of Finance and Economic Development (MOFED).

2.1. Sources of Growth: A Growth Accounting Exercise

2.1.1. Growth History of Ethiopia

This part of the analysis is concerned with setting out the growth history in Ethiopia and then trying to understand what have been the main sources of growth. In the last four decades, the Ethiopian economy has changed from a liberalized economy (till 1974) to a controlled one (1974-1989/90) and again back to a liberalized one (after 1991). The post-*Derg* period witnessed a major policy shift from its immediate predecessor. It started liberalization of the economy in 1992/93 and deepened through a series of reform programs. Partly because of these policies, the growth performance was much better than the previous two regimes (see Table 2.1).

Table 2.1 shows the evolution of major macro variables over the last 40 years. The growth record is mixed but typically erratic. Most of the variables in the Table show the dismal performance of the economy. The only good thing that can be read from Table 2.1 is the level of inflation that shows remarkable stability. This is largely attributed to price regulation in the pre-reform (pre-1991) period and to the good macro performance and positive weather outturn in much of the post-reform period following 1992/93.

Table 2.1: Evolution of Major Macro Aggregates (1962/63-1992/2000)

| | 1962/63- 1966/67 | 1967/68- 1971/72 | 1972/73- 1976/77 | 1977/78- 1981/82 | 1982/83- 1986/87 | 1987/88- 1992/93 | 1992/93- 1999/00 |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Gregorian Calendar | | | | | | | |
| Ethiopian Calendar | 1955-59 | 1960-64 | 1965-69 | 1970-74 | 1975-79 | 1980-84 | 1985-1992 |
| Real GDP Growth Rate (%) | 4.7 | 4.0 | 1.3 | 2.3 | 3.7 | -0.01 | 5.7 |
| Investment as % of GDP (%) | 13.5 | 12.6 | 9.7 | 11.0 | 14.3 | 13.4 | 15.9 |
| Saving as % of GDP | 11.4 | 11.0 | 9.0 | 4.7 | 6.5 | 7.1 | 5.3 |
| Exports & Import as % of GDP | 24.1 | 22.1 | 26.5 | 29.1 | 26.0 | 20.2 | 37.8 |
| Inflation ⁸ (%) | | 1.7 | 11.4 | 10.7 | 3.4 | 11.8 | 3.8 |
| Export as % of Imports (%) | 83.6 | 86.6 | 95.8 | 53.6 | 53.7 | 52.3 | 56.4 |

Source: Own Computation based on MEDaC (now MOFED) and CSA (various years), April 2002

Bringing about positive and sustainable macroeconomic performance depends on investment and its sources of financing. There are two important points about investment. First, since the 1970s there was a downward trend of gross capital formation. This downward trend has picked up in the post-*Derg* period. Second, in the post-*Derg*

⁸ Based on mean of annual changes in the Consumer Price Index (CPI). The CPI referred to is the Addis Ababa Consumer Price Index (based on the 1963 Addis Ababa Budget Survey) up until 1994/95. The CPI since 1995/96 has been based on the 1995/96 National Household Income Consumption Expenditure (HICE) survey conducted by the Central Statistical Authority (CSA).

period there has been an institutional shift from public to private. This is the direct result of the reform that favors the latter. In fact, private investment took over the public's share since 1995/96 (Alemayehu 2002a).

However, this growing level of investment is not financed domestically. Savings have been steadily declining from the 1970s to early 1980s (a period associated with the aftermath of the revolution and the height of political crisis) and began to recover from mid 1980s, although its absolute level was far below the rate in the 1960s. It again started declining in 1990/91 (the second period of a change in government) and late 1990s (mainly owing to the war with Eritrea). Public saving has shown quite a remarkable recovery in the post-Derg period. Thus, the government's fiscal policy in this respect seems to have been quite good⁹.

The post-Derg period has registered a modest achievement in terms of fiscal policy mainly by raising revenue. However, this was frustrated owing to the war with Eritrea, the collapse of coffee prices and the shocks transmitted through variability in the performance of agriculture witnessed during the same time. Saving, thus, declined sharply at the end of the 1990s – the 1999/00 figure being negative. Both saving and investment figures are not only very small but also the lowest even by Sub-Saharan African standard. The gap between the investment and saving rates, which averaged around 10% of GDP over the past two decades, shows the vulnerability of the country to indebtedness and/or the demand for aid. This can also be read from the share of exports in imports that decelerated from nearly 85% in the 1960s to 56% in the 1990s. This dependence on external resource is quite apparent in the financing of government capital expenditure. External assistance has been largely used to finance capital expenditure while current expenditure is being largely financed by government's revenue. Another interesting development in this period is the sharp rise in the treasury financing of capital expenditure that grew from around 50 in early 1990s to 70 percent by the second half of 1990s - this is a commendable achievement (see Alemayehu 2002a).

Notwithstanding the success noted, the dependence on external financing needs closer attention (see Alemayehu and Befekadu 1999). One implication of this is the debt problem¹⁰. In Ethiopia, this problem is acute because it has been coupled with military based debt accumulated during the Derg period. Due to the growing resource gap both the debt stock and the debt to GNP ratios have increased steadily since the 1980s. This has resulted in accumulation of arrears during the 1980s. Prior to this period, there had been almost no interest arrears and principal arrears were negligible (see Alemayehu and Daniel 1999). The rising level of arrears relates to the resources constraint that hindered timely debt-service payments. This has worsened the situation as it resulted in an even larger arrears accumulation. This could be directly linked to development in the agricultural sector because settling such debt, apart from possible debt forgiveness, could only be effected by the growth of exports - which are agricultural products. One can, thus, note that bringing about healthy external sector account largely rests on investing in agriculture, at least in the medium term. The latter has also a strong bearing on growth.

Growth during the Derg period (1974/75 –1989/90) averaged 2.3% (the per capita growth being -0.4%). Various factors can be cited as causes of this poor performance and are explained in detail in subsequent sections. Growth during the post-Derg period (1990/91-1999/00) is quite impressive. Real total and per capita GDP on average grew by 3.7% and 0.7% per annum, respectively. This figure would have risen to 5.6% (and to 2.6 % in per capita terms) if one excludes the abnormal years 1997/98-1999/2000 (1990-92 Ethiopian Calendar). The main feature of growth, and hence macroeconomic performance in Ethiopia, is its dependence on the growth of the agricultural sector.

2.1.2. Main Sources of Growth

Both cross-country and time series analysis have been used to identify the main sources of growth in Ethiopia. Time series analysis, which intuitively seems more reliable, indicates the dominant role of labour, although there is some evidence of a greater contribution from capital in the nineties (see Table 2.2 below).

The key findings are:

- Over the past 40 years, the growth record is mixed and erratic
- Price levels have remained remarkably stable, albeit for different reasons at different times;

⁹ Ethiopia's fiscal policy has been always prudent.

¹⁰ About 80 percent of the debt owed to the former USSR (about US\$ 4.8 billion is recently cancelled. Multilateral lenders have also followed suit by canceling about US\$1.9 billion in the context of the HIPC initiative, thus reducing the stock of debt by half – to about US\$ 5 billion.

- Since the seventies there has been a downward trend in gross capital formation, but there is some evidence that this has been reversed in the 1990s;
- Domestic savings are very low and have declined in more recent years and there is increasing dependence on external assistance;
- The erratic nature of GDP is determined by the dependence of the economy on rain-fed agriculture and hence on rainfall

Growth performance is correlated with the political process and has been interrupted by civil strife and dramatic policy shifts.

Table 2.2: Sources of Growth: Time Series Based Model (Short-Run Model)

| Fiscal Year | Sources of Growth | | | |
|-------------------------------|-------------------|---------|-------|---------------------------|
| | Output Growth | Capital | Labor | Total Factor Productivity |
| 1960/61- 1967/68 | 4.7 | -0.4 | 1.4 | 3.8 |
| 1967/68-1977/78 | 2.7 | -0.7 | 1.7 | 1.6 |
| 1977/78-1987/88 | 3.0 | 0.0 | 1.8 | 1.2 |
| 1987/88-1997/98 | 3.1 | 0.3 | 1.7 | 1.1 |
| 1997/98-2000/01 | 3.5 | 2.0 | 1.2 | 0.2 |
| 1960/61-2000/01(Whole Period) | 3.2 | 0.0 | 1.7 | 1.5 |

A number of conclusions can be drawn from the results reported in the above Table. First, the short-run model shows the dominant role of labor in accounting for the positive growth in the period under analysis. Although direct comparison is a bit problematic, this is in contrast to the cross-country results reported for Ethiopia. Second, the contribution of capital, although disappointing in the first two sub-periods, seems to pick up during the 1990s. Third, the contribution of factor productivity, although not impressive, is in general positive. The long run models also depict a similar pattern about the contribution of factor inputs to growth.

2.2. Determinants of Growth

The sectoral growth performance reported in Table 2.3 shows that: (a) sectoral growth trends, in particular in industrial and agricultural sectors, are quite erratic, and (b) the trend of sectoral composition of the source of growth is also quite erratic. These two points are shown, rather dramatically, in the first four columns of Table 2.3, where typical high and low growth years have been purposely identified. These unusual years show that the source of erratic growth rates (the positive growth in 1982/83 and 1995/96 and the negative growth in 1997/98) could be traced mainly to the performance in the agricultural sector.

Table 2.3: Total and Sectoral Growth Rates (%)

| Gregorian Calendar | Typical Years | | | | Half-decade Average | | | |
|---|---------------|-------------|-------------|--------------|---------------------|-------------|-------------|-------------|
| | 1981/82 | 1982/83 | 1995/96 | 1997/98 | 82/83-86/87 | 87/88-91/92 | 92/93-96/97 | 97/98-99/00 |
| Ethiopian Calendar | 1974 | 1975 | 1988 | 1990 | 1975-1979 | 1980-1984 | 1985-1989 | 1990-1992 |
| Agriculture & Allied Activities | -3.6 | 13.6 | 14.7 | -10.8 | 1.9 | 1.2 | 4.8 | -1.7 |
| Industry | 8.5 | 5.9 | 5.4 | 2.3 | 6.5 | -8.3 | 11.2 | 5.6 |
| Mining & Quarrying | 19.4 | 2.0 | 13.1 | 10.1 | 10.5 | 28.1 | 12.0 | 9.7 |
| Large & Medium Scale Manufacturing | 6.3 | 2.6 | 7.8 | -3.5 | 5.8 | -10.0 | 17.0 | 7.1 |
| Small Scale Industry & Handicrafts | 6.3 | 11.1 | 7.1 | 4.5 | 4.7 | -4.1 | 7.8 | 3.8 |
| Electricity & Water | 6.5 | 4.7 | -7.3 | 3.7 | 4.9 | 3.9 | 3.0 | 4.2 |
| Construction | 13.5 | 7.6 | 7.4 | 8.6 | 9.7 | -14.7 | 12.0 | 4.9 |
| Distributive Services (a) | 4.4 | 2.8 | 9.0 | 5.6 | 4.5 | -4.7 | 10.3 | 5.5 |
| Trade, Hotels & Restaurants | 4.6 | 1.0 | 8.5 | 4.5 | 4.0 | -9.5 | 13.8 | 4.9 |
| Transport & Communications | 3.8 | 7.2 | 9.5 | 7.2 | 6.1 | 3.3 | 6.5 | 6.5 |
| Other Services (b) | 6.3 | 7.8 | 5.9 | 13.4 | 5.5 | 1.8 | 8.8 | 11.2 |
| Banking, Insurance & Real State | 4.6 | 12.7 | 8.6 | 5.0 | 4.7 | -0.6 | 9.0 | 6.2 |
| Public Administration & Defence | 9.5 | 6.3 | 4.8 | 24.6 | 7.4 | 0.5 | 12.3 | 18.3 |
| Education | 3.0 | 3.4 | 3.5 | 5.1 | 2.1 | 4.8 | 2.3 | 6.0 |
| Health | 4.6 | 5.0 | 5.1 | 9.9 | 4.8 | 2.9 | 10.0 | 5.3 |
| Domestic & Other Services | 5.8 | 5.9 | 5.8 | 5.3 | 6.0 | 6.8 | 5.9 | 5.1 |
| Total Service (simple mean of a & b) | 5.4 | 5.3 | 7.4 | 9.5 | 5.0 | -1.5 | 9.6 | 8.4 |
| Real GDP growth | 0.5 | 10.1 | 10.6 | -1.2 | 3.2 | -0.7 | 7.0 | 3.5 |

Source: Computed based on MOFED (2002), GDP at 1980/81 Constant Factor Cost

Some of the key conclusions reported by Alemayehu et al include:

- Over quite a long period of time and despite very different policy regimes, the structure of the economy has changed relatively little;
- Growth performance is still dependent on a fragile economic sector and on exogenous conditions;
- Over a long period of time the economy has performed below expectations, given initial conditions and as yet, successive governments have been unable to bring about structural transformation;

Given the importance of agriculture in providing livelihoods for the majority of the population and the relatively small contribution to overall employment in the fastest growing sectors identified in Table 2.3, it is clear that addressing the vulnerability of agriculture to climatic shocks and promoting sustained growth in this sector is crucial. While the service sector has been an important source of growth, especially in the past decade, in order to translate this growth into more poverty reduction, both employment enhancing and redistributive policies will need to be employed.

Other growth accounting exercises and a more detailed investigation of standard economic models demonstrate this conclusion. The source of growth and growth accounting exercise points to the paramount importance of land and labor and hence agricultural performance. Micro level determinants of poverty analysis support the importance of labor in helping to move out of poverty. Although this finding needs further study at sectoral level, the policy implications are obvious.

The government will promote investment in raising the productivity of labor in general and rural labor in particular (through investing on education and health), and land. Tenure security, supply of fertilizer and credit provision to rural economic agents are also likely to be important for raising land productivity. In general, a comprehensive approach, in the context of the government's rural-based development program, to enhance these sources of growth is the way forward.

2.2.1. Determinants of Growth: The Macro version

Table 2.4 shows the results of an analysis of the macro determinants of growth using different models. In both models (columns 1 and 2) labor has a strong contribution (with a growth elasticity coefficient that ranges from 0.73 to 0.91) in the short run. This result is statistically significant only in the second version of the model (column 2 in Table 2.4) and in another version of the same model estimated with rainfall data as additional variable (not reported here). On the other hand, although its potency is low (with growth elasticity of 0.30), the contribution of capital to growth is found to be statistically significant in the short run.

Table 2.4: Error Correction Model (ECM) based Estimation of CD-Production Function

| Explanatory Variables | Column 1 Compact ECM | | Column 2 Scattered ECM | |
|--|-------------------------|---------|---------------------------|----------|
| | Coefficient | t-value | Coefficient | t-values |
| Constant Term | -0.005 | -0.27 | 1.87 | 2.80* |
| Change in the Logarithm of Physical Capital: $\Delta \text{Ln}(\text{Capital})$ | 0.30 | 3.44* | 0.29 | 3.50* |
| Change in the Logarithm of Physical Labor: $\Delta \text{Ln}(\text{Labour})$ | 0.73 | 1.23 | 0.91 | 1.67** |
| Error Correction Model with one period lag: $\text{ECM}_{(t-1)}$ | -0.89 | -2.48* | | |
| Logarithm of Physical Capital with one period lag: $\text{Ln}(\text{Capital})_{t-1}$ | | | 0.01 | 0.30 |
| Logarithm of Physical Labor with one period lag: $\text{Ln}(\text{Labour})_{t-1}$ | | | 0.29 | 2.58* |
| Logarithm of output with one period lag: $\text{Ln}(\text{output})_{t-1}$ | | | -0.31 | -2.87* |

NB: * = significant at 1% level; ** = significant at 10% level

In the long run, however, the contribution of capital has been statistically not different from zero. The contribution of labour, however, is statistically significant. Its potency being as strong as in the short run (with a long run growth elasticity of about 0.93¹¹). The models also show quite fast adjustment coefficients, where more than half of the deviation from the equilibrium growth in the previous period being made up in the current period. The major conclusion that could be made from Table 2.4 is that growth in Ethiopian has been predominantly explained by labour – this is a result that stands in sharp contrast to the cross-country findings. This apparent contradiction in the two approaches may be better understood by estimating production function using micro (household level data). The outcomes of the analysis of the micro version of the model is discussed and outlined in section 2.2.2 below.

2.2.2. Determinants of Growth: the Micro version

To investigate the issue of growth from the micro perspective a production function has been specified and estimated using micro data for rural households. Ideally, this should have been approached by estimating the micro-based production function using nation-wide household survey and possibly at different points in time so as to investigate if there is any structural change. However, the two nation-wide household surveys of 1995/96 and 1999/2000 do not have all the data required. Thus, the production function was estimated using data from a recent household survey carried out by the Department of Economics of Addis Ababa University in collaboration with Oxford University (Center for the Study of African Economies, CSAE).

In the simplest production function, the physical inputs are labor and capital. But for a typical rural economy, it is hard to measure capital stock used in the production process. Thus, the land under cultivation by the household and the number of oxen used in the production process is used as a proxy for capital stock. Two risk factors are

¹¹ This is obtained by dividing the coefficient of labour in column 2 (0.29) by the error-correction term (0.31) – the coefficient of the lag-dependent in column 2).

considered. The first one relates to environmental risk: availability of rainfall and its distribution, prevalence of storm, hail, frost and floods. The second risk factor is land tenure insecurity, which is believed to capture the disincentive effect on the farmer. The estimated results are reported in Table 2.5.

Table 2.5: Tobit Estimates with Output as Dependent Variable

| Explanatory Variables | Column 1 | | | Column 2 | | | Column 3 | | |
|-------------------------|--------------|----------|--------|--------------|----------|--------|-------------|----------|--------|
| | Coefficients | t-values | Slope* | Coefficients | t-values | Slope* | Coefficient | t-values | Slope* |
| Constant | 4.29 | 49.5 | | 4.19 | 50.3 | | 4.05 | 44.6 | |
| L _n (labour) | 0.21 | 9.0 | 0.21 | 0.15 | 6.54 | 0.15 | 0.15 | 6.61 | 0.15 |
| L _n (Land) | 1.51 | 17.0 | 1.49 | 1.38 | 16.16 | 1.37 | 1.11 | 11.54 | 1.10 |
| L _n (Oxen) | 0.36 | 5.44 | 0.35 | 0.33 | 5.25 | 0.33 | 0.28 | 4.52 | 0.28 |
| Credit | | | | 0.14 | 2.0 | 0.14 | 0.11 | 1.5* | 0.11 |
| Fertilizer use | | | | 0.63 | 10.9 | 0.63 | 0.58 | 10.1 | 0.57 |
| Land quality | | | | 0.04 | 50 | 0.04 | 0.014 | 0.70* | 0.01 |
| Redistribution | | | | | | | -0.08 | 1.65 | -0.08 |
| Climate | | | | | | | 0.01 | 5.8 | 0.01 |

Number of observations = 1291, 11 left-censored observations at L_n (output) ≤ 0 1280 uncensored observation.

* Marginal coefficients

Column 1 of Table 2.5 presents the estimate of the simple production function in which only the physical inputs are included. All inputs used are statistically significant at 1% level. The result shows that the contribution of the capital indicators (land and oxen) are much more important than the labour input. The finding that showed oxen to be important and the fact that bad weather, such as drought may result, in the loss of such animals or their productivity shows that the impact of natural shock may show itself through rural capital (oxen) input. However, controlling for fertilizer use and availability of credit, as shown in column 2, reduces the potency of the direct input coefficients. This indicates to the importance of production enhancing inputs, such as fertilizer.

In column 3, the risk variables are introduced. Once the effects of the risk variables are controlled for, the importance of the land coefficient has diminished. The result also suggests that good weather (climatic) conditions have a positive and significant effect on output. This is not a surprising result since the agricultural sector in Ethiopia is basically rain-fed and the contribution of irrigated agriculture is small (5% of the over 3.7 million hectare of potentially irrigable land being under irrigation currently). In addition, the expectation about future land tenure security has a negative impact on production though the size of the coefficient is not large.

Labor, oxen, fertilizer use and land having strong coefficients in the above model seem to appear as the most important factors that determine growth from the micro perspective. The result on land seems to contradict the outcomes of the micro level poverty analysis in chapter I, as the regression results there showed land to be a weak correlate with poverty. It is also worth noting that the effect of other factors has been internalized in this model might attribute for the difference in conclusion. Be this as it may, this is going to be an agenda for future research based on information from large-scale household based budget surveys.

2.3. Growth, Poverty and Inequality

Ethiopia harbors a large poor population which by itself is a threat to the basic foundations of prosperity, stability and peace. Given the structure of the economy and society, the links between policy, economic growth, and poverty reduction are not yet thoroughly understood. But, from available evidence it is possible to infer that sound policy and its effective implementation promoted growth and led to some reduction in poverty in the 1990s (or at least no rise in poverty when external conditions worsened). However, the degree to which economic growth affected poverty was linked to changes in income inequality. In Table 2.6 two-types of data are presented. Although the panel data show a higher level of inequality, the trends for comparable years, are similar to those in the national data. The panel data has the additional advantage of showing the condition in 1994. The evidence suggests that there has been a positive correlation between economic growth and income inequality in Ethiopia.

Table 2.6: Inequality in Ethiopia (Gini coefficient)

| <i>Region</i> | National Data | | Panel Data | | |
|---------------|----------------|------------------|-------------|-------------|-------------|
| | 1995/96 | 1999/2000 | 1994 | 1995 | 1997 |
| Rural | 27 | 26 | 39 | 56 | 43 |
| Urban | 34 | 38 | 44 | 45 | 48 |
| National | 29 | 28 | 39 | 54 | 43 |

Source: MOFED for National-sample based data and Mekonnen et al (2000) for the panel one.

It is important to ensure, therefore, that more rapid economic growth does not lead to substantially higher levels of inequality. In other words, a pro-poor growth strategy is essential for rapid poverty reduction. This can be achieved by choosing a development strategy that promotes growth with equity. The strategy has to be broad-based so that the gains of growth accrue to the majority of the poor.

The analysis set out in Chapter I suggested that the likelihood of a household being poor was affected by household size, sex of the head of the household, education of the head of the household, and regions of residence (rural/urban). These same factors appear also to be related to inequality levels.

2.4. The Millennium Development Goals (MDGs) and Ethiopia's Prospects

Institutions and the political economy of society are central in influencing economic growth and its impact on poverty. Reform of the legal system, enforcing contracts, ensuring property rights, reducing conflicts (internal/external), and improving the efficiency of the bureaucracy can generate a growth pattern that ensures faster reduction of poverty in Ethiopia, and the achievement of the Millennium Development Goals (MDGs) for Ethiopia. Based on data from the HICE surveys, the elasticities of poverty with respect to growth have been calculated, taking changes in income distribution into account. The analysis indicates that the Ethiopian economy needs to grow in real terms at an average rate of 5.7% per annum until 2015 to reduce poverty by half from its current level.

Modest changes in distributional policy and some improvements in institutional efficiency can reduce this growth requirement to about 4.7%. The implied resource requirements at first glance appear to be beyond the reach of the country. But, if the country undertakes appropriate institutional reforms to encourage foreign and domestic investment, this rate of growth is possible to achieve, which the government is engaged in earnest.

2.5. Pro-Poor Growth

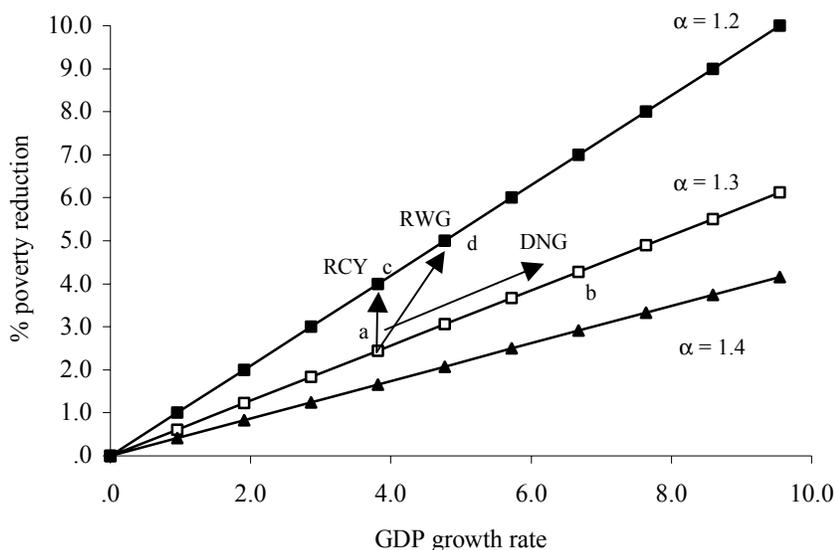
The Ethiopian government seeks growth that is poverty reducing, and substantial poverty reduction requires an increase in growth. At the most general level, pro-poor growth can be defined as a strategy which:

- a) Rejects a 'growth is sufficient' approach in which all emphasis is placed on economic growth, and poverty addressed through so-called safety nets (if at all); and
- b) Replaces this with a strategy explicitly designed to change the distribution of the gains from growth. Growth with equity is the optimal strategy for Ethiopia.

The effect of implementing a pro-poor growth strategy, compared to allowing the *status quo* to prevail, can be quite dramatic. On the basis of realistic assumptions, calculations show that from a baseline in 2000 of a thirty percent poverty share, over ten years at growth of three percent per capita, poverty would decline from twenty-nine to twenty-two percent for distribution neutral growth (i.e., no change in the aggregate income distribution). In contrast, were the growth increment distributed equally across percentiles (equally distributed gains of growth, EDG), the poverty would decline by over half, to fourteen percent, a difference of almost nine percentage points (see Figure 2.1 below).

Figure 2.1

**Poverty Reduction and GDP Growth
for Degrees of Inequality**



Note: DNG – Distribution-neutral growth; RCY – Redistribution of current income; RWG – Redistribution with growth; α - Hypothetical degree of inequality

In sum, growth in Ethiopia, as it has occurred and for a future pro-poor pattern, to a large extent depends on structural factors such as initial conditions (initial income, investment, level of education), vagaries of nature, external shocks (such as terms of trade deterioration), and peace and stability both in Ethiopia and in the region. Each of these problems needs appropriate policies to address them. The following points stand as important policy areas aimed at achieving pro-poor growth:

- a) Addressing the dependence on rain-fed agriculture. This requires promotion of small-scale irrigation scheme, water harvesting, and designing incentive schemes for the farmers. This policy action should overcome the negative factor productivity observed in periods of unfavorable weather.
- b) Developing a short-to-medium term strategy to cope with periodic terms of trade shocks. The long-term solution is diversification of exports and full exploitation of existing market opportunities in United States and the European Union. This requires creating a public-private sector partnership aimed at creating such local capacity.
- c) Enhancing the productivity of factors of production, in particular labor and land. This would have direct implications on raising the productivity of labor (through education) and the productivity of land (through supply of fertilizer and rural credit provision).
- d) Structure of the economy. A detailed analysis and policy aimed at changing the structure of the economy to high productivity sector is also imperative.

For pro-poor growth, macro policies are important for two reasons. First, the contribution of factor productivity for growth performance is extremely important. A conducive macroeconomic environment aimed at enhancing factor

accumulation (both capital and labor), through skill acquisition and the efficiency of their use is a pre-requisite for enhancing growth. Second, macroeconomic discipline, although to a large extent dependent on the structural factors and external shocks, is critical for creating the necessary conditions for growth. Fiscal and monetary policy discipline, institutionalization of policy implementation, and gradualism (as opposed to overnight deregulation) in reform are the key considerations. Policy must avoid incorrect sequencing of reforms and liberalization without adequate regulatory mechanisms and capacity building to implement these mechanisms.

It should be emphasized that a pro-poor growth outcome for Ethiopia would not be achieved through a collection of *ad hoc* and targeted programs of the ‘safety net’ variety. A pro-poor outcome results from a pro-poor *strategy*, which requires government leadership, to establish a set of incentives and interventions that consciously and purposefully alter the outcome of the current growth process, within an economy in which production and exchange overwhelmingly derive from the private sector. Further, the strategy arises on the foundations of *decentralization*, *participation* and *ownership*. Ownership means that the strategy is nationally designed, implemented and monitored. Deepening of ownership is achieved through the decentralization of many functions to the lower levels and by participatory consultation with civil society.

2.6. Equitable Growth and Social Impact of Policies

As indicated earlier in the Ethiopian context rapid and broad-based growth is necessary for sustained poverty reduction. Equally important is that most of the people share the benefits of that growth. As such the government attaches great importance to the social impact of public policies on the people. As discussed in chapter I on Poverty Profile of Ethiopia, notwithstanding the vast problems that remain; development policies and programs introduced by the government have had positive impacts on the social indicators in Ethiopia.

The major concern of the government this year is the impact of declines in producer prices of coffee and cereals on the livelihood of the smallholder farmer. With respect to coffee price decline, the impact and measures taken by the government is discussed in the chapter on “vulnerabilities and response capabilities”. One can refer to the chapter and need not be repeated here.

With regard to cereals, the producer prices for major cereals have seen major decline mainly due to better harvest in 2000/01. The decline is reflected in the inflation rate, which showed a decline at an average annual rate of 12.6 per cent during the first eight months of FY 2001/02. This is having effect on farm incomes as well as future adoption of technology packages.

In order to cope with the situation, the government is actively seeking export markets especially in Eastern Africa. Further, the Ethiopian Grain Trade Enterprise has attempted to support the market by purchasing especially wheat and maize, which are seriously affected by the fall in producer price.

Consistent with the Food Security Strategy of Ethiopia, the government is urging its development partners to actively engage in local purchases of food from surplus regions to transfer to deficit regions rather than importing food aid. There has been positive response by some notably Sweden that has allocated close to US dollar 8 million for local purchase and a major part of it has been implemented.

The European Union has in the past engaged in local purchase and will do so as part of its food security program in food deficit Woredas that is being implemented through Employment Generation Schemes.

The government is also taking a number of basic measures to effectively address the problem in the medium and long-term. These measures include diversification, specialization and commercialization of smallholder subsistence agriculture, which is discussed in detail in the subsequent chapter. In conjunction with this, the government is promoting agro-based manufacturing industries and expansion of rural infrastructures especially road to expand economic opportunities for the small farmers.

Another area of concern with implication for social impact is the on going comprehensive tax reform designed to create a strong domestic revenue base for sustained growth and poverty reduction. Accordingly, the government intends to conduct a study on the effects and ways to mitigate possible impact of the tax reform i.e. the introduction of the value added tax.

III. The Consultation Process & Overview of the Major Outcomes

The establishment of an organizational structure was a necessary and a primary step to co-ordinate the overall activities of the process of the PRSP throughout the country. At the national level, a Steering Committee composed of ministers and a National Technical Committee composed of professionals drawn from poverty-oriented federal sector ministries/government institutions as well as a Secretariat to carry out the daily activities were established. A similar structure was also adopted at the regional (state) level.

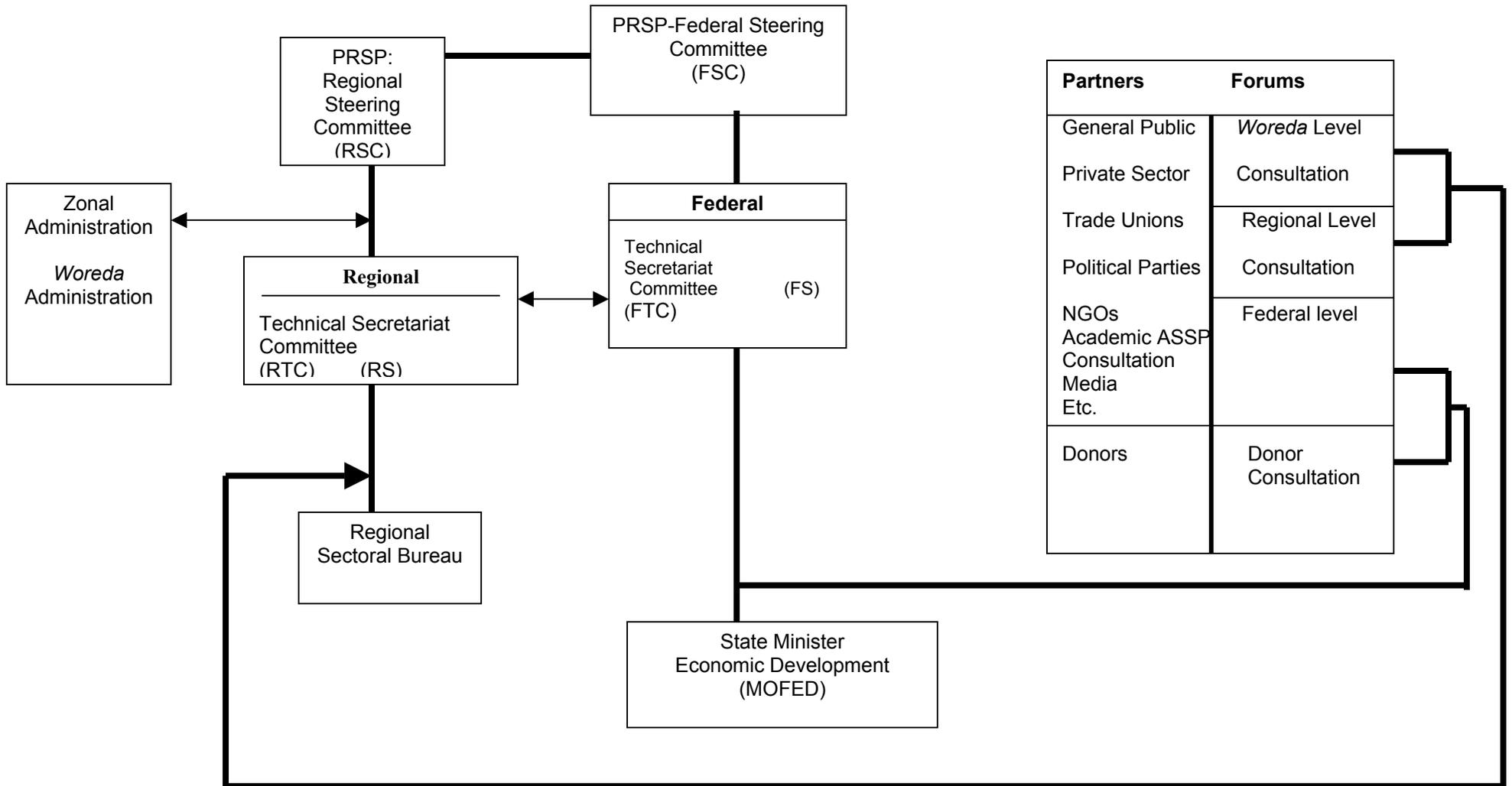
After making the necessary preparations since June 2001, the consultation process was officially launched in August 2001 in the presence of representatives of all stakeholders: government institutions, private sector, the donor community, non-government organizations (NGOs), and civil society. With the objective of gathering useful information for the preparation of the Ethiopian Poverty Reduction Strategy Paper, various consultative forums have been organized at different levels. The consultation process started at the *Woreda* (district) level followed by regional level consultations, which finally culminated with federal level consultations. The organization and management of consultation process are described in the chart on the following page.

The first consultation was held with the major stakeholder, the people, in 117 *Woredas* of the country. The agenda discussed in the three-day *Woreda* consultations mainly included: the nature and causes of poverty in order of their significance; trends in poverty over the past five years; factors that contribute to poverty; people's livelihood and associated problems; problems of socio-economic service delivery; cultural and individual practices contributing to poverty; administrative problems and other governance issues; and poverty reduction measures that need priority attention. Altogether, about 6,000 people participated in all the *Woreda* consultations. The participation of women in *Woreda*-level consultations was highly encouraged, and high numbers of women attended.

Regional consultations were carried out in all regions between 6 to 18 February 2002, except in Afar region where it was conducted between March 9-11, 2002 and in Somali region from 26-28 March 2002. In regional consultations, about 2,000 people participated altogether. The main objective of the regional consultations was to discuss key findings of the *Woreda* consultations and gather supplementary ideas. The regional consultations also addressed policy and development issues not well covered in the *Woreda* consultations, so as to gather information that represents the whole region. In general, regional consultations differed from *Woreda* consultations in the depth and breadth of agenda they covered, the number and type of participants, and institutional representations.

Subsequent to the *Woreda* and regional PRSP consultations held throughout the country, a Federal PRSP Consultation was held at the UNECA Conference Center from 28-30, March 2002. 450 participants drawn from among high-ranking government officials, sector regional bureaus, prominent people, journalists, religious leaders, and representatives of the donor community, NGOs, professional associations, and the business community attended this consultation.

Fig.3.1: The Consultative Process for the Preparation of PRSP (Ethiopia)



In addition, the government has set up a pastoral development forum, which was attended by pastoral communities from all over Ethiopia to share perspectives and forge a common vision on pastoral communities development.

Ethio-Forum 2002 was also conducted by the ESRDF from 15th January to 4th February 2002 where ESRDF's and other agencies community development experiences were discussed with a view to further advancing the design of ESRDF II and contribute to the PRSP preparation.

Besides the *Woreda*, regional and federal level consultation forums, NGOs and private sector institutions have also created discussion forums for their respective members which facilitated their structured contribution both to the process and content of the Ethiopia's PRSP. The engagement of the media in the PRSP was quite valuable.

The Council of peoples Representatives (Parliament) was also an active participant in the PRSP both as being member of the PRSP Federal Technical Committee and have attended and observed Woreda and Regional Consultation.

The donor community, known as the Development Assistance Group (DAG) in Ethiopia was an active participant by attending and observing the consultations at various levels.

Overall, extensive, inclusive and transparent consultations were held. As indicated earlier, the press, NGOs and the donor community who made positive reports, independently monitored the various consultations. For the summary of the *Woreda* and regional consultation outcomes, NGOs and private sector perspective refer to Annex 3.1.

After completing the first draft PRSP, it was circulated to key stakeholders i.e., private sector, NGOs, and DAG- for comments who provided feedbacks and was used to strengthen the final SDPRP.

Contributions of the Consultations Process: The consultations conducted at the various levels contributed to the preparation of the strategy in the following ways:

- a) Confirming the broad development strategy, sectoral and cross-sectoral priority actions followed by the government
- b) Emphasizing decentralization and community empowerment
- c) Highlighting the significance of capacity building and cooperative effort of public, private, NGOs and communities
- d) Emphasizing the significance of efficient, effective, transparent and accountable public service
- e) Highlighting the negative effects of harmful traditional practices, in the struggle against poverty by households, communities and the country.

Accordingly, Ethiopia's Sustainable Development and Poverty Reduction Program (SDPRP) has provided core treatment to agriculture, food security, education, health, water (including irrigation) and roads measures to strengthen agricultural marketing (crops, livestock) and access to finance through micro finance institutions have also been included in the paper. These were principal concerns raised at all levels of consultations.

The extensive treatment of capacity building (public, private, NGOs, CBOs), the on going justice, civil service reforms and devolution to *Woredas* will address the general discontent with government service delivery, expressed during the consultation and also address accountability and empowerment concerns of good governance.

SDPRP also pays particular attention to strengthen the private sector, which was an area of concern in urban consultation. The Government has clear commitment that sustainable development and poverty reduction in Ethiopia will be sustained only with and through the private sector.

Crosscutting issues of gender, environment and HIV/AIDS are adequately addressed in the strategy paper. Again these were serious concerns of the consultations held at various levels. Consultations also emphasized that

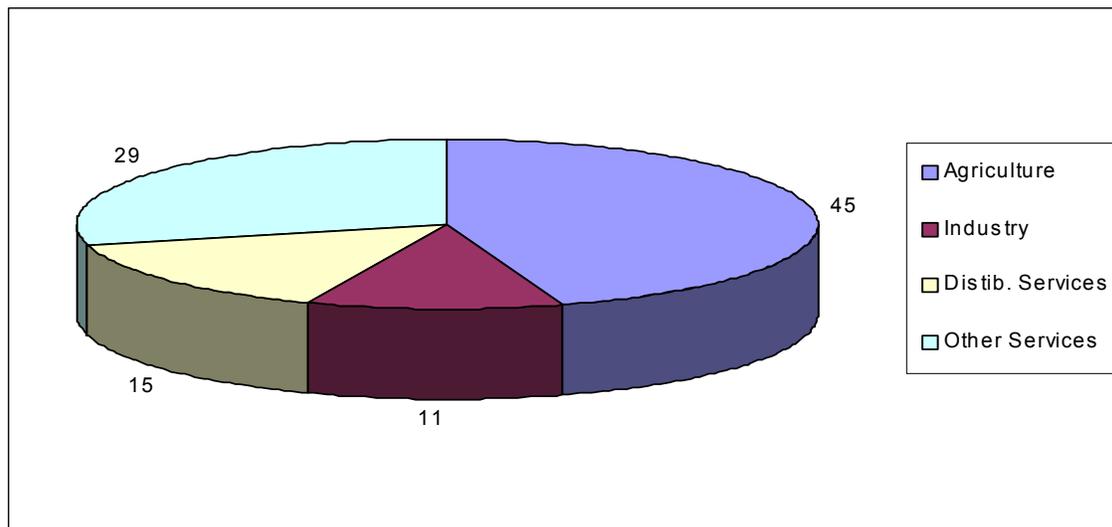
particular attention be given to pastoral communities - an area on which government has already preparations going on. As such the SDPRP has given space to this important concern of Ethiopian economy.

The consultations also expressed concern that the Government is not paying attention to urban areas. The Government has increasingly focused its attention on the needs of Ethiopia's rapidly growing urban population. The Government has prepared an urban management sub-program in the context of the National Capacity Building Program, which is given treatment in the SDPRP.

IV. Development and Poverty Reduction Challenges

Given the positive socio-economic performance in the 1990s, Ethiopia has good reasons to enter the new millennium with hope and strong foundation for accelerated economic growth and poverty reduction. To realize this, however, the development challenges that the country faces are formidable. The level of **per capita income** and the state of **human development** is one of the lowest in the region as indicated by the analyses in chapters **I & II Socio-economic Performance and Poverty Profile of Ethiopia and Analysis of Growth and Poverty Linkages**, respectively. The structure of the economy represents a typical dual structure. The traditional agricultural sector stood as the mainstay of the economy with overall low productivity and high vulnerability to the vagaries of nature. The share of industry has never exceeded 15 per cent of the GDP. Similarly, the structure of export reflects heavy reliance on primary commodity, with a single commodity-coffee alone accounting for about 60 percent of export earnings. Such high vertical and horizontal concentration exposes the country to commodity price instability on the world market. The decline in the price of coffee in international markets witnessed during recent years has contributed to the deterioration in Ethiopia's terms of trade.

Figure 4.1: Sectoral Distribution of GDP (%), 2000/01



As discussed in Chapter I, **the incidence of poverty** still remained high with 45 per cent and 37 per cent of the rural and urban population, respectively falling below the poverty line. The various consultations for PRSP preparation have showed the expediency, broadness and the various aspect of poverty that the people have to face daily. The sheer size and complexity of poverty in Ethiopia makes it a long-term challenging task.

The prevalence of poverty in Ethiopia is associated with low growth and low productivity of subsistence agriculture. Low productivity in turn is associated with very low technical progress. As a result, productivity of labor in this sector remains low. Production is basically for subsistence and not based on market demand. In spite of the fact that impressive progress has been made in the agricultural extension program, the majority of the farmers still await access to new productivity enhancing ideas. This in turn limits their capability for improving productivity hence, hinders economic transformation, and sustainable growth. Moreover, the dependence on rain-fed cultivation practice increased the economy's vulnerability to the vagaries of weather conditions. Obviously, export generated from this sector has been facing the supply side problems constraining competitiveness.

One of the serious consequences of the structure of the economy is the problem of **food insecurity**. In any one-year, more than 4 million people on average face food shortage and need relief assistance. As is already indicated, about 42 percent of the population in Ethiopia falls below the food poverty line. This magnitude reflects the extent of the challenge ahead, which the government is endeavoring to address it in a holistic manner through its agriculture and food security programs.

With regard to **social development**, although encouraging progress has been made during the 1990s, indicators still show the inadequate availability and quality of social services. Among the challenges in this regard include, increasing availability of health facilities, improving the present mal-distribution of existing resources against rural and emerging regions, enhancing access of the poor to health services by improving income and infrastructure, increasing the present poor health awareness on sexually transmitted diseases most importantly of HIV/AIDS. HIV/AIDS is increasingly becoming a threat in our developmental and poverty reduction endeavor. The Welfare Monitoring surveys conducted by the CSA in 1999/00 showed a significant decline (by 28.3%) in the number of severely stunted children in Ethiopia (from 45% in 1995/96 to 32% in 1999/2000), this level still high and is challenging. Although in general improvements have been registered in areas of human resource development (access to education & health services) between the two survey years as indicated in section 1.2 of Chapter I, the challenges still remain given the low bases in the availability of these services to start with.

Limited **provision of infrastructure** has also remained one of the formidable challenges in the endeavor towards socio-economic transformation and poverty reduction in Ethiopia. The country's **road network** has been among the lowest in Africa with a density of 29 km per 1000 sq. km in 2001/02. As a result, vast expanse of the country's potentially productive areas lay distant from all-weather roads. By 1996 some 80 percent of the land area of the country was more than half a day's walk from all weather roads. Although this has declined to 70 percent by 2001/02, road density is still the lowest even by Sub-Saharan Africa (SSA) standard. With respect to **telecommunication**, despite the significant increase in fixed lines capacity from 175,000 in 1990/91 to about 546,000 currently; level of telephone penetration still stands at 0.5/100 populations, which is very low. Similarly, **the power sector** in Ethiopia is characterized by growing disparity between demand and supply. This has been witnessed during the periods of economic recovery in the past few years and demand is expected to grow fast given the improved policy environment for private investment. Major problems in the sector that impede the delivery of adequate and reliable services are: high system losses which in turn slow progress in installing new generation capacity.

The Government's effort for development was also constrained by weak **institutional capacity**. One important dimension of institutional problem is the non-existence and/or extremely weakened market bases particularly that of factor markets. The other important dimension of the institutional problem is capacity deficiencies in the public and private sectors, and civil societies. In this regard, the challenge of developing an efficient, transparent and accountable civil service and, a strong judicial, legal, and regulatory capacity is an outstanding task for the country. The consultations at various levels have expressed discontent with the level and quality of public service delivery and delays in the court.

The major constraints to building the productive capacity of the Ethiopian economy are limited savings and investment. The level of investment in Ethiopia is still very low as compared to other African countries, which had

average investment to GDP ratio of 22-25 per cent in the 1990s. So far the resources of private investment by and large comes from local enterprises. Foreign Direct Investment although resumed flowing after the reform, its magnitude has still remained insignificant.

Although the effort to create enabling domestic policy and institutional environment has been encouraging, the extent of participation and the level of competition achieved by the private sector is still very much limited. Generally, **private enterprises** in Ethiopia are still in their early stage of development because of the political and economic legacy of the 1980s that limited their role. The challenge is multi-dimensional including lack of resource, infrastructure, institutions, skills, and organizational and innovative capabilities for developing Ethiopian enterprises. The problem becomes complex in a liberalized policy environment and increased exposure to global competition. Thus, for Ethiopian enterprises to attain levels of competitiveness that are comparable to those of international enterprises, the government will address the following set of needs: Information, Research and development, financial and infrastructure support service, training and technical assistance, establishing business linkages.

Though exports during the 1990s indicated a sign of recovery from the level recorded at the end of the 1980s, **export development** and its economic contribution in Ethiopia is far from satisfactory. Two distinct characteristics can be identified with respect to Ethiopia's export trade. These are, the dominance of merchandise trade, coming from agriculture and, increased tendency of concentration on single product such as coffee. To exploit the static and dynamic comparative advantages of the various sectors, Ethiopia has to diversify its export base and increase the production and export of value-added goods and services. On the domestic front, the major challenge will be enhancing productive capacity and productivity. This in turn requires improving structural constraints including management capability, weak institutional development, and low level of technology and lack of technological capacity, inefficient transportation, communication and customs procedures. Recent developments in this area are discussed in detail under **Chapter VIII, Private Sector and Export Development**.

The magnitude and burden of **external resource leakage in the form of deteriorating TOT, debt servicing and other international payment obligations** is reaching beyond the country's capacity. Particularly, in the face of widespread poverty and resource-constrained capital stock, the issue of making globalization work for Ethiopia is a real concern. In 1999/00, total leakage through declined commodity price, debt services and amortization amounted to about Birr 3992 million. Seen relative to public expenditure on social and economic services, the magnitude of this leakage amounts to about 142 and 139 per cent, respectively. Excluding amortization, the external leakage in 1999/00 amounts to about 138 and 445 per cent of public expenditure on education and health. Under these adverse external conditions, the challenge to reducing poverty significantly is believed to be huge.

With limited scope for increasing domestic resource mobilization - domestic saving and earnings from export of goods and services in a short period of time, Ethiopia will have to seek **external development finance**. The lessons drawn from the 1990s showed that Ethiopia has been among the least ODA recipient countries within LDCs, have limited access to private investment capital and, currently facing debt burden, notwithstanding the debt relief obtained so far. Thus, for Ethiopia to address the huge task of development and poverty reduction, external environment has to be conducive for additional and predictable official development assistance complemented by debt relief, and enhanced support for FDI and trade. The capacity limitation of external trade is already clearly shown by the failure to fully utilize the opportunities offered by AGOA and EBA. Therefore, assistance for trade becomes important to contribute to growth and poverty reduction in Ethiopia.

Besides the structural problems of the economy discussed above, Ethiopia now finds herself in a post-conflict situation created by the unprovoked Eritrean war of aggression against Ethiopia in May 6, 1998. Due to the war, about 364,000 people were displaced from their localities and about 110,000 Ethiopians were deported from Eritrea. Many civilians and militias who were breadwinners to their families have lost their lives, considerable infrastructure, including residential houses; community infrastructure, roads and power were destroyed. Currently, the country is implementing considerable post-conflict **emergency rehabilitation, demobilization and reconstruction** tasks in addition to the long-term development and poverty reduction agenda.

Finally, the challenges discussed in this chapter and issues raised and discussed in chapters I and II as well as the overall outcomes of the consultations at various levels (chapter III) served as a background for designing Ethiopia's Sustainable Development and Poverty Reduction Strategy and Program discussed in the chapters that follow.

V. Overview of Development Goals, Policies, Strategies, and Targets

For some countries, economic growth is the primary policy goal, and poverty reduction is to be achieved through measures complementary to growth. This is not the approach of the Ethiopian government. Poverty reduction is the core objective of the Ethiopian government. Economic growth is the principal, but not the only, means to this objective

The FDRE recognises that in the absence of proactive development policies, it is impossible to create an enabling environment for accelerated development and attainment of improvements in the standards of living of the people. Based on the practical experiences and lessons learnt over the past ten years, and an assessment of the development experiences of countries that have attained rapid economic development, the FDRE has formulated policies and strategies to guide over all development with focus on rural and agricultural development.

At the same time, following the end of the internal arm conflict in 1991, public expenditure was re-oriented towards social and economic development. A sharp decline in defense expenditures was witnessed in the aftermath of the conflict. These trends in defense expenditure have allowed sizeable increases in poverty-related expenditures: education, health, and roads.

Despite the visible overall improvement of the Ethiopian economy in the 1990s compared to that of 1980s, poverty in Ethiopia is still among the highest in the World. As discussed in detail in Chapter II, consumption poverty head count index stood at 44 percent in 1999/2000. Most of the poor live in rural areas and predominantly depend on agriculture for their livelihood. Urban poverty is also a growing problem requiring due attention. Food security is still a critical problem.

In Ethiopia, social indicators (education & health) have also remained at a far lower level compared even to that of sub-Saharan average. Incidences of malnutrition, stunting and wasting are serious problems. Gender inequalities are quite marked in Ethiopia. Women especially in rural areas carry a far heavier work load than men and through customary norms and culture are generally excluded from property. As a result, the causes and extent of poverty differ by gender.

The levels of socioeconomic performance and the detailed discussion in chapters I, II, III, and IV on **Socio-economic Performance & Poverty Profile of Ethiopia, Analysis of Growth Poverty Linkages, Consultation Process and Major Outcomes, Development Challenges in Perspective, respectively** clearly showed the daunting task and challenge that has to be addressed by the Ethiopian government and people to achieving sustainable development and poverty reduction. The government and peoples are committed to rid Ethiopia from the scourge of poverty as demonstrated by the efforts of the 1990s. Ethiopia's development strategy seeks to promote rapid broad-based and equitable growth by focusing rural development and improvement in physical and human capital, and deepening the devolution process to empower the people and expand the choices and control that people have over their lives.

5.1. Fundamental Development Objectives of the FDRE

The fundamental development objectives of FDRE is to build a free-market economic system in the country which will enable:

- a) The economy develop rapidly,
- b) The country extricate itself from dependence on food aid, and
- c) Poor people to be the main beneficiaries from economic growth.

5.1.1. Ensuring Rapid and Sustainable Economic Growth

Ethiopia's existing realities reveal that there is an acute shortage of capital. In contrast, the country is endowed with a large number of working age population and a potentially cultivable land although land is still relatively scarce in some part of the country, particularly the northern and central high lands. It is believed that faster growth and hence economic development could be realized if the country adopts a strategy that help raise the employability of our

labour resources and enhance productivity of land resources aimed at capital accumulation. Pursuing a development strategy that does not make extensive use of the manpower and intensive use of the land resources forfeits the considerable contribution that these resources could make to growth and capital accumulation. The country is to achieve faster growth and economic development by making use of technologies that are labour using, but land augmenting, such as fertiliser and improved seeds and other cultural practices.

The agricultural and rural-focused development strategy that the country has adopted will help accelerate economic development via stimulating and sustaining growth in agriculture. This growth in turn will lead to fast and sustainable growth in trade and industry through strengthening production and consumption linkages. Thus, the agricultural and rural-based development strategy fosters rapid and sustainable economic development not only in the agricultural sector but also in the rest of the sectors.

The accelerated and sustainable growth in agriculture leads to increased quantity and quality of agro-industrial raw materials supplied (forward production linkage) to the industrial and export sector. This will increase the demand for agricultural products, the income and the standards of living of farmers. This will in turn encourage farmers to use improved technologies, which will increase the demand for agricultural inputs such as fertilizer, improved seeds and farm implements (back ward production linkages). The increase in the income of farmers lead to increased demand for consumer goods and services (industrial and agricultural products) and thereby promotes industrialisation. These linkages will lay the foundation for accelerated and sustainable growth in the industrial and trade sectors. Thus, the rationale for adopting and implementing a rural and agricultural-centred development strategy has emanated from this basic principle.

Unless industry (secondary-modern goods producing sectors) and services (tertiary-distributive and other services) grow in conjunction with agriculture (primary –agriculture and allied activities), it is not possible to ensure accelerated growth and sustainable development. Such a growth process will improve the country’s capacity for capital accumulation, which also in turn help channel resources for the development of the industrial sector. In an agrarian economy such as Ethiopia, the resources for the development of the industrial sector need to be generated via primarily creating strong bondages between agriculture and industry and subsequently exploiting these linkages via the concerted efforts of non-state actors, particularly the non-peasant private sector.

In this regard, the government has already recognized the key role that the non- peasant private sector is expected to play in directly taking part in agricultural production, agricultural marketing and processing agricultural products. The government will make every effort to enhance and buttress the contribution private sector (domestic and foreign) will make to agricultural development endeavors. The federal government, in collaboration with regions, will work hard to allocate land for commercial farming, make sure that there are adequate infrastructure facilities, and streamline and make efficient land lease procedures for entrepreneurs who wish to set up large - scale commercial farms. For those who want to rent land from farmers and take part in agricultural activities, the federal government, again in collaboration with the regions, will work out an efficient arrangement, which will safeguard the interests of all parties concerned.

Although our economic development efforts are based on rural and agricultural development, we have already recognized that this cannot really go far unless it is supported by industrial development. The need for a coordinated and integrated agricultural and industrial development approach is also well recognized by the government of Ethiopia, as industrial development is eventually expected to play the leading role in our development effort. The government's industrial development strategy will be based on an appreciation of this reality. It is an important part of the government's industrial development strategy to assist and encourage both domestic and foreign private business, particularly the former, to participate fully in this development effort.

Rural-centred strategies that make extensive use of labour and intensive use of land are to be employed in the agricultural sector. In other words, the strategies target the vast majority of the people who reside in rural areas as the rural areas harbour the bulk of the rural poor as indicated in the section on poverty profile of Ethiopia.

5.1.2. Enhancing the Benefits of the People

The Government’s overriding objective is to make sure that the people (mainly the poor) are the prime beneficiaries of economic growth and development. The Ethiopian Government sees development from the perspective of equity

and the ultimate objective of eradicating poverty. The development option that guarantees rapid growth and allows maximum benefits for the working people is the one that enhances the productive capacity of the working population and employs this capacity for development. The rural and agriculture-centred development strategy will help enhance development in rural areas where the vast majority of the poor are located.

However, the benefits of the development strategy are not limited to poverty reduction in rural areas. Developments of efficient marketing systems as indicated the government's White Paper on Rural and Agricultural Development Policies and Strategies is also aimed at improving rural-urban terms of trade and thereby help benefit the urban poor as well. This will also help strengthen the linkages between agriculture and industry: the latter by producing industrial raw materials, generating capital resources and the former through supplying food to urban areas and creating a larger domestic market for manufactured industrial products. The development strategy adopted will also help increase employment of both rural and urban people (hence reduce poverty) through the promotion of a modern sector based on labour - intensive production techniques. The government has long recognized the need for skill development and upgrading for the realization of its development objectives. That is why the expansion of primary education, particularly in rural areas, is high on the government's development agenda. The government will also endeavor to make every effort to make sure that the education given is directly relevant to the development effort.

5.1.3. Minimizing Dependency on Foreign Aid

Nations are economically interrelated through foreign trade and foreign aid. Foreign trade can increase the efficiency of an economy by exporting items for which there is a comparative advantage and importing items for which there is no comparative advantage to produce them domestically. Foreign trade (particularly export) is an engine of growth and it is crucial in minimising dependency on foreign aid. The government has already recognized the need for developing the export base of the country (diversification) through the formulation of the export promotion strategy. Foreign aid is also important for poor countries because it is one of the main sources of investment during an early stage of economic development. As it stands now the bulk of Ethiopia's investment is being financed from external resource flows.

In the era of globalisation, Ethiopia must improve its position in international trade and gain from trade by ensuring rapid and sustainable economic growth and constantly improving the level of its technology and capital accumulation. This helps mitigate dependency on foreign aid in the long-term. In this process, the domestic economy should be integrated well and thereby create more market outlets for domestic production. This will help withstand any external shocks that may occur in the international economy. This is also well articulated in the White Paper on Rural and Agricultural Development Policies and strategies.

5.2. Building blocks: Interaction of the Economic and Political Processes

The economic strategy has to be viewed in conjunction with the political process for it to be an effective development promoting and poverty-reducing instrument. Given poverty reduction will continue to be the core of the agenda of the county's development, the strategy is built on **four pillars (building blocks)**. These are: Agricultural Development Led Industrialization (ADLI), Justice system and civil service reform, decentralization and empowerment, and capacity building in public and private sectors. Such a four-pronged approach is believed to be effective in a fight against poverty and ensure sustainable development.

5.2.1 ADLI & Food Security

ADLI is seen as a long-term strategy, during the first stage, and agriculture is to play a leading role in the growth of the economy. But the extremely small ratio of urbanization of the country could well raise market outlet as a critical issue owing in the main to inadequacy of domestic demand, thereby making exports a necessity. This implies that agriculture has to be made internationally competitive, and that part of its production has to be oriented towards exports.

For agriculture to continue serving as an engine of growth in the coming years, through the domestic economy and international trade, there has to be progress in terms of commercialization, with more intensive farming, increasing proportion of marketable output and correspondingly decreasing ratio of production for own consumption. Aside from deepening technological progress, it will mean greater market interaction on the part of the farmer. Thus,

research and extension will be enhanced, application of inputs will be increased and diversified, new products will be introduced, irrigation will be expanded, service cooperatives will be encouraged, contractual production cum trading between farmers and traders will be fostered, production of tools and equipment for agricultural use will be promoted, and rural roads will be constructed. At the same time commercial farming will receive more emphasis and support. Leasing of land held by the government will be encouraged by specifying the conditions of lease to facilitate the collateralization of land, and foster land use based on environmental protection. Besides, an agricultural products exchange market will be established and implemented.

Extension of credit to the small farmer will gain importance with commercialization of agriculture, and give impetus to the establishment of rural banks. The first step is to carry forward the transition from loans underwritten by the regional governments to loans extended by micro-financing institutions entirely on their own. In the foreseeable future, it is expected that micro-financing institutions will be the dominant source of credit supply to smallholder farmers, and that the existing make shift arrangement of loan underwriting by the regional governments will be substantially phased out from the four larger regions. It may, on the other hand, be started in the remaining regions. The second step consists of graduating from a micro-financing institution to a rural bank, the essential dividing line being growth of deposits, and minimization of the reliance on equity capital for the extension of credit as is presently the case. The private sector will have greater opportunities to involve them in establishing micro financing institutions and the government will create conducive policy environment for the establishment of such institutions.

Cooperatives play important roles in facilitating input and output marketing as well as in promoting the provision of rural finance. To this effect, the government has recently approved for the establishment of Cooperative Commission at federal level. While the process of setting up such a commission at federal level is currently well underway independent Cooperative Promotion Bureaus are being established in regions.

The problem of food security and agricultural growth in pastoral areas is being conceived in terms of the development of the pastoral economy in its entirety. Water, pasture, veterinary service and livestock marketing are central interventions. The national strategy for pastoral development is discussed in Chapter VII of this document.

5.2.2. The Justice System and Civil Service Reform

Ethiopia has undertaken many of the economic policy reforms (first generation reforms) necessary for the attainment of macroeconomic stability, and started the process of establishing a market economy. Of greatest importance now are the second-generation reforms. The justice system and civil service reform falls outside the economic domain as it relates to the political transformation being undertaken under the process of democratization initiated during the 1990s. Fortunately, at the same time it meets a key purpose of second-generation reforms for achieving economic development in the country. The same is true of decentralization and empowerment, discussed below, which is the third building block of the strategy for poverty reduction. These linkages underline the significance of conducting economic and political transformations simultaneously.

Cognizant of the urgent need to address the wide array of capacity constraints that hindered the performance of public institutions in Ethiopia, the Government embarked on a comprehensive Civil Service Reform Program (CSRP) in 1996. Indicative of Ethiopia's "first generation" capacity building efforts, the CSRP sought to build a fair, transparent, efficient, effective, and ethical civil service primarily by focusing on strengthening core technocratic systems within the public sector.

Overall, key challenges for the Government in this "full implementation phase" of CSRP will be to ensure a regional and woreda-level focus, maintain strong coordination across line ministries and tiers of government, provide clear incentives for behavioral change among civil servants, and establish benchmarks against which to measure impact.

These reforms will make a qualitative change in governance, transparency and accountability within the public sector. Reforming the judiciary will strengthen enforcement of contracts and property rights, while the civil service reform will reduce transaction costs and non-commercial risks. All these will play an important role in the development of the private sector, and also facilitate the development of social capital.

5.2.3. Governance, Decentralization, and Empowerment

Decentralization is an outcome of the adoption of a federal system of government in Ethiopia. With the devolution of power to the regional governments, implementation of economic policies and development programs have, to a large extent, been shifted from the center to the regions. The application of fiscal federalism ensures a single system of taxation, allows some revenue collection by the regions and some revenue sharing with the federal government while putting the majority of the revenue under the central authority, provides budgetary subvention to the regions, and grants the regions full autonomy in budgetary expenditures.

Consequently, considerable space has been created for effective decentralization and empowerment, which in turn creates room for tackling poverty directly at the grass root level. Already, in a relatively short period of nearly a decade, the electorate, politicians, civil servants, and associations of the civil society have all gone through a steep learning curve, about the workings of democracy, and valuable experience has been gained on federalism as well.

By way of deepening and broadening the decentralization process, measures are currently under way to pave the ground to render districts (*Woredas*) the center of socio-economic development. By way of ensuring their autonomy on resources, it is already planned to effect block grants directly to districts (*Woredas*). Concurrent measures are also being taken in the area of capacity building, as technical capacity limitation is believed to be the major constraint in the course of implementing the decentralization process, which in turn is expected to foster socio-economic transformation at the grass-root level. The establishment of the new Capacity Building Ministry is one testimony for the government's commitment to further deepens the decentralization process. This is obviously a challenging and difficult process, not least because of the limitations in the possibility of getting trained manpower work at the district level.

Fiscal decentralization to the district level will provide a basis for a meaningful participation by the people in local development programs. Typically this will entail primary education, primary health care, rural water supply, rural roads and agricultural extension. Other activities such as small-scale irrigation, market infrastructures, and cottage industries could also be included depending on financing, capacity building and private investment. As the district forms the unit base for representation in the federal and regional assemblies, with a population of 100,000 it is a suitable point of merger between political empowerment and economic development at the grass root level. Gender equality will continue to be emphasized in the process of decentralization and empowerment.

As the Government seeks to implement these decentralization efforts in a relatively short period of time, it faces immense fiscal and institutional challenges. To be sustainable, this second wave of democratic decentralization will require a systematic approach to developing enabling legislation for local governments within regions including the re-demarcation of financing viable local jurisdictions and the harmonization of various forms of local government (including *Woredas* and municipalities). In addition, regions will need to formally assign expenditure and revenue responsibilities within regions in ways that maximize operational efficiency. Accordingly, the role and functional restructuring of regional bureaus (including sustainable redeployment of staff) will be undertaken in line with the above-mentioned expenditure assignments, and in parallel, *Woredas* and municipalities will need to be appropriately restructured to ensure that they take on new functions and develop required core competencies. The democratic aspect of decentralization will also depend on strengthening the capacity of communities and civil society groups to federate and more effectively take advantage of the opportunities for voice that decentralization affords. Finally, once capacitated and restructured, local governments will require fiscal support to build their capital stock consistent with their service delivery investment needs.

Besides, the devolution to *Woredas* and *Kebeles* which are instruments of deepening democracy and good governance in Ethiopia, the Government will give priority to strengthening democratic institution. Strengthening the council of peoples' representatives and operationalizing the Ombudsman and Human Right commission are priority actions.

5.2.4. Capacity Building

The government in December 1998 has prepared a strategy for capacity building and program framework. It is hoped that external assistance will be obtained and that it will be mostly implemented within the medium-term. The strategy and program framework of capacity building that has been formulated is designed to feed into ADLI,

judiciary and civil service reform, and decentralization and empowerment. Thus, it fits properly the country's poverty reduction strategy being conceived of.

Capacity building is taken to comprise the development of human resources, building and strengthening of institutions, and establishment of effective working practices in combination. The program is to be implemented in relation to smallholder agriculture, the private sector, and the public sector, including the judiciary. Training of farmers, supporting micro-financing institutions, and strengthening public and private sector organizations involved in the development of agriculture will be the main activities concerning smallholder agriculture. As to the public sector, capacity building will run parallel to the judiciary and civil service reform. Taxation will receive priority within the civil service reform.

Capacity building will include education in order to increase the stock of trained manpower in general and to upgrade the manpower within the civil service. The training needs of regional and district administrations will receive special attention. Various activities will be undertaken to develop the private sector. The activities include establishing industrial training institutes, strengthening of the financial sector, supporting the development of chambers of commerce and industrial associations, and improving the setting of product standardization.

The building blocks taken together have strong positive effects on growth and poverty reduction. The justice system and civil service reform, decentralization and empowerment, and capacity building will potentially bring together better governance and institutional development, which will help build effective and efficient public and private sector organizations. In other words, the building blocks will give rise to modern institutions, and, in G.Myradal's sense, "a strong state". A strong state will significantly enhance the prospect of ADLI in Ethiopia. Judicial and civil service reform will encouraging private sector and decentralization and empowerment will mainly encourage the smallholder farmer. The overall results of the reforms will improve the efficiency of the economy and thereby improve the living condition of poor people.

Making the judiciary transparent and accountable will greatly improve the enforcement of contracts and property rights, and thereby reduce non-commercial risks. Civil service reform will render far better the implementation of policies and regulations as well as delivery of services, which translates into reduction of transaction costs and removal of distortions of resource allocation. These are all important for the development of the private sector. Decentralization and empowerment will increase the decision power of district administration in developmental projects and allow interaction with the rural population. Apart from making felt needs better reflected, it will give rural communities valuable experience about development and how it can be brought about through their actions.

5.3. The Major Thrust of Ethiopia's Development and Poverty Reduction Strategy

The broad thrust of Ethiopia's strategy during the Sustainable Development and Poverty Reduction Program (SDPRP) period thus consists of:

- Overriding and Intentional focus on agriculture as the sector is the source of livelihood for 85 % of the population where the bulk of the poor live. The government gives overriding primacy to the welfare of rural populace. Agriculture is also believed to be a potential source to generate primary surplus to fuel the growth of other sectors of the economy (industry);
- Strengthening private sector growth and development especially in industry as means of achieving off-farm employment and output growth (including investment in necessary infrastructure);
- Rapid export growth through production of high value agricultural products and increased support to export oriented manufacturing sectors particularly intensified processing of high quality skins/leather and textile garment;
- Undertake major investment in education and strengthen the on going effort on capacity building to overcome critical constraints to implementation of development programs;
- Deepen and strengthen the decentralization process to shift decision-making closer to the grass root population, to improve responsiveness and service delivery;

- Improvements in governance to move forward in the transformation of society, improve empowerment of the poor, & set framework/provide-enabling environment for private sector growth and development;
- Agricultural research, water harvesting and small scale irrigation;
- Focus on increased water resource utilization to ensure food security;

5.3.1. Objectives of the Development and Poverty Reduction Strategy

The overarching objective of the government's poverty reduction strategy is to reduce poverty through enhancing rapid economic growth while at the same time maintaining macroeconomic stability. Poverty head count ratio is projected to decline by about 10% (4 percentage points) by the end of the poverty reduction strategy program period (2004/05) from its 1999/00 level of 44 percent. Real GDP is targeted to grow by at least 7 percent on average during the program period.

While recognizing the seriousness of the challenge, the Government is committed to and works towards meeting the Millennium Development Goals (MDGs) of 2015.

5.3.2. Required Growth to Meet Millennium Development Goals (MDGs)

The government has calculated the elasticity of poverty with respect to growth based on the latest Household Income and Consumption Expenditure (HICE) Survey data (1999/2000), taking explicitly into account the likely changes in income distribution. This analysis implies that the Ethiopian economy should grow in real terms by 5.7% per annum until 2015 to reduce poverty by half from its current level. Modest improvements in institutional efficiency, such as the reform of the legal system, enforcing contracts, ensuring property rights, maintaining peace and stability, and improving the functioning of public services, can reduce this growth requirement to about 4.7%. This is likely to be achieved as the government has already embarked on almost all fronts (capacity building, devolution and empowerment, justice system and civil service reform, anti-corruption, etc).

5.3.3. Equitable Growth and Social Impact of Policies

As indicated earlier, the annual average GDP growth rate is 7%. All sectors contribute to this growth. Given the overriding emphasis on the transformation of the rural economy in general and the agricultural sector in particular, agriculture is expected to grow at annual average rate of 7.5% during the program period. The modern goods producing sector (industry) is expected to grow at 7.8%. Within industry, large and medium scale manufacturing, electricity & water, and construction are expected to show higher annual average growth rates. The distributive service sector is expected to increase at the rate of 8% per annum while the other service sector is forecast to increase at the rate of 5.4% per annum. These levels of growth must be achieved in such a manner that ensures equitable growth and a positive social impact.

The high priority accorded by the government to the commercialisation of agriculture, increased productivity in smallholder agriculture and functioning markets are expected to boost agricultural production. The government has also already recognized participation of private entrepreneurs and cooperatives in improving and expanding our marketing system. It is assumed that the supply of agricultural inputs such as fertilizers, improved seeds and pesticides will increase substantially during the period. Introducing menu based extension packages will expand the coverage of extension programs and training of farmers will also be strengthened during the projected period. Improved agricultural performance, implementation of sector programs, strengthened environment for private sector investment will create conducive basis for the growth of industry and trade.

Here, it is important to note about risks that could affect SDPRP targets-drought and terms of trade shocks to which the Ethiopian economy is **vulnerable**. HIV/AIDS is becoming a growing threat to the effort of growth and poverty reduction. The speed and flexibility of external resource flows, as experience shows, could also affect sectoral program implementation and attainments of targets. All of these need close follow-up.

5.3.4. Overview of Main Policy Instruments to Achieving the Objectives of the Strategy

f) Agriculture

Some of the proposed measures in the agricultural sector during the program period are:

- Introduce menu based extension packages;
- Expand borrowers' coverage of micro-financing institutions;
- Establish an institute for diploma-level training of extension agents and expand agricultural Technical Vocational Education Training (TVET);
- Measures for the improved functioning of markets for agricultural inputs (fertilizer, seed) and outputs;
- Organize, strengthen and diversify autonomous cooperatives to provide better marketing services and serve as bridges between small farmers (peasants) and the non-peasant private sector;
- The possibility of establishing an agricultural products exchange market will be studied, and, if found feasible, implemented;
- Agricultural research, water harvesting, and small-scale irrigation;

The number of farming households to be covered by the Extension Package Program is expected to increase from the current 4 million (2000/01) to 6 million by the end of the program period. There were only 32,000 farmers when the package was introduced in 1994/95.

g) Food Security

Agricultural growth will also contribute to improving the conditions of food security in the country. There are indications that excepting conditions of drought, even the present extension program could have sufficed to bring about a satisfactory level of national food security. However, as it stands now droughts occur far too often and food security in all its dimensions could not be sustained. Irrigation would have to be introduced in a significant way for a sustainable attainment of food security at the national level. However, food insecurity at the household level could still persist despite growth of food and cash crops at national level. The solution would have to come predominantly from within agriculture. The salient features of the ongoing food security strategy are outlined in Chapter VII of this document.

The medium-to long-term target is to reduce the absolute size of the food insecure rural population substantially and make them exit from food aid. In the short-run, the objective is to rely on fiscal transfer of resources to support a relatively small numbers of food-deficit households. For the country as a whole, tackling food insecurity at the household level is, arguably, the most effective and direct way of poverty reduction being envisaged by the government, and, no doubt, among the most important programs.

During this transition, there will be continued reliance on food aid. There are two main issues in this regard; ensuring a timely intervention to avoid lack of food, and using the resources of food aid to build the potential of agriculture and rural infrastructure. The concept of linking relief with development has been applied since the late 1980s. Various activities of environmental protection such as soil and water conservation, terracing and afforestation carried out over the years have shown positive results, and will be improved and continued in the future. Emergency capabilities have also been strengthened in the past few years by reorganizing the Disaster Prevention and Preparedness Commission (DPPC), and establishing a Food Security Reserve Administration (FSRA). Monitoring, surveillance, early warning, and strategic food reserves capabilities will continue to be augmented to better deal with emergency situations of famine.

In regard to food security, the medium-term target is to reduce the absolute size of the food insecure rural population substantially and make them exit from food aid.

The profile of shocks, extent of vulnerabilities and coping strategies put in place are, articulated and discussed in Chapter IX of this document.

h) Education

Ensuring access to elementary education for all citizens along with improving quality and relevance to socio-economic development is the objective of the ESDPII.

With regard to primary enrollment, one of the program targets is to achieve a GER of 65% by the end of the program (2004/2005). To ensure that this target can be met, while ensuring that quality does not suffer, the enrolment increase will be accompanied by construction of facilities, training and deployment of new teachers for primary level, development of syllabi and textbooks for primary schools, and the use of quality assessment mechanisms for education in primary schools.

With regard to Secondary Education, the secondary first cycle will expand in line with the high coverage observed in the primary education. As the content of education at this level is to prepare students for various training programs and subsequent learning, considerable attention will be given to the quality of education. The secondary school second cycle will expand in line with the desired intake capacity for higher educational institutions.

The program target is to achieve a GER of 16% for the first cycle of secondary education and a GER of 8% for the second cycle by the end of the program (2004/2005). Efforts will be made in the construction of facilities, revision of syllabi, provision of textbooks, development of assessment mechanisms for the quality of education, and the training and deployment of new teachers in secondary schools.

With regard to (TVET), the program target for TVET institutions is to enroll 130,000 students (or equivalently 55,000 annual intakes) by the end of the program period (2004/05), along with significant measures to enhance quality of education and management of TVET institutions.

With regard to Higher (Tertiary) Education, the program targets are to expand the undergraduate intake capacity of all higher education institutions in the country to reach 30,000 per annum by the end of 2004/05, and expand the postgraduate intake capacity of higher education institutions to reach 6,000 by 2004/05. Efforts will be made to carry out construction of facilities, training, curricula reform, and quality assessment.

i) Health Services

Health Extension Package (HEP) is a new initiative included in the HSDPII. It is an innovative community-based health care delivery system aimed at creating healthy environment as well as healthful living. The main objective of HEP is to improve access and equity to preventive essential health intervention through community/kebele based health services with strong focus on sustained preventive health actions and increased health awareness.

The health extension service will be provided as a package focusing on preventive health measures targeting households particularly women/mothers at the kebele level. A new cadre of health workers (75% females) will be trained and deployed up to two to each kebele and they will be accountable to health centers of their areas. The implementation is expected to start in the EFY 1995 on pilot basis using the existing Primary health Workers.

The overall objective of the HSDPII is to increase access for health services.

The program (HSDP II) gives priority to the prevention of diseases. Preventive health service, health service coverage (expansion and maintenance), and quality of healthcare will be given priority during this program period. Health Extension Package will be introduced and strengthened one of the key targets of the HSDPII target is to increase health service coverage from 52% in 2001/02 to 65% by the end of the Program period (2004/05).

j) HIV/AIDS

HIV/AIDS is already putting a brake on economic growth in the worst affected countries through diversion of investment, deficit-creating pressures on public resources, and loss of adult labor and productivity. Ethiopia is one of

the Sub-Saharan African countries where the HIV/AIDS infection is high. For every thirteen adults, one is believed to be infected. In urban areas, more than one out of every six adults is being infected.

The Ethiopian government approved a comprehensive HIV/AIDS policy in 1998 with the overall objectives of guiding the implementation of successful programs to prevent the spread of the disease, decreasing the vulnerability of individuals and communities, caring for those living with the disease, and reducing the adverse socio-economic consequences of the epidemic. It has also developed the Strategic Framework for the National Response to HIV/AIDS, 2000-2004. Reducing the level of transmission is the key element in the overall prevention and control of the disease.

To support the AIDS control program by capacity building, training of people from all sectors, the youth, and other community groups should be conducted. This includes strengthening the secretariat offices at the regional, zonal and *Woreda* levels to be able to provide appropriate treatment for STDs and extend support to people living with HIV/AIDS and their relatives.

The major objective regarding HIV/AIDS is to reduce prevalence of the epidemic. The instruments (measures) devised to achieve this objective are:

- Establishment functional institutional framework at federal, regional, and *Woreda* levels;
- Define work programs of to facilitate the functioning of *Woreda* (district) councils;
- Increase the number of clinics providing voluntary counseling and testing by 10 %;

The target is to reduce the level of HIV transmission by 25% within 5 years.

f) Roads

The objective of first phase of the Road Sector Development Program (RSDP I) was at mainly at upgrading and rehabilitating the existing road network. The RSDP II has given attention to the expansion of the existing network in order to enable the road infrastructure support the country's endeavor to attain economic development and poverty reduction. The first three years (2002/03-2004/05) of RSDP II target is to:

- Increase the rate of acceptable roads from an average 57% for all road types to 82% by the end of 2004/05;
- Increase the road density from the current 29-km/1000 km² and 0.48-km/1000 people to 47-km/1000 km² and 0.70-km/1000 people by the end of 2004/05 (including low class roads).

The government has already recognized the challenges towards meeting these targets and is already taking measures to strengthening the institutional and organizational capacity of federal and regional road agencies for sustainable implementation of the RSDP and up-keep of the road network. The role of local private contractors is also already internalized. To this effect, the Government plans to assign 40% of road maintenance works (in sub-sector terms), to private sector contractors in the short term and increase the level to 100% in 10 years time.

An important aspect of RSDP II is that it introduces a new dimension covering the requirements of travel and transport at village level: the Ethiopian Rural Travel and Transport Sub-Program (ERTTP). Throughout Ethiopia many rural villages are cut off during the rainy seasons, and women head loading undertakes transport predominantly. The ERTTP is expected to better support agricultural and other commercial activities in the regions, and thus provide a sound and sustainable foundation for the on-going economic development and poverty reduction effort in the country.

The ERTTP, is therefore, an integrated rural development initiative that revolves around rural travel and transport and it envisages the following activities during RSDP II:

- Construction of substantial amount of low level rural roads,
- Provision and expansion of a conventional and intermediate means of transport,

- Expansion of facilities and optimization of facility, and schemes that raise the rural household income level.

g) Water and Sanitation

The overall objectives of the national water resources management policy of Ethiopia is to enhance and promote efforts towards an efficient, equitable, and optimum utilization of the available water resources and contribute to the country's socioeconomic development on sustainable basis.

During 2002/03-2004/05 water supply coverage of urban, rural and country level is expected to reach at 82.5%, 31.4% and 39.4% respectively. With respect to the urban sewerage, coverage will increase annually by 3.5% from its current level of 7%.

During the program (PRSP) period (2002/03-2004/05) irrigation program aims to develop a total of 29,043 hectare of new land, which bring the total area under irrigation to 226,293 hectare by the end of 1997 making 114,390 household beneficiaries. The small scale irrigation schemes for the period (2002/03-2004/05) is expected to cover an area of 23,823 ha benefiting about 93,510 households.

h) Private Sector & Export Development

Industrialization is the other arm of the strategy, which is inter-woven with the development of the private sector. During the medium term (i.e. five-year period), the share of industry in the GDP is envisaged to increase significantly. Partly, this growth of industry will come from existing investment projects in utilities and manufacturing. More importantly, industrial investment is expected to increase. There are three types of measures that will be undertaken to encourage private investment. First, to make the existing policies work better, by removing regulatory impediments and improving implementation capacities on the side of government. Existing regulations will be examined with a view to identifying those that should be abolished, modified and retained.

As to problems of bureaucracy, it is to be tackled through the on-going civil service reform and capacity building measures. Second, to encourage public-private sector partnership through establishment of platforms of dialogue. Already, a forum for consultation has been established for exporters, and similar forums are envisioned in the medium term for different groups of the private sector at various levels of government. Third, to make the business environment and the incentive structure attractive for manufacturing in particular, as it is relatively disadvantaged compared to other activities due to relative lack of experience in this line of business, and the possibility of higher risk exposure and higher enforcement of taxes. Detailed assessment and review of the potentials of the emerging private sector and impediments to its development and strategies aimed at addressing the problems of the same are outlined and discussed under Chapter VIII of this document

Lastly, the strategy gives recognition to the critical role of exports both in terms of growth of income and foreign exchange. As ADLI strategy is located within the context of progressive integration into the global economy, export-orientation and ADLI are viewed as mutually reinforcing. The importance attached to exports is clearly reflected in the formulation of an export strategy in 1998, the creation of a forum between exporters and government, and establishment of an export promotion agency in the same year. The salient features of the Government's export promotion strategy are outlined and discussed in chapter just cited.

The government has been encouraging the participation of the **non-peasant private sector** in the productive sectors (agriculture and manufacturing) and areas of human resource development (education and health), infrastructure (construction, telecommunication, power generation). In an endeavor to creating an enabling environment for the participation of the private sector, the government will help:

- Foster the establishment of industrial associations through amending the existing laws of the chamber of commerce;
- Encourage private entrepreneurs establishing industrial estates; business incubation
- Promote public-private partnership through creating forums for structured (institutionalized) dialogue;

- Permanent exhibition centers as a means for the dissemination of information on the standards and qualities of domestically produced products;
- Improve the functioning of urban land lease markets to increase the availability of land;
- Remove and amend regulatory impediments to private sector development

i) Macroeconomic Policies

The envisioned macroeconomic policies for the FY 2002/03-2004/05 period are built on the positive macroeconomic performance of the Ethiopian economy. The objectives and strategy of this medium term program are to promote rapid, broad-based and equitable growth by emphasizing rural development and improvement in physical and human capital, which is underpinned by capacity building.

The key elements of the medium term strategy are the continuation of the program by reorienting the budgetary resources towards poverty reducing sectors, laying a foundation for a strong revenue performance through the tax reform program, improving the monetary and financial sector reform, and capacity building and regulatory reforms to promote private sector development. **Specific objectives in the medium term are to achieve an annual average real GDP growth of about 7 percent and maintain stable prices** (i.e., an inflation rate in the single digits, preferably no more than 5 percent) as well as a foreign exchange reserve to cover 4-5 months of import of goods and non-factor services.

The **fiscal policy** of in the medium term is aimed at reducing the deficit to a sustainable level while at the same time re-orienting investment and current spending towards key sectors such as agriculture (food security), natural resource, education and health and road construction. The general government fiscal deficit (including grants but excluding special programs) is targeted to decline from 6.1 percent of GDP in 2002/03 to 5.2 percent by the end of the reform program (2004/05).

Monetary policy will remain geared toward containing inflation and achieving the international reserve target. The net domestic assets of the central bank will remain the key aggregate in steering monetary policy. The central bank will continue to closely monitor developments in reserve money and broad money. Progress in fiscal consolidation, supported by substantial disbursements of foreign aid, is expected to facilitate a rebuilding of net international reserves, while leaving for adequate growth in domestic credit to the private sector.

With respect to the **financial sector**, the government is committed to the enhancement of efficiency and competition in the sector. To attain this objective, it will adopt by June 30,2002, a medium-term strategy covering the period 2002/03-2004/05. The strategy that is envisaged will proceed along three lines: first, creating a favourable external environment of banking; second, building the internal dynamics of banks; and third, fostering contestability of markets within the banking sector.

5.3.5. Poverty Reduction Policy Matrix, 2002/03-2004/05

Overall goals, objectives, policies, strategies, and targets set to measure progress towards these objectives are just outlined. It is worth articulating specific steps included in the various programs & sector strategies for the SDPRP period (2002/03-2004/05) along with implementation schedule and responsible entities for implementing the same. The policy measures along with the set objectives could be conveniently presented via a **Policy Matrix** and could be broadly categorized in to three groups:

- a) Policy measures & reforms related to the macro program, private sector development (PSD), land use policy, financial sector, and major policy reforms in key poverty-oriented sectors;
- b) Measures related to institutional reform, capacity building, decentralization, civil service reform, budgetary systems, setting up of institutional arrangements, and good governance;
- c) Specific program and/or investment steps (mostly drawn from sectoral programs), for instance, construct a given length of road (in km) by class of roads (low quality versus high quality), reduce teacher-student-ratio to a certain level, increase health spending to a certain desired level, etc;

A detailed **Policy Matrix** is depicted in Annex Matrix Table 5.1.

VI. Capacity Building and Governance

The Ethiopian Government has long identified the lack of capacity in terms of not having the required number and quality of institutions, working systems, and human resources as the chief obstacles that stand in the way of realizing its development objectives. Accordingly the various aspects of the development initiative that have been undertaken by the government acknowledged the prime importance of the need for capacity building.

In line with this policy stance the government had developed in 1998 a national capacity development strategy and has since then been refining and updating it. Following the above policy setting and the capacity building strategy, the government has reorganized its executive branch and created a few more line ministries considered instrumental for the realization of the broad development objectives. One of such federal bodies is the Ministry of Capacity Building (MCB) which is conceived as an umbrella institution which would bring together and coordinate all the various hitherto fragmented capacity building endeavors /activities under one integrated and harmonized operation that would best help achieve national development objectives.

The holistic and comprehensive nature of the national capacity building initiative and its critical linkage to all the efforts of economic growth and poverty reduction is a reflection of the government's on going all round effort on institutional reform that paves the ground for the envisaged socioeconomic transformation in Ethiopia.

6.1. The National Capacity Building Strategy

It is not possible to conceive the goal of the capacity building strategy outside the implementation of the goals of the overall strategy. The scope and the content of this strategy are very much in congruence with ADLI. As indicated earlier, the basic goal of rural and agricultural development centered strategy is to ensure accelerated economic growth to the optimum benefit of the people at all levels, the freeing of the nation from aid dependency and the creation of a free market economy.

Capacity building is envisaged in the context of implementing the multifaceted national and sectoral programmes that derive from the goals outlined above. Based on this premise, capacity building is a means to achieve these ends and as such the capacity building strategy aims at articulating the best ways of achieving them. Whereas capacity building helps the nation achieve its development objectives, achieving the nations development objective itself develops or strengthens the nation's capacity. In this sense then, capacity building for implementation of national programmes is a means as well as an end in itself.

Thus the capacity building strategy stresses that the effort to build the nation's capacity to implement its national development programmes should go hand in hand or in a coordinated manner with viewing or integrating capacity building as one of the end results of the programmes themselves. Capacity building is a systematic combination of human resources, working systems and institutions that would enable a country to achieve its development objectives. Thus, every development program must consider ways of developing human resources, building and strengthening institutions and establishing effective working systems and practices in an integrated and holistic manner. One should avoid the trap of looking at these constitutive elements of capacity building separately. All capacity building efforts should accommodate all the three elements in mutually reinforcing way and under an institutional framework. The strategy's emphasis in the main is on transforming institutions.

Realizing the goals of the capacity building involves the need to articulate the capacity needs to implement the country's development strategy as well as an assessment of the country's existing capacity and obstacles in the way of implementation of the development objective. The government has already done this and acknowledged the strengthening of existing capacity as one focal area of the national capacity building activities. The creation of new capacity is also the other area of focus. This is a tremendous challenge that would have a great impact especially on the nation's ability to catch up with the pace of globalization currently on course. Ensuring the sustainability of capacity strengthened and created is the third area of focus for the capacity building activities. The concern on sustainability arises from understanding that capacity building needs to be a continuous process if it is to ensure accelerated economic growth. This aspect of capacity building brings to the forth the need to focus on the capacity to build capacity itself thereby necessitating institutions be created for this purpose.

It is also proper to note here that the holistic and comprehensive character of capacity building initiative also extends to development actors in the whole development setting. It includes the state, the public and the private sector and includes them in such a way that none of them are left aside and ensure that an enabling environment is in place to render them utilize their existing capacity effectively and efficiently.

6.1.1. Focus on Building Capacity to Build Capacity

As mentioned already, sustainability of the capacity building effort is a crucial development concern that should be addressed in a systematic manner. The strategy addresses this concern by highlighting the need to give special attention to institutions whose primary function is capacity building. Institutions of formal education like universities and colleges, vocational training institutes, research and consultancy service enterprises and similar institutions come under this category. To undertake capacity building on sustainable basis, these institutions must be created in sufficient number and quality and should continually be evaluated and strengthened along with the development agenda of the time and the demands of the future.

In short, capacity building is Ethiopia's instrument for fast track economic and democratic transformation.

6.2. The National Capacity Building Programs

Under the national capacity building programme there are currently 14 sub- programmes. Some of these programmes have been ongoing and some are new. The focus of Ethiopia's Capacity Building is as follows:

- (a) Building the necessary capacity to realize the rural-led development strategy targeting:
 - Rural small-holder farmers and their association,
 - Building the capacity of *Woreda* and regional level administration in effectively planning, and execution of rural development programs.
 - Building Federal Governments capacity to build and support regional and *Woreda* administrative capacity
- (b) Building capacity for an accelerated and private sector led agro-base industrialization in the country through,
 - Strengthening government capacity in creating conducive policy and institutional environment, as well as to extend capacity building support to domestic entrepreneurs,
 - Enhance the government's capacity to minimize adverse impacts of market failure or through such support as - information, long-term credit, technical development, etc. needed to realize the export and industrialization strategies,
 - Build the institutional capacity of the private sector, in coordinating their effort to improve productivity and competencies, and enhanced interface with the government on policy, implementation, and capacity building issues.
- (c) Building the institutional capacity of public, private and civil society, in discharging their respective role in the democratization process:
 - Strengthening the capacity of democratic/political institutions to insure the rule of law at all levels of the administration system,
 - Strengthen the government's capacity for efficient and effective service delivery, and accountability,
 - Ensure Civil Society institutions and media play their part in the democratization process through improving the environment and strengthening their capacity.

The 14 sub-programmes of the National Capacity Building Programme, their objectives, major activities, and those that are completed and planned is provided in Annex Table 6.1.

6.3. The Democratization Process

One of the government's principal goals is to build, strengthen and consolidate a system of democracy and good governance in the country. The reason why a democratic system is necessary and why many people make heavy sacrifices to build it is because it is a political order in which the rights of citizens are fully respected, efficiency and

effectiveness and good governance are ensured, and in which the people can fully protect and guarantee their varied interests.

To eradicate poverty, correct policies and good governance equipped with efficiency and effectiveness are needed. We cannot eliminate poverty without having such a system. We cannot possibly transform our national economy, which is based on peasant agriculture and extremely backward technology, unless we can mobilize the people to participate in our national development efforts and enable them to be the main beneficiaries of the fruits of the resulting prosperity. A democratic system, which is based on the realization of people's participation in the development process, and which ensures good governance, is a vital instrument for combating poverty and backwardness. It is therefore mandatory that democratization be one of our major objectives.

Although the struggle to build a democratic system through the effective implementation of the constitution is a multi-faceted one, two principal issues are identified for prior action. One of them is to create, strengthen and improve democratic institutions. The other issue is related to creating the right conditions for democratic outlooks and culture to flourish in the country and to enable the entire people to use their democratic rights to the full.

In this regard building the capacity of council of people's representatives at all levels would be given priority. Civic education will be enhanced. Furthermore, the on-going reforms in the justice system, civil service, and devolution to *Woredas* and *Kebeles* are critical measures that would help deepen the democratization process and good governance in Ethiopia.

In our country, a democratic system cannot reach a reliable stage of development and be effectively practiced in the absence of fully democratic institutions and structures, and without institutions with procedures and structures capable of enforcing the principles of transparency and accountability, and in the absence of administrative units manned by professionals with a healthy democratic outlook. Hence, our priority under the democratization process will be to create, strengthen and improve the necessary democratic institutions. Strengthening our capacity to enforce a democratic system will be the focus of our democratization effort.

We are not now at a stage where we can say that a democratic culture and outlook has taken root, flourished or has gained the ascendancy in our country, which, as we all know, has suffered for decades under undemocratic regimes. Although years have elapsed since we approved and started enforcing a fully democratic constitution, it does not mean that the people at large and administrative bodies at various levels of government fully appreciate this constitution and are totally committed to it. It cannot be said that the people are using their constitutional rights to participate widely and actively in the economic, political and social life of the country. We should therefore make unstinting efforts to promote a democratic culture and ensure the ascendancy of the democratic ideas and principles enshrined in our constitution. This will be the second priority under our program for deepening the democratization process.

VII. Key Sector Development Policies and Strategies

7.1 Rural and Agricultural Development Policies and Strategies

Rural development is not solely confined to agricultural development; it embraces a number of activities outside agricultural development proper. However, in the Ethiopian context, agricultural development is central to rural development. The basic principles that govern agricultural development policies and strategies in the country are outlined below:

7.1.1 The Major Directions of Rural and Agricultural Development

(a) Coordinated Development Path

The agricultural development effort needs to be an integrated and coordinated one. There is a need for identifying the linkages among the aspects of rural development activities as well as the opportunities that could be realized. The coordination of the various tasks can make significant contributions to a rapid and sustainable growth.

Coordination is required not only among the activities within agriculture but also with the rest of the socio-economic sectors. One sector cannot register rapid and accelerated growth without the support and complementarities of the others. Thus, agricultural development needs to be closely inter-linked with secondary and tertiary sectors such as industry, trade, finance and social development. Managing these activities in an integrated and coordinated manner requires knowledge of the opportunities that could be created by one sector for the other. It also requires employing a strategy that will enable effectively implement the same. In short, the opportunities that could be realized from backward and forward linkages within an economic system need to be explored and exploited.

b) Development Path Compatible with Different Agro-Ecological Zones

Ethiopia is endowed with a variety of agro-ecological zones that differ in terms of rainfall pattern, soil types, altitude and other physical landscapes. In the eastern and the southern arid and semi arid areas, the people's main source of livelihood is cattle herding. Under certain conditions, the wet western lowlands with large uncultivated land and low population densities can become areas of commercial farming. In the highlands, there is limited farmland along with high population density. There is thus tremendous variation in agricultural systems in these different agro-ecological zones. Accelerated and sustainable agricultural development can be brought about only if we take into account these variations, identify appropriate development strategies which will take advantage of the development opportunities in each agro-ecological zone, and implement them accordingly. There is, therefore, a need to articulate a detailed development plan for each agro-ecological zone to exploit the growth opportunities in those areas.

c) Adoption of Labor Intensive Strategy

Within the framework of the strategies enunciated above, accelerated and sustainable growth in Ethiopia can be brought about by utilising labour-intensive rather than capital-intensive production processes. This is more so for the agricultural sector than the other sectors. A labour-intensive agricultural development strategy, however, does not mean perpetuation of employment of unskilled labour force. An important mechanism that enables to introduce labour-intensive strategies and help to employ modern agricultural inputs and practices is the adoption of new agricultural technologies and the training of the agricultural labour force with effective skills.

d) Proper Utilization of Agricultural Land

It is impossible to ensure agricultural development at the desired rate and on a sustainable basis, unless we are able to use our land efficiently. In this respect, guaranteeing the availability of land for people who are able and willing to make a living out of farming is fundamental and is a step in the right direction for proper use of land resources. A careful use of our natural resources is expected to contribute to sustainable development via enhancing productivity of the agricultural sector.

The utilization of land in a manner that maximizes its contribution to overall development is the direction that will guide agricultural policies and strategies.

7.1.2. Human Capacity Building and Utilization

The economic development strategy, in general and our agricultural development strategy in particular, is based on building the productive capacity of the labour force and employing the same intensively in development activities. Building the productive capacity of the labour force includes:

- Further developing the drive, preparedness and industriousness of the labour force.
- Upgrading agricultural skills
- Improving the health status of the population
- Aligning the above with the supply, replication and diffusion of technology.

a) Ensuring Diligence and Work Preparedness

In this regard, there is a need for creating mechanisms in which the existing farming population can progressively improve its lot and benefit from development and thereby keep up its work preparedness and initiatives. The main areas of emphasis in this respect are the youth. In order for the youth to develop the desire to be engaged in agriculture and work diligently, it is necessary to create a conducive environment in which schools produce a productive and industrious citizenry, and in which educated youths employed in agriculture are able to seize opportunities towards raising their incomes to a level attained by youths working in other fields in the secondary and tertiary sectors.

b) Improving Farming Skills

There is a need to enhance the productive capacity of farmers and enable them improve their productivity through the provision of agricultural extension and advisory service on a continuous basis. Efforts aimed at creating a new generation of farmers who can be instrumental for a rapid agricultural development is central to transforming the rural economy.

To this end, the specific strategy is to select secondary school complete students and train them in agricultural skills at agricultural vocational training centres for three years. Out of those trained under such schemes, at least three (one each in agricultural crops, animal and natural resources, and irrigation), will be assigned to each farmers' association areas. These trained personnel will perform two main tasks. First, they will provide agricultural extension and advisory services to both the skilled and unskilled farmers in each farmer association area making sure that these initiatives are compatible with the existing pool of the agricultural knowledge of the farmers. Second, they will also provide agricultural training to educated youths at agricultural demonstration stations to be established in every farmers' association areas. In this respect, they will become agricultural trainers and teachers.

c) Ensuring the Health of Farmers

Farmers, whether skilled or unskilled, could not engage themselves in productive activities unless they lead a healthy life. There is, therefore, a need for establishing basic health services delivery system to the grass root farming population, particularly for those in remote rural localities.

d) Improving the Supply, Replication and Dissemination of Technology

A crucial element for agricultural development is ensuring farmers' access to technology that enables them enhance productivity. Such a technology has to be generated, replicated and disseminated among the farming community. The existence of different agro-ecological zones in the country necessitated the adoption of technologies compatible with these specific circumstances. Since the selected technology determines the growth of productivity and its long-term development path, there is a need for careful selection of these technologies as well as ensuring sustainability of their supply. In other words, in the initial period at least, the selected technologies need to be labour using rather

than labour displacing. In the process, the technologies help produce outputs that have effective demand such that farmers sell them at competitive prices generating extra net incomes sustainably.

7.1.3. Proper Use of Land

a) Ensuring Access to Land and Tenure Security

The land policy states that land belongs to the people and that the Federal and regional governments administer it on behalf of the people. Land is a factor of production like capital and labor. The question of access to land should, therefore, be addressed from the point of view of both output growth and the welfare of the people.

The land ownership policy stipulates that every farmer who wants to make a livelihood from farming is entitled to have a plot of land free of charge. Because land is state owned, it cannot be sold or exchanged for other property or be mortgaged. Although, there are restrictions farmers can use it virtually forever free of charge as the land can be bequeathed to heirs. If the government, for one reason or another, takes the land, compensation will be paid for the capital invested in the land. The farmer has not only user-rights on the land, but he/she can rent it out to third persons. The farmer may use his/her own labour as well as that of the family to cultivate the land or hired labour could be used.

When private investors wish to engage themselves in agricultural activities, they can have access to land on a long-term lease basis. The highlands of Ethiopia are more densely populated than the lowlands. In the lowlands, there are large unsettled tracts of land that can be developed with either rain-fed agriculture or irrigation as deemed feasible. Hence, the Government's policy emphasis is to expand medium and large commercial farms in the lowlands to ensure that such initiatives are not displacing existing settled farmers. Unutilised land in the vicinity of small farmers (even in the highlands) can be rented (leased) and can be used for modern farming as long as it does not displace small farmers. This arrangement is believed to generate positive externalities by way of creating job opportunities and transforming small farmers' farming practices in the medium and long-term. Thus, it is possible to undertake private modern farming both in the highlands and lowlands without wastage of capital and labour.

The parallel development of infrastructure facilities in those areas that are believed to be growth poles (lowland areas suitable for modern farming) is also considered to be of great significance. The need for adopting an integrated development approach whereby physical infrastructure such as roads and health services, particularly as related to malaria control, are provided will be actively pursued.

Government has already considered the need for putting a system in place that enables farmers to rent out their land for longer periods and make it possible to execute this legally and equitably based on transparent rules and regulations. Mechanisms are to be devised by regional governments to proactively accommodate the investment requirements for land by prospective commercial farmers.

In a country like Ethiopia, where wide spread small holder farmers dominate agriculture, expanding rural financial services is believed to be a challenging task. In any case, because of the high transaction cost, formal banks are not interested to engage in rural micro finance. Recent experience has shown group credit through group collateral by micro finance institutions to be an effective way of meeting the financial requirement of small farmers for working capital. This fits in well with the specific circumstances of Ethiopia. Here, the collateral for credit is not some material property but rather the desire of group member to have access to credit and their willingness as a group to execute and administer credit transactions. Cooperatives could also render services through the group credit mechanism. Besides, the produce of farmers as well as their movable property can also be held as collateral. In this regard, the uncertainties caused by crop failures such as during periods of drought are understood to be a real challenge. The possibility of introducing some sort of crop insurance is being studied.

In order to protect the user rights of farmers, their land holdings should be registered and provided with certificate of user rights. In this regard, a guarantee may be given to the effect that land will not be re-divided for a period ranging from 20-30 years. Some regional states have already started implementing this aspect of the land use policy and is a step in the right direction. This needs to be further strengthened in those regional states where implementation of the policy has already started and the feasibility of introducing them in the rest of the regions needs to be explored.

Protecting user rights of the farmer definitely mitigates an important facet of the problem of tenure security, but does not solve the problem of non-availability of land for young farmers. To address this, it is possible to improve land use and productivity as well as employ technologies that use more labour resources creating job opportunities on the farm. Voluntary resettlement programmes can also be used to alleviate land shortages as well as helping to develop hitherto uncultivated lands. In the long-term, accelerated economic development holds out the promise of increased job opportunities to the landless as industry and other non-agricultural sectors develop rapidly leading to significant reduction in the size of labour employed in agriculture.

b) Pursuing Appropriate Land Use Policy

Land, whether private or government owned should be utilized in such a way that its opportunity cost does not nullify its contribution to overall socio-economic development. The need for developing the profile of land resources and harmonization of existing land use policies of regional states is high on the agenda. Land resources earmarked for pasture, cultivation, urban development, and commercial farm need to be worked out and articulated by each regional state/city administration

The need for undertaking environmental impact assessment (EIA) studies before embarking on development projects has already been recognized through the environmental policy of Ethiopia. Enhancing productivity on existing farming land and development of alternative income generating schemes in drought prone areas will help mitigate the tendency for poor farmers to encroach in to marginal areas which aggravate soil erosion, and deforestation.

c) Improving Utilization of Water Resources

A reliable water supply and management system is essential for accelerated and sustainable agricultural development. Ethiopia is endowed with vast surface and underground water resources. Cognizant of this, the government has recently issued water resource policy and concomitant legislations to enforce its implementation.

Limited technical and financial resources coupled with the unfinished agenda of water politics have been impediments against the utilization of our abundant water resources towards achieving rapid and sustainable economic development. Neighbouring countries make extensive use of the waters of the Nile and as a result have long been highly dependent on this major river. They have already completed their plans to make even more extensive use of these waters.

The Ethiopian government has been trying to develop the country's water resources by using its own financial resources (e.g. Tis Abay and the Planned Tekeze dam). On the other hand, it is endeavouring to work towards creating an equitable water-sharing scheme for the Nile basin and persuade the international community to support such a scheme, as well as convincing Nile riparian countries that there is no credible alternative to such an equitable water use arrangement.

With regard to the Nile basin, Ethiopia, Egypt and the Sudan have already agreed on a 20 year water development and utilization plan. The need for primarily addressing environmental protection is a priority agenda on the part of Ethiopia. Ethiopia is expected to benefit to a greater extent from hydropower generation, which is to be partly exported to neighbouring countries. There is also a potential for developing a number of irrigation schemes.

In the immediate future, finance for building dams is expected to come in the main from within the country through joint effort of the government and private investors and developers. The understanding reached on the part of Sudan and Egypt, particularly Egypt, with respect to Ethiopia's plan to build large-scale dam construction and irrigation projects around the Nile Basin, is in itself a major breakthrough for cooperative development. These developments are expected to create a more favourable environment for mobilizing foreign loans and grants and encourage the participation of private investors.

Attempts have already been made to strengthen the country's water resource development capacity. In this regard, master plans have been prepared for our major rivers. Foreign experts in collaboration with national counterparts have worked out the master plan giving the latter an opportunity to broaden their experience and expertise while at

the same time ensuring high standard for the output. The training of hydrologists and other professionals in this sector is a task that deserves the highest priority. Efforts have been made to train high and middle-level professionals and technicians by strengthening and expanding the Arba Minch Water Technology Institute. This effort will be redoubled in the future. The recently started programme to train high-level hydrologists and hydro-technicians at junior college and to assign these experts to *Kebeles* holds out great promise for the country's water resources development.

Attitudinal changes towards existing agronomic practices of Ethiopian farmers should be the starting point for putting in place appropriate schemes towards proper utilization of the country's water resources. There is a need for adopting strategies that will enable conserve and control rainwater and improve its utilization. Besides, there is also a need to make use of simple technologies, which can be devised by farmers themselves, to conserve runoff and flood water and use it for irrigation. Medium-size river diversion and dam construction are also options in this endeavour.

7.1.4. Preparing Compatible Development Packages for Each Agro-ecological Zone

Given the ecological diversities of Ethiopia, the agricultural development efforts should be consistent with the particular conditions prevailing in each agro-ecological zone. Specialization and diversification need to be undertaken in an integrated and coordinated manner.

a) Combining Diversification and Specialization

The fact that there are different agro-ecological zones in the country implies that many different agricultural products can be produced in different regions. An agro-ecological zone that is suitable for a given product may not be conducive for another. Thus, if a development package particularly suited to each agro-ecological zone is prepared and implemented, the benefits accruing to the people can be maximized. Overall economic development will also be accelerated. Specialization and division of labour in the various regions will be enhanced.

Some areas are close to cities, main roads, and airports. They have large nearby markets. They are able to sell perishable products through these market outlets. By contrast, other areas are remote from cities, main roads and airports and as a result take time for producers of perishable products to transport products to the nearby market.

In the public sector, government, particularly regional governments, should realize this and endeavour to create the climate and incentives to promote diversification and tailor its extension and support towards this end. Training provided to agricultural extension workers and farmers would place emphasis on these area-specific development packages. Farmers would be exposed to a wide range of choices geared towards regional specialization compatible to their resource endowments enclosed by the wider agricultural development strategy.

Agriculture is a broad sector constituting sub-sectors that produce a wide range of products. The main reliable development alternative at present to accelerate the development of agriculture is promotion of mixed farming or diversification.

Promoting mixed farming on the limited plots of land to which farmers have access will make a significant contribution to making farmers' incomes more secure than is the case at present. Considering the very low level of our agricultural development, output and price stabilization with a growing trend of the former appear to lay viable development path.

Practicing diversification in agriculture also contributes to a more efficient utilization of both labour and land resources. If this effort is combined with development of water resources utilization, it will increase the productivity of both labour and land.

To this end, region-specific development packages comprising several products and activities should be developed. Farmers should be given a wide range of choices and encouraged to select those, which they think will make the greatest contribution to their development. As indicated earlier, assigning to each kebele at least three development agents who are trained in different agricultural disciplines would facilitate the work in this respect. They should be trained to perform a number of activities in each agricultural sub-sector, particularly in those activities that yield

maximum returns in areas to which they are assigned. Training and education given to farmers will lead towards this direction.

This strategy will ensure rapid and sustainable agricultural development by promoting the full employment of our labour and land resources all year around and maximizing production in each region.

b) Drought-Prone Regions

The principles of specialization and diversification outlined above are applicable to all regions of the country. Nevertheless, the kind of development work that needs to be undertaken in regions that require special attention such as drought-prone areas should be articulated. Regions that are subject to intermittent or inadequate rainfall are commonly described as Ethiopia's drought-prone areas. These are also regions where years of imprudent land use have caused considerable land degradation. Although food insecurity is experienced in practically all parts of the country, it is, however, in these regions where it is most intensely felt. The development efforts that need to be launched in these regions should focus on ensuring food security via improved productivity, expansion of off farm activities and adoption of price policies more conducive to close their minimum food gap. Such food security programs tailored to fit the special circumstances of these areas needs to be formulated. The salient features of the Government's food security strategy are outlined in the following section.

In the long and medium term, the focus will be on reducing the country's vulnerability to drought and other natural calamities. Improvement in water resources development and utilization, natural resources protection, and improvement in agricultural technology will all help reduce these vulnerabilities. In the mean time, disaster prevention and preparedness will help reduce the exposure of people in such areas to these dangers and disasters. The salient features of the National Policy for Disaster Prevention and Management (NPDPM) are outlined in chapter IX of this document. Having recognized the disincentive effect of managing in kind food assistance through its impact on food prices for local surplus producers, attempts have been made to switch to cash for work programs in which food assistance is procured domestically from surplus producing regions. This is how disaster prevention and development work can be tackled in tandem. These strategies will be put into effect to combat rural vulnerability.

In the past, agricultural technologies adopted in drought-prone areas of the country were inadequate to bring about food self-sufficiency for the people settled in these areas. That is why it has become necessary to provide relief assistance for millions of people every year. Resettling people from drought prone areas to areas where there is land and adequate rainfall is a strategy that would help realize the objective of food security quite expeditiously in the medium and long-term. This is something that clearly came out from district (woreda) and regional level consultations. Settlement programs should in the first instance be conducted within regions rather than across regions.

Ethiopia's history shows that people who face land shortages migrate to areas of regions where land is more plentiful, in the main from the highlands to the lowlands. Although most of such migration is confined within a given region, interregional migration has also been quite common. However, such isolated instances of internal migration cannot now be seen as a lasting solution to problems encountered in this area. Spontaneous migrations, particularly when they occur on a large scale, tend to give rise to natural resources degradation as well as to frictions among ethnic groups. If settlement is to be a positive force for rural development, it should be conducted according to a well-conceived plan and with a well-coordinated government support. Spontaneous and individually initiated settlement efforts are increasingly becoming a source of economic, political and social instabilities.

On the other hand, experiences under the Derg regime have demonstrated that when the government is too deeply involved in settlement programmes, the negative effects far outweigh the positive impacts. The main defect of the Derg's settlement programme was that it was not voluntary. The other shortcoming was that it was done hastily and was not integrated with regional development efforts and programmes.

The settlement programme the government intends to conduct is to be based on a well-conceived plan, and should definitely avoid all the shortcomings of the Derg's settlement programmes.

Most of the lands available for settlement are found in the lowlands. These are regions that lack basic infrastructural facilities and pose serious health hazards. Thus, it is difficult to implement settlement programmes in these areas without first providing the necessary infrastructures. The approach in the provision of these facilities ought to be holistic and well-integrated or/coordinated aimed at developing not only the area where resettlement is conducted but also the whole region.

Such areas suffer from natural resources depletion and degradation such as deforestation, soil erosion and inappropriate hillside farming. Resettlement programs will through easing the carrying capacity of the drought prone areas contribute to natural resource protection and to the reduction in inappropriate hillside farming and deforestation. The programs in the resettlement areas should be executed in a manner that will ensure environmental protection of forests, wild animals, and water resources. These will be complemented by comprehensive extension services. These measures will help increase yield per unit of land and discourage the use of land extensively, thereby preventing potential damage to the environment. These will also be closely integrated with regional land use programmes.

Another dimension of dealing with the problems of drought-prone areas needs to focus on natural resource protection and animal resource development in the areas themselves. The natural resources protection and conservation works will aim at exploiting their comparative advantage. Hillsides may not be used for farming but for alternative activities such as pasture development, for production of plants that could be used for animal fodder. In these areas, soil and water conservation activities need to be pursued. This approach will help farmers specialize in animal breeding through pasture and fodder development and production.

Animal resources development is an activity that can be carried out in areas with limited rainfall and average soil fertility. Poultry development and bee keeping (apiary) do not require much land. Farmers that benefit from producing enough food for them will at the same time earn income by selling animal and dairy products. Animal feed could also be produced if the activity is integrated with environmental protection programmes. Hence, the major development priority in drought-prone regions will be animal resources development.

Producing and improving animal-feed will be a development priority in drought-prone areas. Natural resources development and protection, and agro-forestry programmes are potential basis for animal feed production, including flowers for bees. These resources will be properly exploited to satisfy the demand for animal-feed.

Natural resources protection and animal resources development are therefore a two-pronged strategy that need to be employed to ensure food security.

c) Regions with Adequate Rainfall

Though not as frequent and severe as in drought prone areas, there are also people living in poverty in areas with adequate rainfall.

It should, however, be stated that development efforts undertaken in these regions will be slightly different in terms of priorities. All-year-round cropping and improvement of water utilization are important development tasks to be carried out in those areas. As they generally receive enough annual rainfall at least for single cropping, improvements in water resources utilization and irrigation, although important, are not as urgent in these regions as they are in drought-prone areas. Agricultural production could be greatly enhanced through adopting water-harvesting techniques. Developments of irrigation should also be pursued in the medium and longer term.

Although animal resource development should not be overlooked, the comparative advantage of these areas lies in crop production and feed generation for livestock systems..

On the other hand, there are regions that receive adequate rainfall but face serious land shortages. In these areas, crop production may not be a priority choice. Rather, they may be well placed to produce high-value products such as coffee, false banana (*enset edulis*), chat, and spices.

d) Pastoral Areas

The FDRE's rural development policies and strategies have already accorded special attention that these areas deserve. The life of the people in these regions is based on cattle breeding and mobility with cattle from place to place. Improving the life of these people calls for a development strategy that is firmly based on livestock development.

It is of paramount importance to integrate the supply of drinking water and that of pasture so as to accelerate and improve animal resources development in these regions. In order to increase and improve pasture, the first priority task in those areas is to improve the supply of water both for humans and animals. It would be inconceivable to undertake animal resources development without improved supply of water.

In pastoral areas, the need for the development of institutions which administer pasture lands among pastoral communities without violating indigenous long standing community is of paramount importance.

e) Areas with Substantial Uncultivated Land

It has already been indicated that there are large tracts of uncultivated land, particularly in the western lowlands stretching from north to south, which are suitable for agricultural development through irrigation development. Developing these areas will have a very significant positive impact on the country's overall economic development.

The following issues are worth considering in this regard:

- Assessing the physical and climatic endowments of the lands and the operating constraints thereof
- Putting in place the necessary infrastructure facilities and ensuring an adequate supply of labour.
- As these are disease prone areas (particularly malaria), availing adequate basic health delivery system
- Implementing appropriate settlement programmes side by side with encouraging private investors to participate in the establishment of large-scale commercial farms and agro-industries

The development efforts here should be based on the integrated development programmes of these regions and oriented towards accelerating regional development in general as well as overall national economic development. This way, these areas could be developed into economic growth poles or centres.

7.1.5. The Role of the Market in Agricultural Development

a) Market Forces' and the Marketable Surplus

Farmers in Ethiopia allocate most of their agricultural produce for their own consumption. Moreover, most of them do not produce enough for their own consumption. Hence, the farmers' own hitherto unsatisfied consumption demand would absorb initial increases in agricultural production.

This trend, however, is not consistent with the desired accelerated and sustainable development. There is a need for farmers' access to consumer goods. They also need to purchase production tools and inputs. Thus, over and above their families food needs, farmers must produce marketable surplus, saleable in the market and exchanged for other goods and services. This would naturally strengthen the linkage between agriculture and the other productive sectors (services and industry). This linkage would enhance demand across sectors and will thereby call for further expansion of production.

The outlet that farmers normally target for their marketable surplus is the domestic market. Within the short and medium term, the major market outlets for agricultural products will most likely be the towns and cities. The urban population accesses practically all of its food requirements from the rural areas. However, the urban population is only about 15 percent of the country's total population. As the standard of living of the urban population improves over time, the demand for agricultural products will increase. At the same time, industries that use agricultural raw materials will expand. As it stands now, the existing demand base of urban areas could not serve as a foundation for rapid and sustainable agricultural development. This leads to the need for exploring and exploiting available opportunities in the international markets.

Thus, agricultural development should be essentially market-driven and target both the domestic and foreign market outlets. Every agricultural production operation should be able to produce marketable surplus of acceptable quality at competitive prices.

Along side enhancing productivity, there is also a need for broadening the scope for farmers to switch from low priced commodities to high priced commodities to insulate themselves from price volatility on international markets. This calls for enhancing production based on marketability and competitiveness via minimizing production and input costs.

The provision of agricultural research and extension should aim at preparing and disseminating packages embracing activities ranging from product selection to post-production technologies as well as train farmers and provide them with advisory services.

The transition to a market-based agricultural system is possible provided that development packages are selected and prepared carefully, technologies are continuously improved and supplied to farmers on a sustainable basis and are provided with adequate education, technical training and services on a sustainable basis. These need to be supplemented by relatively stable and remunerative prices and well functioning input and output markets.

b) Improving the Agricultural Marketing System

The success of agricultural development depends, among others, on the existence of an efficient marketing system. If the marketing system is inefficient, high marketing costs will render products uncompetitive particularly on the international market. Standardization of agricultural products, improving the supply of market information system, expanding and strengthening cooperatives, and strengthening private sector participation are key elements for proper functioning of the agriculture marketing system.

Attempts will be made to setting a specified standard for agricultural products well ahead of time to be observed by both suppliers and produces of agricultural products. National standards could be observed for local (non-traded) products like *Teff* while there is also a need for recognizing international standards for traded products. Producers and consumers also need to be informed of the standards of these products well ahead of time.

Information on price forecasts, quality of products, location of products, and availability of commodity futures needs to be equitably disseminated to farmers. The role of government is crucial for the provision such a public good (information) during the early stage in the development of agricultural marketing systems.

In a country where millions of farmers are engaged in subsistence agriculture, the role of cooperatives is crucial in the development of efficient marketing systems.

Private operators best complement cooperatives in the effort to improving the agricultural marketing system.

Cooperatives play key roles in reducing the time required for trade transactions and cutting marketing costs, thereby creating an efficient agricultural marketing structure. Cooperatives also render vital services other than those related to agricultural marketing, including the following:

- Expanding financial services in rural areas;
- Purchase of agricultural machinery, equipment and implements and lease them to farmers;
- Setting up of small agro-processing industries where processed agricultural products with greater value-added could be produced and
- Establishing various social institutions to provide different kinds of social services;

The task may take the form of retail or wholesale trade or embrace the processing of agricultural raw materials in agro-industries.

Through the new rural development policies and strategies, the Government's ADLI strategy has been taken a step further to encompass all essential elements for rural transformation in Ethiopia. These policies and strategies had taken a broader view aimed at addressing development challenges more holistically. It has touched up on a host of

issues: Land use policy and management, the need for a coordinated approach, the need for unbundling policies and strategies to address problem of different agro-ecological zones, capacity building in human resources (skill transfer and health), input supply and dissemination of technologies, the need for diversification and specialization, the need for special packages in drought-prone regions and pastoral areas, and the role of markets in speeding up rural development.

7.1.6. Rural Finance

As stated earlier, the Government's agricultural development strategy relies heavily on enhancing the productive capacity of our people (labor) along with mobilization of the complementary scarce financial resources.

Lack of financial resources threaten farmers' productivity and put them into a vicious circle from which it is almost impossible to extricate themselves. Enabling smallholder farmers' access to credit can break this vicious circle. They will use such credit to increase their output and earn more income and in turn this will enable them repay their loans, take additional loans, and use these in conjunction with their own savings to buy inputs and implements in larger quantities and improved qualities. This in turn would help improve their productivity and ensure sustainable development of the agriculture sector. Hence, if we wish to increase investment in agriculture and accelerate development, rural sources of finance that can extend loans and credits to farmers in sufficient amounts and sustainably need to be expanded.

Moreover, the existence of a strong financial system is essential for a strong agricultural marketing system. Cooperatives can serve as distribution agents for major importers and factories without actually having to buy agricultural inputs and implements in cash and thereby settle their bills from farmers after sales. Such trading modalities will be effected when there are cooperatives that are financially viable and strong. Thus, mechanisms must be instituted whereby cooperatives can trade with farmers and other economic actors in cash.

In the course of agricultural development, farmers generate more income, which would put them in a position to reinvest, consume, or save. When such farmers' savings are put in the bank as savings deposits, farmers will benefit by earning interest on the same while other sectors will receive this as bank loans for investment purposes. In other words, the creation of a strong rural financial system will enable accumulate capital (generated from agricultural development), which can then be used to develop industry and other non-agricultural sectors, thereby help attain overall accelerated and sustainable economic development. The country cannot achieve the desired rate of economic growth in the absence of cooperatives and a strong rural financial system.

The country's development process should lead to a situation where the farming population produces the bulk of its product for the market. In order to improve the national savings effort, rural savings mobilization need to be expanded. Financial institutions play a special role in this respect. The major financial institutions that can contribute significantly to rural and agricultural development are modern banks, rural banks and cooperatives.

As it stands now, formal banks in the country are not in a position to extend loans and credits to farmers who practice agriculture on scattered and fragmented farm plots. Advancing credits to individual peasants, supervising and collection entail substantial transaction costs that outweigh their net benefits. Under such circumstances, formal banks have little motivation for lending and refrain from rendering banking services to smallholder farmers directly. It is only through other intermediaries, which can easily overcome these commercial hurdles, that formal banks can make any significant contribution in transforming the rural economy.

Cooperatives can serve as intermediaries between formal banks and smallholder farmers. Modern banks can extend loans and credits to cooperatives for investment and marketing activities to be undertaken by the latter. Cooperatives can lend loans and credits borrowed from banks. Besides, cooperatives can deposit their savings in banks and may also be served through other banking services. Transaction costs to be incurred to render these services can be significantly reduced if cooperatives intermediate credit services to smallholder farmers.

During the Derge regime, banks used to extend loans to cooperatives on direct instructions. Thus, banks had to lend money without applying the principles of creditworthiness, viability and bank ability. Moreover, cooperatives in the first place borrowed being fully aware that they were financially weak. This made the whole exercise untenable and led to mutual financial distress.

The creation of strong commercial rather than politically administered linkages between banks and cooperatives can lead to a strengthening of rural finance. However, these relationships will be productive only if they are based on transparent commercial principles. Besides, Banks need to strengthen their lending procedures and operations. They should ensure that credit given to cooperatives is strictly according to standard loan procedures. Cooperatives, which have the capacity to make use of these banking services, will be created and strengthened. There should also be an in-built mechanisms for penalizing cooperatives in the event of default and an incentive instrument for setting loan repayment in time. The modalities for government involvement in the event of default should also be devised from the outset.

At times, regional administrations have been acting as intermediaries between banks and farmers. They used their budgets as guarantee to borrow from banks and lend these funds to farmers for the purchase of agricultural inputs (fertilizer) in large quantities. In this respect, banks have been lending to farmers and were able to recover their loan as per the schedule in most instances. In cases of default regional government have been forced to pay the loan from their own budget. Although this approach has shown some very positive results and benefits, it has had its own shortcomings. First, as regional administrations are not financial institutions, the banking services they can render have been obviously limited. Second, such a responsibility has exerted substantial administrative pressure on regional officials and agricultural extension workers and has also often led to confusion as to who is responsible for what as the same officials are frequently forced to act as decision makers and loan repayment agents, at the same time. Third, on the part of farmers, there has been a tendency to consider bank credit as some sort of subsidy, and hence the feeling that credit need not be repaid has emerged. In view of all these problems, this kind of credit provision is unviable and should therefore be quickly replaced by other viable and reliable mechanisms.

The creation of strong working relationship between formal banks and rural financial institutions helps strengthen the rural financial system and build an internally well-integrated national financial structure. The creation of an inter-bank money market assists in the utilization of temporarily idle funds by forging credit links not only between formal banks and rural finance, but also among formal banks themselves. Strengthening such mechanisms will contribute immensely to the improvement of the rural as well as the national financial system. The government will therefore give special assistance and support to rural finance, as they are important for rural development and for the creation of strong links between agriculture and other sectors, as well as for the development of a strong and efficient national financial system.

As the group credit system has its own advantages, it should be actively promoted and strengthened in the future. However, it should not be seen as being the only option. Rural financial institutions should be able to lend money to those cooperatives whose financial positions are quite strong. Strong links should be forged between rural banks and cooperatives, as this is vital for rural and agricultural development in general. In addition, providing credit to individual farmers holding their produce, as guarantee needs to be considered.

Rural financial institutions may face financial distress in times of drought when farmers, are not able to repay their loans. Recent trends have shown improvement in loan recovery rate. This may not be sustained especially when the whole community is affected by drought or pest epidemic. It is believed that such risks may be reduced when crop insurance scheme comes into existence. However, it is difficult to expand such insurance coverage in rural areas and will definitely take a long time to materialize. Hence, short and medium term solutions should be looked into. Expanding the operational scope of rural banks may be helpful in this respect. Extending their credit services to non-agricultural sectors not exposed to such risks, and those participating extensively in diversified agricultural activities as well as extending money transfer and payment services would help broaden the revenue base of rural financial institutions. They should also make efforts to set aside adequate provisions and reserves against potential bad loans and be able reschedule the repayment periods of already extended loans in case of financial difficulties on the part of borrowers. The National Bank of Ethiopia is expected to develop an appropriate legal framework to promote such activities and efforts by rural banks and coordinate their operations.

Overall priority areas of actions in agriculture and rural development include the following:

- a) Design and introduce to the farmer menu based agricultural extension packages that take into account agro-ecological diversity, opportunities for specialization, and likely market demand.
- b) Conduct extensive technical and vocational training in agriculture for development agents to so as to provide effective extension services.
- c) Strengthen agricultural research to generate appropriate technologies to underpin productivity improvement and sustainability.
- d) Conduct extensive vocational training in agriculture for farmers with some level of primary education to create critical mass of smallholder commercial farmers through time; to effect this operationalize Farmers Training Centers at Peasant Associations (local) level and assign 3-4 Development agents.
- e) Improve agricultural marketing system through
 - Support to expansion of autonomous service cooperatives
 - Study and when found feasible introduce warehouse receipt scheme and commodity exchange.
 - Developing and introducing crop quality standards
 - Improving the supply of market information
 - Strengthening private sector in agricultural marketing especially supporting its market-based interface with service cooperatives; its participation in commodity exchange.
- f) Support to micro-finance institutions to improve rural financial services.
- g) Strengthen livestock development through forage development; improved breed; veterinary services and livestock marketing with the view to improve livelihoods, diversify income, insure food security, and strengthen export.
- h) Support the expansion of service cooperatives, which are critical for providing input/output marketing services, rural financial services and off-farm employment and income through setting up small agro-processing enterprises.
- i) Support to water harvesting and expansion of small-scale irrigation to mitigate impact of rainfall variability/shortage/absence.
- j) Improve rural land management to ensure tenure security; encourage out-grower scheme between the smallholder farmer and the private sector especially in the case of high value crops; facilitate by working out appropriate legal and procedural framework for those private sector who wish to rent land from farmers.

Agricultural and rural development will not be rapid and sustainable unless complementing and simultaneous development initiatives are taken in non-agriculture sectors. Education, health, water supply, road and transport services and small and medium industries development is critical for rural transformation and national development. A detailed treatment of these areas is to be found in the appropriate chapters of this strategy paper.

Program costs under agriculture include: budget for the implementation of extension package program, agricultural research and supply of improved inputs (technologies) that can not be covered by beneficiaries themselves, on farm level integrated water harvesting, extension communication and media development, natural resource conservation, agricultural TVETs, food security and pastoral development. The strategies and proposed interventions for food security and pastoral development are discussed in sections 7.2 and 7.3 respectively,

Table 7.1: Program Costs for Agricultural Sector (2002/03-04/05)
(Million Birr)

| | Program/Activity | 2002/03 | 2003/04 | 2004/05 | Total 3 years |
|---|---------------------------------|----------------|----------------|----------------|--------------------------|
| 1 | Food security | 613.6 | 557.9 | 600.0 | 1771.5 |
| 2 | Agricultural research | 250.9 | 196.6 | 156.4 | 603.9 |
| 3 | Pastoral development | 26.0 | 17.2 | 23.1 | 66.3 |
| 4 | Livestock development | 991.9 | 1090.9 | 901.1 | 2983.8 |
| 5 | Cereal Development | 96.0 | 123.1 | 155.0 | 374.1 |
| 6 | Natural resource management | 365.0 | 397.3 | 353.3 | 1115.6 |
| 7 | Capacity/institutional building | 807.3 | 1191.4 | 883.9 | 2882.7 |
| | <i>o/w: Agricultural TVET</i> | <i>788.8</i> | <i>1114.9</i> | <i>860.7</i> | <i>2764.4</i> |
| 8 | Other costs | 39.4 | 44.0 | 47.5 | 130.9 |
| | Total | 3454.8 | 3629.3 | 3387.8 | 9928.8 |

7.1.7. Rural Electrification

It is clear that Ethiopia has one of the lowest levels of electricity generation per capita in the world, which stood at 28KWh. Only 13% of the population has access to electricity. Electricity is, thus, a major constraint towards establishment of agro-processing industries, commercial enterprises and irrigation facilities in the rural areas. Besides, delivery of health and education services remains inefficient in the absence of electricity.

The Rural Electrification Project is designed to address the aforementioned constraints, which impeded the development of rural towns. The project will also support the Agricultural Development Led Industrialization Strategy (ADLI) by providing consumers access to electricity and thereby enhancing overall development efforts.

The electricity supplied to rural towns is expected to replace/reduce the consumption of woody biomass and petroleum products used for cooking, lighting, and motive power. In addition, the electrification network to be constructed will enable the surrounding population to acquire electricity service at little incremental cost.

The project shall meet the demand for electricity for the agricultural sector (irrigation pumps, poultry, animal husbandry, preservation of products), commercial sector (shops, bars, and restaurants), small and medium industries (flour mills, oil mills, rural water supply installations, tanneries, and coffee processing plants), residential sector (lighting, heating, and cooking), education (kindergarten, elementary schools, junior secondary schools, secondary schools and technical colleges), and health sector (pharmacies, clinics, health centers and hospitals).

Provision of electricity will result in an increase in commercial activities while boosting the production of small and medium industries including coffee and leather processing industries. In brief, the project will facilitate all rounded economic growth in the rural areas and create employment opportunities for the poor, including women, thereby increasing income levels and reducing poverty.

The project is targeted to electrify 164 *Woreda* towns to provide customers access to electricity. Successful completion of this project shall bring all regional governments to the same level of electrification of *Woreda* towns. The percentage electrified *Woreda* towns in each regional government is expected to reach 73% by the end of the project.

The project cost is estimated at about 160 million US Dollars. Funds required for implementation of the project shall be from government sources and donor agencies such as World Bank, African Development Bank, Arab Bank for Economic Development in Africa and others as depicted in the table below.

Rural Electrification Project Cost

| Sources of Finance | Million USD | | Total |
|-----------------------------|------------------|----------------|--------|
| | Foreign Currency | Local Currency | |
| ADF | 42.27 | 4.65 | 46.92 |
| BADEA | 9.35 | - | 9.35 |
| World Bank | 28.96 | 6.44 | 35.40 |
| Government and other Donors | 59.95 | 8.38 | 68.33 |
| Total | 140.53 | 19.47 | 160.00 |

7.1.8. Rural Telecommunications Development in Ethiopia

Although the introduction of telecommunication in Ethiopia dates back to 1894, it has remained under low level of development under different organizational structures. At present the Ethiopian Telecommunications Corporation (ETC) provides all the telecommunication services in Ethiopia. The objectives of ETC as stated in its establishment regulation of 1996 Article 5 are:

- To engage, in accordance with development policies and priorities of the Government, in the construction, operation, maintenance and expansion of telecommunication services;
- To provide domestic and international telephone, telex, telefax and other communication services;

Despite ETC's past efforts to expand the installed base, telecom density (the number of main lines per 100 in habitants) is currently only about 0.6. Addis Ababa accounts for about 57.2 percent and other big towns also account for 32.5 per cent of the total installed lines. 85 per cent of the population lives in rural areas where only 10.5 per cent of the telephones are installed. The level of service in the rural parts of the country is at best at a very low level and at worse non-existent at all. This illustrates how serious the telecommunications condition in Ethiopia is.

ETC also renders telephone services to the public by using public pay phones installed at various locations in major cities and towns. Public pay phones are the best facilities where telephone access to a larger population is made possible very easily. As of March 2002, the number of coin and card-operated public pay phones stood at 1,444. Accessibility may be defined by the average distance to access a telephone call station or by the number of localities that a single telephone call station serves. Even though, the number of villages and communities within the country is not known, there are about 677 telephone call stations within the country covering a total land area of 1,200,000 sq. km and a population of about 67 million in July 2002.

a) The Importance of Telecom for Rural Development

As is already stated, 85 per cent of country's population lives in the rural areas. The rapid development of the rural economy depends crucially on access to adequate telecommunication services. An efficient telecommunications infrastructure development in rural areas will contribute significantly to the balanced regional development, and rural-urban imbalances in terms of living conditions, access to education, health and other social services. The wide variety of services and applications that can be provided through telecommunications offer a number of opportunities for the rural population and contribute significantly to the fight against poverty.

b) Next Three year plan for Rural Telecom Development

In conformity with the Government's policy of Agricultural Development Led Industrialization (ADLI), ETC's next three-year telecom development strategy is geared towards the extension of telecommunication services to the rural parts of the country. The ETC has already started implementing its programs by using modern technologies such as digital radio and satellite. The plan is to extend the telecommunication services, basic telephone and data services, to all woredas. Within the next three years, about 300 rural towns, mostly *Woredas*, will be provided with telephone services. This will improve access to telephone services in the rural part of the country. The next three-year plan also focuses on the improvement of the quality and reliability of the existing services.

The development of Telecommunications is technically complex and capital intensive and requires a large amount of investment. The total amount of investment allocated for rural telecom development is estimated to be Birr 1.5 billion. From the total investment, two-third is in foreign currency and the remaining one-third is in local currency. It is to be covered from own fund and through loans and grants. The operational cost of rural telecommunication is about 500 million Birr. The breakdown is shown in the table below.

**Operational Cost of Rural Telecom
In million Birr**

| Description | 2002/03 | 2003/04 | 2004/05 | Total |
|-------------|---------|---------|---------|-------|
| Investment | 400 | 700 | 400 | 1500 |
| Operational | 120 | 210 | 120 | 450 |
| Total | 520 | 910 | 520 | 1950 |

7.2. Food Security

The magnitude of consumption poverty indicators outlined in the section on poverty profile of Ethiopia is clear manifestation of the scope and depth of the food insecurity problems in Ethiopia. It is manifested directly in three food security components: adequacy of supply (production, reduction of post harvest losses, import levels), stability of supply (production stability, regional and inter temporal price stability) and access to supply (purchasing power, or income level and access to employment).

In any one year, more than four million people face food shortages and need relief assistance which is met through annual appeals. The figure includes those who are both in chronic and transitory food insecurity. The regional profile of food insecurity reflects variation in deprivation among regions. The food poverty has become equally important in both rural and urban areas. The proportion of the population under food poverty declined from 47% in 1995/96 to 42% in 1999/2000 where as the corresponding level for urban areas stood at 32.5% and 46.7% respectively-reflecting growing problem in urban areas. The consequences of food insecurity are reflected in the high level of malnutrition (stunting and wasting of children less than five years of age).

A combination of factors has resulted in serious and growing problem of food insecurity in Ethiopia. Adverse climate changes (drought) combined with high human population pressure, environmental degradation, technological and institutional factors have led to a decline in the size of per capita land holding. This was exacerbated by policy induced stagnation of agriculture and internal conflict and instability in the past resulting into the widening of the food gap for more than two decades, which had to be bridged by food aid. Increasing urban poverty is largely attributed to limited broad based employment and income earning opportunities in urban areas.

7.2.1 Overview of the Revised Food Security Strategy (FSS)

The first version of the strategy was prepared in 1996 and was revised recently through intensive dialogue and broad participation of federal, regional and the donor community. The strategy is designed to address both the supply and demand sides of the food equation: availability and entitlement, respectively within the framework of the National Agricultural and Rural Development Strategies. This could be effected from the perspective of ensuring both food security at national and household levels taking into consideration the diverse nature of the country's economy. This has been discussed in detail in the rural and agricultural development policies and strategy papers.

The revised strategy is targeted mainly at the chronically food insecure moisture deficit and pastoral areas. The revised strategy is characterized by a clear focus on environmental rehabilitation as a measure to reverse the current trend in land degradation. At the same time the focus on biological measures as a source of income generation for food insecure households marks a departure from the 1996 strategy. Water harvesting and the introduction of high value crops livestock and agro-forestry development have been new elements in the revised strategy. In recognition that the pursuit of food security is a long-term and multi-sector challenge, institutional strengthening and capacity building is included as a central element of the strategy. As in the past, however, the overall objective of the FSS is to ensure food security at the household level, while the rural development policies and strategies (ADLI), would focus on ensuring national food self-sufficiency.

As discussed elsewhere; gender dimensions, HIV/AIDS, and environmental sustainability are critical to the pursuit of food security.

The strategy adopted rests on three pillars: increasing the availability of food through domestic (own) production, ensuring access to food for food deficit households; and strengthening emergency response capabilities.

7.2.1.1 Increasing Domestic Production (Supply Side Actions)

Domestic production is the first and main source of food entitlement for most of the Ethiopian farming community in terms of direct consumption of food. The surplus is sold to the non-farming and even to the farming community. This implies that increasing the production and productivity of food in a sustainable manner could address the problem of food shortages in Ethiopia. The increase in production would be made to provide employment generally for the landless and unemployed rural communities. This increase in agricultural production will also benefit the

domestic agricultural processing enterprise by supplying raw materials and be source of additional employment. For food insecure areas, production based entitlement of food will be encouraged through augmenting the supply increases to be obtained from both crop and livestock production.

As spelled out in the preceding section on agriculture and rural development policies and strategies, utmost attention is given to increasing agricultural production (crop and livestock) in all agro-ecological zones of the country. The on-going extension program is being re-oriented to address the specific problems of moisture adequate, moisture deficit and pastoral areas. There is also a need to sustain and deepen the yield increase obtained through the extension program which points to strengthening of agricultural research.

The government will continue promoting irrigation schemes to create a condition for year round agricultural activity and diversifying much higher value added enterprises even in adequate moisture areas. To compliment this, efforts are geared through the extension system to identify and promote appropriate technologies to undertake for household-based water harvesting and management.

Conservation based agriculture, and irrigation development would be the critical elements of the strategy in moisture deficit areas while it is still the adopted in adequate moisture areas. Researching and supplying appropriate crop and livestock production inputs and technologies for moisture deficit areas: short cycle livestock like poultry, sheep and goats as well as development of drought tolerant, short cycle and relatively high yielding varieties that fit to the farmers' requirements, will be priority. Another aspect of the strategy for dealing with problems of moisture deficit food insecure and degraded high lands is effecting resettlement in suitable and uncultivated areas voluntarily within each regional state.

Animal disease, drought and unfavorable terms of trade are at the heart of threats of the livelihoods of pastoral communities. Thus, improving their livestock production and marketing system, water and pasture development, developing schemes towards diversifying income sources would help strengthen their economic base and thereby reduce vulnerability as underlined in the agriculture and rural development policies and strategies.

7.2.1.2. Ensuring Access to Food (Demand Side)

Food insecure farming households as well as the non-farming community get some and/or all of their food from the market. The former need it to supplement its own production while the later use it as the only source. To purchase food from the market, households need sufficient income that can cover at least their minimum food and non-food requirements. However, many households in the drought prone and moisture deficit as well as urban areas lack sufficient income to meet their basic needs.

The revised strategy has indicated Food Security measures aimed at addressing demand side problems within the framework of the Rural Development Policies and Strategies. The proposed demand side measures are outlined and briefly discussed below:

a) Micro and Small Scale Enterprises

The envisaged market led agricultural development is expected to lead to large-scale direct and indirect growth in non-farm incomes and employment. To this effect, the government will continue to initiate, promote and strengthen micro-and small-scale enterprise development through industrial extension services. So far, agencies have been established at both Federal and Regional Levels. Strengthening the capacity of these institutions in implementing the initiation, promotion and strengthening activities will continue in a more coordinated manner. These developments are believed to create additional employment opportunities in the private sector.

b) Improving the Food Marketing System

The policy of the government regarding agricultural marketing and distribution is to encourage the participation of the private sector and cooperatives to improve the efficiency of the system. On the marketing front, parastatal business enterprises are expected to play significant roles in stabilizing prices as well as reaching farmers who are far from agricultural input market. To benefit from all these policy measures the food security strategy emphasizes

on measure related to establishment of market stabilization schemes (for prices of strategic food crops) along with agricultural price and market information system

This will facilitate the distribution of food from surplus to deficit areas and thereby improve trade-based entitlement and reduce food cost (increase purchasing power). The government will perform only regulatory and supporting functions to create a conducive business environment through appropriate fiscal incentives. Substantial improvements in the provision of market information would be sought to improve integration of markets, which help reduce costs of food marketing and distribution.

The on-going effort in the construction of main and rural roads, the rural travel and transport programs coupled with promotion of competition in the transportation, trade processing and distribution of food would help further reduce costs of marketing and distribution. This would also help reduce input costs, which are key to enhancing agricultural productivity. Strengthening farmers' cooperatives would also be an important element of the food security strategy in improving the rural marketing and credit system.

c) Supplementary Employment and Income Generating Schemes

Off-farm income generating activities would help supplement own production for a considerable number of farmers as coping mechanism during periods of food shortages. The public employment generation schemes (EGS and FFW) could be initiated by public or private operators or even jointly and will be linked with development priorities of rural areas. This would in turn help contribute to soil conservation, the construction of roads, small-scale irrigation, water supply and sanitation. This would contribute to increased food production, reduce real rural food prices and improved health conditions. It would also help improve environmental protection and natural resource conservation.

These schemes may help create conducive environment towards linking relief assistance to long-term developmental efforts.

d) Targeted programs

These programs are primarily aimed at transferring resources aimed at both developing capacity for self-provisioning and support vulnerable groups, who would not be capable of self-provisioning during the short and medium term. The former scheme is aimed at provision of inputs (seed and fertilizer) small agricultural tools and implements to resource poor farmers (food insecure) extending small loans to destitute women to help them develop sustainable livelihood. The latter scheme evolves cash transfers to orphans, the aged and handicapped or self-targeting food subsidies for particular vulnerable groups.

7.2.1.3. Credit Services

Improved credit services for food insecure rural and urban households are envisaged in order to address both supply and demand side problems. The Food security strategy also envisaged improving rural financing systems aimed at catering the needs of micro and small-scale enterprises as well as small resource poor farmers. The government has already taken measures to strengthen the operation of the financial sector. The government will continue to increase the availability of rural financing and provide special support to at least reducing the credit administration cost extended to food insecure community. Besides, measures will be taken to strengthen and expand rural micro financing institutions and cooperatives to provide banking services especially in those food insecure areas. Cooperatives are also expected to play significant role in this respect.

7.2.1.4. Nutrition and Health Intervention

Along side the government's initiatives towards developing alternative income generating and price support schemes, targeted interventions are also envisaged in areas of health and nutrition in rural areas.

7.2.1.5. Emergency Capabilities

Efforts to strengthen the emergency capabilities of the government including monitoring, surveillance, and early warning arrangement, building the capacity of food and relief distribution, strategic reserves of food grains, and its analysis of the international food trade and aid situation will continue. The methods used to judge the on set of food insecurity will be articulated and further fine-tuned.

A strategy for strengthening response capability in case of emergency would build on the successful experience gained while implementing safety net programs, which was intended to help thousands of poor, food insecure, and highly vulnerable households during a period of high economic and political stress coupled with drought incidences. The purpose and size of strategic reserve under favorable conditions would also be re-assessed, depending upon the cost of holding stock, and the possibility of exports.

7.2.1.6. Institutional Strengthening, Networking, and capacity Building

Building the capacity of regional governments in general and wereda administration in particular is high on the agenda. This would help regional governments modernize their communities for development, provide support to development projects and programs, create conducive environment for the private sector to contribute to the development of the regions, as well as completely providing economic and social services to communities. District level decentralization capacity building component of the National Capacity Building Program is meant to address this.

7.2.1.7. Food Security Assistance

The need for carefully planned food assistance has been underscored in the government's rural development strategy. Notwithstanding sporadic and pocket areas of food supply shortfalls (drought), a remarkable achievements has been made in narrowing overall food gap from domestic production since the launching of the extension program. There is, therefore, a tendency to switching from food aid in kind towards cash to purchase food grains from the domestic market and augment the stocks of food security reserve at good times. This would help create effective demand via stabilization of prices during years of bumper harvest (price decline) in surplus areas.

The government has already considered a gradual shift from food assistance (assistance in kind) towards financial assistance that could be destined for the purchase of food from the domestic market. There is experience in this respect mainly with the assistance of EU and Sweden.

7.2.2 The Implementation of the Food Security Strategy

Following the endorsement of the first version of the strategy in 1996, efforts have been made to implement the strategy. Following this, four regions; Oromiya, Amhara, Tigray and SNNPR prepared their Food security programs and was consolidated at federal level submitted to donors for funding. This program has identified about 156 food insecure districts (Woredas). It is an integrated program calling for interventions in agriculture, sustainable use of natural resources and management, Infrastructure (Rural Roads), Education, Health Facilities, rural credit and institutional Capacity building.

In terms of approach food security project will be made to focus primarily on households of food insecure areas. It means that the approach is basically household-oriented rather than a community. This is with the realization that unless the life of a household is changed for better it would be hardly possible to improve the existing food insecurity situation. Hence the starting point is a household. Of course other related activities such as construction of health center, school, feeder roads, development of water points, and soil and water construction would focus on the community rather than households. These activities should be integrated and planned by the community itself based on the extra resource of the individual household without compromising the household's main task.

Following re-organization of Government organization in October 2001, Ministry of Rural Development (MRD) has been established to better coordinate and guide rural development. With respect to food security a Food Security Department has been established within the Ministry of Rural Development, which is responsible for the overall fund management of the food security program in the country and to guide and monitor the implementation of the

programs. Food security steering committee has been established chaired by Ministry of Rural Development (MRD) while members are drawn from key federal ministries, Regional States and the donor community.

Regional food security offices shall play significant role in co-coordinating the program in their respective regions. *Woreda* and *Kebele* development committees will be the lowest government institutions in facilitating the implementation. Of course, the community or the household is the owner of the project, as its performance will be measured in terms of desirable changes brought about in the livelihood of the people. There will be two-way i.e. upward and downward flow of information on regular basis. Such flow of information will ensure the smooth implementation of the project in accordance with the national objectives.

The European Union and other multilateral organizations, and bilateral donors have been assisting such interventions. Particularly, the European Union has been funding Employment Generation Schemes, capacity building and other integrated programs in the above four regions.

A food security project to be financed by the World Bank is entering implementation phase.

The development objectives would be to increase household and community assets and incomes by improved management of rain-fed agriculture, investment in small-scale irrigation; better natural resource management through soil conservation and water harvesting techniques on farms, and catchments level activities to conserve soil, reverse soil degradation, improve water harvesting and use, development of off-farm enterprises and improve nutrition for children under five years of age, and pregnant investment lactating mothers. It will also fund undertaken to lower the costs of food marketing and distribution. Capacity building is an important component.

A pastoral project again to be financed by the World Bank is under preparation to address problems of pastoral areas in a holistic manner and will be implanted over the next three years.

The World Food Program supported Managing Environmental Resources to Enable Transition (MERET) in to more sustainable livelihoods initiative will also continue to be implemented. It is designed "to improve food security in the most food insecure areas throughout Ethiopia, through conservation and development of agricultural lands affected by severe land degradation and lack of basic infrastructure".

Finally, an important issue under consideration is how to treat the chronic and transitory food insecure population given that at any one year on average 4 million people need food aid. A technical committee, drawn from government and the donor community is making a study on the basis of which actions will be taken to address this dimension of the problem.

7.3. Pastoral Development

Pastoralism is a method of agricultural exploitation based upon extensive herding where movements of herds and men are the major components of the system. The human population of pastoral areas is estimated to be between 12-15% of the country of which 93% are pastoral/agro pastoral and the remaining 7% depend on other agricultural activities (hunting, petty trade, mining etc). Pastoral areas in Ethiopia are located in the Northeastern, Eastern, Southern-Eastern, and Southern, & Southwestern part of the country.

In the past, emphasis was given to herd productivity and rangeland management through range improvement, water development, veterinary services, and human resource and infrastructure development. The general consensus by most development practitioners and researchers is that projects implemented in the past have only at best met their short-term objectives.

7.3.1. Major Socio-Economic Constraints in Pastoral Development

The major socio-economic and institutional constraints affecting pastoral development could be grouped in the following broader categories.

- a) Ecological constraints: Erratic rain leading to persistent drought, inadequate pasture and water for animals and human beings
- b) Poor facilities: access to health and education services as a result of mobility, poor animal husbandry and animal health services and poor market outlet owing to absence of roads and information
- c) Weak institutional support: Frequent and destructive conflicts and tribal disputes, Poor governance and administrative structure and Gender insensitivity and
- d) Lack of clarity of vision and strategy for pastoral development: Donor driven, non-sustainable programmes and projects, Pastoral communities had not been adequately consulted and involved in the project design and implementation

It is well understood, that, the pastoral areas have had poorly developed infrastructures, which have had direct bearing on access to basic public services such as education, health, clean water and sanitation services. The problems and constraints as already outlined above are clearly complex and inter-woven. Notwithstanding these problems, there is poor understanding of the holistic nature of the problems. Interventions were following a piecemeal development approach and development failed to be sustainable with continuous deterioration and decline in the life and well being of the pastoral society. Thus, it is of paramount importance to follow a holistic development approach for sustainable development in pastoral areas.

7.3.2. Envisaged Development Approaches/Interventions in Pastoral Areas

As already indicated, development efforts should be integrated & co-coordinated. Besides, the adequacy of the proposed programs to the target population needs to be scrutinized. The need for grass-root participation in the design as well as implementation phase of projects and programs is currently well recognized. Pastoralists have considerable expertise and know-how developed over many years of practical experience. Ignoring this reality would lead to failure. Introducing new techniques to the pastoral communities should be preceded by a detailed assessment of traditional practices and identify their merits and demerits. There is a need for developing technology packages, which help to strengthen the useful traditional practices and do away with harmful ones. Extension workers and their training should focus on livestock breeding and husbandry. The extension service delivery system needs to be consistent with the pastoral life and community structure of the people living in these areas.

The pastoral communities are not always on the move. Although the frequency and extent of such human movement varies from region to region, there are situations when the people manage to stay in one place for several months.

Also, the movement of household members other than family heads is typically limited. During seasons when family members tend to stay in one place for a considerable period of time, it is possible to create the opportunities for these people to engage in specially identified agricultural development activities and projects. Such development activities have important positive implications for improving the standard of living of the pastoral communities and these need be given priority.

Although a number of short and medium term programs could be designed to deal with problems of the pastoral communities, provisions of the necessary infrastructure for sustained development and radical transformation of their livelihood is a real challenge and long term agenda. Such a development agenda could well be effected only if the people can somehow be settled. Selective settlement programs are believed to be the only viable options in the long run.

Settlement programs within these areas should be directly linked with the development of irrigation projects. Otherwise, they are bound to fail. Hence, the selection of areas for sedentarisation in these regions hinges on the availability of surface or underground water.

In drought-prone settled areas, the settlement programme entails only a change of location of farmers, who are used to sedentary farming. In pastoralist regions, the change goes beyond a change of location and alters their cultural life. This complicates the sedentarisation programmes and requires training and initiation work. It would also require a significant cultural transformation.

The objective is to settle the pastoral population. However, the cultural transformation and the required persuasion work would take quite a while, perhaps decades.

Settlement programmes have become part and parcel of the national economic and social development programme. The task should largely be accomplished through the participation of the people concerned via the leadership of regional administrations. However, as the development effort has important national development implications, the support of the federal government is considered to be of paramount importance.

The objectives, strategies and technical interventions in this endeavor are summarized below:

7.3.3 Objectives of pastoral development

The objectives set out to improve food security and enhancing income earning capabilities of pastoral communities are:

- a) To improve livestock productivity through irrigated pasture, environmental rehabilitation, and improved animal health services.
- b) Explore market outlets and integrate livestock production into the national economy.

7.3.4 Strategies of pastoral development

The following strategies will be adopted for pastoral development

- a) Sedentarisation of mobile pastoralists on voluntary basis.
- b) Consolidate and stabilize those who are already settled or semi-settled through improved water supply, pasture, and social services.
- c) Carefully select viable and reliable river courses for future sedentarisation based on irrigation and link these places through roads and other communication lines.
- d) Provide mobile social services including health and education holistically for those that continue to be mobile.

7.3.5 Technical Interventions in pastoral development

a) Improve Water Supply & Irrigation Development

- Water harvesting technique such as construction of ponds, birkas.

- Construct water points adjacent to range resources for dry season utilization.
- Utilizing roadside run off water for crop & forage production.
- Divert rivers & streams flooding during rainy season and supporting local & traditional irrigation practices.
- Supply appropriate crop varieties and pest control techniques.

b) Livestock & Range resources Development

- Improve the Indigenous breeds.
- Improve Veterinary Services.
- Improve forage production through the provision of adaptable forage species such as grass, shrub, tree & leguminous,
- Improve livestock marketing.
- Create awareness & control encroachment to marginal lands
- Strengthen livestock early warning system.
- Initiate and conduct community-based rangeland management demonstration practices.

c) Strengthening infrastructures and Institutional Support

- Improve the infrastructure (road, communication) market, access to education & training and human health services.
- Strengthen and revitalize local traditional institutions.
- Encourage the establishment of viable pastoral associations.
- Establish research institutions and rural technology promotion centers etc.
- Improve the provision of appropriate and strong extension services creating strong linkage between research institutions and the pastoral community.

7.4. Road

Road infrastructure in Ethiopia had reached such a level of deterioration in the early 1990s that it became a serious hindrance to the Government's efforts in reviving the economy. In recognition of this, the Government launched the Road Sector Development Program (RSDP) in 1997 to tackle the shortcomings in the road sector and complement the sectoral development programs.

The first phase of the Program (1997-2002) is a culmination of the Government's effort, with significant support from the donor community, to create adequate capacity in the road sub-sector to facilitate and hasten the economic recovery process and restore the essential road networks to an acceptable condition. The Program covered measures aimed at: (a) creating a conducive atmosphere in the road sector through introducing a series of policy and institutional reforms, and (b) rehabilitating critical roads that have been identified as major impediments towards the attainment of the objectives of the Economic Recovery Program. In this regard, the rehabilitation of trunk roads and upgrading of some link roads have been accorded highest priority as they had proved to be a major constraint in the evacuation of crops, the delivery of agricultural inputs, and access to ports.

The second phase of RSDP is now being launched. It will dramatically improve the road network connecting different regions of the country. Besides, the Ethiopian Rural Travel and Transport Sub-Program (ERTTP) is also now being launched to address the constraints of transport at the village level.

The success of the country's strategy (ADLI) depends critically on its road network, as it is the dominant mode of modern transport system. Small-scale farmers located in scattered rural communities account for the bulk of the agricultural production in the country. On the other hand, the collection and distribution centers for crops and agricultural inputs are concentrated in urban centers that are located at considerable distance from the rural population. It is currently estimated that about 70% of the country's land area is not served by modern transport system.

7.4.1. Linkages between RSDP and Poverty Reduction

Market-led economic development is one of the most powerful weapons in the fight against poverty. An important question here is what is the role of road infrastructure in poverty reduction? An efficient road network and transport system is necessary to promote and sustain economic growth. Road transport provides access to resources and markets. Expansion of the road network can contribute to economic diversification, enabling the exploitation of economies of scale and reducing a country's vulnerability to shocks. An efficient road transport service can help to widen the market and increase the volume and efficiency of trade. In fact recent research, covering many developing countries, has shown that there is a high negative elasticity (-3) between transport costs and international trade. For this reason it is argued that high transport costs and poor infrastructure are the prime reason for the low level of trade within Africa.

Transport costs are sensitive to the riding quality of road network. Hence, investment to improve the road network can substantially reduce these costs. Depending on market conditions, reduced transport costs will help to both reduce prices to the final consumer and also help to increase farm gate prices and thus increase returns to farmers and other primary producers. In addition, high domestic transport costs (particularly within and connecting to food surplus areas) increase Ethiopia's dependence on food imports and food aid as they make it uneconomic to transport food from surplus to deficit areas.

The on-going efforts in the road sector are aimed at addressing the constraints to economic and social development resulting from lack or inadequacy of infrastructure. In designing the RSDP II these issues are taken into consideration, which have direct contribution to poverty reduction.

Important links between road infrastructure/services and the poverty dimensions include:

- Inadequate infrastructure is an indicator of the inability of the poor to access to social services (assets) and facilities. Lack of access to transport networks limits poor communities from market participation and constrains their economic opportunities and then contributing to inability to strengthen human capabilities.

- Lack of access to assets and technology means that production is time and energy intensive. Owing to the disproportionate responsibility placed on women, they perform most of the time-consuming work. Thus improving transport infrastructure and services contributes to poverty reduction by reducing time spent in low production activities and high energy consuming tasks.
- Poverty separates the poor from the decision making process of the broader society, participating in cultural events and developing their social relations. Lack of road infrastructure and transport services contributes to the creation of isolated environments characterized by poor communications and lack of links with the broader society.
- Lack of income and consumption, inability to accumulate private assets and inability to strengthen human capabilities all combine to increased insecurity and vulnerability to natural, social and economic shocks. Inadequate road infrastructure and transport services constrain livelihood strategy options and thus restrict poor people's capacity to cope, respond and adapt to risks, shocks and violence.
- Without an adequate road network connecting to rural areas it is highly likely that interventions in all sectors (e.g. health, water, agriculture, energy, education) to improve rural livelihoods and reduce poverty will be severely constrained. Poor physical communications will naturally reduce the efficiency and raise costs of the delivery of all services to rural areas. Poverty reduction strategies are multidimensional and road infrastructure and transport services need to be considered in parallel with interventions in other sectors if impact on poverty is to be fully achieved.

One of the primary objectives of the RSDP, in addition to the infrastructure provision, is to contribute to Ethiopia's economic development by providing economic opportunity for the rural poor, creating employment in both rural road works and the development of appropriate and affordable means of transport. Investments on road projects have had a positive impact on people as users, consumers, producers, service providers and workers.

Road networks provide the necessary links and access to production centers and markets for agricultural commodities, associated extension services and input supply, as well as industrial products and services. The predominance of smallholder agriculture underscores the importance of good access to markets and transshipment centers for their produce and for input supply. Food security depends, *inter alia*, on reliable access to market and road infrastructure and transport services in order to reduce isolation of communities and link them to regional and national markets.

The on-going effort coordinated under RSDP aims at addressing constraint to economic and social development resulting from the lack, or inadequacy of infrastructure; mainly classified roads. In this regard, in addition to reinforcing the process, which began under RSDP I; RSDP II introduces a new dimension covering the requirements of travel and transport at village level. Coupled with this a Road Corridor Community Development Plan study will be launched to take into account the planning requirements of local communities within the corridor of the roads under consideration. Most importantly, a study of road investment impact on poverty will help to:

- a) Develop an empirical approach to evaluate the impact of road investments on poverty alleviation;
- b) Assess the role of transport on poverty alleviation, with a particular focus on gender equity and road accidents; and
- c) Establish a sound empirical basis for evaluating the full impact of road transport operations in reducing poverty.

7.4.2. Performance of RSDP I

Although the first phase of the Program has encountered some initial delays the implementation of many components of the program are now well underway, with policy & implementation issues being vigorously pursued. A weeklong review of the progress of RSDPII was held in February 2001, which enabled both the Government and participating donors to take stock of progress to date, assimilate, lessons learned and redirect efforts to a more efficient implementation of the program. The original objectives of the Program were maintained whilst shortcomings in the early implementation were recognized and measures were identified to improve the efficiency

of implementation and effectiveness of the Program. In general, while initial progress in implementing the RSDP I has been slower than anticipated, the Program has now achieved a certain momentum that can best be measured by timely preparation of follow-up activities to the first phase of the Program.

Regarding civil works, RSDPI focused on rehabilitation and upgrading of main roads, and on construction of new link and regional roads. It was targeted to rehabilitate and upgrade about 2540 km of trunk roads at an estimated cost Birr 4.6 billion (US\$ 0.54 billion), upgrade/construct 785 km of link roads at Birr 2.2 billion (US\$ 0.26 billion), construct 1179 km new link roads at Birr 0.9 billion (US\$ 0.11 billion) and construct 5400 km regional roads at a cost of Birr 1.9 billion (US\$ 0.22 billion). The Program also includes maintenance of all types of roads, studies, institutional building and policy support projects. The total cost of projects included under RSDP has been estimated at Birr 9.0 billion (US \$1.05 billion). Out of which Birr 6.9 billion (US \$ 0.8 billion) was disbursed up to March 2002.

The overall disbursement rate up to March 2002 is 76 percent, whilst the corresponding physical accomplishment is 86 percent of the planned. The construction of major link and rural roads has proceeded satisfactorily with implementation rate of 96 and 111 percent, respectively. Periodic maintenance works are still lagging behind with only 23 percent physical accomplishment against what has been planned

7.4.3. Impact of RSDP I

A comprehensive assessment of the RSDP I is made to see the pace of implementation and see the impact and monitor the overall progress in the sector. As clearly stated during the Donors and Launch Conferences, the Government is committed to the RSDP in general and to the facilitation of the smooth implementation of the civil works currently underway through out the country. Many of the problems expected to occur and identified as risks primarily due to limited exposure to international contracting are vigorously tackled. One achievement made since 1997 is the overall priority given to RSDP work and the streamlining of regulations and procedures to clear development project inputs from customs. Especially, the last five years have helped ERA in streamlining procedures and processes and enhanced familiarization of staff to donors' policies and different procurement guidelines.

Impact on Accessibility: Road infrastructure has very significant external effects on direct productive investments in other sectors. Access to transport has also an important non-economic role of facilitating political, social and overall government administration to enhance cohesion of the country, as well as the provision of social services.

The total classified road network has increased by about 30 per cent over the last 5 years; much of the increase (80 per cent) has been in the regional roads. The size of the road network is still one of the lowest. With a total land area of over 1.1 million sq. km and a population of 67 million, the road network has a very low density; about 29 km per 1000 sq. km compared to the African average which is currently more than 50 km per 1000 sq. km. In fact it can be concluded that though the pace of main road restoration is slow, RSDP I has achieved its expansion targets through rural road construction.

**Table 7.2: Length of Classified Road Network
(In Km)**

| Class of Road | Paved | | Unpaved | | Total | | % Change |
|----------------|-------|------|---------|-------|-------|-------|----------|
| | 1996 | 2001 | 1996 | 2001 | 1996 | 2001 | |
| Federal Roads | 3656 | 3924 | 12113 | 12467 | 15769 | 16391 | 84 |
| Regional Roads | ---- | --- | 8043 | 14480 | 8043 | 14480 | 80 |
| Total | 3656 | 3924 | 20156 | 26947 | 23812 | 30871 | 30 |

As a result the 80% of farms that were supposed to be more than half a day walk from an all-weather road in 1996 have now been reduced to 70%.

Impact on Quality: The efforts of RSDP I in improving the condition of the road network have not fully met expectations. This is mainly because of an unrealistic original schedule coupled with the slow initial implementation of civil works. Despite this, the improved maintenance effort and the completion of main road sections have

improved the condition of the federal network, increasing the proportion of good road from 14% in 1995 to 30% in 2002.

The initial target (in 1996) of RSDP I was to bring 60% of the road network to good condition in 2002. This has proved difficult to achieve, particularly since it involved in the initial stages, seriously deteriorated road conditions and inadequate bridges and drainage structures that have had to be rehabilitated or reconstructed. Meaningful improvement is to be ascertained with completion of the works planned under RSDP. However, the revised target of 35 per cent of roads to be in good condition after the midterm review is almost achieved.

Table 7.3: Condition of Classified Road Network

(In Percentage)

| Class of Road | 1995 | | | 2001 | | | % Change |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Good | Fair | Poor | Good | Fair | Poor | In Good |
| Federal Roads | 14 | 36 | 50 | 30 | 27 | 43 | 114 |
| Regional Roads | 25 | 15 | 60 | 25 | 30 | 45 | 0 |
| Total | 18 | 29 | 53 | 28 | 28 | 44 | 56 |

Impact on Traffic Flow: Since 1992 a comprehensive traffic analysis has been made on the Ethiopian road network including most of the RSDP roads in order to see the overall trend of traffic movement. An assessment of traffic along main roads has revealed rapid increase in volumes; although it is too early to assess the effects along partially rehabilitated roads. Traffic growth along most roads has increased well above forecast levels with the growth rates as high as 20 % per annum.

Impact on Institutional Building and Working Atmosphere: One of the major goals of RSDP is developing an institutional capacity of the road sector at federal and regional levels. This goal was pursued from the start with the aim of strengthening the administration and management of the road sector in such a manner that Federal and Regional Road Organizations would have the institutional capacity of ensuring that the current road asset and future investments in the road sector are protected.

The RSDP represents a huge investment program. As the needs of the sector in general are rapidly changing, the analysis of the characteristics of the demand and the required types and levels of intervention becomes a complex task. In addressing these needs, the Government has reformed ERA and RROs, recruited more professionals and has given them on-the-job training through attachments to different roadwork activities and contracts. In addition, Government has already received donor assistance in providing consultancy services in terms of TA and training to ERA staff in critical areas of program management, legal and technical aspects of contract administration, planning and programming, maintenance management, etc.

At present ERA is in a much better position than it was when RSDP was launched. The restructuring of ERA with the accompanying measures has had a major effect on the implementation of RSDP and future capacity of the authority. ERA has demonstrated its capacity in contract formulation, management and project planning. Various efforts are underway in the institutions: giving priority to preserving the existing network, computerizing the authority and improving the working atmosphere, encouraging both small and big contractors to participate in road works, etc. The effort of turning each maintenance district into self-accounting business units, capable of producing and implementing cost-effective annual maintenance programs is also underway.

7.4.4. Issues Identified in the course of Implementing RSDP I

Most of the issues identified by RSDP I are related to the challenges faced in improving the extremely deteriorated state of the existing road network, which in many cases renders motorized transport services almost impossible. This may also be reflected in the high transport charges that harm the poor. The following issues have been identified and being vigorously addressed as part of achieving the goals of the RSDP:

- More than half of the road network in the country needs to be rehabilitated or reconstructed, and most of the remaining network is rapidly falling into a state in which routine and periodic maintenance may soon be insufficient.
- The road network is limited in terms of both coverage and quality. Much of the country does not have access to all-weather roads. Moreover, because the existing pattern of roads radiates from the capital, Addis Ababa, to major towns, adjacent regions often lack links between them. Such inter-regional roads if they existed would facilitate the growth of trade between regions and promote national unity.
- Policies were not favorable to private contractors and consultants engaged (or wishing to engage) in the road construction sector. The majority of firms engaged in road works prior to mid 1970s were either nationalized or forced to withdraw from the industry and this has resulted in the lack of capability and competitiveness in the road-sector.
- Accident statistics indicate that Ethiopia has more than 15 deaths per 1000 vehicles annually, making it a country with one of the highest accident rates in the world, thus indicating road safety is a major issue.
- There were no effective policies to enforce environmental protection measures. The need to include environmental impact considerations during the planning and implementation phase of road works has become a pressing issue.
- Lack of proper control and enforcement of axle load legislation has led to high pavement deterioration due to excessive loading on the pavement structure.
- Use of capital-intensive methods of road construction and maintenance and the modest progress made in labor-base methods, coupled with lack of equipment and foreign exchange scarcities for the purchase of parts has contributed towards the limited network coverage.
- Community participation in all aspects of mitigating the travel demands at the local level has not been given due attention. Thus, rural households, especially women, spend a substantial amount of their time on travel and transport, resulting in time and energy consuming efforts.
- Project planning has been limited to the application of selection criteria to individual roads or group of roads; there were no network planning and programming procedures.
- The responsibility for construction and maintenance of regional road network has been handed over from the Ethiopian Road Authority (ERA) to Regional Road Authorities (RRAs) since February 1993. However, the equipment and workshop facilities handed over to the RRAs were not sufficient to carry out road maintenance/construction. And the private sector capacity is not also sufficient to augment their capacity. In addition, the formation of efficient RRAs needs to have a well-trained manpower. These problems have had a negative effect on the capacity of RRAs in discharging their responsibilities.

7.4.5. Lessons Drawn from Past Performance

Planning and programming of large programs like the RSDP is a complex process that involves a variety of actors. Many of the activities performed by each actor are interdependent and need to be synchronized. It has, therefore, been realized that there is a need to effectively coordinate the activities. Allocation of reasonable time and in-house capacity building are important considerations for RSDP II. In particular, the following lessons were drawn from RSDP I:

- Need to identify all activities before preparing a work plan.
- Recognize the sequence of operations and mutual inter dependence of critical activities.
- Recognize seasonal and other constraints.
- Consider donor requirements, procedures and policies.
- Qualify management and control for every aspect of project activities; and

- Strengthening of the domestic construction industry.
- Need to inform and ensure inclusion of all stakeholders in the preparation and implementation of the program.

Various efforts are being undertaken to tackle the issues identified above. The RSDP II document assessed the performance of the five-year RSDP I in a detailed manner and stated required measures for a smooth implementation of RSDP II. ERA's management and the Government are taking measures to:

- Improve the capacity of domestic contractors and ERA's contract administration staff,
- Increase the salary scale of personnel,
- Implement the recommendations forwarded by studies on Axle Load Management and Sectoral Road Safety, and
- Review overall transport policy as a further contribution to inter-modal coordination and efficiency, and address the need to reduce overall transport costs and improve access.

7.4.6. Overall Polices and Strategic Objectives of the Road Sector

The overall objectives of the road transport sector are derived from the urgent need for socio-economic development of the country. This requires that the transport demands of the country should be catered for. Fulfilling these requirements calls for addressing the major outstanding issues in the road sector. Accordingly, the following polices and strategic objectives are set:

- Rehabilitate and upgrade the existing road network and preserve existing assets that lead to reduce transportation cost.
- Construct new roads and expedite the exploitation of the vast natural resources, integration of the country, and provision of access to neglected and drought-prone areas.
- Improve resource mobilization and allocation through equitable road pricing; and provide adequate budget for the road maintenance, and strengthen the Road Fund.
- Enhance the capacity of road construction and maintenance in the country by creating an enabling environment for participation of domestic private contractors.
- Implementing safety education programs and introducing improved traffic control and enforcement measures to deter traffic offenders so as to contribute to reducing the number and severity of road accidents.
- Reduce the adverse effects of road works on the environment by incorporating measures during design stages and increased use of re-vegetation technique in erosion affected roadside mountains and river catchments area.
- Strengthen the enforcement of axle loads limits and implement effective controls through the provision and use of weighbridges at selected locations on the network.
- Promote the use of labor-intensive technology and ensure community participation wherever possible in building and maintaining regional and community roads.
- Provide community-based integrated village travel and transport services and reduce travel time and burden on villagers, especially women, to meet the expected increase in the movement of agricultural input and surplus production.
- Strengthen the administration and management of the road sector in such a manner that Federal and Regional Road Agencies would have the institutional capacity for managing and maintaining the current road assets and protecting future investments in the road sector.
- Provide technical assistance and training to develop capacity in program implementation at all levels of the public and private sectors.
- Develop a coherent planning and programming approach based on a network stabilization program, in which Federal and Regional Road Agencies formulate common methodologies of allocation of available and projected resources.

In line with these issues and policies priorities were set taking into account the major inputs required to develop an efficient institutional structure together with enabling policy framework. The RSDP plan of physical works is prioritized based on the contribution of each work to the ongoing development efforts and integration of the country.

Prioritization of road projects is set according to the following criteria:

- Access to ports,
- Access to existing resource areas,
- Access to potential resource areas and markets,
- Access to food deficit areas, and
- Balancing the distribution of road infrastructure among regions.

7.4.7. Road Sector Development Program II

The investment and policy reforms in the road sector need to be continued since a partial implementation would fail to yield the full potential benefits agreed among different stakeholders. Rehabilitation of the existing limited paved trunk road network and provision of funds for minimum maintenance alone will not ensure sustained protection of the network as a whole. That means without continuing investments in follow on projects included under RSDP, vehicle-operating costs will remain high, and evacuation of agricultural production will continue to suffer from inaccessibility resulting in high transportation costs.

The focus of RSDP II (2002-2007) is to continue the momentum to achieve the road condition targets, as well as to reinforce the process begun under RSDP I and to provide a sustainable level of essential road infrastructure to the rural population. In this regard, RSDP II introduces a new dimension covering the requirements of travel and transport at village level; the Ethiopian Rural Travel and Transport Sub-Program (ERTTP). Throughout Ethiopia many rural villages are cut off during the rainy seasons, and women head loading undertakes transport predominantly. The ERTTP is expected to better support agricultural and other commercial activities in the regions, and thus provide a sound and sustainable foundation for the on-going economic development effort in the country.

Access problem of the rural poor: Estimates show that only 30% of Ethiopia's area is served by the modern road transport system. It is also difficult, at least in the short term, to provide a high standard road network for the whole country given its topography, the settlement pattern of the population, and the resources required. It is, therefore, believed that a low-level road that could be constructed by the active participation of the community is an appropriate approach to reach the rural population in the short and medium term.

The Village Level Travel and Transport Study (VLTTTS) conducted by an international consultant shows that domestic transport in and around the village account for more than 70% of the trips, about 60% of the travel time and 93% of the transport effort in the rural areas. The two most important components of travel and transport in rural areas are collecting water and fuel, which together account for about 90% of domestic travel and transport time and effort. These trips are relatively short, frequent and low value (i.e., do not have linkage to market activity). This means that the rural people, and especially women, waste their time in fulfilling their basic needs instead of participating in productive activities.

To address the transport burden of the rural population that is currently dominantly using walking, head loading and animal transport as the only means of transport, a Rural Travel and Transport Sub-Program is designed with the objective of providing infrastructure, means of transport and other associated services that could reduce transport time. The first step in implementing the Program is to conduct pilot studies on rural travel and transport in selected eight districts (Woredas) and gain experiences and lessons. Currently, a local consultant is undertaking two pilot project studies.

Once this pilot study is completed, the implementation part, as recommended by the study, will continue. The emphasis is on constructing low cost roads, footpaths and trails, and projects that reduce the burden of travel and transport such as water wells, grinding mills, etc. The activities proposed should be interpreted as a basket of potential project outputs, or as a "menu of choice" for the villages.

The ERTTP is an approach that focuses on reducing travel and transport burden of the rural population by constructing road infrastructure, providing social and economic infrastructure facilities and enabling the people to utilize the road infrastructure effectively. The ERTTP, is therefore, an integrated rural development initiative that revolves around rural travel and transport and it envisages the following activities during RSDP II:

- Construction of substantial amount of low level rural roads,
- Provision and expansion of a conventional and intermediate means of transport,
- Expansion of facilities and optimization of facility, and schemes that raise the rural household income level.

Description of the Road Program: The second phase of the RSDP, like the first one, is consistent with the economic policy of the country. It is in line with the Agricultural Development-Led Industrialization (ADLI) as essential to achieve food self-sufficiency, poverty alleviation, and assisting the Government's objective in improving and expanding the road network so that it can enlarge the social service coverage in the country. During 2002/03-2004/05 it is envisaged to rehabilitate and upgrade trunk roads, upgrade and construct link roads, construct substantial amount of rural roads and implement a comprehensive policy and institutional reforms. Besides, it includes heavy and routine maintenance in various types of roads, bridges works and studies for follow-on operation.

Institutional Building and Policy Measures: The implementation of all activities identified under policy and institutional reform measures will continue during RSDP II. These include: strengthening the administration and management of the road sector, enhancing capacity of domestic contractors, resource mobilization and road financing, axle load control, road safety, transport regulation, improving network planning, mitigation of environmental impact, etc. These policies are expected to ensure the efficiency of the road infrastructure and transport services so that the sustainability of the road sector is attained.

Program Objectives: The primary objective of Road Program is to restore and expand Ethiopia's road network, which have become major impediment to the sustainability of the economic development. Side-by-side the program assists in developing a strong management and technical capacity to manage the road network, and the development of the capacity of domestic construction industry.

Program Target: The physical target is to have an improved and reasonable network condition¹² and also to install regular maintenance on much of the Ethiopian road network. In addition, the road network in terms of density per 1000 population is expected to increase as shown below under different scenarios. Through this process an efficient and self-sustaining construction industry that is capable of meeting the diverse needs of the sector is to be developed. The overall improvement of the management of the sector should also be achieved.

Program Justification: The general justification of the Program is that Ethiopia's economic development program cannot be sustained unless transport costs are reduced and accessibility to the agricultural areas are improved.

The selection of road projects to be included in RSDP is simple and straightforward; in that all projects should be economically viable. Therefore, it is believed that the projects will have direct contribution in increasing mobility, improving productivity and distribution, decreasing journey time and reducing operating costs. However, for the Program, the prioritization or ranking involved a four-phase process:

- First, those roads whose implementation is underway in RSDP I,
- Second, links continued after the roads included under RSDP I and at the same time supporting the objectives set before. This is mainly to complete the important routes to ports, neighboring countries and important centers,
- Third, projects connecting areas of great potential for irrigation and commercial farming to alleviate poverty.
- Fourth, missing links in terms of importance to the national economy and roads contributing for regional balance.

¹² Currently, 55 percent of the asphalt roads is found in acceptable condition (Good+ Fair), 50 percent of the main gravel; and 46 percent of the regional roads.

With this effort the accessibility of Ethiopian road network will be significantly improved as important nodes are connected to each other. The successful launching of ERTTP will further enhance this process.

Cost and Financing of the Program: The Road Program, with a total cost of Birr 9.9 billion in low scenario, is expected to be parallelly financed by: IDA, EU, ADB, NDF, BADEA, OPEC Fund, Japan, Germany, Italy, U.K., Ireland, Several NGOs, Road Fund, and the Government of Ethiopia and communities. Sweden and other donors are expected to join and commit in providing the financial and technical support for this multifaceted program.

Low scenario includes on-going projects plus projects whose funding is secured. Medium scenario includes projects in low scenario plus projects whose funding is under negotiation or their preparatory activities are underway. High scenario includes medium scenario plus the wish of the government to improve access problem of the country regardless of the capacity and funding constraint. The total program costs, which is estimated at about 13.8 billion Birr required to undertake programs, envisaged in the High Scenario is described in Table 7.4 below. The targets set for the Road Sector under the High scenario is(are) presented in Tables 13.1 and 13.2 in Chapter XIII of this Document.

**Table 7.4: Program Costs for the Road sector
(In million Birr)**

| | Program/Activity | 2002/03 | 2003/04 | 2004/05 | Total 3 years |
|----|---|----------------|----------------|----------------|--------------------------|
| | A. Federal Roads | | | | |
| 1 | Rehabilitation of Trunk Roads | 479.4 | 826.0 | 950.6 | 2,256.0 |
| 2 | Upgrading & Construction of Trunk Roads | 622.2 | 1,089.8 | 1,735.2 | 3,447.2 |
| 3 | Upgrading of Link Roads | 146.9 | 291.1 | 258.6 | 696.6 |
| 4 | Construction of New Link Roads | 462.6 | 578.1 | 645.5 | 1,686.2 |
| 5 | Heavy Maintenance | 225.8 | 319.2 | 237.9 | 782.9 |
| 6 | Routine Maintenance | 249.2 | 249.2 | 249.2 | 747.6 |
| 7 | Capacity Building & Studies | 99.1 | 76.9 | 47.2 | 223.2 |
| 8 | Bridge Works | 15.4 | - | 39.6 | 55.0 |
| 9 | Procurement of Equipment | 183.5 | - | - | 183.5 |
| 10 | Recurrent costs | 32.6 | 38.0 | 39.6 | 110.2 |
| | Subtotal | 2,516.7 | 3,468.3 | 4,203.4 | 10,188.4 |
| | B. Regional Roads | | | | |
| 1 | Construction | 280.0 | 350.0 | 350.0 | 980.0 |
| 2 | Periodic Maintenance | 275.7 | 137.1 | 85.7 | 498.5 |
| 3 | Routine Maintenance | 71.4 | 71.4 | 71.4 | 214.2 |
| 4 | Recurrent costs | 71.0 | 79.5 | 89.0 | 239.5 |
| | Subtotal | 698.1 | 638.0 | 596.1 | 1,932.2 |
| | C. ERTTP | | | | |
| | ERTTP -Road Works | 273.4 | 506.8 | 757.5 | 1,537.8 |
| | D. Urban Roads | | | | |
| | All municipalities maintenance | 42.0 | 42.0 | 42.0 | 126.0 |
| | Total | 3,530.2 | 4,655.1 | 5,599.0 | 13,784.4 |

7.4.8. Sustainability of the Road Program

Strengthening the institutional and organizational capacity of road agencies is essential for sustainable implementation of the RSDP and up-keeping the road network. In addition, without fostering local contracting capacity to carry out maintenance and rehabilitation works, the country will continue to face capacity constraints to execute road programs. Without greater resource mobilization, the government will continue to face budgetary constraints in funding the required level of maintenance. Various efforts are underway to address this issue.

The objective of the RSDP is to restore and maintain Ethiopia's road network. This requires continuous investment and policy reforms on the RSDP, since partial implementation will not yield full potential benefits. Rehabilitation of the existing paved trunk road network and provision of funds for minimum maintenance only will not ensure sustained protection of the network as a whole. This means that without continued investment in the road sector, vehicle-operating costs will remain high, and the marketing of agricultural products will continue to suffer from inaccessibility and high transport costs. Consequently, the majority of people will remain in poverty for the lack of social and economic facilities. Thus, a successive multi-year program has to be launched until the road sector supports the economy sufficiently.

Domestic road construction and maintenance capacity is identified as an important ingredient that ensures sustainability of the road network. Measures that facilitate local contractors' participation have been introduced including contracting-out works, launching a study to identify the problems of the industry, reforming contract documents of government financed projects as required, etc. Currently, the domestic construction industry, especially in the road sector, is very weak. As a result, it has become very difficult for the private sector to participate effectively in the short-run. The RSDP II and ensuing programmes require strong local construction industry. One of the policy components embraced in phase II of the RSDP is to resolve the problems faced by the local construction industry and to enable the participation in the implementation of the program.

Roads are constructed and rehabilitated at high cost to the economy. Periodic and proper routine maintenance is therefore needed to prevent their pre-mature failure. The government's commitment to assure funding for maintenance provides a very strong and reliable financial basis for maintenance activity. Indicative revenue planning shows a gradual increase of funding derived from user charges channeled through the Road Fund. The Road Fund, which is the financial source for maintenance, will remain autonomous and its financial base will be broadened and strengthened.

Capacity, both at center and regional levels, is essential for the smooth implementation of the program and administration of the road network. ERA and RRAs will be strengthened to administer contract projects through training and provision of TAs. Especially ERA, the lead organization, will decentralize and commercialize its activities. It will mostly focus on regulation aspects. Commercialization will enhance private sector participation in the program and enable road agencies to operate in business-like manner.

The government recognizes the need to improve the process of identification and monitoring of projects. Thus, evaluation of the impact of projects on development, particularly with respect to RSDP objectives, institutional requirements and implementation risks mitigation are needed. Towards this end, several sectoral performance indicators have been identified for monitoring purposes. These indicators take account the RSDP benefits and the sustainability of the road sector in terms of financial, institutional, environmental, operational and regulatory aspects

7.5. Water Resource Development

Supplying adequate and clean water to the population improves many of the economic and social dimensions of poverty. It improves the health of the population with concomitant advances in the quality of life. Moreover, it releases the labor (particularly that of women and female children) used to carry water, which in turn could be used elsewhere, mainly in education for girls. Increases in the availability of water are also essential for crop production, livestock rearing, and electricity (power) generation.

Access to safe potable water in the year 2000 for urban areas in Ethiopia was 72%, and if Addis Ababa is excluded the figure drops to 38%. Access to safe potable water for rural Ethiopia is about 24%. The country utilizes only a small proportion of its aggregate annual run-off of 122 billion cubic meters and its ground water potential of 2.6 billion cubic meters. Moreover, the country's hydropower generation potential of 650 TWH per year and 10 million hectare of potentially irrigable land is almost untouched. Except for Addis Ababa and a few urban centers, sanitation facilities are basically non-existent. Based on these facts, the Ethiopian Government formulated its water resources management policy and set out its goals, strategies and targets as follows.

7.5.1. The Goals of the National Water Resources Management Policy

The overall goals of the national water resources management policy of Ethiopia is to enhance and promote efforts towards an efficient, equitable, and optimum utilization of the available water resources and contribute to the country's socioeconomic development on sustainable basis. To realize this overall goal, the Government has spelled out a wide range of policies to achieve the following five major water management policy objectives.

- a) Develop, on equitable and sustainable basis, the country's water resources for economic and social benefits of its peoples;
- b) Allocate and apportion water resources based on comprehensive and integrated plans by adhering to optimum allocation principles that incorporate efficiency of use, equity of access, and sustainability of the resource;
- c) Manage and tackle drought as well as the associated slow on-set disasters through, *inter-alia*, efficient allocation, redistribution, transfer, storage, and use of water resources;
- d) Tackle and regulate floods, and
- e) Conserve, protect and enhance water resources and aquatic environment on sustainable basis

7.5.2 Water Sector Strategy

The following are the components of the water sector strategy:

a) Water Resources Development

The water resource development part of the strategy incorporates the following:

- Carry out water resource assessment studies that will undertake inventory of the quality and quantity of available surface water in the country and assess the availability of surface water resources both in time and space.
- Assess and evaluate the existing hydrological and meteorological network, stations, and data compilation; standardize observation methods, instruments, and procedures for data compilation, processing and analysis; and, develop information collection program to bridge information gaps, and implement it.
- Initiate a program for undertaking periodic review and updating of the Master Plans. Set up specialized stakeholders committees to carry out this task.
- Harvest rainwater through the construction of small check-dams to meet domestic water supply and irrigation needs at local levels.
- Undertake surveys on the extent of existing water transport facilities and on the future needs for improvement and development.

b) Water Resources Management

- Devise and implement demand management measures, such as pricing, improved extension services, public awareness, and regulatory measures that improve efficiency and conserve water resources.
- Undertake soil and water conservation measures that reduce soil erosion and reservoir siltation.
- Encourage and promote local community participation in watershed management and water conservation measures and practices.
- Enforce legislative mechanisms and penalties to prevent indiscriminate discharges of toxic materials into water bodies.

c) Creating Enabling Environment

- Put a program for the establishment of river basin management institutions, autonomous or semi-autonomous utility agencies or companies in big towns, and water committees at zonal, woreda, kebele and water scheme levels.
- Assess technical capacity gaps, develop training programs to bridge them, and implement these programs. Strengthen the technical capacities of all stakeholders in relevant aspects of water resources development, planning and management.
- Promote and encourage on-the-job training, short-term training and study tours, workshops and seminars.
- Attract and retain able and experienced professionals and sub-professionals by providing incentives and creating conducive working environment.
- Review existing legislation in order to improve and streamline its scope to cover aspects pertaining to all surface and ground water resources, protection of quality as well as quantity, pollution prevention, and penalties for undesirable effluent discharge, etc.

d) Trans-boundary Rivers

The following activities will be undertaken in relation to trans-boundary Rivers:

- Identify common development projects with other riparian countries on equitable basis.
- Start developing these projects in line with the international covenants adapted by the Nile Basin member states,
- Review and update projects that were prepared in the past but not implemented,
- Ensure funding for implementation before embarking on large scale planning efforts to develop new projects or updating of past projects,
- Develop and enhance capacity in trans-boundary negotiations and conflict resolution,

e) Financing

- Establish tariff structure for water services based on site-specific characteristics of the schemes, and ensure that water prices lead projects to full cost recovery based upon users' payment capacities and by giving using appropriate technologies.
- Establish financial management rules and feasible arrangements of resource allocation, cost sharing and accessing funds for demand driven water supply systems. Promote local self-financing of programs and projects, based on the overall socio-economic development condition of local communities, and through appropriate incentive mechanisms.

f) Stakeholders Participation

- Promote, build and strengthen partnerships between community, government, private sector, and external support agencies. For this purpose, establish mechanisms such as, water committees, water boards, and water users associations, professional and civic associations.
- Launch public awareness campaigns, and organize regular meetings and workshops as means to provide forums for different stakeholders to air their views on how to strengthen these partnerships.

g) Gender Mainstreaming

- Enhance the active involvement of women for sustainable development and management of water projects. Assigning specific number of seats for women in community-based organizations is one way to empower them in decision-making.
- Take steps to relieve women from the burden of fetching and carrying water for the family.
- Design and implement special training programs for women and strengthen their technical capacities in organization and management of water supply systems and small-scale irrigation schemes.
- As part of project preparation, carry out social surveys to better understand how, in a given social setting; women could make meaningful contributions towards the management of the project. Keep gender disaggregated data, which will facilitate future decision.

h) Disasters and Public Safety

- Install automatic stage recorders at strategic sites on flood-prone area. Estimate flood sizes, in particular peak floods.
- Determine the possible methods of flood protection; select the appropriate sites for disaster prevention actions; and ensure appropriate and timely maintenance of flood control structures.
- In drought affected areas, intensify ground water exploration; formulate a comprehensive program for the selection of wells, boreholes, stock ponds, subsurface dams, etc.
- Carry out proper and regular maintenance of existing wells, ponds, sub-surface dams and the new schemes with active participation of the local communities.
- Carry out periodic safety checks, at least once in three years, on existing water systems.
- Establish safety regulations for major water structures.

i) Environmental Health Standards

- Prevent discharges of industrial effluents without adequate treatment into watercourses and issue regulations to ensure their strict enforcement.
- Assess the impact of disposal systems on local water sources, when the disposal system discharge to the nearest watercourses such as a stream, river or lake by carrying out detailed surveys and studies.
- Assess treatment proposals, effluent quality and quantity, in particular from industries and the probable impact on the receiving water. Raise awareness among managers of industries as how to minimize the effects of industrial wastes on water quality.
- Recycle wastewater when it has been found to be safe for health and the environment.
- Promote improvement of environmental sanitation in urban centers and rural areas both through infrastructure development and public awareness, and protect water bodies from being polluted and contaminated.

7.5.3 Water Sector Development Program

The recently finalized water sector development program consists of various programs and projects grouped into water supply and sanitation, irrigation, hydropower, etc. The programs and projects are designed in manners that reflect the local, regional and national priorities in the water sector.

The planning horizon of the whole program takes 15 years but divided into the existing practice of 5 year planning exercise. For the purpose of PRSP, however, the first three years of the program period i.e., 2002/03-2004/05 is considered. The programs and projects have thus respective investment schedules, implementation strategy, institutional and coordination arrangements, and monitoring and evaluation mechanisms.

7.5.3.1 Program Priorities

National and regional priorities within the context of WSDP are considered from two perspectives: First, from the point of view of resource development for different uses. Second, from the point of view of meeting the national and regional development objectives and creating enabling environment for successful planning and implementation

of the WSDP. Resource development priorities for different uses based on the Water Resources Management Policy are as follows:

- Making clean drinking water available to the larger segments of the society, including water for sanitation purposes;
- Making water available for livestock in critical areas such as the nomadic areas;
- Expanding irrigated agriculture to the maximum possible extent;
- Meeting hydropower generation capacity needs arising from electricity demand in the economic and social sectors;
- Providing water for the industrial development. ;
- Utilization of the resource for fishery, tourism and transportation purposes;

7.5.3.2. Program Targets

a) Water Supply and Sewerage

During 2002/03-2004/05 water supply coverage of urban, rural and national is expected to reach at 82.5%, 31.4% and 39.4% respectively. With respect to the urban sewerage, coverage will increase annually by 3.5% from its current level of 7%.

b) Irrigation Development

Ethiopia cannot hope to meet its large food deficits through rain-fed production alone. Cognizant of this fact, the Government has already taken initiatives towards developing irrigation schemes of various scales. This will continue and be further strengthened during the coming three years (2002/03-2004/05). The maximum area quoted to be currently under irrigation is estimated at about 5% of the potential, accounting for merely 3% of the country's total food crop production. In the short-term, however, the irrigation development program gives emphasis to the development of small-scale irrigation in which capacity building in the study, design and implementation of irrigation projects take the forefront.

During the program (PRSP) period (2002/03-2004/05) irrigation program aims to develop a total of 29,043 hectare of new land, which bring the total area under irrigation to 226,293 hectare by the end of 1997 making 114,390 household beneficiaries. The small scale irrigation schemes for the period E.F.Y.1995-97 (2002/03-2004/05) is expected to cover an area of 23,823 ha benefiting about 93,510 households.

c) Hydropower

In the program period target has been set to carry out a study at reconnaissance of 5 sites, updating of reconnaissance at 3 sites, pre-feasibility of 1 site and feasibility study of 4 sites.

d) General Water Resource

The sub-sectors constituting general water resources are hydrology and sedimentation, meteorology, flood protection and control, integrated basin development master plan study and ground water assessment. Basically, the role of the sub-sector is to generate information for the rest of the sectors including agricultural sector and possible projects are also identified under the general water resources. The target under the general water resources include:

- Hydrology & sediment control of 90 stations of different class;
- Establishment of 120 meteorology stations and 8 regional offices;
- Ground water assessment;
- Flood protection studies complete a started project and start up 4 other projects;
- Water shed management start up projects start up the project under Nile initiative and other programs;
- Integrated basin development master plan study, complete started projects and start up new projects;

- Water resource regulation, complete the started work at Beseka and start up construction of laboratories, start up study on water body pollution and inter regional water resource management;

e) Capacity Building

The limited capacity in the sector has remained to be a bottleneck in implementing programs and projects at different levels and to maintain the sustainability of the schemes. The limitation would be in terms of skilled manpower, institution and equipments. The capacity building program under the water sector has mainly focused mainly on:

- Creation of enabling environment, which includes legal and regulatory framework, policy (already issued for the water sector management), and enforcement of the policy and strategy,
- Establishing of the necessary institutions required to undertake the program
- Manpower development, which is basically training, career development designing of motivation scheme.
- Technical input in the form of machinery & equipment, infrastructure (construction) and finance

The targets under the capacity building are to strengthen and establish new institutions, which include:

- Basin Development Authorities;
- Water Sector Information Center;
- Water Resources Research Center, and
- Water Resources Training Institutions;

Within the program period there is also a target to train 210 staff at the federal and 301,488 at regional levels. Out of the total regional trainees 284,591 are members of the community while the remaining are from *Woreda*, zonal, and Regional Bureau.

Table 7.5: Program Cost for Water
(In million Birr)

| | Program/Activity | 2002/03 | 2003/04 | 2004/05 | Total 3 years |
|---|-------------------------------------|----------------|----------------|----------------|--------------------------|
| 1 | Basin Development | 35.9 | 42.9 | 50.8 | 129.6 |
| 2 | Water Supply and Sanitation | 910.9 | 1,237.2 | 1,414.6 | 3,562.7 |
| 3 | Irrigation and Drainage | 486.9 | 756.1 | 760.9 | 2,003.8 |
| 4 | Hydropower Study and Design | 9.4 | 39.2 | 61.8 | 110.4 |
| 5 | Trans Boundary | 0.7 | 0.9 | 1.1 | 2.7 |
| 6 | Water Resource Data Base/Assessment | 33.5 | 31.5 | 32.7 | 97.8 |
| 7 | Water Resource Management | 87.3 | 103.6 | 179.3 | 370.2 |
| 8 | Capacity Building & General service | 46.6 | 179.2 | 214.6 | 440.5 |
| 9 | Meteorology | 23.0 | 32.6 | 41.6 | 97.2 |
| | Total | 1,634.2 | 2,423.3 | 2,757.5 | 6,814.9 |

7.6. Education

Realizing the positive role that education plays in the development of a society and reducing poverty, the Ethiopian government has adopted a new Education and Training Policy (ETP) in 1994. The document outlined the mission and goals of the new education system of Ethiopia to achieve the present and future national economic and social development goals. The policy focuses on increasing access to educational opportunities with enhanced equity, quality and relevance. This was the basis for the multi-year Educational Sector Development Program (ESDP) that started in 1997/98 with the long-term goal of achieving universal primary education by the year 2015. The second phase of this program, ESDP II, shall span for three years similar to that of PRSP, from 2002/03 to 2004/05.

7.6.1 Assessment of ESDP I

With the implementation of the Education and Training Policy through the Education Sector Development Program ESDP I, the education sector has undergone changes in its structure, content and quality during the past four years. The following are the summary of the assessments of ESDP I:

- In 2000/01 the pre-school children enrollment and number of kindergarten increased by 9.6% and 15.6% from previous year, respectively. However, the coverage of pre-primary education is still low and hence only 2% of the children between the ages of 4 and 6 were enrolled in 2000/01;
- Coverage of primary education as measured by enrollment in grades 1-8, showed a rapid expansion during the first four years of the implementation of ESDP I. The enrollment in primary grades increased from 4,468,294 in 1996/97 to 7,401,473 in 2000/2001, (in the fourth year of the implementation of ESDPI) against a target of 7 million students for the end of the ESDP I period. This constitutes annual rate of growth of 13.4% in enrollment during the four-year period under review;
- During the same four-year period, gross enrollment rate (GER) for first cycle (1-4) primary increased from 54.8% to 83.0%; for second cycle (5-8) primary moved up from 17.9% to 30.8%; and for the complete (1-8) primary moved up from 34.7% to 57.4%;
- The gender gap has narrowed in terms of both apparent and net intake rates in the four-year period under review. The impact of the gender gap in apparent and net intake rates is visible in the gross enrollment rates in first cycle primary level. The gender gap of 30.2 percentage points in favor of boys in 1996/1997 in GER for first cycle primary was brought down to 25.1 percentage points in 2000/2001;
- However, the Gender gap for the whole primary (1-8) has remained constant at approximately 20 percentage points through out the four-year period of implementation of ESDP I. This gap is likely to show a declining trend in the future, once the impact of the narrowing of gender gap in apparent and net intakes move to higher grades of the primary schools;
- On the other hand, the urban rural disparity in primary enrollment has shown a declining trend. While the urban primary enrollment grew at an annual compounded rate of 7.7%, the annual growth in rural enrollment was 16.5%, more than double that of the growth rate for the urban areas of the country;
- Both student teacher and student-section ratios for primary grades (1-8), have increased over the four years between 1996/97 and 2000/2001. The student teacher ratio increased from 42 at the beginning of the five-year period to 60 at the end of the four-year period under review – a 42% increase. During the same period, the student-section ratio increased from 57.2 to 70.0, overall increase of 22.4%. This figure shows that the pupil-section ratio is above the standard set (60), which again indicates shortage of classrooms;
- Attempts to reform the curricula in primary grades, in accordance with the goals of the Education and Training Policy began even before the advent of the ESDP I and continued during the ESDP implementation period. The emphasis of the curriculum reform was to design and develop learning

materials that shall improve the problem-solving capacity of the students and to make them more productive members of the community who respect the human rights and democratic values;

- The repetition rate for overall primary (1-8) schools has declined slightly. From a high of 11.9 % in 1996/97, overall repetition in primary grades has been brought down to 9.1% in 1999/2000. This declining trend in repetition rate is more pronounced in grade 1. From 16.7% in 1996/97, the repetition rate for grade 1 has declined to 10.6% in 1999/2000- approximately 57% reduction in three years;
- Primary 1-8 dropout rate increased from 15.7% in 1996/97 to 17.8% in 1999/2000, while grade 1 dropout rate decreased from 29.4% to 27.9% for the same period. However, what is important to note is that the dropout rates remain high especially for grade 1. One child, in every four, who enters grade 1, leaves the school before completing the grade;
- A total of 55 new secondary schools were built during the first four years of the implementation of the ESDP I. The total number of senior secondary schools (9-12) went up from 369 in 1996/1997 to 424 in 2000/01, a 15% increase in four years or annual compounded rate of 3.5%. Total enrollment in senior secondary schools (9-12) increased from 426,495 in 1996/97 to 736,174 in 2000/01, a 72% overall increase in four years. This amounts to an annual compounded rate of 14.6%. This rate of growth is identical for both boys and girls;
- The gross enrollment rate (GER) for senior secondary, which stood at 8.4% in 1996/1997, increased to 12.9% in 2000/2001, an over all increase of 4.5 percentage points. Gross enrollment rate for girls went up from 7% to 10.9% during the same period – at a slightly reduced rate than that of the boys. This has resulted in widening the gender gap between the boys and girls for GER. The gender gap increased from 2.9 percentage points in 1996/1997 to 3.9 percentage points in 2000/2001, in favor of boys;
- The major bottleneck for secondary education remains availability of qualified teachers. Out of the total number (14,029), only 5127 or 36.9% of the teachers teaching in secondary schools in 2000/01 had a qualification equivalent to first degree or above;
- In 2000/2001, there were 13 government and 10 non-government Technical and Vocational education and training (TVET) institutions in the country enrolling a total of 4561 students. Government run TVETs enrolled 2631 students while 1930 students were enrolled in non-government run TVETs. Of the total number of students enrolled, approximately 17% were female. Besides, there were 25 skill development centers functioning in the four regions. A total of 8156 trainees were enrolled in these centers, out of which 2486 (30.4%) were females;
- The government undertook an extensive effort at restructuring the technical and vocational education and training program during the past two years. The restructuring envisages expansion of the intake through addition of new courses, institutions and rehabilitation of existing ones, and increasing the entry opportunities into TVET programs. As a result of the restructuring and expansion efforts that are underway in TVET starting 2001/2002, considerable expansion and diversification of the TVET system have taken place. In 2001/2002, there are 126 government-run and 40 private institutions in operation designated to provide TVET programs;
- The higher education sector witnessed rapid expansion during the four years between 1996/1997 and 2000/2001. Four new universities were established through amalgamating and elevating the status of the regional colleges and institutions. Five new private higher education institutions were accredited. To meet the manpower requirements of the economy, new professional training programs were started in education, engineering, health and business. Through the opening or expansion of higher education institutions, the enrollment in higher education institutions increased from 42,132 in 1996/97 to 87,431 in 2000/01, about 107.5% increase. Female enrollment as a percentage of the total has also increased from 20.2% in 1996/97 to 21.4% in 2000/01;
- Non-formal education is delivered as an alternative to the formal education in order to provide basic primary education for all. The basic education program has a three-year cycle and is equivalent to the

formal basic education (Grade 1-4). Under this program, education is provided for out-of-school children and adults. Enrolment for the out-of-school children (aged 7-14) in 2000/01 was 320,581 and showing an increase of 14.1 % from the previous year. The number of youth and adult participants (ages 15 and above) in the same year was 1,049,061;

- In regard to private sector participation in education, over 125 kindergartens, 70 primary schools, 6 secondary schools, 2 technical and vocational institutes and 5 colleges were established and accredited after the proclamation that encourages the private sector has been decreed;

7.6.2 Issues, Overall Goals, and Strategies of the Sector (2002/03-2004/05)

a) Issues

The following are pertinent issues in the education sector that will be given considerable attention in the coming three years:

- The overall mission of all educational institutions in the country is to produce good citizens. However, the education reform program has been in earnest operation only for nearly seven years and this is too short a period of time to accomplish all these important goals of nation building through the development of good citizenship. Therefore, the overall goal of producing good citizenship shall continue to receive greater importance in the coming years.
- Faster progress in enrollment is needed in order to achieve the goal of good quality universal primary education by the year 2015. Along with increases in access and coverage, there is a need to further promote equity. Regional disparities have shown a tendency to increase. Thus, Somali and Afar regions shall be given special attention.
- The major bottleneck for the timely utilization of resources allocated to the sector is lack of human and organizational capacity. Thus, relentless efforts are needed to build adequate implementation capacity at the center and in regions in order to attain the targets set for the coming three years.
- Internal efficiency of primary education is low and the dropout and repetition rates remain very high, especially in Grade 1. Unless dropout and repetition rates are reduced and internal efficiency of schools improved, the country cannot achieve the universal primary education within the time period set.
- Curriculum reform which aimed at improving relevance and quality of education calls for concomitant changes in teaching methods, teacher discipline, role of teacher in producing good citizens, system of examination and assessment, provision of teaching resources materials in the classroom, etc. for its successful implementation. Therefore, continuous effort is needed to render the curriculum relevant to the needs of society and economy and meets appropriate cognitive and attitudinal levels of students
- The present mode of delivery of primary education appears to be expensive compared to the resource needs of achieving universal primary education in the immediate future. Communities that are sparsely distributed and settled in remote areas cannot support a full primary or first cycle primary school. Thus, alternative modes of delivery, such as single room feeder schools, multi-grade classrooms, and non-formal basic education centers shall be explored in order to provide access to primary education to these communities.
- Training qualified manpower in sufficient numbers, to meet the needs of the economy at all levels, shall require maintenance of greater vertical correlation among programs ranging from technical and vocational, secondary and all levels of higher education. The need to maintain an efficient vertical integration between different sub-sectors of education to meet economic development needs compels further expansion of the higher education and technical and vocational training in terms of its intake capacity and diversity of the programs offered.

b) Overall Goals

After taking into consideration the short and long-term socio-economic development goals of the country, and cognizant of the major issues and problems confronting the sector, the education system has set the following four major goals.

These are:

- To produce good citizens who understand, respect and defend the constitution; students who respect democratic values and human rights; develop attitude for research and work and capacity to solve problems, develop skill in various professions and with a sense of citizenship to participate in and contribute to the development of community and the nation;
- To realize the goal of achieving universal primary education through expanding access and coverage of primary education with equity and improved quality;
- To meet the demand for manpower at all levels for the socio-economic development needs of the country, both qualitatively and quantitatively, through the vertical integration of the secondary, technical and vocational, and higher education programs;
- To build the capacity within the education system for sustainable development of the system through organizational capacity building for program implementation, continuous innovation, and quality leadership at various levels;

c) Overall Strategies

In order to implement the above-specified objectives, the Government of Ethiopia has developed the following strategies.

- Participation of community and NGOs in the education sector shall be strengthened;
- In order to implement the program at a possible lower cost, alternative approaches such as low cost schools, one-class room schools, multi-grade schools ...etc for first cycle primary schools will be encouraged;
- A stronger and wider role for non-formal education and other alternatives for expansion of primary education shall be implemented;
- Empowerment of the community is not only a means for development but it is also an end in itself. Policies and programs to strengthen the role of the community in the management and financing of the schools shall be implemented;
- Capacity building through organizational development, provision of training to managers, development and implementation of logistic support systems, etc shall be given priority;
- More responsibilities shall be devolved to the *Woredas* to manage primary and secondary education. This will make them more responsive to the needs of the communities and accountable to deliver the services effectively and efficiently;
- Emphasis shall be given to improve not only the academic qualifications, but also the ethical values of the teaching staff. Therefore, efforts will be exerted to have a teaching staff that is well motivated, disciplined, and endowed with ethical values;

7.6.3 Program Targets and Activities

The following are specific targets and major activities of the education sector of the country for the coming three years:

7.6.3.1 Pre-Primary Education

Financing of pre-primary education remains exclusively outside the responsibility of the government. The private sector, NGOs and the communities will continue to invest in the development of pre-primary school facilities. Parents support their children through payment of tuition fees and provision of educational materials.

The Government plays the crucial role in policy development and standard setting. It develops the curriculum, provides supervision, sets standards for facilities, and issues licenses for the institutions. The Government also promotes the sub-sector through appropriate policies on investment in pre-primary programs by the private sector, NGOs and the communities.

7.6.3.2 Primary Education

The program target is to achieve a GER of 65% at primary (1-8) level by the end of the plan year (2004/2005).

a) Construction of facilities

- The government will construct a total of 1,405 first cycle and 76 complete primary schools; upgrade 795 first cycle primary schools; and rehabilitate 887 schools. The required equipment shall be provided to 1,437 primary schools and furniture shall be provided to 2,247 schools.
- Build ten boarding schools and six hostels in Afar, Somali, Benishangul Gumuz, SNNPR and Oromia regions for the pastoral communities /areas. Moreover, low cost schools and multi-grade village schools will be established in the fragmented settlement areas.
- A total of 403 teachers' residences will be constructed in the rural areas.

b) Training teachers

- Provide summer (on job) training for 6,304 teachers who are teaching in the primary first cycle without any formal training.
- Enroll a total of 19,807 teachers in the distance education and summer diploma programs.
- Build two new teacher-training institutes.
- Develop and implement training programs in the teacher-training institutions and in the on the job training programs, using native English speaking trainers to enhance the quality of English language instruction in primary grades starting from grade 1
- Establish school clusters in order to introduce a school based training system that will become a means for continuous professional development of teachers and promotes skills of teachers for implementing continuous assessment, child centered teaching approach, better classroom management skills, etc.

c) Syllabi and textbooks

- Improve syllabi of various primary grades
- Make the content and physical qualities of textbooks and instructional materials more attractive to learners.
- Improve mechanisms for the provision and distribution of textbooks.
- Print and distribute a total of 37.4 million textbooks and thereby attain a student-textbook ratio of one-to-one.

d) Assessment mechanisms and quality of education

- Conduct assessment studies on selected languages of nations and nationalities that are used as medium of instruction in order to explore ways of enriching the instructional contents of the languages.
- Develop a Minimum Learning Competency Guideline (MLCG) to assess the profile of educational standards at each level in each subject.
- Prepare manuals and guides for teachers of children with special needs.
- Introduce manuals for promotions based on results obtained through continuous assessments for grades 4 to 8.
- Carry out a National Education Assessment (NEA) on grades 4 and 8 students to assess their skill levels in key subjects.
- Educational radio and TV programs shall be developed to supplement classroom teaching.
- Strengthen educational supervision by making it more effective and purposeful through the provision of necessary professional support at all levels.

7.6.3.3 Secondary Education

The secondary first cycle will expand in line with the high coverage observed in the primary education and the directions set for the economic development of the country. As the content of education at this level is to prepare students for various training programs and subsequent learning, considerable attention will be given to its quality.

Secondary school second cycle will expand on the basis of the desired number of intake capacity of higher educational institutions.

The program target is to achieve a GER of 16% for the first cycle of secondary education and a GER of 8% for the second cycle at the end of the plan year (2004/2005).

a) Construction of facilities

- The government shall build 75 new secondary schools; upgrade 24 schools; construct 874 additional classrooms; and rehabilitate 58 schools.

b) Improving Gender Equity

- Increase the participation rate of girls in secondary schools.
- Introduce counseling services and educational support systems for female students.

c) Syllabi and textbooks

- Revise syllabi for Grades 9 and 10
- Improve Grade 9 textbooks.
- Transcribe into Braille History textbooks for Grades 11 and 12, English texts for Grade 12 and Civics texts for Grade 9.
- Develop and disseminate supplementary reference materials, including materials on HIV/AIDS.
- Print and distribute 4.37 million copies of textbooks so that every student will be provided with essential textbooks.

d) Assessment mechanisms and quality of education

- Conduct studies on the content, relevance and quality of the curricular materials prepared for grades 9-12; and on problems encountered with regard to students' achievements in mathematics and science.
- Organize libraries in such a way that each one will be supplied with at least 2,500-3,000 books.
- Equip science laboratories with apparatus and assign laboratory technicians.
- Provide the necessary equipment to 184 schools and furniture to 187 secondary schools.
- Reduce class size to ratio of 1:60 gradually.
- Introduce Information-Communication-Technology (ICT) in secondary schools.
- Strengthen the practice of continuous assessment of students that will eventually lead to class promotions based on such a system.
- Design a strategy to enhance the quality and reliability of the national examinations.
- Develop item banks for examinations after establishing the validity and reliability of test items.
- Administer standardized and quality national examinations annually for grade 10.
- Conduct a study on the validity and reliability of the national examinations for grade 10.
- Introduce aptitude tests for the selection and placement of students in tertiary institutions.
- Strengthen and reinforce co-curricular activities in schools.
- Organize general knowledge "Brain-of-Brains" and inter-school sports competitions.
- Undertake a study on the impact of HIV/AIDS on the education sector.

e) Training teachers

- Train teachers at first-degree level through pre-service programs.
- Upgrade the 6,957 teachers now teaching in the secondary schools through in-service and on the job distance education programs.
- Train 434 secondary school principals in order to make school leadership efficient, professional and democratic.

7.6.3.4 Technical and Vocational Education and Training (TEVT)

The program target is to increase TVET enrolment from the current 25,000 to 130,000 by the end of the plan period, 2004/05.

In order to achieve the goals of the skilled manpower requirements of the economy and eventually to meet the national development goals, the plan for technical and vocational education and training shall encompass the following major activities.

- Develop and implement standards for TVET institutions, facilities and staff,
- Develop a legal framework to manage the operations of the government and non-government TVET institutions.
- Establish TVET Councils at the Federal and Regional levels with the participation all-important stakeholders, including private sector.
- improve the management capacity of TVET at all levels through refining TVET organizational structure, strengthening staffing and provision of training
- Improve the modular curricula for 10+1, 10+2 and 10+3.
- Develop, based on need assessment, new multi level programs in areas such as law, health, physical education, etc.
- Construct 40 new TVET institutions and upgrade or rehabilitate 75 existing ones.
- Upgrade the technical skills of 1800 TVET teachers through in-service training.
- Eight TVET Schools will be upgraded to 10+3 colleges and seven new TVET colleges (10+3) shall be established.
- Train 1500 teachers in collaboration with higher education institutions.
- Introduce a distance education program to upgrade TVET Teachers in business education.
- Develop and implement incentive mechanisms to improve private sector participation in the development and delivery of TVET.
- Offer courses in entrepreneurship development to trainees so that they will not only have the professional skills, but also the ability to create their own self-employment opportunities.
- A cost sharing mechanism shall be developed and implemented, where feasible, to reduce the burden on the public sector.

7.6.3.5 Adult and Non-Formal Education

The Adult and non-formal education program shall have three sub-components: the program for out-of-school children with 7-14 years of age, literacy program for those youth and adults whose age are above 15; and offering basic skill training to youth and adults in the Community Skill Training Centers.

The program target is to enroll 500,000 out-of-school children and 3.5 million youth and adults (age 15 and above) in the non-formal basic primary education and adult literacy programs respectively and to train 65,000 adults in various skills.

- Establish 46 skill-training centers and 710 literacy (basic education) centers, and provide equipment and furniture necessary for their operation.
- Develop an operational guideline on the linkage between formal primary education of first cycle and the non-formal education programs.
- Strengthen non-formal education programs as alternative routes to expand access to basic primary education in Afar, Somali, Benishangul Gumuz, SNNPR and Oromia regions for the pastoral communities /areas.

7.6.3.6 Special Needs Education

In an attempt to expand the special needs education programs, integrated approaches will be designed for students with special needs.

- Construct 34 new schools and 66 additional classrooms to accommodate children with special education needs.
- Offer training programs in teacher training institutes in special needs education.

- Strengthen existing special needs education-training programs and expand them to meet the required manpower at every level of the program.
- Offer short-term training programs in Braille, sign language, mobility, orientation, etc., to teachers and professional to enhance the integrated special education program and further enrich the formal education curricular materials.

7.6.3.7 Tertiary Education

The program target for 2004/05 is to increase annual intake in Government higher education institutions from 13,000 to 30,000 and from 900 to 6,000 in undergraduate and post graduate programs respectively and thereby to raise the overall higher education enrolment to 152,000.

The plan for tertiary education shall encompass the following major activities.

- Open new degree and diploma programs in relevant fields deemed necessary for the economic development.
- Upgrade two colleges to university level.
- Expand the postgraduate training capacity of Addis Ababa and Alemaya universities through provision of Ph.D. and Master's level programs in different disciplines.
- M.Sc. programs in selected disciplines will be opened in Debub, Mekelle, and Jimma universities, and in Arba Minch WT Institute and Gonder College of Medical Sciences.
- Construct necessary additional infrastructure—classrooms, laboratories, computer centers, workshops, etc.
- Train five hundred academic staff in pedagogy and teaching materials preparation through in-service programs.
- Recruit and employ expatriate teaching staff as necessary in order to alleviate the existing shortage of teachers in higher education institutions.
- Prepare student and staff profiles on their skill, attitude and knowledge.
- Introduce Community Oriented Practical Education (COPE) Scheme with the aim of integrating teaching, learning and research in universities with communities.
- Establish a Higher Education Strategy Institute and a Higher Education Quality Assurance Agency to guide the overall reform movement of higher education and to set and maintain standards within the public and private higher education institutions, respectively.
- Train about 200 managers of higher education locally and abroad.
- Develop and implement financial management system for improving the efficiency of the higher education institutions as well as an implementation mechanism for cost sharing/cost recovery scheme.

7.6.4 Program Cost and Financing

The total estimated cost of the Program for the three-year period stands at Birr15.1 billion. Out of the total cost of the program 47.9% is allocated to capital expenditure while the remaining 52.1% is allotted to recurrent expenditure. The Program allocates a significant portion of the resources to capital expenditure. This is primarily due to the expansions envisaged in tertiary and TVET sub-sectors of education and the demands these expansions place on additional construction, supply of equipment, and long-term training.

Primary education, tertiary education and technical and vocational training are given high priority in the resource allocation and account for 46.4%, 22.9% and 15.9% of the overall Program cost, respectively. Formal primary education alone accounts for 41.7% of the total Program cost. **This shows that primary education is number one priority.** Besides, over 50% of the recurrent budget will go to finance formal primary education leaving only 7.4%, 6.8%, and 17.7% to secondary, TVET and tertiary educations, respectively. Other sub- programs of education and administration account only for less than 18% of the total estimated recurrent expenditure.

Government, donors and communities would be the major sources for financing the program. The Birr15.1 billion-program cost as indicated in Table 7.6 below represents the high scenario. If the total financial requirement is going to be available from all sources, all the planned activities will be carried out and the targets will be achieved (Matrix Table 13.1 and 13.2 of Chapter XIII).

However, all the required resources may not be available for various reasons. Therefore, it is important to have alternative scenarios based on different assumptions. To this effect, a low scenario has been developed for the sector.

The assumption for the high scenario is that all the financial resources required will be available from the different sources. On the other hand, the assumption for the low scenario is that only Birr 11.28 billion will be available from treasury and external sources as indicated in the Macroeconomic and Fiscal Framework (MEFF). A detailed description of the MEFF as a resource envelope for the Medium term is presented in Chapter XII of this document. Besides, it is also assumed that there will be an additional Birr 0.24 billion contribution from the community and this will raise the total available financial resource to Birr 11.52 billion bringing a financing gap of Birr 3.58 billion against the high scenario.

This deficit has to be met by cutting budget from some of the activities. Strategies used for this are lowering unit cost without affecting the activities in some areas and cutting down both the activities and the budgets in others. In the first case, activities will be carried out with lower cost and targets will be achieved as planned. In the second case, both activities and budgets will be reduced and as a result new targets, which are lower than the original targets, are set.

Since primary education is the first priority, the target set for it should be achieved. Therefore, all activities planned under primary education sub-sector will be maintained as they are even in a situation where there is a serious financial constraint. The strategy for this sub-sector will be to lower the unit school construction cost by changing the type of construction material, especially for schools that will be constructed in the rural areas.

Both activities and budgets will be reduced at secondary, TVET and higher education levels and as a result the original targets will not be achieved. Therefore, secondary enrolment will decrease by 30,000 by the end of the plan period. Similarly, the targets set for TVET and higher education enrolments will reduce by 16,000 and 10,500 respectively for the same period. Moreover, low cost dormitories will be built in higher education institutions and some of the students will be given money for their accommodation. The utilization rate of classrooms, workshops and laboratories will also be increased both in TVET and higher education institutions by teaching in evenings and on Saturdays and Sundays and by increase class size where ever feasible. This will enable the system to prevent further decline in enrolment at TVET and higher education levels.

**Table 7.6: Education Sector Program Cost, 2002/03-04/05
Requirement (High Scenario), Million Birr**

| | Program/Activity | 2002/03 | 2003/04 | 2004/05 | Total 3 years |
|---|---|----------------|----------------|----------------|--------------------------|
| 1 | Primary Education | 2262.2 | 2377.1 | 2375.4 | 7014.7 |
| | Formal Primary Education | 2009.5 | 2108.2 | 2185.1 | 6302.9 |
| | Adult and Non-Formal Education | 53.0 | 55.5 | 55.7 | 164.1 |
| | Teacher Training (TTI &TTC) | 111.7 | 125.0 | 88.1 | 324.8 |
| | Special Education | 18.9 | 20.1 | 19.8 | 58.9 |
| | Distance Education & Educational Media | 69.1 | 68.2 | 26.7 | 164.0 |
| 2 | Secondary Education | 351.4 | 364.9 | 340.4 | 1056.7 |
| 3 | Technical and Vocational Education and Training (TVET) | 1137.1 | 725.2 | 532.4 | 2394.7 |
| 4 | Tertiary Education | 1021.8 | 1127.1 | 1310.1 | 3459.0 |
| 5 | Capacity Building | 51.6 | 64.1 | 36.8 | 152.6 |
| 6 | Administration and Others | 320.7 | 357.6 | 351.0 | 1029.4 |
| | Total | 5144.8 | 5016.0 | 4946.2 | 15107.1 |

7.7. Health

Ethiopia is known to have one of the lowest health statuses in the world. This is mainly due to backward socio-economic development resulting in widespread poverty, low standard of living, poor environmental conditions and inadequate health services. Realizing this state of affairs, the Federal Democratic Republic of Ethiopia, embarked on a rapid economic development and a multi-pronged poverty reduction programmes. In line with this strategy, it took a number of measures in the health sector including the design of an appropriate sectoral policy, strategy and a twenty-year rolling health development programme. In response to the prevailing and newly emerging health problems as well as in recognition of the weaknesses of the existing health delivery system, the first phase of Health Sector Development Programme (HSDP I) was launched in 1998 (EFY 1990). It was developed in the context of a strong government commitment to democracy and decentralization, and was designed explicitly to respond to the health care needs of the rural population who constitute 85% of the total population. The sectoral programme demonstrates the priority that the Government accords to health, and backed by a firm commitment to allocate the necessary internal and external resources to facilitate HSDP implementation.

The need for broad partnership between, and active involvement of all potential partners involved in the financing, delivery, management, and use of health services was also recognized at an early stage, and HSDP I was therefore developed through a broad consultative process. It included mechanisms for transfer of power to the communities and their representatives in the management and support of local health service delivery, through health committees and management boards established at hospitals and other health facilities.

The overall goal of the HSDP is to improve the health status of the peoples of Ethiopia. The linkage between improved health and general development are increasingly being acknowledged as for example, in the recent report of the WHO Commission on Microeconomics and Health (CMH). This relationship was well defined in the HSDP I where the linkages has been articulated between the impact of improved health status on productivity of the adult population, reduced household expenditures on health thus freeing resources for productive use, and the resulting contribution to reduced poverty and support to the overall socio-economic development of the country. The priorities in the health care interventions were the preventive and promotive aspects of care and the expansion of health facilities in order to deliver a comprehensive, integrated and equitable primary health care.

In line with these goals, the health management was decentralized, democratised and attempts were made to make it more efficient. In the last 10 years, a significant number of the existing health facilities were rehabilitated, 1,222 new health posts, 230 health centres, 25 hospitals were built and a great effort was exerted to provide the facilities with essential drugs, pharmaceuticals, medical equipments and the necessary human resource in a sustainable manner. In order to expedite the effort, the health budget was increased from 161 to 1,222 million Birr, the drug budget from 20 to 245 million Birr, training institutions increased from 15 to over 30 and health professional graduates per year from 700 to 4,500. In addition to the public efforts, the private and non-government sectors have established 1,170 clinics of different grades, 530 pharmacies and drug shops, 1,917 rural drug vendors. It is clear; therefore, that the magnitude of sectoral development and service provision in the last 10 years is far beyond the achievements recorded in the previous 100 years since modern health service was introduced in Ethiopia.

7.7.1 Review of the Performance of the Ethiopia's HSDP (HSDP I)

The first Health Sector Development Program (HSDP I) that was launched in 1997/98 was a general blue print designed to translate the Government's new health policy statement into action. It took into account the critical evaluation of the nature, magnitude and root causes of the prevailing health problems and also to respond to the newly emerging health problems. The programme covered the first five years (1997/98 – 2001/02) of the country's 20-year health service development programme. HSDP I put disease prevention at the centre of its priority. The policy tried to reorganize the health services delivery system with the objective of contributing positively to the overall socio-economic development effort of the country.

HSDP I had eight components for programming, budgeting, and implementation purposes. This was intended to bring forth coordination and implementation of a fully integrated and responsive health delivery system. There were also issues that cut across all components of the programme. Gender mainstreaming and organization of appropriate health service delivery mechanism to the pastoralist communities were central in the cross cutting issues.

Based on its stated objectives, HSDPI's important priorities were to expand and rehabilitate the network of Primary Health Care Units (PHCU), and to upgrade and expand district hospital facilities, and promote equity by improving accessibility of essential health services to the neglected rural population of the country.

The measures taken so far have resulted, among others, in increasing immunization coverage rate from 20% to 42%, potential health coverage from 33% to 52%, MCH from 15% to 29%, CPR from 4% to 19%, reduction in the threat and loss of life from infectious diseases such as Malaria, Meningitis, Tuberculosis and Leprosy and avoidance of serious epidemic outbreaks. A concerted and multi-sectoral effort to combat the ravages of HIV/AIDS pandemic is also underway and gaining momentum.

However, despite these commendable achievements in tackling the multifaceted health problems of the country, there remain still a number of matters to be addressed. For example, the Mid Term Review (MTR) which was conducted in February 2001 and three consecutive Annual Reviews (ARMs) of HSDP I have identified a number of generic and operational problems and have suggested concomitant remedies, which led to the formulation of detailed action plans for each component of the HSDP. These problems could be highlighted as follows:

- At the top of these list of problems and of great concern is the pathetic attention given to disease prevention and promotion of healthy living in practice. Though significant inroads were made in some of these areas, the system is still grappling with the unyielding preference for curative services by professionals, the public and the decision makers at all levels, to an extent that the allocation of time and resource are still heavily biased towards curative services. This is well reflected by the poor performance of the routine immunization service, and the token attention given to the promotion of personal hygiene, clean environment and integrated family health, resulting in unsatisfactory reduction of the disease burden, deterioration of healthy living and behavioural changes.
- The quality of the curative services as well as the ethics of health professionals leaves a lot to be desired.
- Many newly established PHCUs have not been appropriately staffed and provided with essential medical equipments leading to delayed starting up of their services.
- Despite significant improvements in the number of health professional graduates per year, there still exist critical shortages in some key professionals such as midwives and front line health workers, and this is also a result of mismatch of human resource need and human resource deployment, including inappropriate management.
- A combination of slow budget approval, disbursement process and inadequate budget at health facility level has resulted in under-utilization of some resources.
- Limited and inefficient management capacity at Zonal, *Woreda* and health facility level has resulted in reduced achievement of some targets.
- Lack of monitoring and evaluation mechanism and weak activity and financial reporting at each level of the health delivery system has reduced the effectiveness of the programme.
- Despite a significant increase in the government drug budget over the HSDP I implementation years, there have been sporadic/seasonal shortage of drugs at facility level due to a combination of delay in the international drug procurement, inadequate management and logistics refinement including lack of adequate information about drug availability and shortage throughout the country and rational drug use.
- Gender has not received due attention at the various levels;
- Inability to optimise partnership with NGOs and the private sector in the expansion and provision of health care services.
- Malnutrition remains one of the common health problems, which affects significant proportion of children.

7.7.2 Goals and Objectives of the HSDP II (2002/03 – 2004/05)

The overall goal of HSDPII is similar to HSDPI and aims at improving the health status of the Ethiopian population. Important additions to the HSDP II are its re-focus on attacking poverty related diseases and the development and implementation of a "Health Extension Package" aimed at effective prevention and control of communicable diseases with active community participation. HSDP II will be launched in EFY 1995, and its formulation takes stock of and aligns with the existing and new health and health related policies and strategies for a concerted and mutually supportive national effort. One of the most important linkages in this effort is with PRSP strategy.

The linkages of health and development have been established as self-evident in the recent report of “the Commission on Macroeconomics and Health, Dec. 2001”. In its report, the Commission concluded, “health is a priority in its own right, as well as a central input into economic development and poverty reduction. The importance of investing in health has been greatly underestimated, not only by analysts but also by developing country governments and the international donor communities. Increased investments in health as outlined in the report would translate into hundreds of billions of dollars per year of increased income in the low-income countries. There are large social benefits to ensuring high levels of health coverage of the poor, including spillovers to wealthier members of the society”.

Ethiopia has designed the PRSP strategy paper as a means of articulating a broad-based, national strategy to refocus activities and resources towards reducing the level of poverty. As the PRSP draws together different sectoral strategies to address poverty alleviation, and provides a framework for the use of additional resources that could be made available through the HIPC initiative, HSDP II is designed to reflect its intimate linkage with PRSP and, as a pro-poor sector, it articulates its essential role as a means for the reduction of poverty through improving the health of the poor and thus making contribution to the national effort of raising the level of socio-economic development of the country.

Health Extension Package (HEP) is a new initiative included in the HSDP II. It is an innovative community-based health care delivery system aimed at creating healthy environment as well as healthful living. The main objective of HEP is to improve access and equity to preventive essential health intervention through community/kebele based health services with strong focus on sustained preventive health actions and increased health awareness. The health extension service will be provided as a package focusing on preventive health measures targeting households particularly women/mothers at the kebele level. A new cadre of health workers (75% females) will be trained and deployed up to two to each kebele and they will be accountable to health centers of their areas. The implementation is expected to start in the EFY 1995 on pilot basis using the existing Primary health Workers.

7.7.3. Policy framework of HSDP II

Establishing an effective and responsive health delivery system is an integral component of a National Development policy that aims to reduce poverty and achieve economic growth and development. As such, HSDP II is placed within the context of the broader socio-economic development framework of the country and is built around the following measures:

- Policy on decentralization: proclamations No. 7/92 and No. 41/93.
- Adoption of health and health related policies in 1993: Health Policy, National drug policy, National population policy, and National policy on Ethiopian women.
- Agricultural Development Led Industrialization (ADLI) strategy in EFY 1993.
- Policy on HIV/AIDS, 1998.
- Poverty Reduction Strategy (PRSP)-2000.
- Capacity Building Strategy- 2002.
- Civil Service reform- 2002.
- Consideration of the Millennium Development Goals.
- Consideration of the Global Fund against AIDS, Malaria and TB (GFTAM) initiative.

The main objectives of HSDP II for the period 2002/03 – 2004/05 are to:

- Increase healthcare coverage from the 2001/02 level of 52% to 65% in 2004/05;
- Slow down the construction of new health facilities and improve the quality of health care by availing the necessary supply and other inputs.
- Implementation of Health Extension Package on pilot basis using the existing primary health workers and gradually expand the services using the newly trained Health Extension Agents.
- Train and deploy motivated and adequate number of technical and managerial health workers at all levels of the health system.
- Strengthen management of health services at the Federal, Regional and Woreda levels;
- Creation of an enabling environment for the private and NGO sectors to participate in the service delivery, coordination and mobilization of health resources.

The major objective of the program is primarily to develop an efficient healthcare delivery system by establishing and expanding equitable basic health services that are accessible and acceptable by all segments of the Ethiopian population. The basic health services network will be strengthened to deliver reputable quality of health care in a sustained manner.

7.7.4. General Targets

Based on the central theme, the program gives priority to the prevention of diseases. Thus, the establishment, expansion and strengthening of basic health services is expected to reduce morbidity, disability and mortality that are caused by major prevailing health problems. The program has aimed at attaining the targets depicted in Table 7.7 by the end of 2004/05.

Table 7.7: Overall targets of the HSDP (2002/03 – 2004/05)

| Indicator | Unit | Base yr 2000/01 | 2004/05 |
|--------------------------|-------------------------|-----------------|---------|
| Life expectancy at birth | Years | 52 | 58 |
| Infant Mortality | Per 1000 live births | 97 | 85 |
| Maternity Mortality | Per 100,000 live births | 500 –700 | 400–450 |
| Health Service Coverage | Percent | 52 | 65 |
| Contraceptive coverage | Percent | 18.7 | 21 |
| EPI Coverage | Percent | 41.9 | 65 |

Source: Health Sector Development Program of 2000/01–2004/05, MOH; and Health and Health Related Indicators 2000/01, MOH.

7.7.5 Strategies

In order to deliver the aforementioned objectives the HSDP has adopted the following strategies:

- Develop and implement a “Health Extension Package” that will enable to effectively prevent and control communicable diseases with community participation;
- Develop a disease prevention oriented and standardized health service system;
- Implement the expansion and strengthening of basic services;
- Train and deploy knowledgeable, task oriented and disciplined health workers in adequate number;
- Provide adequate number and mix of human and other supportive resources that will enable the health services deliver adequate and quality health care to the population;
- Ensure full community participation in planning and delivering the health care system;
- Promote and coordinate inter-sectoral collaboration among organizations engaged in health activities such as government, NGOs, international donors, the private sector and various associations;
- Establish a sustained financing mechanism that will ensure the availability of material and technical resources.

7.7.6 Specific targets and activities

Based on the objectives, general targets and strategies outlined above, the elements of HSDP II for the period 2002/3–2004/5 is presented under each of its eight components. Preventive health service, health service coverage (expansion and maintenance), and quality of health care will be given priority during this program period.

In order to fulfill the specific targets of each sub-program a number of activities will be carried out under each sub-program. Major activities that will be undertaken are outlined below:

a) Health service delivery and quality of care

This component is comprised of four elements: disease prevention and control; family health services; hygiene and environmental health services and quality health care delivery.

b) Disease prevention and control

The main objectives of this component program are: reduce morbidity, disability, and mortality. This sub-component aims to achieve the targets specified in Table 7.8.

Table 7.8: Specific targets under disease prevention and control

| Indicator | Current status (2001/02) | Target (2004/05) |
|--|--------------------------|------------------|
| Malaria prevalence | 7.7/1000 | 6.2/1000 |
| HIV/AIDS prevalence | 7.3% | 7.3% |
| Tuberculosis prevention and control services | 60% | 75%; |
| Blindness prevalence | 0.9% | 0.7%; |
| Leprosy prevalence | 0.69/10,000 | 0.6/10,000 |
| Polio | | Eradicate |
| Guinea Worm | | Eradicate |

c) Family Health Service

The main objectives of this component program is to strengthen and gradually expand family planning, mothers, children and youth, and nutrition services at all levels of health facilities. The specific targets of this sub-component are given in Table 7.9.

Table 7.9: Specific targets under family health service

| Indicator | Current Status (2001/02) | Target (2004/05) |
|---|--------------------------|------------------|
| Contraceptive coverage rate | 18.7% | 24.7%; |
| ANC service | 34% | 45%; |
| Deliveries assisted by trained manpower | 16% | 25%; |
| EPI coverage | 41.9% | 60%; |
| Immunization of TT2 to pregnant mothers | 36% | 45%; |
| Immunization of TT2 to non-pregnant (15–49 yrs old) mothers | 23% | 32%. |
| Eliminate polio from Ethiopia | | 0% |

d) Hygiene and Environmental Health Services

The main objective of this component program is to increase coverage of hygiene and environmental health services to the population at large. This component of the HSDP II has the targets set in Table 7.10.

Table 7.10: Specific targets under hygiene and environmental services

| Indicator | Current coverage (2001/02) | Target (2004/05) |
|--------------------------------|----------------------------|------------------|
| Sanitation service | 29% | 35% |
| Provision of safe water supply | 36% | 42% |

e) Delivery of quality health care

The main objective of this sub-component is to ensure the delivery of equitable and quality preventive and curative health care at each level of the health care system by conforming to the set of established standards and appropriate referral system. This component of the HSDP II has the following targets set out in Table 7.11.

Table 7.11: Specific targets under quality healthcare delivery

| Indicator | Current Status (2001/02) | Target (2004/05) |
|---|--------------------------|------------------|
| Per capita healthcare utilization rate | 0.5/person/year | 1.0/person/year |
| Basic health facility to population ratio | 1:171,058 | 1:124,956. |

f) Health facility expansion and rehabilitation

Under this component, the main objectives are construction of new facilities, training institutions, drug stores, health bureaus and offices and rehabilitation of existing facilities in order to raise the basic health services coverage from the 2001/02 level of 51.2% to 65% by 2004/05.

g) Human Resource Development

The main objective of this component of the program is to address the issue of selection, training of different categories of health professionals, deployment and management of adequate number and mix of motivated staff capable of providing both preventive and curative health care services. This component has the targets identified in Table 7.12.

Table 7.12: Specific Targets Under Quality Healthcare Delivery (Health Personnel)*

| Category of Health Workers | Current Status (2001/02) | Target (2004/05) |
|------------------------------------|--------------------------|------------------|
| Doctors/Health Officers | 1:39,316 | 1:32,000 |
| Nurses | 1: 8,461 | 1:6,880 |
| Technicians (Lab, pharmacy, x-ray) | 1:41,806 | 1:25829 |
| Sanitarians | 1:83,792 | 1:46,267 |
| Pharmacists | 1:768,753 | 1:547,364 |
| Frontline Health Workers** | 1:14,922 | 1:12,582 |

*Targets are established based on the number of new health facilities to be established during the period 2002/3 – 2004/5.

**Frontline Health Workers includes CHA, TBA, and PHW.

h) Pharmaceutical Services

The main objective of this component of the program is to ensure regular and adequate supply of effective, safe and affordable essential drugs and high quality medical supplies in the public, private and NGO sectors alike.

The targets for this component of the HSDP II are to:

- Reduce the number of drugs prescribed in one prescription to an average of 1.84; and
- Increase the percentage of drugs prescribed in generic name up to 92%.

i) Information, Education and Communication (IEC)

The main objectives of this component of the program is to increase community awareness in health through the involvement of communities and provision of continued health education to bring about positive changes in the knowledge, attitude and behavior of the communities. This component of the HSDP II has the following targets:

- Increase the existing low level of awareness of communities in diseases prevention and control;
- Train and deploy adequate number and appropriate mix of professionals in health education communication skills;
- Develop appropriate health education materials that can be used for health education, teaching manuals, materials, audiovisuals leaflets and posters, which are adapted to local conditions.

j) Health Management and Information System

Health System Management

The main objective of this sub-component of the program is to establish an efficient and effective management system at all levels of the health delivery system to ensure cost-effective program implementation and the delivery of quality health care services.

The targets set in this category are the following:

- Assign health managers with appropriate professional skills who are governed by professional ethics and discipline;
- Establish health management boards and committees at all levels of health institutions that would facilitate participation of communities and civil society in the planning, monitoring and evaluation activities.

Health Management Information System

The main objective of this sub-component is to develop and strengthen the health information system by collecting, analyzing and synthesizing adequate and timely information to serve as a tool for informed decision making at all levels of the health care system.

k) Health care Financing

The main objectives of this component of the program are to develop and strengthen a sustainable health care financing system and promote efficient resource allocation and utilization in order to ensure the provision of adequate and quality preventive and curative services to the public. This component has the following targets.

- Increase the share of the government budget allocated to the health sector from 7.3% (in 1999/00) to 8.2 by 2004/05;
- Improve the cost recovery (the amount of user fees collected by public health facilities) from the current level of 12.8% (2001/02) to 20% (2004/05) of total public expenditure on health;
- Expand revolving fund schemes for drugs by establishing pharmacies and drug stores in all public hospitals and 50% of the primary health care units;
- Bring to effect the revised health services user fees schemes;
- Secure retention of at least 50% of the user fees by public health facilities and invest on productive activities.

l) Monitoring and Evaluation

The objectives of this component are to monitor improvements in the delivery of quality of care, to evaluate the impact, effectiveness of programmes, financial performance and cost-effectiveness of HSDP II components.

This component has the following targets:

- Initiate an expanded scope of HSDP II governance at woreda level.
- Monitor the progress in the implementation of different components of HSDP II on quarterly basis.
- Initiate the preparation and distribution of health indicators booklet by all regions.
- Establish feedback mechanism at all levels to further develop and strengthen the achievements of the progress of planned M&E activity reports.
- Prepare quarterly reports on the follow up and utilization of external funds.

7.7.7 Opportunities and challenges of the decentralization process at the Woreda level.

Opportunities to the health sector:

- Bottom -up planning and improvement in the implementation process.
- Greater say and control over Woreda health resources.
- Enhanced community participation.

- Enhanced collaboration with NGOs and the private sectors.
- Increased utilization of health facilities.

Challenges for the health sector

- Establishing of Woreda level health offices with core staff.
- Creation of strong leadership with clear mandate, responsibility and accountability.
- Coordination and harmonization of HSDP II activities.
- Further decentralization of the HSDP II Governance structure to Woreda level
- Strong collaboration amongst the FMOH, RHBs and Woreda health offices.
- Balancing the national and regional health priorities with that of Woreda level including harmonization and regulating health standards (Guidelines, manuals, etc.).

7.7.8. Financial plan of HSDP II

The major source of financing for HSDP II is the Government budget comprised of treasury funds, loans, grants and debt relief earmarked to the health sector through HIPC initiative. Additionally, financing reforms will be introduced such that, in 2003/04, additional funds for the programme will be generated from facility revenue at about 5% of programme financing in 2003/04 and as retention of revenue is introduced and reaching 20% by 2004/05. Given external assistance committed to date, and an assumption that the share of health out of total budgetary resources will grow from 6.2% in 2001/02 (PER, 2001) to 7% in 2002/03, to 7.5% in 2003/04 and reaching 8.2% in 2004/05. Based on the revised low scenario of the Macro-Economic Fiscal Framework estimate, total financing available for the HSDP II three-years (2002/03-2004/05) implementation is about 4.99 Billion Birr. The actual estimated cost of the three years HSDP II programme, in 2001/02 price, is 6.81 Billion Birr. As clearly stated in the revised HSDP II planning document, committed resources by source of funding is below the actual estimated programme cost and the financial gap stands at 1.87 Billion Birr.

However, it is expected that the financial gap amounting to about USD \$ 73.3 Million (623.2 Million Birr) per year (USD\$220 Million, or 1.87 Billion Birr, for 2002/03-2004/05) will be covered by additional funding sources that are already on the pipeline such as Global Fund for HIV/AIDS, TB and Malaria, Italian Cooperation, (15 Million Euro), Irish Aid, Netherlands TB programme support, GAVI support, Pool Funding Initiative (Ireland, Sweden, Norway, the Netherlands, and Belgium), other bilateral and multilateral assistance programmes under negotiations, and also new IDA credit for 2004/05. The Health Sector program cost (High Scenario) for each year is presented in Table 7.13 below. The program composition may not exactly match Ministry of Health's allocation as the PRSP team based on the MEFF carries out this allocation for convenience of presentation.

Table 7.13: Health Sector Program Costs, 2002/03-04/05, in million Birr

| | Program/Activity | 2002/03 | 2003/04 | 2004/05 | Total 3 years |
|---|--|----------------|----------------|----------------|--------------------------|
| 1 | Health service delivery & quality care | 957.4 | 1,041.6 | 1,119.3 | 3,118.3 |
| 2 | Health facilities rehabilitation & expansion | 571.8 | 467.1 | 359.6 | 1,398.4 |
| 3 | Human resource development | 65.2 | 63.4 | 63.6 | 192.2 |
| 4 | Pharmaceutical services | 415.0 | 430.4 | 465.0 | 1,310.3 |
| 5 | Information, education & communication | 21.1 | 23.2 | 25.5 | 69.7 |
| 6 | Health information & management system | 15.0 | 16.5 | 18.2 | 49.7 |
| 7 | Health care financing | 7.4 | 6.9 | 6.2 | 20.6 |
| 8 | Monitoring and evaluation | 9.5 | 10.4 | 11.5 | 31.4 |
| 9 | Contingency | 206.2 | 206.3 | 206.9 | 619.4 |
| | Total | 2,268.6 | 2,265.7 | 2,275.7 | 6,810.0 |

Given the various sources of additional funding mentioned above and the strong partnership established between the Ethiopian Government and its development partners, it is expected that the external assistance will rise sufficiently to cover about 40% of the costs and that the resource requirements of HSDP II will be met. Nevertheless, implementation of HSDP II will be according to the rolling plan adjusted annually based on actual availability of funding.

7.7.9 Programme Implementation Arrangements of HSDP II.

The following are the summary of programme implementation arrangements of HSDP II:

- Expanded scope of HSDP II Governance to Woreda Level.
- Strong collaboration amongst the FMOH, RHBs and Woreda level health authorities.
- Widening the role of community & NGOs in planning, implementation and Governance of health care delivery activities, particularly at Woreda level.
- Enhanced awareness building and harmonization of standards and quality of services.
- Strengthening and harmonizing Government, Donor, NGOs and private collaboration.
- Strong system for monitoring, review and evaluation of HSDP II.

VIII. Private Sector and Export Development

Sustained economic growth and employment generation is necessary for poverty reduction and require enhanced private sector investment resulting in economic growth, reduction in poverty and improved quality of life for the majority of the population. Private initiative, unleashed in competitive markets is key to promoting growth and poverty reduction in parallel with public sector efforts. Tax revenues generated by private markets and employments are critical to support public expenditure programs.

Private Sector Development (PSD) is about enabling the enhanced utilization of labor and other resources of the country through the growth of private businesses by providing predictable and enabling environment both in domestic and overseas markets. PSD is about the maintaining a good balance between the complementary functions of the state and the private sector about judicious refocusing of the role of the state not about indiscriminate privatization but about sound government policies that provide room for private initiative and that set a regulatory framework which channels private initiative in ways that benefit society as a whole.

One of the major contributing factors to the economic crises of Ethiopia during the 1980s was the restrictive policy imposed on the activities of the private sector. At the beginning of the transition period i.e. 1991/92, it was obviously clear that without changes in the policy regime of the 1980s efforts to realize socio-economic recovery and sustained development would be futile. As a result, the New Economic Policy took the creation of an enabling environment for both domestic and foreign private investment as one of its objectives. The series of reforms since 1992/93 have shifted the policy regime of the 1980s and did go a long way to create enabling environment for private sector investment. Thus, the Poverty Reduction Strategy (PRS) now proposes to build on these reforms and broaden them into a comprehensive strategy for private sector development that is meant to foster a qualitative jump in the role of private activity in generating growth and supporting poverty reduction.

Competitiveness is the key to success in sustained economic development. Domestic private sector needs to be more competitive to capture the opportunities in the global market. The most important factors that should come into the basis of competitiveness are: a) Investment Climate, b) Investment Finance, c) Infrastructure, d) Input/Output Markets, and e) Institutions that run and support the system,

Investment climate focuses on peace and stability and macro-economic environment. Macro-economic stability reflected by exchange rate, money supply (interest rate and credit) and fiscal policy (taxes and expenditure), is enhanced and sustained by sound policy and regulatory framework covering the investment regime and market conditions that can foster competitiveness both domestic and at international level and an equitable and objective tax regime.

Investment finance plays an important role in PSD. The availability of financial management transparency, efficiency and the equitability of access are the key factors. Efficient management of investment finance concerns both the financial institutions and private sector operators who use resources for business development. An equitable disbursement system based on transparency and objective evaluation is an essential element for all players in the financial sector.

Investment finance is comprised of both equity finance and debt finance. Variety and accessibility of financial services with efficient pricing are key factors. In the absence of security markets, well functioning financial intermediaries are critical. For disbursement, information and skill for credit and collateral evaluation and cash flow analysis is critical.

The provision of good quality infrastructure services, particularly telecommunications, power and logistics is essential not only for the efficient operation of the private sector but also for integration into the global market and to attract FDI. The domestic private sector also plays an important role in the construction/maintenance and provision of the services. With proper regulatory provisions in place the government believes it is beneficial to strengthen supply by facilitating the engagement of the private sector as an important partner in the development of infrastructure services. But the capacity of the private sector to play a meaningful role in infrastructure development will not be realized without considerable capacity building support in technology and resources. In the context of

ODA financed construction activities the development of the domestic private contractors can benefit the country as a means of foreign exchange saving and even foreign exchange earning.

PSD, particularly the rural private sector requires a properly functioning input/output market for its development. The liberalization measures taken in the 1990s have helped freed the market considerably. What remains to be done is strengthening the development of competitive markets. In this respect, qualitative and quantitative improvement in the supply of educated and skilled human resources, information, and technology are critical.

The role of the private sector for sustained, pro-poor economic development has been clearly set out in the Government's legal, institutional development policy, strategy and programmes. Because of the fact that the private sector is at its infancy stage struggling to get out of real and perceived handicaps, strong institutions of dialogue and consultation will be productive. Moreover, public sector institutions giving support and services to the private sector are still in their learning and development stage. This makes the establishment of public-private consultation forums an essential component of the government's PSD program. The efforts already underway will be nurtured for more advanced co-operation and partnership between the private sector and the Government.

8.1. Investment Climate

8.1.1. Peace and Stability

Peace and stability is a key factor for investment attraction and sustained economic development. Investors need free and fair conditions to be able to pursue productive activity. They also need to have conditions where contracts and property rights are respected and corruption is kept at its lowest possible level.

The Federal Democratic Republic of Ethiopia (FDRE) constitutes a federal system of government where both economic and political responsibilities have been considerably decentralized giving more autonomy to regional and *Woreda* administrations with the objective of deepening the democratization process and bringing about improved governance. In order to deepen the decentralization process, implementing powers and responsibilities for resources allocation are being designed for *Woreda* and *Kebele* level administrations. The civil service reform program, which includes the judicial system, is being implemented. Overall, the democratization process has helped to create peace and stability in Ethiopia.

8.1.2. Macroeconomic Stability

Low inflation, low interest rates and a realistic exchange rate, continuing trade reforms and relatively decreasing role for the state through privatization and deregulation helped to redress the imbalances of the 1980s and created conducive environment for sustained macroeconomic stability. This is a strong feature of the Ethiopian economy since the beginning of the economic reform in 1992/93. Trade, exchange rate and other structural reforms resulted in about 6.3% average annual growth in real exports. However, despite this trend, Ethiopia's participation in the global economy is still minimal. Per capita exports were less than US\$ 15.00 in 1999 compared to the Sub-Saharan Africa average of US\$ 163.00. The reforms of the 1990's have not led to a diversification of exports away from agriculture nor have they spurred the export of agricultural produces and manufactured goods significantly.

8.1.3. Institutional and Legal Environment

An Investment code was issued in 1992, which created space for private investment with a number of incentives. Investment Offices were also established at federal and regional levels to coordinate and facilitate private sector investment. A one-stop arrangement was also put in place to reduce the cost of doing business and expedite private investment implementation. Furthermore, the investment code was revised several times to improve the investment environment. The last revision was made in May 2002.

Improvements introduced by the new Code that would help enhance the investment climate are the reduction of the minimum threshold for FDI to US\$ 100,000 for wholly foreign-owned ventures, to US\$ 60,000 for joint ventures, to US\$ 25,000 for joint investment in the areas of engineering, architectural, accounting and audit services, project studies or consultancy, and no minimum investment requirement for those exporting at least 75% of output.

8.1.4. Access to Land

Expedient access to land is an important input to enhance investment. However, it is recognized that impediments exist for the smooth progress of investors desire for the implementation of projects. Such constraints include high land lease rate, bureaucratic hurdles to secure land and absence of infrastructure services.

In consideration of these constraints, the Government is taking steps to considerably reduce the minimum lease rate and increase the supply of land to minimize escalation of prices during auction, streamline the bureaucracy involved in the identification and delivery of land, and prepare/develop infrastructure on plots to be offered for lease. Moreover, the Government plans to improve governance in all major towns and put in place a transparent and investor friendly system to minimize the bureaucratic impediments in the delivery of land.

The government and the private sector will continue to be engaged in consultations to reach an understanding on how to further improve the land lease system. Issues for future consultation will relate to lease policy collateralization of land held under lease and assisting investors in large-scale commercial farms to have access to agricultural land with basic infrastructure.

8.1.5. Competition

One of the Government's agenda for improving the business environment is to enhance domestic competition. This includes the need to reduce opportunities for rent seeking and eliminate anti-competitive practices. The need for a regulatory and institutional framework to provide a level playing field for all enterprises, and to ensure an efficient functioning of the domestic market and consumer protection will be met by the promulgation of a Competition Law in the short term.

The Government will take measures to build/develop institutional capacity to implement the Competition Law at all levels of market. Furthermore, the Government and the private sector institutions will work closely together using all existing forums and channels to enable the effective implementation of the law.

8.1.6. Taxation

There had been revisions in the tax regime many times in the past reducing income tax from 89% to 40%. But overall, the measures taken were piece-meal and essentially left the system of tax assessment and collection full of loopholes for evasion and non-payment of taxes. A comprehensive tax reform is currently underway with the objective of removing past weaknesses. The tax reform program has measures to broaden the base and build the capacity of tax administrators.

It is envisaged that the reform process would reduce the rates but enlarge the base improving tax collection. The tax rate is set to fall from 40% to 35% for individuals and single proprietor businesses, from 35% to 30% for companies. Furthermore, value-added Tax (VAT) will be introduced from January 2003 replacing sales tax. All exports of goods and basic services will be exempted from VAT. The present rate of capital gains tax will also be reduced to enable a free and transparent fixed asset market.

The administrative measures that are to be introduced include the introduction of Tax Identification Number (TIN) beginning fiscal year 2002/2003. This will enable the Government and other operators (banks and other financial institutions) to work from an objective database. Audited books of accounts on which tax has been paid and property and income records will be easier to produce. The implementation of the TIN and the tax reform program will start at Federal level and standard application in all the regions is under discussion.

The Government and the private sector representatives will try and alleviate capacity problems related to the effective implementation of the tax reform program. Manuals prepared to train taxpayers and tax collectors will be in place initially in Addis Ababa and subsequently in the regions.

One of the issues for further consultation with the private sector will be capacity building for the majority of taxpayers to maintain proper books of accounts. The Government will assist in the provision of the necessary resources through private sector and donor assistance to educate and enable private sector operators in general and Small and Medium Enterprises (SMEs) in particular to build the required capacity to maintain proper accounting records.

8.2. Investment Finance

8.2.1. Current Status of the Banking Sector

Since 1992/93, the Government has been taking various measures to reform the financial sector within the broader framework of its market based economic policy objectives. These included measures taken to improve the legal, institutional and regulatory framework under which the financial sector operates. In this regard, it is important to note proclamations No. 84/1994 and No. 86/1994, which provided for the licensing and supervision of banks and insurance businesses, respectively, and defined the NBE's supervisory and regulatory role with respect to the financial system. They also laid the legal ground for private entry into the financial sector, which had been restricted to only public sector ownership during the 1980s. Meanwhile, state-owned banks were re-structured in line with the market-based economic orientation. Subsequently, the promulgation of Proclamation No. 40/1996, providing for the licensing and supervision of micro-financing institutions, paved the way for pro-poor finance and introduced a legal framework for such institutions to operate as part and parcel of the Ethiopian financial system.

Thus, these reform measures not only increased the absolute number of financial institutions and their branches, but also opened up broad vistas for the expansion of financial instruments and services to the economy as a whole and increased the regulatory and supervisory functions of the NBE. In response to the latter challenge, the Supervision Department, and within it a Micro-Finance Division, were established in the NBE and strengthened. As of March 2002, there were already 9 banks with 324 branches and 8 insurance companies with 97 branches throughout the country. From 1998/99 up to March 2002 alone, bank and insurance branch networks expanded by about 17 and 18 percent, respectively. Currently, there are 19 micro-finance institutions that are operational.

As a result, total deposits held by banks increased from Birr 10.1 billion in 1994/95 to Birr 21.1 billion in 2000/01, depicting an increase of about 130%. With regard to loans and advances, loans disbursed to non-government sector increased from Birr 5.4 billion in 1992/93 to Birr 17.4 billion in 2000/01.

The present state of the financial sector is characterized by excess liquidity despite the fast growth of bank credits. In part this is due to the low level of credit information and credit analysis resulting in loans being on collateral basis, low technological base and low skill with conservative and stringent lending procedures. Another factor that contributed to the situation is the absence of lending facilities to SME, which make up the bulk of both urban and rural private enterprises. Low capacity of banks in the areas of analysis of financial statements, market and business plans and project feasibility studies also cause lower level of lending.

Because of the asymmetry of information regarding the financial positions of enterprises and for lack of risk analysis practices, loans are advanced on collateral of fixed assets.

The government is committed to the enhancement of efficiency and competition in the sector. To attain this objective, it will adopt a medium-term strategy covering the period 2002/03-2004/05. The strategy that is envisaged will proceed along three lines.

- First, creating a favorable external environment of banking;
- Second, building the internal dynamics of banks; and
- Third, fostering contestability of markets within the banking sector.

These three strands of the strategy are inter-linked. By improving the environment within which banks operate, particularly through narrowing the asymmetry of information and inducing a culture of loan repayment, attainment of efficiency will be rendered within reach. By making banks more dynamic through capacity building and fostering competition through encouraging the scaling-up of domestic private banks greater scope will be created for

both efficiency and competition. In this way, the strategy will make efficiency and competition go hand in hand together. The strategy will thus, prepare the ground for the progressive integration into the global financial market.

The external environment of banks is anticipated to improve markedly along with the tax reforms currently underway. As an upshot of the tax reform, the veracity of accounts submitted for tax payment will be greatly enhanced and enterprises hitherto not obligated to make their tax submissions on the basis of accounts will be required to do so. Hence, the information base for banks will be broadened and deepened. Moreover, specific measures will be undertaken to enforce the foreclosure law effectively and expeditiously, allowing banks to reduce non-performing loans and deterring delinquency in loan repayments.

The liberalization of the foreign exchange market will be considered after all the above are accomplished and export are raised considerably. Furthermore, although the bond, equity and share markets have an important role to play, the banking sector will remain the main source of finance in the medium to long term.

Other areas, which the Government will address, is to devise ways and means of fostering more private sector involvement in rural MFIs to strengthen and expand the services and to increase the coverage and the types and amount of loans. The establishment of MFIs that cater for urban SMEs and the creation of a mechanism by which state-owned commercial banks would extend credit to the rural private sector and urban SMEs through intermediaries. Other specific measures are discussed in chapter XI on the macro economy.

8.3. Infrastructure

Current Status

The delivery of infrastructure services, transport (roads, rail and air), telecommunications and postal services, energy and water are inadequate. This imposes constraints not only on private sector investment but also on the whole economy. Accordingly, the Government is making heavy investment in infrastructure development through on-going power, telecommunication and roads sector development programmes to relieve supply constraints and improve quality of services. Furthermore, the Government is widening the opportunities for private sector participation in infrastructure business of service delivery.

8.3.1. Short-to-Medium Term Program

8.3.1.1. Construction Sector

With regard to the domestic construction industry, the Government plans to assign 40% of road maintenance works to private sector contractors in the short term and increase the level to 100% in 10 years. Also 100% of major works of road and 100% of periodic maintenance in 4 years will be handled by the private construction industry.

Civil construction projects, outdoor network projects and lines in telecommunication sector as well as distribution lines in power sector provide further opportunities for private construction industry.

The private construction sector has limitations of capacity in the area of equipment and working capital, particularly with respect to meeting performance bond and guarantee for advance payment requirements, which usually reach about 45% of the total contract price. As a result, the participation of national contractors in government bids particularly in International Competitive Bidding (ICBs) is very low.

The establishment of a leasing company possibly to be financed by banks is expected to boost the capacity of the national contractors to participate in ICB contracts financed by the IFIs. The Bank and other donors have been requested to consider revising their guidelines for ICBs for construction works to accommodate local private contractors.

8.3.1.2. Energy Sector

Currently about 13% of the population has access to electricity. Constraints include supply (generation) of power is insufficient, supply quality is not satisfactory and customer service is weak. Thus the objective of the power sector

are to improve quality and adequacy of supply by using the huge hydropower resources of the country as well as to provide cost-effective and efficient power to customers. According to the sector program, generation capacity will increase from 327 MW to 663 MW and the number of electrified towns will increase from 458 to 651. As a result the percentage of population having access to electricity will increase from 13% to 17% by 2004/05.

Private sector operators can be engaged in:

- Generation, transmission and distribution of off-grid rural electricity and generation of power to supply to the grid,
- Supply of energy from mini-hydro and other renewable sources such as solar, wind, etc.

8.3.1.3 Telecommunications

The task of further developing telecommunications service coverage would require considerable investment in terms of technology and know-how. It is in consideration of this and the importance of ICT for economic development that the Government is considering viable options in the short-to-medium term. The short and medium term alternatives include:

- To engage a strategic partner in the operation and development of telecommunication infrastructure and management contract; and
- Study and implement capacity building for the regulatory agency,

8.4. Input, Output and the Export Market

8.4.1. Agricultural Inputs and Outputs

The government believes that the private sector should play a key role in agricultural production, and the marketing and processing of agricultural products. The government will make further efforts to create an enabling environment for private sector participation in agricultural development and to encourage foreign investors to participate in these activities. For entrepreneurs who wish to set up large-scale commercial farms, the government will make provisions for the availability of land, adequate infrastructure facilities, and streamlined and efficient land lease procedures. For those who want to rent land from other farmers for agricultural activities, the government will work out an efficient arrangement, which will safeguard the interests of all parties, concerned. Out-grower schemes will be encouraged between the small farmer and the private sector, especially in the case of high value crops.

The transformation of the agricultural sector from subsistence to commercialized production can be expedited by improving the primary markets for output, the retail trade for inputs and strengthening the market by involving agricultural co-operatives and the non-peasant private sector. This will bring about more competition in the market for fertilizers, improved seed, and other inputs resulting in a reliable supply and competitive prices which will contribute to improvements in the output both in terms of quality and quantity.

Diversification of outputs would be encouraged to maintain balanced supply. The production of high-value agricultural outputs for export will be particularly encouraged through extension programs and other appropriate incentives. Inputs like packaging materials help in the creation and promotion of brands. The certification of coffee as organic would add value to the coffee and give the product access to niche markets in many countries and increase the country's foreign exchange earning capacity.

Strengthening and expanding rural financial intermediaries is essential for the effectiveness of the marketization process. To this effect, options will be studied for building the capacities of rural MFIs by introducing a mechanism for injecting more resources from the formal banking sector.

The establishment of the warehousing system and the introduction of the post-harvest technology will help stabilize prices for marketing of agricultural outputs while at the same time minimizing post-harvest losses. The implementation of the warehousing system can also be integrated with the planned establishment of the National Agricultural Information System to further ensure price stabilization by creating wider market access. Furthermore, the warehousing system can also be used to introduce inventory credit schemes.

The establishments of commodity exchange centers where grades for different agricultural products are determined and quality standards set will further assist the price stabilization process. Many of the above programs, particularly the warehousing scheme create new opportunities for the non-peasant private sector.

8.4.2 Human Resources

The shortage of skilled/trained manpower is a serious problem in almost all sectors of the economy. Capacity building is clearly beyond the ability and means of the public sector institutions. Existing higher and vocational education institutions both in the public and private sectors have far less capacity than is required.

In recognition of the seriousness of this major constraint the Government designed the Technical Vocational Education and Training (TVET) to respond to the training needs of different segments of manpower demand. Besides ensuring the provision of high quality training at all levels, the organs that will be created to oversee and manage the TVET system will be in charge to coordinate the setting of standards, curriculum development, assessment and certification, manpower demand monitoring and training needs assessment, teachers training, quality assurance, financing etc.

In terms of vision, the objective of TVET is to provide appropriate and high quality technical and vocational education and training in all sectors at all levels and to all people in need of training. In order to achieve this, TVET will strive for integration of the formerly fragmented parts of TVET in Ethiopia and will coordinate all types of training: formal, non-formal, informal and different parts of the training: education, training and self-employment promotion in collaboration with all stakeholders: public and private institutions, NGOs, employers and the general community.

Private sector participants in this area are new entrants. As a result, they have limited coverage in higher education (14 institutions accounting for 15% of the total higher education student population). This is encouraging considering the short period experience of private participation in the sector. The Government will facilitate a faster increase in private sector capacity to play a meaningful role in the supply of the required human resource. To this end, the measures being pursued Government are presented in **Chapter VI “Capacity Building and Governance”**.

8.4.2. Knowledge, Information (ICT) and Technology

Knowledge/information has become a major decision factor in private sector development. Access to reliable and efficient information makes the difference between investing and not investing. Worldwide knowledge and information is a key factor for competitiveness. Both local and international markets function on the basis of information made available to them on daily basis.

The cost of access to knowledge and information is also important. Because the flow of information is on continuous basis, continuous connectivity is imperative. When the unit rate is high connectivity becomes out of reach for the bulk of the beneficiaries. A plan of action in the short-to-medium term for the availability of information and reduction in the cost of information/ knowledge will be in line with the objective of private sector development for poverty reduction.

The Government’s ICT plans in the short-to-medium will take into consideration the alleviation of constraints in this area and measures are outlined in the ICT Capacity Building sub-program of the National Capacity Building Program just referred to.

8.5. Export Sector Development

The Government recognizes the importance of exports for rapid and sustained economic growth, which is pro-poor. Agriculture is the only source of livelihood for about 85% Ethiopians who accounts for the majority of the poverty affected population. As the country's exports rely heavily on agricultural products that originate mainly from smallholder peasant farming, developments in the export sector will significantly contribute to reducing the poverty situation in rural households. Similarly, better performance in the country's agro-processed and manufacture exports

will reduce the incidence of poverty among the urban population through creating better employment opportunities and increasing the market for the actual and expected increase in agricultural production.

The enhancement of exports plays an important role in availing foreign exchange for the procurement of new technology and to achieve competitiveness in the international market. The availability of more foreign currency enables increased processing of agricultural raw materials for export enabling a higher number of people to live on off-farm activities. This will in turn lead to freeing land for fewer and more efficient users who can increase the rate of production. Furthermore, the introduction of high-value agricultural products for export will bring about diversification in the peasant private sector, increase household income, expand the market for both excess agricultural production and local manufactures and create more urban-rural integration and commercialization of the agricultural sector in the longer term.

In recognition of the above, profitable opportunities will be created for private sector-driven exports arising from:

- The production of high value agricultural products such as horticulture including cut flower and organic coffee,
- Production of high quality commercial crops,
- Increased/intensified processing of high quality skins/leather and textile garments,

In the manufacturing sectors, a new set of export trade incentive schemes covering credit guarantee, duty-draw-back, voucher system and bonded manufacturing warehouse, are aimed at enhancing competitiveness through relieving exporters from the burden of duties and taxes.

The export credit guarantee scheme which embraces pre-and-post-shipment credit guarantee and credit relief program is primarily aimed at encouraging export through alleviating pre-and-post-shipment and other temporary financing problems exporters may face.

The other important measures taken with the objective of creating an enabling environment for private sector development and promoting the export sector include, among others, the following:

- Foreign exchange retention scheme;
- Foreign supplies and loan scheme;
- Export price control replaced with ex-post price verification system, except coffee;
- Export duty on all commodities abolished except coffee;
- The devaluation of the exchange rate followed with the introduction of inter-bank foreign currency market and the determination of the exchange rate based on market forces;
- Re-discount window opened at the National Bank of Ethiopia;
- Export licensing regulation and procedure simplified;
- Strengthening and enhancing institutional support for the export sector through strengthening/revitalizing existing institutions and establishing new institutions: the Ethiopian Livestock Marketing Authority, the Ethiopian Leather and Leather Products Technology Institute and the Ethiopian Export Promotion Agency with a view to provide the export sector with strong institutional support on a sustainable basis; and
- Enhancing private sector development and private-public partnership through providing an enabling legal and operating environment, the promotion of effective industry associations and creating a forum for consultation between the exporting community and government.

The following are the envisaged interventions and strategies that are aimed at encouraging and promoting private sector development:

- Improve/amend regulatory implements and introduce new regulation that promote private sector development, including amending the Commercial Code, providing a legal framework for warehouse receipt system, overall contract enforcement regulations/procedures and providing appropriate legal framework for export brokerage;
- Encouraging smallholders through promoting out-grower and contract farming;
- Introduce modes of privatization of selected enterprises that would enable to divest them to entrepreneurs/managers with limited funds;

- Promote and provide enabling environment for aggregation of activities at the production and marketing level (marketing cooperation, strategic alliance, sub-contracting ...etc.).
- Enhance the promotion of the strengthening and establishment of industrial/trade associations including revising the existing law of chambers of commerce and the promotion of the establishment of national exporters association;
- Enhance public-private partnership through providing a forum for structured dialogue, strengthening the national export promotion council, encouraging the establishment of regional export councils and establishing commodity specific councils/committees;
- Promote the establishment of exhibition and trade fair centers and strengthen tertiary education in business and management.

8.6. Tourism

The tourism sector deserves similar attention like the export sector because of its potential of foreign exchange earning capacity. The Government has taken a number of steps to develop infrastructure including the construction of airports at the major tourist sites. It is also engaged in the restoration of major cultural and historical assets. However, further measures will be taken to address the low level of development facilities along the tourist routes wildlife protection and national park management as well as the low level promotion of the country's tourism potential.

The following measures are essential for the achievement of a meaningful growth:

- Preparation of site development plan comprising determined carrying capacities of sites, land use and implementation modalities to ensure a sustainable tourism development.
- Conduct study for possible introduction of a set of incentives for those engaged in tourist trade to encourage both local and foreign investors.
- Human resource development through short and long-term training by expediting the on going project to upgrade the existing Catering and Tourist Training Institute to a college level.
- Strengthen the capacity of the Ethiopian Tourism Commission to do more intensive promotion and provide effective support to those involved in the sector.

8.7. Developing the Manufacturing Sector

The manufacturing sector in Ethiopia operates at very low technological level well behind world technological standards even in the activities in which it specializes. Imports of licensed technology are negligible with no sign of increase. This may not be unusual in less industrialize countries. However, increasing the export of manufactures cannot be achieved without the rapid introduction of modern technology at least for those industries of comparative advantage aiming to produce for export.

The various policy reform measures taken during the 1990s brought about increases in the number of manufacturing enterprises and gross value of production. However, the manufacturing sector is still at its infancy and has a number of problems hindering meaningful growth.

During the period 1991/92 to 1998/99 the contributions of the sector to GDP and export earnings were on the average about 6.2% and 6.5% respectively. In 1998/99, the sector's foreign exchange earning covered only about 18% of its own requirements. The average annual imported input utilization for medium and large manufacturing enterprises during the above period was about 46% of their total input requirement.

Most of the enterprises are of the import substitution type and use old technology, low level of skill and management. The liberalization of the market in the early 1990's resulted in unfavorable competitive conditions as a result of imports of manufactured goods. Average capacity utilization fell to 60%.

Considering the importance of the manufacturing sector to the success of ADLI and the strategy for poverty reduction, the government has short-to-medium term programs to implement a comprehensive capacity building program to improve competitiveness by enhancing private sector institutions, human resource inputs, research and

development and the introduction of different schemes for capacity building. The components of this program are summarized below:

- Study and establish Industrial Zones as means for industrial development in various regional states of the country;
- Complete the implementation of the Leather and Leather products Technology Institute Project designed to enhance capabilities of leather and leather products industries;
- Complete the implementation of Garment Training Centers project designed to provide support to Textile and Garment industries;
- Devise and implement training programs for managers and technicians both in the country and abroad, establish business incubation and training centers for micro and small enterprises in selected regions as a means of encouraging business start-ups and entrepreneurial development, improve local consultancy service capacity to accelerate and encourage the efficient delivery of quality consultancy service to the manufacturing sector, and establish sub-contracting mechanisms to create technology and know-how sharing among domestic enterprises and with foreign counterparts;
- Establish a National Network of Information System and ensure the flow of industrial information among different users in different regions and introduce quality management system to equip selected enterprises with quality management capabilities and establish quality accredited certification centers, and the improvement of National Standards Regulation System;
- Establish a Research and Development Institute starting with the processing industry to upgrade the efficiency and productivity of the food-processing sector;

The Government would also look into other areas, which are relevant for the growth of the manufacturing sector such as the introduction of incentive mechanisms for resource-based industries engaged in the export sector. This can include the modernization of the technological base through transfer arrangements, provision of credit, the establishment of industrial estates and other support schemes.

8.8. Developing the Mining Sector

The development of the mining sector is very important for domestic resource based industrial sector development; export diversification and generation of employment opportunities. Based on the mineral prospecting and exploration works conducted so far, placer gold, primary gold and tantalum deposits have already been under development. In addition, to the employment opportunities created by gold and tantalum mining operation, the country is earning quite sizable amount of foreign currency every year. The contribution of gold and tantalum to the total export value of the country for the FY 2000/01 was 5.9%.

Apart from construction minerals, industrial minerals such as kaolin, soda ash, diatomite, bentonite, silica sand, pumice, gypsum and others are also being used as raw materials by local industries. The mineral water resource of the country is on exploitation for years and contributing its part.

The mineral exploration, development and production works being carried out in different parts of the country by the private sector and government institutions have created job opportunity for significant number of Ethiopians. Studies also indicate that 200 to 300 thousand people are engaged on artisan (gold and salt) mining in different parts of the country.

Generation of a basic geological data is of paramount importance for any country as a critical input towards the development of mining, water resources, agriculture, infrastructure development specifically dams, tunnels, highways etc. Geological information is also very important for assessing and delineating natural hazard areas such as landslides, earth quakes, flood plains and to study soil conditions which provide valuable information prior to the execution of major projects.

Thus, building the geological database on mineral occurrence, building regulatory capacity as well as attracting private sector investment will have considerable contribution towards realizing the potential of the mining sector.

8.9 Institutions

8.9.1. Public-Private Consultative Forum

A significant move has been made both on the part of the Government and the private sector for constructive dialogue concerning the way forward to bring about rapid and a pro-poor economic growth in which the importance of the role of the private sector is fully understood. The establishment of the Public-Private Consultative Forum, bringing together high-level Government officials and representatives of the private sector is a major step forward.

The Government reaffirmed its commitment to take the private sector as a development partner. The Government's concern that business should be value creating rather than rent seeking will be understood and accepted as the basis of the partnership. Continued dialogue will result in mutual understanding and trust. This will help both sides to achieve their respective objectives as there cannot be sustainable private sector development in the context of escalating poverty, there cannot be a sustainable program to reduce poverty without the participation of the private sector. Recently conducted consultation workshops clearly brought to light this strong premise of understanding between the Government and the private sector.

8.9.2. Institutions Giving Services to the Private Sector

Institutions involved in giving services to the private sector are the Ethiopian Customs Authority, the Ministry of Revenues, regional trade and tourism bureaus, the Ethiopian Investment Authority, the Ethiopian Privatization Agency, Coffee and Tea Authority, Livestock Marketing Authority, the Federal Micro and Small Enterprise Development Agency (FeMSEDA), Regional Micro and Small Enterprise Development Agency (ReMSEDA), and others.

The above institutions require capacity building not only in their functional areas but also to develop and nurture pro-business attitudes. Of particular importance are FeMSEDA and ReMSEDA. The two agencies play important roles for micro and small enterprise development and will be strengthened both in know-how and logistics.

8.9.3. Institutions of the Private Sector (Chambers and Sectoral Associations)

Private sector institutions are important partners for the implementation of the various reform measures the Government is planning to introduce. Moreover, an effective link between the Government and the private sector can be practical only if the private sector institutions are enabled to reach out to their members and disseminate the spirit of Public-Private partnership in development, educate their members about good business practices including adhering to government regulations.

Strong chambers are instrumental in the establishment of trade and professional associations as catalyst organizations that help disseminate information and knowledge to private enterprises. Such associations play an important role in monitoring and maintaining standards, educating their members about laws and regulations that affect their operations, information on local and international markets and the application of new technology. In this regard, the draft proclamation will be finalized and put through the approval process to create improved legal framework for strengthening institutions of the private sector.

IX. Vulnerability and Response Capability

In the Ethiopian context, a host of factors contribute to the vulnerability of households and individuals. Ethiopia has suffered from frequent disasters such as drought, famine, epidemics, flood, landslides, earthquakes, civil war, and mass displacement. In particular, millions of lives have been affected by drought for several decades. Very huge amounts of resources have been deployed in the form of relief, which has saved many lives.

9.1. Domestic Shocks & Disaster Prevention and Preparedness

Based on lessons drawn from past experiences of relief operations for domestic shocks, a shift in policy direction was made with the National Policy on Disaster Prevention and Management (NPDPM), launched in 1993, which introduced a new approach on the utilization of relief resources based on prevention and preparedness. Prior to the issuance of the policy, relief resources were distributed directly to the drought-affected population on free hand out basis. On the contrary, the new approach has discouraged free relief distribution to the able-bodied population with the aim of integrating the relief resources with development interventions.

Several of the most important elements of the Disaster Prevention and Management policy are the Early Warning System (EWS), established to monitor and give warning of disasters ahead of time, the Emergency Food Security Reserve (EFSR), and the National Disaster Prevention and Preparedness Fund (NDPPF).

9.1.1. Strengthening Emergency Response Abilities

The main purpose of this activity is to undertake studies, which help understand the extent and nature of vulnerabilities to disasters. The vulnerability study has a dual purpose of improving early warning activities and at the same time helping in the planning and implementation of food security programs, which ultimately help reduce or eliminate vulnerabilities.

The study has three components: First, to prepare vulnerability profiles for districts (*woredas*) prone to chronic food shortages, Second, is to undertake research on selected topics to investigate the factors that render communities vulnerable. Ultimately this may help introduce more effective ways of using food resources to target vulnerable population and reduce their vulnerabilities to shocks. Third facilitate the design of response packages to the vulnerable communities.

Major activities include the following:

- Identify areas and population groups that are vulnerable to particular hazards/risks and the reasons for such vulnerability;
- Generate adequate information on specific characteristics of at-risk population, causes of vulnerability and options for undertaking prevention measures;
- Provide accurate and timely information on levels and trends in vulnerability to disaster;
- Understand how people and communities cope with or withstand shocks and hazards and reduce their vulnerability; and
- Strengthen development policies, interventions and response mechanisms.

The plan was to first undertake a pilot study covering 16 *woredas* in 4 regions and subsequently to be expanded to other 64 *Woredas* based on the findings of the pilot exercise. Accordingly, the pilot phase was completed recently and preparations are underway for the expansion.

Besides the development of the vulnerability profiles of the drought-prone areas, parallel effort has been made to undertake research on specific topics, which further help understand the root causes of vulnerabilities. Currently, two research works are underway. The first is a study on “Vulnerability to Epidemics, Prevention and Preparedness” which is nearly at its final stage. The Ethiopian Health and Nutrition Research Institute (EHNRI) have undertaken it. It is expected that this research would address the major epidemics in the country, their severity and geographic distribution as well as prevention and preparedness mechanisms. The other research work is “the

Analysis of Drought Forecasting Capability in Ethiopia” by the National Meteorological Service Agency (NMSA). This study is just starting and is expected to contribute to our understanding of drought monitoring and forecasting methods in the country.

9.2 HIV/AIDS

HIV/AIDS is a growing new source of vulnerability with serious impact on the effort being made to enhance growth and poverty reduction. Accordingly, measures have been included in SDPRP to address the problem through a multi-sectoral approach to HIV/AIDS.

9.3. External shocks

These are shocks transmitted through international prices for our exports, which are dominated by primary agricultural products of which coffee accounts for the lion's share. Coffee prices have been plummeting during the last four years. The government has taken a number of measures to minimize the impact of the decline in world coffee prices, including suspending taxes on the export of coffee, easing restrictions on domestic coffee sales and advising farmers to bring their crop to market (as there has been no immediate prospect for prices to recover). By way of dealing with export instability from medium and longer-term perspectives, the government has also launched an export promotion strategy anchored on diversification as a way of addressing vulnerability transmitted through international prices for our exportables.

9.4. Ethiopian Social Rehabilitation and Development Fund

The Ethiopian Social Rehabilitation and Development Fund (ESRDF) was established following the positive performance of the earlier pilot program, the Ethiopian Social Rehabilitation Fund (ESRF), which was carried out from December 1992 to December 1995 under the Emergency Recovery and Reconstruction programme (ERRP). The ESRDF started its operations in July 1996.

The ESRDF promotes small-scale projects that use low-cost and easy-to-maintain technologies that are appropriate for direct community participation. Its areas of intervention include: Education, Health, Water Supply, Basic Irrigation, Basic Capacity Building, Rural Agriculture, Small Scale Training and Environmental Rehabilitation.

A total of 22.4 million people are estimated to have benefited from ESRDF's interventions. About 50% of the total beneficiaries were women. These benefits take the form of increased income, new service facilities, empowerment, and enhanced capacity. Furthermore, it is believed that the Fund has contributed significantly in creating conditions conducive for long-term development.

Given the enormous demand for infrastructure, ESRDF has largely focused until now on the expansion and rehabilitation of existing infrastructure. The second phase will offer an opportunity to shift the emphasis via charting new territories and piloting innovative mechanisms. Some of the new intervention areas to which ESRDF is currently expanding are integrated *Woreda*-level community based initiatives and support for income generating projects. In a decentralized federal structure, the poverty reduction agenda of ESRDF will require a longer time frame as the pace of implementation among regions is expected to vary widely owing to differences in institutional capacities.

9.5. Emergency Recovery Program (ERP)

ERP is an intervention program designed by the Ethiopian Government to mitigate the human, social, and economic crises, which have resulted from the Ethio-Eritrean conflict. In addition to the human loss and displacement, residential houses and socio-economic infrastructure was damaged due to the conflict. The Program consists of two projects, namely the Emergency Recovery Project and Emergency Demobilization and Reintegration Project.

The major objectives of the Emergency Recovery Project are to help the war-affected people rebuild their lives and resume productive economic activities; to reconstruct and rehabilitate destroyed and damaged infrastructure; and restart provision of services.

The Emergency Demobilization and Reintegration Project is aimed at reducing the size of the National Defence force to release human and financial resources for development purposes. So far (as of April 30, 2002) the total number of demobilized veterans in two phases has reached 137,980.

X. Cross Cutting Issues

10.1. Environment and Development

Demands on natural resources often deplete those resources, and, especially when not managed well, disturb the local ecosystems, causing general land degradation. During their extraction, local transportation, processing for value addition and exportation to other countries, additional environmental degradation, and in particular pollution, occurs to varying degrees. People, in their attempt to survive, are forced to disregard the long-term well being of the environment and thus degrade it further. Environmental degradation and poverty are thus interactive leading into a spiral of environmental and human calamity.

The Environmental Policy of Ethiopia, which was extracted from the Conservation Strategy of Ethiopia (CSE), was approved on April 2, 1997 by the Council of Ministers. The CSE and thus also the Environmental Policy is the result of seven years of consultation and data collection and analysis.

The Environment Policy of Ethiopia states:

“The overall goal is to improve and enhance the health and quality of life of all Ethiopians and to promote sustainable social and economic development through the sound management and use of natural, human-made and cultural resources and the environment as a whole so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs.”

It includes policies and strategies on 10 sectoral and 10 cross-sectoral issues. These have been checked for consistency with other government sectoral and thematic policies and strategies. The CSE resulted in the establishment of the Environmental Protection Authority (EPA) as an autonomous government agency responsible for harmonizing environmental protection and economic activities so that both economic and environmental improvements become sustainable. It also gave rise to the Regional Environmental Coordinating Committees that oversee environmental protection in their respective regions, drafted laws on overall environmental regulation, environmental impact assessment (EIA), and pollution control. Procedural and sectoral guidelines for EIAs have also been developed. The implementation of these guidelines through the EIA law will enable the integration of environmental concerns into development planning, thus pre-empting environmental deterioration, and contributing to improved land management and food self-sufficiency. Land degradation aggravated by soil erosion and loss of soil fertility, deforestation and overgrazing with their concomitant impact on the loss of bio diversity, water resource degradation are challenging environmental problems of Ethiopia. Water pollution especially in urban and sub-urban areas as well as pollution brought about by reckless disposal of plastic bags has also become a growing environmental problem

The Regional Conservation Strategies are being integrated into the five-year development plan of some of the Regions, indicating Regional States' commitments to allocate resources for environmental management. Moreover, some regions have also started establishing environmental agencies to oversee environmental affairs of their respective Regions. Oromia, Amhara, and the Addis Ababa City Administration have already established their respective environmental agencies. Some of the Regions have also issued environmental proclamations and formulated standards. The Environmental Protection Bureau of the Addis Ababa City Administration has established an environmental laboratory and research center.

Based on the Conservation Strategy of Ethiopia, a new Ecologically Sustainable Industrial Development (ESID) initiative is under way in collaboration with EPA and UNIDO. The EPA has also supported Regional States in formulating and implementing their respective Regional Conservation Strategies (RCS). The assistance includes training, awareness rising, and provision of equipment, among other activities.

But land degradation and other environmental problems cannot be effectively tackled at the individual homestead level. Therefore, the Environmental Policy's focus is action at the local community level. It starts from the premise that local communities have an innate motivation to use the environment sustainably, but that the motivation can surface only if full participation and autonomy of decision-making are assured. This local community autonomy in decision-making on the rehabilitation and sustainable use of environmental resources will be greatly strengthened by the implementation of the CSE by the relevant federal and regional agencies and the public at large.

Priority areas of action in environment and development include the following:

- a) Strengthen and expand on-going efforts to address the critical problem of land degradation with its attendant problems of deforestation, overgrazing, soil erosion, loss of soil structure and hydrological cycle disruption; priority to highly degraded, drought prone, food insecure areas.
- b) Strengthen regulatory and institutional capacity.
- c) Strengthen measures under implementation to preserve, develop, manage and sustainably use biodiversity resources.

Given the multi-sectoral nature of environmental issues, public sector (federal, regional), private sector, non-governmental organizations will have to be sensitive to environmental policy and conservation strategy of Ethiopia in conducting their development activities. In this regard, the Environmental Protection Authority (EPA) will play its facilitating and regulatory functions effectively. The EPA will make sure that different development actors comply with environmental Impact Assessment as well as Environmental Pollution Control proclamations. To do this and other functions given to it EPA's institutional capacity will be strengthened.

10.2. Population and Development

Among the most noticeable demographic features of Ethiopia are high rates of population growth, high fertility, and high mortality rates. According to the medium variant projections of the Central Statistical Authority (CSA), the population of Ethiopia is estimated at about 65.3 million in 2001. At the current estimated annual rate of population growth (about 2.7%), it is projected that the country's population will reach 73 million by the year 2005. Infant mortality rate was 97 deaths per thousand live births in 2000. It is estimated that Ethiopia had a life expectancy at birth of 52 years for both sexes in 2000/01.

Recognizing that population plays a decisive role in national and individual development, especially in terms of sustainable development, the Government of Ethiopia launched a National Population Policy in April 1993. The objective of the Population Policy is to maintain balance between the size of the population and the country's resource base. To this end, the strategy will focus on high fertility rates, which in turn are strongly influenced by the low education status of women and high infant and child mortality rates. On this account, the main contributor to a reduction in the population growth rate will be an increase in girls education, as envisaged in the education sector program, as well as an increase in the level of mother and child health care provision, including family planning services.

The Policy specifically calls for:

- Reducing the total fertility rate to 4 percent by the year 2015;
- Increasing the contraceptive prevalence rate to 44 percent by 2015 and Reducing maternal, infant and child morbidity and mortality rates.

In line with these objectives, the policy identified four major areas of population activities requiring priority attention. These were:

- a) Improvements in the quality and scope of reproductive health service delivery;
- b) Population research, data collection and dissemination;
- c) Expansion and strengthening of domestic capacity for training in population; and
- d) Expansion of IEC activities and social mobilization.

10.3. Gender and Development

In almost any country, women and men have different access to critical economic resources and varying power to make choices that affect their lives, as a consequence of the state of gender relations that exists in a given society. The direct result of this is seen in the unequal roles and responsibilities of women and men. Core dimension of poverty (opportunity, capability, security/risk, and dis/empowerment) differ along gender lines, and function to heighten the vulnerability of women. For these reasons, the inclusion of gender in any effort to alleviate poverty is non-negotiable.

The government of Ethiopia is committed to eradicate poverty, particularly addressing its gender dimension. Over the last decade the government has renewed its commitment to address the gender inequalities that deter long-lasting change and equitable development. Apart from endorsing the National Policy on Ethiopian Women, the government has created supportive constitutional provisions to establish women's equality with men. **One of the key objectives of the policy is "Facilitating conditions conducive to the speeding of equality between men and women so that women can participate in the political, social and economic life of their country on equal terms with men and ensuring that their right to own property as well as their other human rights are respected and that they are not excluded from the enjoyment of the fruits of their labour and from performing public functions and being decision makers".**

The Women's Development Initiatives Project (WDIP) is an example of an initiative that offers particularly poor women in rural settings critical economic opportunities to help fight their desperate situation. Recent changes in the family code, and attempts by the sector ministries, commissions, and authorities to institute sectoral policy guidelines to address gender issues within their operational framework, have resulted in an improvement in the policy environment and programmatic directions. However, over time it has been observed that progress in women's lives is not proportionate to the progress made in the policy and legal environment. This calls for expediting the socio-economic development process with the required gender sensitivity.

Women are a critical component of the rural economy and are engaged in agricultural production. They contribute significantly to off-farm production/employment, cash and food crops, subsistence farming, and reproduction of male agri-labour forces. Nonetheless they lack adequate access to extension services.

The level of education attained has had a direct bearing on poverty. The literacy rate in general and that of women in particular is far away from what the government of Ethiopia wishes to achieve. Women's education is one of the important aspects of their self-development, and is closely related to their participation in productive activities, control over their own life and body, the education of their children (particularly daughters), and their negotiation ability vis-à-vis institutions and men. Expediting the implementation of ESDPII is going to be given the utmost emphasis.

The government of Ethiopia recognizes the need for gender sensitivity of the health system for equitable development. Addressing existing biases within the health system is extremely important, and the government is committed to further strengthen the implementation of Health Sector Development Programme.

Women have greater vulnerability to HIV/AIDS than men because of epidemiological, biological and socio-cultural reasons. Strengthening and devising mechanisms for implementation of gender responsive HIV/AIDS prevention and community level coping measures will be taken by the National HIV/AIDS council and secretariat. These include activities ranging from awareness creation/raising, information delivery methods and system, availability of counseling services, peer group education, laboratory set-up, gender sensitive human resources development, challenging social taboos, training, and research.

Building on the efforts so far made in the various sectors, the following measures will be strengthened and/or taken to enhance the participation of women in development as well as their benefits from development.

a) Food Security and Agriculture

- Promotion of multi-package extension programme responsive to area specific production needs of rural poor women: livestock production, skills training in forestry, soil conservation, agriculture and horticulture, etc
- Strategic move towards creating material conditions for off-farm entrepreneurial activities in various areas including drought prone regions (skill development with greater market demand and higher profit margins, access to information on financial and input services, supporting infrastructure, transport, marketing, management etc.)

- Initiatives and measures to ensure minimum transport needs of female rural farmers (carrying goods and produces to and from the market, carrying water and firewood). This will contribute not only towards increasing female farmers' efficiency but also to ease women's labour burden. This will be attained through the implementation of the rural roads as well as rural travel and transport program.

b) Education

- Sustainable investment in basic education services focused on increasing enrolment and retention of girls through expediting the implementation of ESDP.
- Expansion of non-formal education in collaboration with the Non-governmental Development Organizations (NGOs),
- Take measures to minimize barrier to girls' education. A multi sectoral approach will be adopted and effected and active partnership and collaboration with communities, NGOs and the religious communities will be encouraged and nurtured to gradually remove socio-cultural harmful practices.
- The curriculum and accompanying material such as textbooks, teaching guides, teachers' training guides that are used at various levels will continue to be reviewed to remove gender biases both in content and illustrations.
- Guidance and counseling services will be strengthened to help female students cope up with problems they encounter in the process of education.
- Media (local and mass) campaign to encourage and mobilize parents, girls and their families to sending them to school.

c) Health

- Priority and sustainable investment in basic health services with focus on accessible and appropriate reproductive health care through expediting the implementation of HSDP.
- Annual planning exercise of the sector will be informed of women's health issues and concern. Research assessment and evaluation of programmes and achievement will include gender consideration and differential impact as standard criteria.
- Creating improved access of women and girls to information on health, reproductive health, service delivery system and sources.
- Measures (social mobilization and opinion creation, enforcement of laws) targeting reduction of VAW and HTPs, which affect women's health (physical and psychological) to a great extent.

d) Enhancing Political Participation of Women

- In order to widen the participation of women in rural development, it is necessary to increase their political participation as well. Various strategies will be used to increase their participation to kebele councils and committees (e.g. water committees). However, unless men's attitudes in this respect are substantially changed, one cannot go very far in achieving these objectives simply by using different technical approaches. Hence, not only policy and administrative measures but also attitudinal changes are necessary to enhance the political participation of women.
- Women's associations to be organized at kebele level are expected to make a significant contribution to the political and development participation of women and the benefits they derive from such participation. Through these associations, women may be able to obtain technical and credit services as well as exchange of views and experiences. Through them, they can discuss problems encountered in political or economic

participation and find common solutions to them. Thus, organization and strengthening of women's association will be given priority.

e) Confronting Harmful Traditional Practices

- Facilitate discussion on and increase public awareness on harmful practices such as early child marriage, FGM, abduction etc which continue to hinder the health, education and overall livelihood of girls and women.
- Engage in broad consultations (communities, elders, church) on traditional taboos and practices that limit the development of women's capability, their public participation and their ability to access livelihood resources. Such taboos and practices include false and poverty causing beliefs about what women can and cannot do, about where women should or should not go or speak.

f) Reducing Women's Work Load

- Continue to invest in areas that contribute to reduce women's heavy workload-such as water supply services, flour mills, energy, food preparation etc. Such investment is very important because women's myriad responsibilities ranging from house management, to productive activities to child care stand in the way of progress. It limits their acquisition and or full implementation of new knowledge, hampers the education of their children especially daughters, limits their income, affect their health and their participation in development and political activities.

g) Strengthening the Legal Environment

- Continue the effort of harmonizing the discrepancies between constitutional rights and subordinate legislation.
- Review and amend the criminal laws and procedures in order to provide women the protection to which they are entitled as citizens, regardless of any relationship between the perpetrator and the victim.
- There is also a great need for enactment of legislation on violence against women to guarantee women, and their children the basic human rights of personal security and freedom from violence.
- Access to legal literacy and legal aid services for women including information on the resource and remedies available to them when their rights are violated.
- Interpretation and application of laws by taking into account the systemic and systematic nature of discrimination against women; and institutionalized training and sensitization of police, public prosecutors and judges to overcome their biased attitude and reluctance to effectively protect the rights of women.

10.4. Urban Development and Management

10.4.1. Overview of the Status of Urban Ethiopia

Although Ethiopia is one of the most populous states in Africa, surpassed only by Nigeria and Egypt, it is also one of the least urbanized African States. According to the Central Statistical Authority's estimate, the level of urbanization reached 17% in 2002. However, this level is expected to reach nearly 30.1% by the year 2020, as the urban areas are currently growing at around 6% per year.

Increasing urbanization presents a major issue of concern given that the process of rapid urbanization is taking place not only in Addis Ababa but also within secondary cities across the country. The effects of natural population growth and growing rural-urban migration have been felt in terms of poor urban management, lack of infrastructure, and inadequate service delivery, all of which are typical of urban poverty.

Drought and war have also contributed to the high population influx into cities and towns, which in turn contributed to the deterioration of infrastructure and services. Slow economic growth and the low level of investments in urban centers, combined with high population growth, has resulted in high rates of unemployment and the inaccessibility and inadequacy of existing services for low-income groups, which further exacerbates urban poverty.

Thus, meeting the ever-increasing demand for public service delivery, particularly in urban areas and surrounding rural hinterlands has become a challenge for Ethiopian municipalities. The Government has increasingly focused its attention on the needs of Ethiopia's rapidly growing urban population. For a variety of historical reasons, municipal governments were not adequately integrated into the larger legal and accountability framework of regional governance, and therefore, have been limited—in providing essential services to their residents—by their ability to raise own-source revenues. Shortages skilled personnel have also hampered municipal performance.

Furthermore, the majority of Ethiopia's *Woredas* share jurisdictions with municipalities, and therefore requires a more systematic approach to coordination and harmonization between these two forms of local government. In addressing the needs of municipal government, the Government has prepared an *Urban Management Sub-program* in the context of the National Capacity Building Program (NCBP) to establish an appropriate framework for urban government through the development of a legal framework for municipalities within each region, the restructuring and staffing of municipalities, the mobilization of financial resources (both own-source and transfers), strengthening of planning and management capacity, and improvements in land management and basic service delivery.

10.4.2. Strategic Actions to Enhance Urban Development and Management

a) Strengthening Urban Governance

The government has developed capacity building strategy for urban development and municipal local governments.

Measures aimed at strengthening urban governance include:

- Formulate urban Development Policy
- Design urbanization strategy
- Mobilization and efficient management of municipal financial resources;
- Strengthening urban planning and management skills,
- Improvement of delivery of municipal services; by redefining their legal framework; rationalization of organizational structure and staffing of municipalities

These are being addressed through the urban management Capacity Building Program. The objectives, interventions, and expected out comes of the urban management capacity building program is provided in the chapter on Ethiopia's Capacity building presented in this document

b) Infrastructure Provision

- Upgrading the existing old and dilapidated houses and infrastructures with full participation of the beneficiaries.
- Awareness creation and networking in community involvement with regard to the construction and management of neighborhood level infrastructures, has to be promoted.
- Designing pilot infrastructure programs by which infrastructure standards and management approaches are experimented and replicated to suit income and aspirations of the poor.
- Constructing and improving various infrastructures such as markets, roads, drainage, sewerage systems and sanitation projects that increase accessibility in low-income settlements.

c) Housing

Most of the housing problems are directly or indirectly related to affordability either to buy construct, or rent a house, from the market. Therefore, to alleviate and mitigate the extent of such housing problems, the following strategic actions are envisaged:

- Formulate Housing Development Policy

- Conduct housing cooperative study with the view to promote the development of housing co-operatives.
- Improve housing affordability via introducing appropriate housing standards that consider local resource capacities and requirements.

d) Land Management

Since land is a crucial element for all development engagements; appropriate land provision mechanism and overall management system is expected to enhance poverty alleviation programs by facilitating land lease management. Strategies to be pursued include the following:

- Land acquisition criteria will be revised to improve access and affordability.
- Prepare and enforce guidelines to resolve the problems of illegal occupation of urban land.
- Conduct land supply improvement study
- Conduct land valuation study.

e) Strengthening Employment Opportunities

Owing to the economic situation and high population growth in urban areas, unemployment is increasingly growing. Therefore, to alleviate this problem, the following strategic actions will be taken:

- Design and implement extensively employment generation public works program through cash-for-work or food-for-work.
- Provide vocational and skill-training programs that enable to promote self-employment and job creation.
- Promote Micro finance institutions in urban centers. Facilitate access to working capital by promoting the establishment of community-managed savings, and credit comparatives, micro finance institutions and community support mechanisms such as “*idir*” and “*iqub*”.
- Promote community based rehabilitation programmes for disadvantaged groups (elderly, handicapped, commercial sex workers, street children, orphans etc., with full participation of target groups and the surrounding communities, CBOs and NGOs.
- Promoting activities that are usually done by urban authorities and yet undermined by the community (e.g. house to house solid waste collection and recycling), to be handled by unemployed citizens.
- Beggary, which is recognized as a means of income earning among the urban healthy, and working poor should be discouraged and stigmatized, by designing alternative employment opportunities.
- Explore and promote self-employment schemes such as self-Employment & Enterprise Development Systems (SEEDS) in cooperation with NGOs and CBOs. Also explore the possibility of transforming traditional means of support "Zaka" of Muslim communities, alms given to poor people in churches, people giving coins in the street, expenses for remembrance of friends/relatives who have died (TESKAR) into a Fund to create employment for the very poor, street children, orphans, commercial sex workers. This requires changes in outlook, community mobilization, and religious leaders CBO and NGO participation.

f) Urban Environment

- Avoid health hazard situations by improving the volume of clean water supply, rehabilitate and construct new sewerage system, storm drainage system and other sanitary facilities.
- Create community awareness and participatory environmental programs.
- Design appropriate solid and liquid waste management systems. Specially develop policy on urban sanitation with clear guidelines detailing the roles and responsibilities of households, communities, kebeles and municipalities.
- Promote soil conservation and urban forestation programs, which helps to protect the environment as well as labour based employment generation.

10.5. HIV/AIDS, Development and Poverty Reduction

AIDS is primarily an adult disease with significant demographic impacts. AIDS directly reduces the size of the economically active population. HIV/AIDS leads to falling labour quality and supply, more frequent and longer periods of absenteeism, losses in skills and experience, resulting in shifts towards a younger, less experienced workforce and subsequent production losses. These impacts intensify existing skill shortages and increase costs of training and benefits. HIV/AIDS is already putting a brake on economic growth in the worst affected countries through diversion of investment, deficit-creating pressures on public resources, and loss of adult labor and productivity,

10.5.1 Overview of the Status of HIV/AIDS in Ethiopia

Ethiopia is one of the Sub-Saharan African countries where the HIV/AIDS infection is high. For every thirteen adults one estimated to be infected. In urban areas, more than one out of every six adults are estimated to be infected. However, there are only 83,487 cases of AIDS reported to the Ministry of Health since the beginning of the AIDS epidemic in 1986 through June 2000.

The first HIV survey was carried out in 1982, and no infection was revealed in the urban population until 1984. The first two HIV sero-positive samples were detected in 1984 while testing a collection of sera from 167 hospital patients in Addis Ababa. In 1986 four positives were found among 5,265 samples of sera taken from army recruits. In a second group of recruits, tested in 1987, 0.9% were positive. Testing multi-partner sex contact (MPSC) females, and males attending STD clinics in Addis Ababa in 1986 showed an HIV-1 prevalence of 6.7% and 1.4%, respectively. Another study on MPSC females in 1986 showed prevalence of 2.7%.

In 1989, a sero-epidemiological survey including a representative sample of 6,234 female sex workers in 23 towns of the country aside from Addis Ababa showed a prevalence that ranged from 1.3% in Mitsiwa¹³ to 38.1% in Dessie, with an average for all the towns being 17%. HIV prevalence estimated among the antenatal clinic attendants of Addis Ababa in 1996 was 16.4%. The prevalence was higher (20.7%) in the younger age group (15 - 24 years). In the year 2000, it was estimated that there were about 2.6 million people infected with HIV. Most of those infected already are unaware of their status and so represent a pool capable of transmitting the virus to uninfected individuals.

10.5.2 The Link between HIV/AIDS and Poverty

It is now made clear by various studies that HIV/AIDS worsens poverty situation both at the individual, household and community levels as well as at the level of the national economy. On the other hand poverty increases people's vulnerability to HIV infection.

The increase in morbidity and mortality rates as a result of the spread of HIV/AIDS leads to decreased use of time for production purpose and consequently to decreased production and productivity which will eventually drive the entire community to poverty.

10.5.3 Overall Impacts of HIV/AIDS

The impacts of HIV/AIDS on the individual, household and community is ultimately felt at the level of the over all socio-economic setting. Though overlapping the impacts could be grouped in the following categories: demographic impacts; economic impacts; impact on social service provision and; social impacts.

The demographic impacts of AIDS is primarily expressed in the change of death rate which will result in alteration of the population structure which means changes in the way societies organize themselves. According to MOH, the cumulative number of AIDS death since the beginning of the epidemic was estimated at about 1.2 million in 2000. The figure is expected to reach 1.7 million this year. Between 2002-2014, an additional 3.5 million Ethiopians are likely to die from the disease resulting in a cumulative total death of about 5.25 million by 2014 if present trend continues (MOH, 2000)

¹³ Mitsiwa is a port town of Eritrea.

As the highly affected age group is that part of the population, which is in the economically active age group, higher death rates in these age groups will obviously result in increased dependency ratio. This means a small number of young adults - the group that has traditionally provided care for both children and elderly - will have to support large number of young and old people. The number of old people and children /dependants/ remains the same while the number of breadwinners declines either due to higher death rate or due to former breadwinners becoming themselves dependents as a result of inability to engage in economic activities due to ill-health.

Perhaps the most sensitive of all impacts of AIDS is its **economic impact**, which is directly linked with issues of economic growth and poverty reduction. The most significant and visible macro level economic impact of HIV/AIDS is the impact on output or Gross Domestic Product (GDP). As has been discussed earlier, HIV/AIDS results in reduced production and productivity of the infected individual, of the household where the victim belongs and of the community. The reduced production and productivity at all levels sum up to reduced output of the country which for a country like Ethiopia where the total output even without AIDS is too low is obviously a blowing issue.

Discouragement to investment opportunities is another impact of HIV/AIDS on the overall economy. With high prevalence in the number of PLWHA and inaccessibility of antiretroviral therapy either due to their absence or unaffordability to the vast majority of the population, it is obvious that the morbidity rate will be high which in turn discourages investment and will end up in frustrating any future development endeavors the country will aspire for.

HIV/AIDS will also put a significant pressure on the country's limited foreign exchange reserves. As the epidemic accelerates, the country will be forced to import more and more of antiretroviral drugs which will certainly crowd out other imports of the country in a situation where the foreign exchange generating capacity of the economy shows no sign of significant improvement.

One can further look at the impact on agriculture and industry, which enables to show the link between HIV/AIDS and poverty. The current level of 5% prevalence among adults in rural Ethiopia obviously poses challenge to the agricultural sector. This challenge if left unchecked will affect the entire population at an accelerated rate.

In the Industrial sector a survey of 15 firms in Ethiopia has shown that, over a five-year period, 53% of all illness among staff were AIDS related. UNAIDS(2001) on the other hand revealed that during the four years, between 1997-2000 financial expenditure of Akaki Fiber Products Factory attributable to HIV amounted 244,960 Birr out of which 104,617 (42.7%) was accounted for by lost productivity while 116,350 (47.5%) was expenditure on medical care and sick leave. Such a situation which probably holds true for all industrial enterprises increased absenteeism of workers from work place and increased expenditure associated with HIV/AIDS not only affects the effective performance of the existing industrial enterprises but discourages investment from going to this sector thus being an obstacle to expansion of employment and poverty reduction.

In the social sectors, the indication so far is that HIV/AIDS is more than challenging the health sector and the achievements made in this area in various ways. This challenge on health and health service provision is of primary importance in analyzing the issue of HIV/AIDS and poverty. A study covering five hospitals in different parts of Ethiopia has revealed that the total cost of health service provision of Ethiopia between 1997-2006 at the low cost scenario to be 32-49.4 million USD depending on the discount rate used and at high cost scenario to be 225.6-368 million USD. The study further goes to show that the per capita patient cost is 12.03 USD for outpatients and 22.64 USD for inpatients at low cost scenario while the respective figures are estimated to be 41.3 and 197.03 USD under the high cost scenario, which is a very big burden to the health sector in particular, and the economy at large. The study also estimated the additional capital expenditure for AIDS in Ethiopia over the same period at 52.7 million USD (Kelle 1998)

The rapid increase in the number of AIDS cases throughout the country results in clear crowding out of patients suffering from other conditions as they have to compete for the limited health service facility available. According to MOH sources, AIDS patients occupied as much as 42% of all hospital beds during the year 2000. This figure is expected to be 54% by 2004 (MOH 2000). Such a trend will obviously raise the mortality rate caused by other curable diseases among HIV-negative patients as a result of untimeliness of or even being unable at all to get medical care.

AIDS is currently causing death not only to those who are infected with the virus but also to the uninfected, with its indirect health impact. Tuberculosis, the leading cause of death among people with HIV infection is threatening those not infected with HIV. With a greater number of HIV-positive people developing active tuberculosis, there is also a greater risk that the tubercle bacillus will pass to others in the community.

The impact of HIV/AIDS on education can be seen from two viewpoints. Namely, the impact on enrollment and school attendance and the impact on education service provision *per se*. In other words, this is the demand for and supply of education. Much cannot be said on impact of HIV/AIDS on education service in Ethiopia since it is not yet well studied.

It is understood that treating HIV/AIDS apart from development activities can no more bring nationally envisaged result in a sustainable manner. Accordingly, each of the sector ministries, non-government organizations, associations, cooperatives, grass root organizations, the private sectors should also have to incorporate HIV/AIDS policy and program in their short term and long term activities. This step can certainly bring multi-sectoral fight against HIV/AIDS and poverty

10.5.4 The Strategic Framework for Fighting HIV/AIDS

The government has approved a comprehensive HIV/AIDS policy in 1998 with the overall objectives of guiding the implementation of successful programs to prevent the spread of the disease, to decrease vulnerability of individuals and communities, care for those living with the disease and to reduce the adverse socio-economic consequences of the epidemic. It has also developed the Strategic Framework for the National Response to HIV/AIDS, 2000-2004. The main components of the strategic framework for the national HIV/AIDS policy are the following:

- Intensify efforts on risk reduction interventions such as IEC/BCC, condom promotion and distribution, STI control and management, and VCT. In the educational effort, behavioral change targeted interventions (BCC) will be the priorities than what is already and commonly practiced in the context of IEC. It is planned that BCC will be conducted based on findings from formative and other types of studies and surveys such as the Behavioral Sentinel Surveillance (BSS).
- Intensify care and support and other impact mitigation efforts for infected affected individuals, families and communities. This will be focusing on the most vulnerable population such as CSWs, the youth especially out of school youth, and will also target already affected families and communities. The efforts will be highly genders sensitive.
- Interventions will be designed in such a way that they are gender sensitive. Gender will have a special emphasis on interventions such as BCC, STI control, and VCT and care and support and impact mitigation.
- Enhancing the mainstreaming of HIV/AIDS into all forms of interventions by government, non-government and private actors. A positive response for such emergency situation calls for an urgent need for coordinating the response through a multi-sectoral approach. All actors, government, non-government, community based structures and the private sectors need to give priority considerations to HIV and incorporate it into their routine activity plans and budgeting systems. This will require considerable capacity building inputs.
- Establishment of functional institutional framework from the federal to the community level. National and Regional HIV/AIDS Councils and Secretariats need to have the required capacity to effectively coordinate, facilitate, monitor and evaluate national and regional efforts.
- Enhancing community level responses in risk and vulnerability reduction activities. Fighting the epidemic is a process to be implemented for some time in the future. Therefore, a sound mechanism of having a sustainable response is critical. This will be accomplished only through sound community involvement.
- Tracking ongoing activities, distribution of diseases, and trends of the epidemic over time, follow-up of contributions of all stakeholders and partners, and as a result having a functional information sharing and

dissemination system is a crucial step towards success in the fight against the epidemic. This will require setting up of an HIV/AIDS monitoring and evaluation system including the strengthening of surveillance systems, and encourage the conduct of research and study.

10.5.5 Medium Term Goals to Fighting HIV/AIDS

Decreasing the level of transmission is the key element in the overall prevention and control of the disease. A decrease in the level of disease transmission and prevalence would help mitigate all the consequences. The target is to reduce the level of HIV transmission by 25% within 5 years. The strategies to attain this are discussed below:

Strategies and Measures to Meet the Goal

a) Market Areas

Approaching the rural community through market places should be considered as most of the people who come to market places are women. These women will also have the time to be involved in brief, but regular, IEC activities. It is usually in market areas that conditions for high-risk sexual behavior are created.

b) Non-state Actors

Community organizations including *Kebele*, Women and Youth Associations will be mobilized to actively involve in IEC activities.

c) Health Institutions

Health institutions all levels (including community health posts) will play active and leading role in the transmission of IEC messages on the prevention and control of the disease.

d) Agricultural Extension Workers

Involving agricultural extension workers for IEC activities is another strategy for reaching the rural population. Due to the nature of their work, these workers have the opportunity for frequent communication with the rural population.

e) Religious and Indigenous organization Gatherings

Religious meetings and gatherings for indigenous institutions (such as *Idirs*, *Senbetes* and *Mahbers*) are other avenues for reaching the rural population. Messages transmitted through such forums can be relatively acceptable to the community since there is the involvement of influential people.

f) School Anti-AIDS Clubs

AIDS clubs in schools should be supported in formulation and conduct of awareness creation and behavior modification activities among students and other population groups in the locality through various IEC activities including school mini media.

g) Work Place Activities

Intensified IEC activities should be conducted in all work-places across all sector ministries and organizations at all levels of government.

h) Close Follow up of Commercial Sex Workers

There should be a mechanism for close follow-up of commercial sex workers since they are the most vulnerable and risk group of the society.

i) Capacity Building for the Support of HIV/AIDS Control

To support the AIDS control program by capacity building, training of people from all sectors, the youth, and other community groups should be conducted. This includes strengthening the secretariat offices at the regional, zonal and *Woreda* levels through providing appropriate treatment for STIS and extending support to people living with HIV/AIDS and their relatives.

This would be in terms of managing opportunistic infections and teaching relatives of those PLWA on how to provide the necessary care and support in addition to providing direct support (for food, clothing and school expenses) for orphans who lost their parents/guardians from the *disease*.

j) Programs for out-of-School Youth and Street Adolescents

Programs for out-of-school youth are intended to reach adolescents and young people that cannot be reached through school based services. Condom distribution could be conducted through on possible channels.

k) Voluntary Counseling and Testing

This includes pre-test counseling, post-test counseling and the test itself. This would contribute to strengthening motivation to change sexual and drug behaviors so that sero-negative people can protect themselves from infection

- Prevent transmission from sero-positive people
- Encouraging those likely to be at high risk to come forward for testing
- Allowing early identification of medical and social needs of HIV-infected people to ensure that common infections are properly treated
- Allowing women to make informed decisions about reproductive health issues and enabling people to cope with stress about HIV-related problems and relieve anxiety associated with uncertainty about HIV sero-status
- Providing services such as counseling, to those who seek knowledge of their sero-status so that they can protect themselves and others from infection and plan for the future.

l) Ensuring the rights and privileges of PLWHA

To ensure the right of all HIV/AIDS infected individuals to employment and associated privileges, educational and/or training facilities, public facilities such as places of entertainment, public eating and drinking places, sporting facilities within the coming five years.

One of the most important elements of the strategic framework that would have positive impact on the economy at present is ensuring the right of HIV/AIDS infected individuals to access to employment and associated privileges, educational and/or training facilities, public facilities such as places of entertainment, public eating and drinking places, sporting facilities, etc. This is because if PLWHA are excluded from economic activity, there would be severe negative consequences both at the level of the individual households and at the level of the national economy.

m) Emphasis on High-Risk Groups

To fully cover and provide educational and preventive efforts to high risk groups such as **commercial sex workers** and their clients, mobile groups (long distance truck drivers, military personnel) youth groups, street children, refugee, prisoners and others within the coming five years. This strategy will have positive impact on the economy higher proportions of the transmissions occurs in these groups.

This strategy addresses factors like:

Mobility: Commercial sex workers, the military, street children and truck drivers tend to be mobile. This mobility factor should be taken into consideration in initiatives dealing with the disease in these groups.

Gender: Commercial sex workers are females and the wives of truck drivers are vulnerable to the disease because of the nature of work of their husbands.

Substance Abuse: Commercial sex workers, street children, truck drivers and the youth tend to be more likely to abuse substances than the general population. Therefore, dealing with substance abuse is one of the activities required in the control of the disease. .

To train and give necessary support to all health care workers in all health care settings to enable them adhere to universal sterilization and disinfecting precautions and to provide the necessary support to people living with HIV/AIDS.

This element would be helpful in decreasing the possibility of medical transmission of the disease. In addition, management of opportunistic infections and care and support for People Living With AIDS would help to reduce suffering and promotion of healing of these infections, prevention of disease transmission, maintaining continuity of services and bringing services close to the people living with HIV/AIDS.

n) Integrating HIV/AIDS Issues in all Sectors

This includes providing technical assistance to the different sectors to ensure that appropriate measures are taken for creating awareness of their workers and their families on the disease and for providing the necessary prevention and control services. For instance, appropriate curricula and teaching materials should be developed and implemented for HIV/AIDS/STDs in school health education at all levels, beginning from the primary level.

10.5.6. Financing HIV/AIDS Programs

For prevention and control of HIV/AIDS, the program cost for the period is estimated at about Birr 0.96 billion and activities associated with prevention of the pandemic accounts for 44 percent of planned spending. The cost will help the endeavour waged to maintaining the prevalence rate of HIV/AIDS at 7.3 percent by the end of the program period 2004/05.

Table 10.1: Medium term Program Costs for HIV/AIDS
(Million Birr)

| | Program/Activity | 2002/03 | 2003/04 | 2004/05 | Total 3 Years |
|----------|---|----------------|----------------|----------------|----------------------|
| 1 | Capacity building | 42.4 | 31.4 | 36.0 | 109.8 |
| 2 | Government multi-sectoral response | 103.3 | 90.3 | 103.5 | 297.1 |
| | Prevention | 69.2 | 47.1 | 54.0 | 170.3 |
| | Care and support | 34.1 | 37.9 | 43.4 | 115.4 |
| | Research & surveillance | 0.0 | 5.3 | 6.1 | 11.4 |
| 3 | Emergency HIV/AIDS fund | 130.7 | 141.3 | 162.0 | 434.0 |
| | Prevention | 88.1 | 78.5 | 90.0 | 256.6 |
| | Care and support | 36.8 | 47.1 | 54.0 | 137.9 |
| | Research & surveillance | 5.8 | 15.7 | 18.0 | 39.5 |
| 4 | Project coordination & management | 8.7 | 52.0 | 59.6 | 120.3 |
| | Total | 285.2 | 315.0 | 361.1 | 961.3 |

XI. Overview of Macroeconomic Developments and Objectives

11.1 Macroeconomic Developments

As discussed in Chapter I, the Ethiopian economy has shown strong performance during the 1990s. GDP showed more than 5% average annual growth rate while inflation remained below 5 percent. Fiscal Years 1998/99 and 1999/00, however, saw pressure building up in the macro economy due to the conflict with Eritrea, deterioration in terms of trade and effect of continuous drought. To cope with these developments in the aftermath of the conflict, the Government has prepared a renewed economic reform and recovery program. The main objective of the program is to attain sustained economic growth and poverty reduction in a stable macroeconomic environment. The IMF supports this program under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement.

The reform program is also supported by IDA financed Economic Recovery Programs as well as by Economic Rehabilitation Support Credit. The economic recovery program is meant to rehabilitate war damaged community structures, resettlement of internally displaced persons and finance the demobilization effort. The economic rehabilitation credit supports government's effort to improve macroeconomic performance and reorient public spending to poverty focused sectors. It also supports reforms in the areas of public sector management, public expenditure policy and management, and private sector development and export competitiveness.

Largely, the performance of the reform program is positive. GDP grew by 7.9% in FY 2000/01, inflation turned negative, while external current account deficit (including official transfers) fell from 5.3% in 1999/00 to 4.2% in 2000/01. This out turn was in the face of continued deterioration of the terms of trade and delays in the disbursement of external assistance. In fiscal year 2001/02, GDP growth is estimated to average 5.0 percent while inflation continued to be negative. Agricultural output increased by 4.5 percent in the current fiscal year accounting for the relatively low real GDP growth. Non-agricultural GDP, however, is estimated to grow by about 5.5 percent. The bumper harvest in 2000/01, led to a drop in food prices in the first three quarters of fiscal year 2001/02, causing great concern on the earnings of farmers.

On the fiscal arena, as a result of the accelerated implementation of special programs, increased capital outlays, and poverty-targeted expenditures, the overall budget deficit (including grants and emergency programs) is estimated to increase from 5.8 percent in 2000/01 to 9.9 percent in 2001/02. During fiscal year 2001/02, the government is accelerating the ongoing tax reform program to implement its comprehensive tax reform policy and overhauling the tax administration. The Council of Peoples' Representative has approved the revised tax code and a draft value-added tax in early July 2002 after extensive consultation with the private sector. A number of withholding schemes and standard assessment procedures were introduced to facilitate the revenue collection mechanism. Owing to such efforts implemented in the revenue policy and administration in 2001/02, tax revenue is estimated to peak to 16.2 percent of GDP from its level (14.3 percent) in the preceding fiscal year.

Total government expenditure showed an increasing trend owing to higher spending in poverty focused sectors and capital outlays. Defense expenditure is expected to decline to 5.9 percent of GDP compared to 6.4 percent in 2000/01. In this connection in fiscal year 2001/02, the share of current expenditure in terms of GDP is estimated to remain 22 percent while capital expenditure to rise to 13.1 percent compared to 9.6 percent in the previous fiscal year.

In the monetary sector, reflecting lower-than- projected economic activity and negative inflation (-7.2 percent), and broad money is increased in fiscal year 2001/02 by 10.9 percent. In response to lower economic activity and negative inflation the NBE lowered the floor on deposit interest rates from 6 percent to 3 percent on March 4, 2002.

A number of measures were taken to improve the soundness and competitiveness of the financial sector, including the issuance of government guarantees for assets held in Eritrea, the issuance of a letter to encourage public entities to do business with all banks, the establishment of a bankers association, and lifting restriction on the payment of interests on current account deposits.

Significant progress has been made to eliminate exchange restriction, including the termination of the NBE's weekly wholesale foreign exchange auction and the move of all foreign exchange operations to the inter bank market on

October 24, 2001. Most trade restrictions and administrative controls and access to foreign exchange were lifted in December 2000. Restrictions on the purchase of foreign exchange for holiday travel and education purpose were eliminated in March 2001. At end-May 2002, the value of the Birr against the dollar had depreciated by only 1.1 percent since the beginning of the fiscal year, and net foreign assets of the NBE at end June 2002 were estimated at US\$ 679 million (around 3.9 months of import cover).

On the other hand, progress was made in implementing reforms focused on public sector management, including capacity building, civil service reform and public expenditure management, and on private sector development. In this regard, revised investment and urban land lease laws, and civil service proclamations were adopted. In addition, the Council of Ministers approved several regulations aimed at improving the function of markets; improve competitiveness, and enhancing civil service delivery.

11.2 Macroeconomic Objectives, Strategies and Policies in the Medium Term

The macroeconomic policies of the fiscal years 2002/03-2004/05 are built on the positive macroeconomic performance of the Ethiopian economy and the continuing support of IMF, the World Bank and other multilateral and bilateral development partners of the country.

To begin with the macroeconomic developments of the FY 2002/03 is entirely consistent with the PRGF agreement. The macroeconomic forecast of FY 2003/04 and 2004/05 considers higher GDP growth, which emanated from the various economic policies being implemented and measures to be taken in the period under consideration. It is believed that the highest priority of the government is attached with the agricultural sector and rural development, capacity building in both public and private sector, creation of conducive environment for private investment and capital inflow, and prevalence of sound and competitive financial sector. The final results of these measures will be reflected in high GDP growth, increased government revenue and improved international reserves.

The objectives and strategy of the medium term program emphasize the need to create a favorable climate for stimulating investment and productivity, and adopting appropriate policies designed to promote equitable growth and development. Apart from achieving significant real GDP growth, therefore this entails maintaining macroeconomic stability, low inflation, low monetary expansion, stable exchange rate and sustainable external sector development.

11.2.1 Real Sector

Real GDP growth in fiscal year 2002/03 is forecast to average 6 percent. During the medium term (2002/03-2004/05), GDP is projected to increase by an average of 7 percent. Stable macroeconomic conditions, further economic policies and development strategies, significant foreign resources inflow, strong private sector, and efficient and effective public sector service delivery are the most important ingredients of higher GDP growth. More specifically, this growth rate will be underpinned by implementing the country's rural based development strategy, ADLI. A rapid increase in agricultural output sparked by productivity gains and rural development programs through upgrading infrastructure and social services is expected to be the cornerstone of economic growth and poverty alleviation. To this end, the government has formulated rural development and capacity building strategy, which will enhance the production and productivity of this sector. In this regard, it is assumed that the supply of agricultural inputs such as fertilizers, improved seeds and pesticides will increase substantially during the medium term. The coverage of extension programs will be expanded and training of farmers will be strengthened.

Accordingly, production of major crops, stimulated by the renewed extension programs, is expected to increase on average by around 9 percent per annum. It is assumed that cultivated areas will also have an annual average growth rate of 2 percent during the medium term. At the same time, agricultural development will provide the springboard for higher export earnings of farm commodities and agro-industrial goods.

As a whole, the agricultural sector is expected to show an annual average real growth rate of 7.5 percent during the medium term with the deepening of the extension program and policies aimed at promoting the agricultural sector including the intensification of the decentralization process. To this end, agricultural-led growth is to be driven by productivity improvements in smallholder agriculture. Progress will depend critically upon the diffusion of

technology; export promotion policies and the availability of affordable credit because of the active promotion of micro finance institutions.

The industrial sector and the services sectors are also expected to show an annual average real growth rate of 7.8, and 5.4 percent respectively during the medium term. Continuous effort to improve the provision of infrastructure such as the increased supply of power and telecommunication, the improvement of major roads, the adoption of new and encouraging investment and land lease policy, are believed to promote private sector participation in the industrial sector. The completion of Gilgel Gibe project in the power sector by the end of the current fiscal year could be cited as an additional impetus to achieve higher growth in this sector. An additional and equally important objective is to attain relative stability of prices to help protect the poor from the ills of inflation and encourage saving and long-term investment. Inflation (on average) is expected not to exceed 5 percent during the medium term.

Gross domestic investment is projected to increase from 18 percent in 2000/01 to 23 percent in 2004/05. This positive development will be promoted by favorable climate and the acceleration of privatization. The revision of land lease and investment proclamations are expected to give impetus to private investment. In this regard, the revised land lease proclamation that incorporates a number of reforms including the revision of payment modalities requiring initial payments to lower from 50 percent of the lease price to 5 percent and extending final payment period is believed to promote private investment. Other measures which expedite the implementation of the new urban land lease proclamation such as the review and consolidation of the land register, the review of provisions in the building code, the land administration and compensation will create conducive environment to enhance private sector investment. Equally important is the elimination of capital gain tax on the sale of dwelling houses and the 100 percent rate reduction on commercial buildings.

The private sector will be supported by efficient and transparent modes of service delivery, including the Custom and Inland Revenue tax administration, the judicial system, the public utilities and the financial sector. The ongoing extensive implementation of the outputs of the civil service programs including the recently introduced civil service proclamation, capacity building in all government institutions as well as private sector associations, and the adoption of competition law will create more conducive environment for the functioning of the private sector.

The on going institutional reforms which has focused on improved service delivery through continued reform of civil service institutions at the federal and regional levels, as well as the deepening of democratic decentralization (currently with focus on *Woreda* and municipal levels) are expected to create enabling environment and enhance the functioning of non-state actors, particularly the private sector. During the medium term, improvement in public sector service delivery will be effective through (a) strengthening the legal and strategic framework for civil service reform, (b) improving expenditure management and prioritization, (c) enhancing incentives to perform and (d) promoting fiscal monitoring and accountability.

11.2.2 Fiscal Policy

The fiscal policy of the medium term is aimed at reducing the deficit to a sustainable level while at the same time re-orienting investment and current spending in key sectors such as agriculture, water, education, and health and road construction. General government fiscal deficit (including grants but excluding special programs) is targeted to decline from 8.0 percent of GDP in 2001/02 to 6.7 percent in 2004/05. In order to finance the high level of poverty targeted and capacity building outlays mainly related to rural development, the Government would draw modest domestic finance close to 1 percent of GDP.

On the revenue side, the Government is determined to lay the foundation for strong revenue performance during the program period. Tax revenue is forecast to increase from 14.3 percent of GDP in 2000/01 to 17.7 percent in 2004/05. It is recognized that revenue performance will benefit fully from the tax reform measures being implemented since 2001 including the improved tax administration measures (especially the recent establishment of the large tax payers unit). The new tax code enacted in July 2002 will also contribute to boosting revenue mobilization by way of promoting compliance and equipping adequate enforcement power to the tax collecting institutions. Vigorous efforts will further be made to improve tax collection (including arrears), and to combat fiscal fraud. In the coming three years, the government will accelerate the pace of the tax reform program. In particular, it will (a) further strengthen the large tax payers unit through adequate staffing and training, particularly for its revenue collection, accounting and audit functions, (b) implement the tax identification number (TIN) project, (c)

develop and implement presumptive tax system, (d) develop and implement an audit program to cover all taxes, and (e) introduce VAT in January 2003,

The Government will continue to pursue prudent expenditure policy by further reorienting public expenditure from defense and non-priority sectors to poverty- targeted outlays and capital expenditure. Total outlays (excluding special programs) are programmed to increase from 29.8 percent of GDP in 2000/01 to 34.9 in 2001/02, but are expected to drop to 32.7 percent in 2004/05. Defense outlays will be maintained at the nominal level of the previous years, but will further be scaled down (as a ratio to GDP) from 6.4 percent in 2000/01 to 4.2 in 2004/05. The share of recurrent expenditure will decline from 21.9 percent of GDP in 2001/02 to 18.2 percent in 2004/05, while capital expenditure will increase from 13.1 percent to 14.5 percent during the same period. Financing of such expenditures will benefit from HIPC debt relief assistance. Poverty targeted current and capital expenditures will be significantly increased. Expenditure targeted at poverty reduction will continue to focus on improving services delivery that are believed to have impact on human development (health and education) and on increasing the opportunities for and efficiency of income earning activities (especially in agriculture and road infrastructure).

a) Expenditure Management and Control Systems

The Government of Ethiopia is reforming its budget, accounting and expenditure planning systems under the ongoing Civil Service Reform Program. These systems as a whole and separately are aimed at improving the efficiency and transparency of financial management. They also provide the government with a capacity to track poverty related expenditures.

Budget Reform: The budget reform is introducing changes in the process and structure of the budgeting system. The introduction of a financial calendar and a budget information system will improve processing of the budget. The budget reform is also introducing three structural changes: a new chart of accounts, cost centers, and new formats for presenting to budget. The new budget system has several features, which promote transparency and facilities aimed at tracking of poverty related expenditure.

New chart of accounts: The new chart of accounts introduces a consistent set of budget categories for both the capital and recurrent budgets. The budget categories (e.g. program, sub-agency, sub-program, and project) can be analyzed and classified as to whether they are poverty related. The chart of accounts also provides a single series of expenditure codes for both the capital and recurrent budgets. The single series allows tracking of the specific item of expenditure (e.g. code 6214 medical supplies) within a budget category (e.g. program- "Strengthening Gondar Medical Sciences College").

New formats: The new formats for budget presentation provide columns for the source of finance. There are four sources of finance: treasury, retained revenue, external loan, and external assistance. This is the first time that the formal budget has presented retained revenue. External loan and assistance has two columns with one for the amount and the second for a project code. The sources of finance formats allow tracking of expenditure by budget category (e.g. program) down to line item expenditure. For example, in the FY 1994 budget under the Ministry of Health, project 16 "Basic Hygiene and Environmental Health Education and Control" there are two donors funding this project (WHO and UNFPA). The formats allow the budget to track each donor's expenditure to this program by line item.

Automation: To support the new budget system, a computerized Budget Information System (BIS) has been developed. The BIS facilitates rapid processing of the annual budget and its production and distribution once the budget is approved. The BIS has been developed in a relational database, which allows analysis of the composition of expenditures, by budget category and item of expenditure. The BIS also provides the government a facility to maintain a current adjusted budget so that changes in the composition of expenditure due to virement or supplementary budgets can be quickly assessed. Finally, the BIS will be integrated with the Expanded Budget Disbursement and Accounting (EBDA) computer system, which the Ministry is developing to manage the new accounting system. This integration coupled with the adjusted budget facility means that accounts will be maintained on a current basis and will be promptly closed at the end of the financial year. Under the current system, the lack of an up-to-date adjusted budget delays by many months the closure of accounts. The BIS therefore facilitates the tracking of poverty related expenditures both in terms of items of expenditure and by facilitating the timely closure of accounts.

Accounts Reform: The accounts reform has three components: reduction of the backlog in the closure of the annual accounts, in service training and the introduction of modified cash double entry bookkeeping.

Reduction of the Backlog in the closure of Accounts: when the accounts reform was introduced five years ago, the backlog in the closure of accounts was six years. The reform has reduced this to approximately one and one-half years. Prompt closure of accounts is essential for prompt tracking of expenditures.

In-Service Training Program in Accounting: to implement the budget, accounts and expenditure planning reform, an in service training program has been developed. This program which is delivered through the Regional Management Institutes in six regional states: Addis Ababa, Amhara, Beneshangul-Gumuz, Gambella, Oromia, Somali, and Tigray and the Ethiopian Civil Service College has trained 4,802 staff to date. Most of these trainees have been from the *Woredas* in regions. This training has had impact on financial transparency and tracking of expenditures. The most immediate impact has been the reduction in the backlog of accounts. Though, training staff in principles and practice of accounting, this facilitates the introduction of the new modified cash double entry bookkeeping system.

Modified Cash and Double Entry Accounting System: The centerpiece of the accounts reform is the evolution of the current accounting system (single entry cash) to double entry modified cash. This new system will be introduced into the Federal Government for Ethiopian Fiscal Year 1995 (2002/03) and to regions in subsequent years. The new accounting system will improve tracking of expenditures in four ways. First, it will make reporting more efficient and will promote the maintenance of a monthly balance. Second, it will show not only expenditures but also committed expenditures. Third, the account reform will introduce asset management procedures and fixed asset registers which will allow tracking of poverty related assets as well as expenditures. Fourth, a new computer system (the Expanded Budget Disbursement and Accounting-EBDA) is being developed to manage this accounting system and is integrated with the BIS. In addition to facilitating the maintenance of current accounts, this system will also permit rapid analysis and tracking of both actual expenditure and committed expenditure by budget category and item of expenditure.

Expenditure Planning Reform: The expenditure planning reform is introducing a medium term expenditure framework through two instruments: a Macro Economic and Fiscal Framework (MEFF) and the Public Expenditure Program (PEP). The MEFF provides a three-year forecast of fiscal aggregates while the PEP programs expenditures by sectoral envelopes. The reform on the former is progressing well. The PEP design has been completed and implementation has already started. When the PEP is fully implemented, it serve as a valuable instrument in program costing in the course of updating PRSP targets as well as monitoring. In short, the PEP will be the first step in tracking poverty related expenditure for it would show the financial commitments expected over three years by sector and Program budget category and these in turn can be compared with annual budget allocations, outturns and accounts.

b) Inter-governmental Fiscal Transfer

Since 1991, structural and institutional changes that have a far-reaching implication on self-governance, democratization and grass root participation have been undertaken. The Constitution mandates a Federal Government structure with autonomy bestowed to Regional states and lower tiers of administrations. Expenditure and revenue assignments of Regional Governments are clearly defined. The Regional Governments are entitled to own revenue sources and transfers from the Federal Government.

The fiscal transfer from Federal Government to Regional Government will continue to be effected through credible and transparent budget subsidy formula, and this will take into account criteria for equity and efficiency. The formula will be improved overtime by refining the data required for measuring expenditure needs and fiscal capacity of each Regional Government. The predictability of the transfers will be ensured by providing medium-term estimate and incorporating reliable budget figures of donor support.

With the view to deepening the decentralization process, the *Woredas*, echelons of the Regional Government will be fully empowered to take up expenditure and revenue assignments within their competence. Building the capacity of *Woredas* will enhance the decentralization and democratization process. A *Woreda* will be entitled to untied block grant from the respective Regional Government. Each *Woreda* (consisting of community) decides on the utilization

of the transfer for local needs and priorities. Communities, at the grassroots level identify, deliver, and sustain locally determined priorities for public goods & services.

To this end, a formula will be designed and expedited by respective regional governments. The design of the formula should be transparent and consider equity and efficiency criteria, especially incentives for own revenue enhancement.

Besides this, the major portion of own revenue sources of a *Woredas* will be retained for its use. The system of own revenue utilization together with effective in-built criteria in the formula will provide incentive for revenue raising. Revenue sharing arrangements could also be established for specific revenue items having revenue base differences among different tiers of Regional Government.

Fiscal transfers will be linked to Woreda administrations' accountability. The on-going reform of the expenditure management and control system will be introduced. Especially auditing, inspection and supervision mechanisms will be strengthened. The *Woredas, Kebeles*, and communities will be capacitated.

11.2.3. Monetary Policy

Monetary policy will remain geared toward containing inflation and achieving the international reserve targets. The monetary program assumes stable velocity with broad money growing by 10.9 percent in 2001/02 and 12.4 percent in 2002/03. The net domestic assets of the central bank will remain the key aggregate in steering monetary policy. The central bank will continue closely monitor developments in reserve money and broad money. Progress in fiscal consolidation, supported by disbursements of foreign aid, is expected to facilitate the continued rebuilding of international reserves while providing room for an adequate increase in credit to the nongovernmental sector, so as to contribute to private-sector-led growth.

The NBE will continue sterilizing the excess liquidity of commercial banks by selling treasury bills. In judging the liquidity position of banks, the NBE will continue to take into account treasury bill yield and exchange market developments. The NBE will also encourage the use of rediscount window in case of liquidity shortage by banks. The medium term net foreign assets target will guide NBE's position in the exchange market. The recent replacement of the foreign exchange auction by the foreign inter-bank exchange market is expected to achieve efficiency gains through broad-based foreign exchange operations.

Based on the study undertaken with joint technical assistance from the IMF and the World Bank, the government has reviewed its medium-term reform strategy for the financial sector, and will implement further reforms to strengthen the financial sector and improve its competitiveness. The objectives are to achieve a sound financial sector structure that would foster economic development and active competition in Ethiopia by offering an attractive range of financial savings instruments throughout the country and providing for an efficient allocation of financial resources to borrowers.

In the context of this strategy, the NBE will adopt by end-August 31, 2002 regulations on the provisioning for non-performing loans and other doubtful assets in line with international standard practices. The government will (a) take steps by end- December 2002 to strengthen the NBE, following the completion of the ongoing comprehensive study of the NBE, including as necessary, revision of the existing Banking Act to increase the autonomy of the NBE; (b) ensure that the Construction and Business Bank will be brought to the point of sale by end- December 2002, after its balance sheet has been restructured based on the NBE's recommendations; (c) adopt a restructuring plan to address the weak financial condition of the Development Bank of Ethiopia, by-end-September 2002.

With respect to the CBE, the new management will have autonomy in decision-making including on staffing, meeting performance targets, pursuing delinquent borrowers, as well as on taking steps to strengthen CBE's cost competitiveness and profitability. CBE will also (a) hire consultants from a reputable foreign financial institution by end-September 2002 to assist the new management; (b) strictly adhere to the reserve requirement, and fully implement the new provisioning directive; (c) reduce non performing loans (NPLs) by Birr 0.8 billion from Birr 3.9 billion at end-December 2001, including through write-offs, by end-September 2002; and (d) prepare a financial restructuring plan by end-March 2003, on the basis of a financial audit of the CBE to be concluded by an internationally reputable audit firm. The terms of reference for this audit will be tendered by July 15, 2002, and the

audit completed by end-January 2003. The restructuring plan will seek significant reduction of NPLs, including through write-offs, and the recapitalization of CBE on a timely basis.

11.2.4 Financial Sector Reform

With respect to the financial sector, the government is committed to the enhancement of efficiency and competition in the sector. To attain this objective it will adopt a medium-term strategy covering the period 2002/03-2004/05. The strategy that is envisaged will proceed along three lines. First, creating a favorable external environment of banking; second, building the internal dynamics of banks; and third, fostering contestability of markets within the banking sector. These three strands of the strategy are inter-linked. By improving the environment within which banks operate, particularly through narrowing the asymmetry of information and inducing a culture of loan repayment, attainment of efficiency will be rendered within the sector. By making banks more dynamic through capacity building, and fostering competition through encouraging the scaling-up of domestic private banks, greater scope will be created for both efficiency and competition. In this way, the strategy will ensure efficiency and competition in tandem. The strategy will, thus, prepare the ground for the progressive integration into the global financial market.

The external environment of banks is anticipated to improve markedly along with the tax reforms currently underway. As an upshot of the tax reform, the veracity of accounts submitted for tax payment will be greatly enhanced, and enterprises hitherto not obligated to make their tax submissions based on accounts will be required to do so. Hence, the information base for banks will be broadened and deepened. Moreover, specific measures will be undertaken to enforce the foreclosure law effectively and expeditiously, allowing banks to reduce non-performing loans and deterring delinquency in loan repayments.

In addition, banks will be encouraged to modernize and raise efficiency by adopting improved practices and building their capacities. On one side, the requirements of provisioning will be more rigorously applied as per the revised directive and bank supervision will be tightened in respect of the level of non-performing loans. On the other side, bank management will be made more autonomous and yet more accountable to its Board of Directors in a systematic fashion. Additionally, just as credit rating will be introduced for individual borrowers, it will be applied to banks, too.

Apart from commercial banks, the strategy will address the task of developing micro-financing institutions. In particular, it will foster the transformation of these institutions in to rural banks, as has already begun, and at the same time facilitate the flow of funds from commercial banks to these institutions for purposes of on-ward lending. The NBE will strengthen the regulatory framework and supervision capacity for micro finance institutions.

11.2.5. External Sector

The external current account deficit (excluding official transfers) is projected to improve from 13.5 percent of GDP in 2001/02 to 6.8 percent in 2004/05. Gross international reserves are projected to rise to about 4.7 months of imports of goods and services in 2004/05 from 3.9 months in 2001/02. Over the medium term, developments in the balance of payments will largely depend on prudent fiscal policy, lower inflation, a strong private sector, improved public service delivery, and robust economic growth of about 7 percent. The medium-term strategy will focus on promotion and diversification of exports, given the need to reduce the reliance on coffee receipts and sustain over the long-term and rapid rate of export growth of recent years. Although the coffee sector will continue to be exposed to high price volatility and sluggish growth in world demand, it will probably remain the country's most valuable export for quite a while. In the meantime, export diversification will be sought in the areas of horticultural products, meat, semi-processed and finished leather articles, and in the introduction of new items, such as textiles garments and the use of the AGOA and EBA opportunities.

It is believed that the medium term macroeconomic strategy will create favorable and credible environment for the inflow of foreign direct investment. Ethiopia has achieved political stability, rapid economic growth, low inflation, relatively stable and market –determined conditions in the exchange market, and fiscal discipline, but there is room for making these achievements known better to help attract foreign investors. In this regard the new revised investment law, which reduced the minimum capital requirement particularly the elimination of a minimum capital requirement to a foreign investor exporting at least 75 percent of its proceeds, would create incentives to foreign

investment. Similarly the reduction of the minimum threshold for FDI to US\$ 100,000 for wholly foreign owned ventures, to US\$ 60,000 for joint ventures, to US\$ 25,000 for wholly owned investment in the areas of engineering, architectural, accounting and audit services, project studies or consultancy would help enhance the investment climate.

In addition, the service account is also expected to advance from improved tourism activities, a decline in external debt servicing which stemmed from enhanced HIPC debt relief, and flow of workers remittances. Private capital is expected to flow as a number of policy measures are being pursued by way of attracting Ethiopians in the Diaspora. Further more, foreign direct investment is expected to be encouraged through the recently amended investment and land lease proclamations.

Debt management is an integral and important part of the government's stable macroeconomic strategies in the medium term. In this regard, the government will adhere to its commitment not to contract or guarantee any new non-concessional external loan. As the current HIPC debt relief offers a significant opportunity to reduce debt-servicing cost, the government will continue to use principal and interest savings of this source to finance poverty focused expenditures. In an effort to alleviate the country's debt burden soliciting significant debt relief from its creditors including the Paris Club countries will remain an important task of the government. In this regard, the government will finalize bilateral agreements by end October 2002 and seek at least comparable terms from its non-Paris Club creditors, by December 31,2002.

The government will continue its efforts to liberalize, simplify, and streamline its trade regime. In this regard, it will reduce, by January 2003, the average (non weighted) import tariff from the current level of 19.5 percent to 17.5 percent.

Table 11.1 Ethiopia: Selected Economic and Financial Indicators, 1995/96-2004/05

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 |
|--|--|---------|---------|---------|---------|---------|----------|---------|---------|---------|
| | | actual | | | pre act | pre act | Estimate | | Program | |
| | (annual percentage change, unless otherwise indicated) | | | | | | | | | |
| National income and prices | | | | | | | | | | |
| GDP at constant prices (at factor cost) | 10.6 | 5.2 | -1.4 | 6.0 | 5.4 | 7.7 | 5.0 | 6.0 | 6.9 | 7.1 |
| GDP deflator (at factor cost) | 0.9 | 3.2 | 10.2 | 1.6 | 1.1 | -8.2 | -7.4 | 4.9 | 4.8 | 4.5 |
| Consumer prices (period average) | 0.9 | -6.4 | 3.6 | 3.9 | 4.2 | -7.2 | -7.2 | 4.5 | 4.3 | 4.0 |
| External sector | | | | | | | | | | |
| Export, f.o.b (in million US\$) | 412 | 599 | 602 | 484 | 486 | 441 | 400 | 437 | 493 | 634 |
| Coffee | 273 | 355 | 420 | 281 | 262 | 175 | 156 | 179 | 205 | 286 |
| Non coffee | 139 | 244 | 182 | 203 | 224 | 266 | 244 | 258 | 288 | 348 |
| Imports, c.i.f. (in million US\$) | 1144 | 1309 | 1357 | 1558 | 1611 | 1556 | 1629 | 1689 | 1771 | 1958 |
| Export volume | 14.5 | 36.1 | -9.7 | -1.4 | 20.5 | -1.5 | -0.4 | 7.2 | 7.0 | 8.0 |
| Import volume | 3.0 | 18.4 | 9.9 | 18.4 | -17.9 | -1.9 | 7.3 | 4.0 | 4.0 | 4.5 |
| Terms of trade (deterioration, -) | -24.1 | 10.5 | 18.1 | -15.9 | -33.9 | -6.3 | -6.6 | 2.3 | 4.4 | 1.7 |
| Nominal effective exchange rate (end of period) | 3.7 | 0.2 | 1.0 | -9.1 | 1.5 | 2.8 | | | | |
| Real effective exchange rate (end of period) | -8.2 | 1.2 | -0.9 | -1.0 | -6.4 | -1.2 | | | | |
| (In percent of beginning stock of broad money, unless otherwise indicated) | | | | | | | | | | |
| Money and credit | | | | | | | | | | |
| Net foreign asset | -1.5 | -3.9 | 1.0 | 3.6 | -8.1 | 0.3 | 11.4 | 5.4 | 2.5 | 2.6 |
| Net domestic asset | -7.8 | 7.3 | 11.7 | 2.3 | 22.1 | 9.2 | -0.5 | 7.1 | 7.3 | 7.5 |
| Net claims on government | 2.3 | -5.1 | 3.5 | 4.8 | 27.9 | -0.9 | 0.0 | 1.8 | 2.5 | 2.2 |
| Credit to nongovernment sector | 16.0 | 5.6 | 7.3 | 4.1 | 5.3 | 3.8 | -0.8 | 6.0 | 7.8 | 9.8 |
| Broad money | 11.6 | 3.4 | 12.7 | 5.9 | 14.0 | 9.5 | 10.9 | 12.4 | 12.0 | 12.0 |
| Velocity (GDP/broad money) | 2.4 | 2.5 | 2.4 | 2.5 | 2.3 | 2.1 | 1.9 | 2.1 | 1.8 | 1.8 |
| Interest rates (one-year maturity, in percent) | | | | | | | | | | |
| Savings deposits (mandatory floor rate) | 10.0 | 10.0 | 6.0 | 6.0 | 6.0 | 6.0 | 3.0 | ... | ... | ... |
| Lending rates | 15.0 | 15.0 | 11.3 | 11.8 | 13.0 | 13.5 | 8.0 | ... | ... | ... |
| Treasury bill (91-day maturity) | 3.8 | 3.8 | 3.1 | 4.5 | 3.1 | 2.8 | 1.2 | ... | ... | ... |
| (In percent of GDP, unless otherwise indicated) | | | | | | | | | | |
| Financial balance | | | | | | | | | | |
| Gross domestic saving | 7.0 | 7.7 | 7.7 | 1.4 | -0.1 | 2.2 | 2.0 | 4.0 | 5.7 | 7.5 |
| Gross domestic investment | 16.9 | 17.0 | 17.2 | 16.3 | 15.3 | 18.0 | 20.3 | 20.9 | 22.0 | 22.9 |
| Resource gap | -9.9 | -9.3 | -9.4 | -14.9 | -15.3 | -15.8 | -18.3 | -16.9 | -15.6 | -14.4 |
| External current account, including official transfers | 1.1 | -3.0 | -1.6 | -7.9 | -5.3 | -4.2 | -6.6 | -6.9 | -5.4 | -3.0 |
| External current account, excluding official transfers | -5.4 | -6.5 | -5.6 | -11.2 | -9.8 | -10.5 | -13.5 | -11.6 | -10.0 | -6.8 |
| Government finances | | | | | | | | | | |
| Revenue | 18.4 | 18.2 | 18.0 | 17.9 | 18.3 | 19.6 | 21.7 | 21.8 | 22.0 | 22.4 |
| o/w: Tax revenue | 12.4 | 12.9 | 11.7 | 11.5 | 12.5 | 14.3 | 16.2 | 16.6 | 17.1 | 17.7 |
| External grants | 2.9 | 3.6 | 2.8 | 3.6 | 3.3 | 5.1 | 5.3 | 4.8 | 4.2 | 3.6 |
| Total expenditure | 26.9 | 24.2 | 25.2 | 30.0 | 33.1 | 29.8 | 34.9 | 34.6 | 33.4 | 32.7 |
| o/w: Current | 14.7 | 13.8 | 15.7 | 20.9 | 26.5 | 20.1 | 21.9 | 21.6 | 19.5 | 18.2 |
| o/w: Capital | 9.4 | 10.4 | 9.2 | 9.1 | 6.6 | 9.6 | 13.1 | 13.0 | 13.9 | 14.5 |
| Overall balance, excluding grants | -8.5 | -6.0 | -7.2 | -12.2 | -11.5 | -5.8 | -7.9 | -8.0 | -7.2 | -6.7 |
| Overall balance, including grants | -5.6 | -2.4 | -4.3 | -8.5 | -14.8 | -10.9 | -13.2 | -12.8 | -11.4 | -10.3 |
| Special program | | | | | | | | | | |
| Overall balance, including grants & special program | -5.6 | -2.4 | -4.3 | -8.5 | -11.5 | -5.8 | -9.9 | -9.7 | -8.6 | -6.7 |
| Total financing | 5.6 | 2.4 | 4.3 | 8.6 | 11.5 | 5.8 | 9.9 | 9.7 | 8.6 | 6.7 |
| External financing | 3.8 | 1.8 | 1.7 | 2.8 | 1.7 | 4.0 | 9.1 | 8.2 | 6.9 | 5.2 |
| Domestic financing (including residual) | 1.8 | -0.2 | 1.9 | 4.1 | 8.6 | 1.1 | 0.4 | 0.9 | 1.2 | 1.1 |
| o/w: Banking system | -0.3 | -2.0 | 1.3 | 1.8 | 10.6 | -0.4 | 0.4 | 0.9 | 1.2 | 1.1 |
| Privatization receipts | 0.0 | 0.8 | 0.7 | 1.7 | 1.3 | 0.8 | 0.4 | 0.6 | 0.5 | 0.4 |
| Domestic debt | 33.5 | 29.8 | 30.1 | 31.3 | 40.2 | 44.3 | 48.4 | ... | ... | ... |
| External debt (including to Fund) | 151.0 | 79.9 | 78.4 | 82.8 | 85.3 | 88.3 | | | | |
| Debt-service ratio | 36.8 | 84.1 | 57.7 | 63.3 | 52.2 | 23.2 | | | | |
| Overall balance of payments (in million US\$) | | | | | | | | | | |
| Gross official reserves (in million US\$) | 888 | 583 | 412 | 434 | 349 | 337 | 679 | 773 | 841 | 987 |
| (in months of imports of goods & nonfactor services) | 7.7 | 4.4 | 2.6 | 2.7 | 2.2 | 2.0 | 3.9 | 4.3 | 4.4 | 4.7 |
| GDP at current market prices (in millions of birr) | 37938 | 41465 | 44840 | 48422 | 51869 | 51962 | 51158 | 57092 | 64000 | 72256 |
| Exchange rate (birr/US\$, period average auction rate) | 6.33 | 6.50 | 6.86 | 7.53 | 8.15 | 8.34 | 8.55 | 8.70 | ... | ... |

XII. Financing the Program and the Macroeconomic and Fiscal Framework

On the basis of the envisaged macroeconomic policies and the expected outturn during the program period as discussed in the preceding chapter, the costing of the programs for poverty oriented sectors has been carried out under budgetary constraint and consistent with the envisaged macroeconomic stability during the medium term. The Macroeconomic & Fiscal Framework (MEFF) adopted for establishing the resource envelope and allocation is in line with the PRGF agreement for the first year of the program period. Although priority is given to poverty reducing sectors, resource allocation is constrained by the availability of domestic and external resource inflows.

Sector Development Program costs are based on activities planned to be undertaken by the respective sector ministries in the coming three years and are rationalized in line with sectoral targets set for the programs. The various sectoral analysis and targets are outlined in the analysis of sectoral strategies conducted in Chapter VII. Qualitative and quantitative sectoral and cross sectoral targets along with the individual indicators are also outlined and depicted in Chapter XIII “Program Targets and Monitoring and Evaluation System”.

This chapter provides an overview of the overall program costs for key poverty oriented sectors as provided by the sectors themselves (resource requirement), the rationale behind estimates of costs and their linkages with sectoral targets. The chapter also discusses sectoral costs consistent with the PRGF agreement (low scenario) and reallocation of resources.

12.1 Sectoral Program Costing

12.1.1 Agriculture

The agricultural sector comprises different breakdown of costs by components of sectoral programs. The budget requirement is mainly for the implementation of the extension package program, agricultural research and supply of improved inputs (technologies) that cannot be covered by the beneficiaries. In addition to the ongoing extension program, the cost covers on-farm level integrated water harvesting, strengthening of credit services, extension communication, media development, natural resource conservation, and agricultural technical and vocational training (TVET). For the realization of the extensification and intensification of agricultural development strategies, the cost associated with irrigation development in the water sector would supplement the program.

The total cost of the “sector” for the program period (2002/03-2004/05) is forecast at Birr 9.9 billion, as shown in Table 12.1 below. Programs that accounted for the bulk of the program cost in order of their share are: livestock development, natural resource management, agricultural technical and vocational training (TVET), and food security for rain-deficit areas. Rain-deficit areas are in most cases those that are deforested, degraded and deprived of natural vegetation.

A number of targets could be associated with each component of the agricultural sector programs. However, the extension service that is planned to reach 6 million farmers by 2004/05 is one of the major target of the national development strategy. Some of the programs that attach specific targets include: (a) effectiveness and sustainability of nutrition and increased consumption and utilization of food which will result in reduction of the food poverty head count index from 41.9 percent in 1999/00 to 38 percent in 2004/05; (b) increase pasture production and livestock productivity as well as rehabilitating overgrazed reserves for pastoral development (c) increase the supply of animal product by improving the genetic make up of the indigenous cattle and increase the export of animals and their products. It is worthwhile noting that all agriculture sector programs are in one way or another related to the extension service packages. Number of trainees in agricultural TVET is expected to increase from 30,000 in 2002/03 to 270,207 by the end of 2004/05.

12.1.2 Water

In the water sector, the emphasis is given to small-scale irrigation and rural water supply. With regard to small-scale irrigation, the cost includes the construction and rehabilitation of irrigation schemes, which is believed to be instrumental for sustainable agricultural development. Capacity building in the study, design and implementation of

irrigation projects is also accorded priority. In the area of water supply, priorities are going to be on revitalizing, rehabilitation as well as the construction of projects to supply potable water to rural communities.

These programs altogether are expected to cost Birr 6.8 billion of which water supply and sanitation and small-scale irrigation and drainage development accounted for the bulk of the program costs.

In the process of preparing the water sector development program, there has been targets set for all sub sectors i.e. the water supply and sanitation, irrigation, hydropower, general water resources and sanitation. The achievements of these targets would be dependant up on the inputs, the process, the coordination and all others activities of the program. One of the targets that seem to be feasible in the water sector is provision of clean water to rural and urban areas. By the end of the program period, access to clean water is expected to reach 31.4 and 82.5 percent in rural and urban areas, respectively.

12.1.3. Road

The road sector activities are the continuation of the first phase of the road sector development program (RSDP I). To provide the rural population with sustainable level of essential road infrastructure, the program introduces new dimension to cover the requirements of travel and transport at village level, the ERTTP. The ERTTP focuses on reducing travel and transport burden of the rural population by constructing substantial amount of low-level rural road infrastructure and enabling the people utilize road infrastructure effectively. Construction of link and regional roads have also been given due emphasis.

The total cost for program period is projected at Birr 13.8 billion (Table 12.1 below). The bulk of the resource goes to rehabilitation, upgrading and construction of trunk roads and construction of new roads, which is expected to cover 3530 KMs followed by regional road and ERTTP to construct 1960 and 7000 Kms of road length. The objective is to increase the average rate of good roads to 50 percent and road density to 36km/1000 sq. km by the end of the program period.

**Table 12.1 Program Costs of Poverty Oriented Sectors
2002/03-2004/05 (High Scenario)**

| Million Birr | | | | |
|--------------|-----------------|-----------------|-----------------|-----------------|
| Sectors | 2002/03 | 2003/04 | 2004/05 | Total 3 years |
| Agriculture | 3,190.1 | 3,618.4 | 3,120.2 | 9,928.7 |
| Water | 1,634.2 | 2,423.3 | 2,757.5 | 6,814.9 |
| Road | 3,530.2 | 4,654.9 | 5,599.0 | 13,784.1 |
| Education | 5,144.8 | 5,016.0 | 4,946.2 | 15,107.0 |
| Health | 2,268.6 | 2,265.7 | 2,275.7 | 6,810.0 |
| Total | 15,767.9 | 17,978.3 | 18,698.6 | 52,444.8 |

12.1.4 Education

The education program gives priority in resource allocation to access and coverage of primary education, tertiary and technical and vocation training through the construction and rehabilitation of schools and institutions. At primary and secondary levels, additional requirements for classrooms, teacher, textbooks, equipment and furniture are necessary to provide better quality of education and to encourage additional students joining the system. At technical and vocational level, the input requirements for teachers and books are based on the number of students, field of study and types of courses offered.

Total cost of the program, as indicated in Table 12.1 above, stands at Birr 15.1 billion where significant (46 percent) of the resource is allocated for the expansion of primary education followed by tertiary and TVET. Allocation of resources for the construction of schools, training of teachers, syllabi and textbooks, and for the improvement of the quality of education, will help achieve the targets set. The targets for primary education and secondary education are set at a GER of 65 and 16 percent by the end of 2004/05, respectively. With the improvement of management capacity, construction of new institutions, training of teachers, introduction of distance education program and other activities, the target for the enrolment in TVET will increase to 130,000 by the end of 2004/05. The construction of

additional infrastructure like classrooms, laboratories, workshops and centres, as well as training and recruitment of teachers would enable the higher education overall enrolment to reach 152,000 by the end of the program period.

12.1.5 Health

Health sector programs costs are projected in line with objectives of increasing the health coverage, equity and efficiency at all levels of the health system but with a special focus on the expansion of basic health facilities and the development of health manpower. Specifically, building management capacity at all levels of the health delivery system and ensuring its sustainability will be major areas of emphasis to the development of the sector. The program also gives emphasis on the construction and rehabilitation of health facilities, construction and upgrading of training facilities, and construction of zonal and Woreda health offices and drug stores. The manpower component of the program concentrates on the training of primary health workers and midwives.

The total cost of the health sector program, as depicted in Table 12.1 above, is estimated at Birr 6.81 billion where the bulk of the budget goes for the improvement of the quality of health care through the improvement of the availability of the supply of pharmaceuticals and other inputs as well as the rehabilitations and expansion of health facilities. In addition, the resource will also be allocated for human resource development and recruitment of skilled managerial and technical health workers as well as for the implementation of health extension package on pilot basis. These will help to achieve the targets set for health sector by the end of the program period (see the targets for health sector in the matrix Table 13.1 and 13.2 of Chapter XIII).

For prevention and control of **HIV/AIDS**, the cost estimate for the program period is expected to reach Birr 0.96 billion, of which costs associated with prevention of the pandemic accounts for 44 percent with the objective of maintaining the prevalence rate of HIV/AIDS at 7.3 percent in 2004/05. So far, the discussion focuses on the sectoral cost requirements of poverty reducing sectors during the three-years program period to achieve targets set in each sector that would contribute to the improvement of the well being of the population and reduction of the level of poverty. The foregoing analysis outlined the cost requirements to undertake poverty-focused programs of key sectors aimed at achieving growth-reducing poverty. However, resources are limited and there are also other competing activities that also require resources. Besides, costs have to be consistent with the macroeconomic stability, fiscal and debt sustainability. With this background, the following section establishes and outlines budgetary cost of poverty reducing sectors and other government commitments, which is anchored in the Macroeconomic and Fiscal Framework (MEFF).

12.2 The Macroeconomic Fiscal Framework (MEFF)

The MEFF is a tool by which three-year resources are identified on the basis of the macroeconomic framework. Once the resource envelope is determined a careful estimation is made for federal government discretionary and non-discretionary outlays of recurrent spending. The remaining balance is subject to the allocation between federal capital expenditure and regional transfer. Regional transfer accounted for the lion's share of regional governments finance.

Two approaches could be adopted to deal with program costing in PRSP. One may start with articulating objectives and identification of targets to reduce poverty and look for resources to finance those programs. It is also possible to start with a thorough assessment of available resources from both domestic and external sources and allocating to sectors with this resource constraint. The second approach is found to be appropriate for the allocation of resources in our Sustainable Development and Poverty Reduction Program (SDPRP).

The MEFF is projected on the assumption of high domestic resource mobilization and moderate inflow of external finance. The MEFF is prepared in line with the agreed PRGF that lay down strong macroeconomic stability. However, the government is committed to maintain the estimate for 2002/03 consistent with the PRGF agreement while the subsequent years forecast is made on the basis of higher GDP growth as discussed in Chapter XI. The increased expenditure for poverty-targeted sectors is expected to come from donor support, gains from tax reform measures and restraining of the growth of non-priority sectors. The interim enhanced HIPC relief is an additional resource for the poverty-reducing sectors on top of the government allocation for these sectors.

12.3. Medium Term Resource Envelope

Domestic resources, are largely mobilized from taxes. Tax revenues in turn depended on the overall economic growth, broadening of the tax base and enhancement of tax administration. In order to increase tax revenue, a far-reaching and comprehensive tax reform measures have been implemented during the medium term. To this end, a comprehensive reform program is underway in the areas of tax policy and administration including the introduction of VAT in the tax system. The reform also includes overhauling of the existing tax law, implementing tax identification number (TIN), introduction of presumptive tax assessment; improving and modernizing tax administrations through enhancing technical capacity of tax collecting institutions at various levels of administration.

Parallel with the government's effort to raise domestic sources of finance, efforts will be geared to generating increased inflow of external finance. During the medium term, external finance is expected to play an important role in the effort towards realizing the desired growth and poverty reduction. External finance is forthcoming from various development partners in the form of budget and program support.

According to the medium term forecast, tax revenue is estimated to increase from 14.3 percent of GDP in 2000/01 to 16.6 percent in 2002/03 and reach to 17.7 percent by the end of the program period, 2004/05. On the basis of medium-term expenditure fiscal framework (MEFF), the following Table depicts domestic and external resource mobilization in the next three years.

Table 12.2. Forecasts of Revenue and Grants, 2002/03- 2004/05
(In million Birr)

| Item | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | Total 3 years |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|----------------|------------------|
| | Pre act | Estimate | Budget | Forecast | | |
| Total Revenue & grants | 12,827.1 | 13,815.3 | 15,189.0 | 16,795.5 | 18790.5 | 50,775.1 |
| Domestic Revenue | 10,199.2 | 11,091.7 | 12,441.1 | 14,095.7 | 16193.8 | 42,730.6 |
| Tax Revenue | 7,452.0 | 8,295.8 | 9,464.0 | 10,938.9 | 12815.9 | 33,218.8 |
| Non tax Revenue | 2,747.1 | 2,795.9 | 2,977.1 | 3,156.8 | 3377.9 | 9,511.8 |
| Grants | 2,627.9 | 2,723.6 | 2,748.0 | 2,699.8 | 2596.7 | 8,044.5 |
| Grant in kind/earmarked | 1,650.9 | 2,060.0 | 2,267.0 | 2,022.8 | 2107.7 | 6,397.5 |
| Counterpart fund grant | 977.0 | 663.8 | 481.0 | 677.0 | 489.0 | 1,647.0 |

The above table shows the total resource that can be mobilized from domestic sources and external grants. However, this is not the only resource that will finance total expenditure in the next three years. Other sources that would be used to finance the expenditure includes: external project loans, HIPC debt relief, counterpart fund loans, special program loans, domestic bank borrowing and receipts from the privatization of public enterprises. The estimated amounts from these sources are depicted in the following table.

Table 12.3 Other Sources of Revenue to Finance Expenditures, 2002/03-04/05
Million Birr

| Item | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | Total 3 years |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|------------------|
| | Pre act | Estimate | Budget | Forecast | | |
| External loan, net | 2,069.9 | 4,669.0 | 4,677.0 | 4,407.9 | 3,756.2 | 12,841.1 |
| Project loan | 1,744.4 | 1,906.4 | 2,199.8 | 2,481.1 | 2,827.2 | 7,508.1 |
| Counterpart fund loan | 171.4 | 1,932.0 | 1,373.3 | 1,170.4 | 1,102.0 | 3,645.7 |
| HIPC relief | 0.0 | 425.0 | 778.9 | 806.4 | 689.0 | 2,274.3 |
| Special program loans | 770.0 | 1,020.0 | 982.0 | 887.0 | 0.0 | 1,869.0 |
| Less: amortization | 615.9 | 614.4 | 657.0 | 937.0 | 862.0 | 2,456.0 |
| Domestic borrowing, net* | 567.7 | 0.0 | 500.0 | 779.1 | 779.5 | 2,058.6 |
| Privatization receipts | 400.0 | 400.0 | 350.0 | 300.0 | 300.0 | 950.0 |
| Total financing resource | 3,037.6 | 5,069.0 | 5,527.0 | 5,487.0 | 4,835.7 | 15,849.7 |

* Including residual financing for 2000/01.

Based on the above two tables, total resource (excluding special programs) available for allocation between poverty reducing sectors and other discretionary and non-discretionary government commitment stands at Birr 64.8 billion for the whole program period (2002/03-2004/05).

12.4 Additional Resource from Enhanced HIPC Debt Relief

Ethiopia has reached a decision point for enhanced HIPC relief in October 2001. The total amount of debt relief is estimated at US\$ 1,930.0 million, which accounted for 36 percent of the nominal debt stock on July 7, 2001 or a common reduction factor of 47.2 percent based on the estimated NPV of debt outstanding.

The decision point was reached following the successful completion of the first annual review under the three-year PRGF arrangement and launching of a wide consultative process for the elaboration of the full PRSP. The country is expected to reach a floating completion point after meeting a number of actions agreed in the program. In the meantime, the IMF, IDA and AfDB are providing interim debt relief assistance.

The debt relief under the enhanced HIPC Initiative would supplement the federal and regional governments' own effort to boost social spending by increasing budget allocations for education, health, roads, and agriculture and natural resources. Particular efforts will be made to increase the efficiency and effectiveness of public spending related to HIPC Initiative relief through accompanying capacity building efforts in public administration over the coming years.

Given the allocation of the HIPC relief to poverty targeted expenditures and on the assumption that full assistance will be released after 2003/04, possible allocation of the resource by sector is shown in Table 12.4 below.

Table 12.4 Estimated Allocation of Resource from HIPC Debt Relief to Poverty Oriented Sectors, 2002/03-04/05

| | In million Birr | | | | |
|------------------------------|---------------------|-------------------|---------------------|---------------------|------------------|
| | 2001/02 Estimate | 2002/03 Budget | 2003/04 Forecast | 2004/05 Forecast | Total 3 years |
| Recurrent Expenditure | 21.3 | 39.0 | 40.3 | 34.5 | 113.7 |
| Agriculture | 6.5 | 10.9 | 12.7 | 10.9 | 34.6 |
| Water | 0.4 | 0.7 | 0.9 | 0.7 | 2.4 |
| Road | 1.9 | 2.9 | 4.0 | 3.4 | 10.4 |
| Education | 9.0 | 17.5 | 16.6 | 14.2 | 48.4 |
| Health | 3.4 | 6.8 | 6.0 | 5.2 | 18.0 |
| Capital Expenditure | 403.8 | 739.9 | 766.1 | 654.6 | 2,160.6 |
| Agriculture | 87.0 | 159.5 | 165.1 | 141.1 | 465.6 |
| Water | 59.6 | 109.3 | 113.2 | 96.7 | 319.2 |
| Road | 142.8 | 261.7 | 271.0 | 231.5 | 764.1 |
| Education | 88.4 | 162.1 | 167.8 | 143.4 | 473.2 |
| Health | 25.9 | 47.4 | 49.1 | 41.9 | 138.4 |
| Total HIPC relief | 425.0 | 778.9 | 806.4 | 689.0 | 2,274.3 |

The realization of the full debt relief will be determined by fulfillment of the necessary requirements (meeting the HIPC triggers) that lead to the floating completion point. In that case, all bilateral and multilateral creditors are expected to provide their share of debt relief on the basis of the study of HIPC relief and debt sustainability analysis.

12.5 Allocation of Resources within MEFF

Expenditure allocation in the MEFF involves the assessment of new expenditures, expenditure allocation from non-priority to priority sectors, boosting financing of priority sectors, and regional distribution. Expenditure allocation between federal and regional governments as well as between recurrent and capital is another important aspect in expenditure allocation.

In the medium term (2002/03-2004/05), therefore, the expenditure requirements and projection focused on matching spending with the overall available resource, allocating expenditures in line with PRSP targets, and the regional distribution aspects of resource allocation.

The medium term expenditure framework drew particular attention for increasing expenditure to poverty oriented sectors including, agriculture and water resource, road, health and education. These sectors are considered as important avenues towards realizing economic growth and poverty reduction through generating income and enhancing capacity among the poor.

The resource allocation in MEFF is made under a budget constraint in that sectoral programs may not be able to maintain their requirements to the level of activities they intend to accomplish. More emphasis in the allocation of resource is given to poverty-oriented sectors by mobilizing domestic resources, seeking increased donors support and constraining allocation to non-priority sectors.

12.5.1 Allocation of Resources for Poverty Oriented Sectors

Although utmost priority is given to poverty-oriented sector, the available resource may not be sufficient to meet the requirement of the sectors. This would indicate that sectors have to scale down part of the expenditures from certain components of their sectoral programs. The allocation of resource for poverty-oriented sectors with in MEFF is shown in the table below.

Table 12.5 Expenditure Forecast for Poverty Oriented Sectors, 2002/03-04/05
In million Birr

| | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | Total |
|--------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| | Pre act | Estimate | Budget | Forecast | | 3 years |
| Agriculture | 1,051.1 | 1,627.4 | 1,830.5 | 2,191.3 | 2,531.8 | 6,553.5 |
| Water | 556.9 | 722.5 | 1,114.4 | 1,299.5 | 1,481.7 | 3,895.6 |
| Road | 1,603.7 | 2,069.7 | 2,608.2 | 3,420.4 | 4,107.6 | 10,136.2 |
| Education | 2,180.7 | 2,971.6 | 3,463.3 | 3,885.3 | 4,424.4 | 11,773.1 |
| Health | 970.0 | 1,147.1 | 1,505.8 | 1,631.4 | 1,853.3 | 4,990.5 |
| Total | 6,362.4 | 8,538.3 | 10,522.1 | 12,427.9 | 14,398.8 | 37,348.8 |

Comparison of this table with the Table 12.1 shows that required sectoral expenditures are scaled down across the board. This implies that sectors have to adjust their targets downward in line with the cost reduction and/or reallocate the resources to components of their program that ensures maximum achievable targets are maintained.

In this regard, with in the Agriculture sector priority is accorded to the extension program costs earmarked for these components are expected to be maintained as those are programs and activities that are going to be undertaken to reach out farmers with various packages in line with the government's new rural development policies and strategies. In improving the skill of farmers, training of students at agricultural technical and vocational training (TVET) centers will be given due emphasis. Financial constraints may lead to the rescheduling of new programs for future implementation and in effect may imply the slow down in the effort for faster poverty reduction.

The focus of water sector will be for the development of water supply and sanitation, and construction of small-scale irrigation. In all sub programs there are ongoing programs that will extend beyond the program period. In implementing the programs there are activities, which are ongoing, committed and programmed. If resources are not forthcoming as envisaged (in the event of limited resources), programmed activities shall be given least priority. With financial resource constraint, attempts will be made to optimize the target for the improvement of access to clean water supply and development of small-scale irrigation.

In the road sector, the cost requirement assumed the execution of three different category of projects, namely (a) ongoing projects whose funding is secured, (b) projects where their preparatory activities are completed and funding are under negotiation and (c) new projects that the government intend to execute with the objective of improving access to road. In this regard, the allocation of resource in MEFF would limit the road sector to the construction of

on-going road projects that have secured funding and are under negotiation. In effect the targets set for each component of road sector program would be revised downward, i.e., the cost reduction would result in the target for road density to lower by 7 percent.

With regard to Education, as primary education is accorded top priority all activities and the targets in this sub sector will be maintained by lowering the unit cost of constructing schools and by using low cost construction materials. As the construction of low cost schools require local materials and low level of skill, attempts will be made to raise the share of communities in projects through provision of labour, material and money. On the other hand, under the low scenario the cost associated with construction and upgrading of secondary schools will be reduced by 12.5 percent. In effect, the enrolment in secondary schools will reduce by about 30,000 deferring the problem on future enrolment. Furthermore, the cost reduction from operating and investment outlays of higher education and TVET will result in the reduction of total enrollment by 10,500 and 16,000, respectively. In addition to the scaling down of costs, different strategy need to be employed to carry out the remaining activities, among others, increasing the utilization of classrooms, workshops and laboratories by teaching in the evening and weekends and increasing of class sizes in programs wherever is feasible.

With regard to the health sector, program cost under the low scenario is brought down by about 36 percent. In order to minimize the effect of expenditure reduction on targets, the health sector will attempt to slow down the construction of new health facilities and efforts will be made to improve the quality of health care through the supply of essential inputs. As the bulk of program costs for HIV/AIDS is going to be covered by global funds, budget pressure is not likely to affect programs to be carried out through government resources.

In general, in establishing cost requirements for sectoral programs, attempts have been made to assess the absorptive capacity of the respective sectors based on past trends (budget implementation). The launching of capacity building programs and the efforts currently underway to set the stage for its implementation is one avenue to enhancing execution capacity of federal and regional executive bodies and there by improve their implementation capacity and provision and delivery of public services. The capacity building program contains the development of human resource, improvement and strengthening of the capacity of institutions, decentralization of activities to Woreda level and establishment of effective work environment, which are considered to be major pillars for the enhancement of the absorptive and implementation capacity of sectoral programs.

In general, the increased expenditure to poverty reducing sectors is determined within a budget constraint that is consistent with macroeconomic stability and fiscal sustainability. The overall fiscal deficit (including grant and excluding special programs) is forecast to rise from 7.9 percent of GDP in 2001/02 to 8.0 percent in 2002/03 and continuously decline to reach 6.7 percent by 2004/05. The deficit is expected to be financed by external net borrowing that account for 8.2 percent of GDP in 2002/03 and is to decline to 5.2 percent by 2004/05, leaving the remaining balance to be financed by privatization receipts and bank borrowing covering the costs of poverty oriented sectors.

Expenditure for poverty-oriented sectors is projected to increase from 15.6 percent of GDP in 2001/02 to 18.4 percent in 2002/03 and to 19.9 percent by 2004/05. This increased expenditure will be funded by massive mobilization of domestic tax revenue, donor support including HIPC debt relief, and restraint on expenditures of non-poverty sectors.

12.5.2. Allocation for Other Sectors

Outlays for defense expenditure will be constant during the next three years as a requirement for maintaining minimum level of security of the country. Debt servicing will be entertained on the basis of the schedule of payments considering the debt relief that accrued in each fiscal year. The allocation for other sectors that are focused mainly on administrative and government service delivery is constrained to make sufficient resource available for poverty reducing sectors.

Overall, on the basis of the available resource and the allocation of resources to poverty oriented sectors as well as other sectors' resource requirement estimate, and the financing of government expenditure forecast for FY 2002/03–2004/05 is shown in Annex Table 12.1: Summary of Government Finance.

12.6 Prioritization of Sector Programs and Resource Allocation

Prioritization among poverty reducing sectors is not an easy a task since the nature of poverty reduction strategy is multidimensional. In the context of Ethiopia, all key poverty-oriented sectors are equally important in the in the endeavor towards achieving sustainable growth poverty reduction. Attempts to prioritize among them is tantamount to compromising growth and hence poverty reduction. The construction of rural roads, for instance, would enable and facilitate the provision of social services like education & health, increase earnings of small farmers as access to markets improves, and improve access to water supply and sanitation services.

However, prioritization of activities can be made within each sector. For the agricultural sector, priority will be given for the provision of extension service and food security. Water supply and sanitation, especially rural water supply is a priority in the water sector followed by small-scale irrigation which has direct bearing food security. The construction, rehabilitation and upgrading of trunk road and ERRTP are top priorities in the case of the road sector. To start with road projects are prioritized on the basis of access to ports, access to existing resource areas, access to potential resource areas and markets, access to food deficit areas and balancing the distribution of road infrastructure among regions.

In the education sector, priority in terms of resource allocation is given to primary education, tertiary and technical and vocational training in that order. These components account for 46.4, 22.9 and 15.9 percents of the total program cost requirement, respectively. However, top priority is given for primary education and the targets for this component of the program are to be maintained even under the low scenario.

In the health sector, the provision of services like maternal and child health care, malaria, TB, etc are priority areas. Control and prevention of the prevalence of HIV/AIDS will also be given due attention.

12.7 Financing Sectoral Requirements

The foregoing resource allocation, which is based on assessment of poverty focused sectoral requirements made by each respective sector, shows a resource gap when compare to the sectoral allocation made on the basis of MEFF. Given the limited capacity of the economy to mobilizing domestic resource, the sectoral requirements are to be covered from donors' assistance, community contributions and NGOs. It is recognized that there is a strong partnership between the government and donors that focused on poverty reduction. Furthermore, the wide range of institutional and structural reforms that have been taking place would help enhance the transparency of government expenditure management and accountability of the public sector in the endeavor to stimulating economic growth and reducing poverty. These efforts are expected to encourage all development actors including our development partners to mobilize their resources towards a common goal, i.e. poverty reduction.

The government will take all the necessary effort to mobilize additional resources to meet the sectoral targets. It will also work together with donors and NGOs since they are already actively participating in the government's poverty reduction endeavor. In this regard, Woreda level decentralization currently underway will create conducive environment for coordinating Woreda programs. The Woreda devolution will also help in mobilizing community contribution in activities like rural roads, education, health, and water supply programs.

Various sectoral finances are also expected to flow into the country. Of these the expected disbursement from IDA loan from Country Assistant Strategy, global funds and bilateral initiative for various health and HIV/AIDS programs are some of the major external financing sources. In addition to community contribution, ways of mobilizing domestic resources are envisaged. For instance, in the health sector and higher education, a mechanism is designed for cost recovery of the services provided in the program period. There is also establishment of tariff structure of water services to ensure water prices lead to full cost recovery of projects.

XIII. Program Target & Monitoring & Evaluation System

13.1 Objectives of the PRS Monitoring System

The PRSP is a holistic document, developed in a participatory way, through which government aims to secure the support of stakeholders for its overall poverty strategy and targets. The PRSP builds on the various sectoral and regional policy documents, plans and budgets through which the development strategy is articulated. The PRS monitoring system has a correspondingly broad role.

The aims of the system are:

- a) To ensure that government and other stakeholders have a good understanding of the nature and distribution of poverty (in all its dimensions) and are able to monitor changes in the level and incidence of poverty;
- b) To monitor the implementation of the actions contained in the PRSP and identify problems as they emerge;
- c) To help assess whether implementation of the actions contained in the PRSP is having the intended effect on poverty.

13.2. Existing Monitoring Systems as a Basis for PRS Monitoring Systems

Welfare/poverty monitoring systems are not something new for Ethiopia. Even before the advent of the PRSP, the Welfare Monitoring System Program (WMSP) was established in mid 1990s. The Welfare Monitoring Unit (WMU) was established within the then MEDaC to follow up the activities of the WMSP. The National Welfare Review Committee (NWRC) comprised of ministers of key poverty-oriented sector ministries has supervised the overall activity of the WMSP and other relevant institutions (CSA) chaired by the then Minister of MEDaC. There was also a technical wing (Advisory Committee) chaired by the head of the WMU of the then MEDaC. The functioning of this structure will be revitalized in the light of the PRSP implementation.

Since donors and non-state actors were involved in the preparation and are supporting and implementing SDPRP, they have a stake in its monitoring, review and evaluation. Given SDPRP uses existing mechanisms, and since core sector development programs have their own program management, monitoring, review and evaluation mechanism defining the roles of different actors and operate, on a multi-stakeholder mode, NGOs and donors will participate in the system.

Broadening the data/information base through conducting surveys and censuses as well as compiling databases from administrative/secondary sources including scientific research publications and mainstreaming them is key to putting in place effective monitoring systems and developing robust indicators and targets. In this regard, the Ethiopian statistical scene has changed for the better during the last decade. Apart from maintaining the momentum of the National Integrated Household Survey Program (NIHSP) of the 1980s, new surveys and censuses have been initiated and implemented by the Central Statistical Authority (CSA) during the 1990s. Some of the statistical developments which are believed to be the basis for an effective monitoring and evaluation systems are outlined as follows:

- The setting up of the welfare monitoring system under the WMS loan and grant, including the establishment of the Welfare Monitoring Unit (WMU) and the series of Welfare Monitoring surveys and the two Household Income Consumption Expenditure (HICE) surveys. In particular, the completion of the 1999/2000 HICE provided both good baseline information on poverty and the welfare of the population as well as information on trends in the second half of the nineties;
- The National Medium-term Statistical Development Program developed jointly by the then MEDAC now MOFED and CSA, in particular the establishment of a proposed program of surveys and censuses;
- The development of analytical capacity, both within the Government and other agencies such as the Economics Department of Addis Ababa University, especially through their involvement in the analysis of the 1999/2000 HICE & WM surveys results;
- The commitment by Government to improve both the quality and performance of its overall statistical system through participation in the IMF's General Data Dissemination System (GDSDS). It is anticipated

that metadata on the main economic, financial, social and demographic statistical systems will be publicly posted in August;

In the context of Ethiopia, the PRS monitoring system is not a new invention. Rather, it is built up on existing systems such as the Welfare Monitoring System Program. The PRS monitoring system helps to broaden the scope of the monitoring system and to revitalize the functioning of existing systems.

13.3 Institutional Responsibilities and Links to other Monitoring Systems

The task of the PRSP Monitoring and Evaluation (M&E) system is to bring together relevant information from different sectors and sources. In order to provide a comprehensive picture, it will draw on more detailed sectoral and regional monitoring, not substitute for it.

The Welfare Monitoring Unit in the Ministry of Finance and Economic Development (MOFED) will coordinate the system. This Unit will be responsible for compiling and analysing data collected by other institutions, in order to provide performance reports on PRSP implementation in Ethiopia. It will also take a leading role in commissioning of relevant research and the dissemination of the findings. Plans for strengthening of the WMU and the Welfare Monitoring System are being refined, and government will seek coordinated support from its aid partners in further strengthening the welfare monitoring system Program.

There are already plans for strengthening data collection systems, including integrating routine administrative data systems with the proposed program of surveys and censuses. Primary focus will be on evaluating the extent to which HICE and WM surveys results serve the purpose they have been originally intended to: developing multi-purpose welfare/poverty indicators of national scope that help inform policy decisions in the government's endeavour towards broad based poverty reduction efforts.

Our poverty analysis experiences with the 1995/96 and 1999/2000 HICE & WM survey data sets have already given us insights on the strengths and weaknesses of existing HICE and WM surveys results. Joint discussions will be subsequently held with the CSA to identify areas that need improvement to render the results more useful for national poverty analysis. Given the existing backlog of survey/census and administrative data, special effort will be made to build and strengthen analytical capacity within the WMU and MOFED at large.

The Welfare Monitoring System Program is expected to continue. To bridge financing shortfalls until the WMS II Program is introduced, the World Bank has already extended supplemental credit. The WMU of MOFED has already proposed a number of studies and concomitant capacity building initiatives: Participatory poverty assessment, qualitative impact assessment, sectoral analysis and determinants of poverty. The outcomes of these studies are going to be important in taking up issues relegated for future research in the area of strengthening and mainstreaming monitoring systems.

13.4. Existing Data and Monitoring Systems

Ethiopia has a large number of different data sources that can be used for welfare and poverty analysis. Annex Table 13.1 summarizes the main potential sources, and also shows the reporting levels that each of the surveys allows for – i.e. the lowest level of geographical disaggregation at which the results can be reported without compromising statistical representativeness. Sample sizes have been increasing in recent years. This not only increases the scope for meaningful disaggregation, but also the logistical problems involved in getting the data to the responsible analysts in a reasonable time. Generally, however, the Central Statistical Authority delivers an elaborate and complicated survey program with relatively limited time lags.

At its level of development, Ethiopia already has had a substantial database both to analyse poverty and to monitor progress in the future. Annex Matrix Table 13.2 gives an overview of the type of information available in the main national data sets and matches potential data sources to the four recognized dimensions of poverty. These data are sufficient for a broad, multi-dimensional analysis of poverty and welfare. For example, the nationally representative Welfare Monitoring Surveys interviewed in 1995/96 and in 1999/2000 the same households as those covered by the Household Income Consumption and Expenditure (HICE) survey. Consequently, monetary and non-monetary welfare indicators can be linked and compared. In other words, links between consumption (monetary indicators)

and health, education or nutrition outcomes can be explored. Also, links between assets (e.g. livestock) and poverty can be explored based on the most recent data.

The scope of **survey data** will be significantly strengthened when the on-going Agricultural Sample Census is completed. This is to be conducted every 10 years. Baseline data is currently being gathered from 40,000 households, and will yield very rich information on plot size, inputs and outputs (data to be available by mid-2003). Overall, the surveys summarized in Box A (Annex Matrix Table 13.2) will (after completion of the Agricultural Census) give an exceptionally rich picture of agricultural production. However, economic information on households – incomes and expenditures – is less frequently collected than in some other countries, and this lack of frequency poses some problems for the interpretation of changes in poverty. This is among the issues addressed below on the strengthening of M&E systems.

The most systematic monitoring of **administrative data** takes place in the sectors, which have developed Sector Development Programs – education, health and roads, in particular. The water sector development program that is under preparation will lead to more systematic monitoring of water supply services, and work is also under way to consolidate and strengthen the various monitoring systems that are relevant to food security.

The national survey and administrative data are complemented by **participatory studies**, notably the 1997 Participatory Poverty Assessment (PPA) and the consultations conducted from *Woreda* level upwards for the development of the PRSP itself. In addition, there are various non-government surveys (including some panel data) and monitoring systems that augment the information available from official data. Directions for strengthening data collection, analysis and use are discussed in subsequent paragraph.

13.5 Indicators for Monitoring the National PRS

13.5.1 Criteria for Selection of Indicators

The role of PRSP indicators is to provide a clear and agreed way of measuring whether progress is being made towards reducing poverty. A large number of indicators are defined within the various sectoral programs and the government's overall development strategy. For instance, the health sector development program currently has 54 indicators defined. The purpose of including an indicator in the PRSP is to focus attention on key aspects of progress in the sectors, in particular on the impact of actions in the sector on poverty. The monitoring system for the PRSP also allows inter-sectoral linkages and cross cutting issues to be addressed. The indicators highlighted in the national PRSP will thus be a subset of those that are monitored at sector level. It will be necessary also to develop indicators that are relevant for monitoring implementation at regional and lower levels of administration. Wherever possible, indicators will be disaggregated by gender, region and rural/urban categories.

Indicators are defined for each major sector at several levels:

Final outcomes: aspects that directly affect people's well being.

Intermediate outcomes: aspects not within the direct control of the public sector and with an indirect impact on poverty.

Outputs: the goods and services supplied by the public sector to the community at large to help the reduction of poverty (Quantity, quality, income group).

Inputs: the goods, human and financial resources deployed by the public sector to produce outputs.

Process: the actions and institutional developments needed to implement the main actions.

The following criteria have been used in selecting proposed indicators for the PRSP:

- a) Indicators should be an **unambiguous measure of progress** - either an outcome of intrinsic importance or causally related to the important outcome. Indicators of performance should causally influence the desired outcomes; indicators of progress may merely be correlated. In most cases the indicator is monotonically linked to welfare – e.g. less mortality is simply better. But in some cases (fertility, inflation), there is an optimal level (or range) and it is undesirable to miss this level on either side.

- b) Indicators should be **relevant** to the objectives of the program being evaluated.
- c) They should exhibit **variation** within the country across time and space.
- d) They should not be easy to manipulate: the collection mechanism should be **transparent and credible**, especially where there is a danger of the data-collecting agency having an incentive to influence the data.
- e) Indicators of performance should have a **clear link** with the agency whose performance is being evaluated. Indicators of progress, however, may also incorporate the effect of exogenous shocks.
- f) The indicator should be capable of being tracked **frequently** enough for its purpose (and analysed quickly enough) and with **low rates of sampling and non-sampling error**. Where the accuracy or the definition of an indicator changes over time, it is important (if possible) to revise the data backwards in order to ascertain the trend. Where current data for the preferred indicator are not very accurate, it may be best to use a different indicator pending improvement in the data-collection system.
- g) The indicator should be as **economical** as possible to collect, both financially and in terms of scarce staff time.

13.5.2 Proposed SDPRP Indicators & Targets

The PRSP framework entails the development of a system of monitoring outcomes and impacts of the poverty reduction strategy and programmes. Policy and programme intervention need to be evaluated using basic indicators selected in line with the development objectives and goals set for the country. In Ethiopia, most of the basic development goals and targets are already set in various sector development programmes. These and additional basic welfare indicators will be used to monitor progress made in poverty reduction in the country.

SDPRP indicators are presented in two sets: an indicative list of targets and indicators and a shorter list of **performance indicators** and targets as related to HIPC triggers are succinctly presented in the Matrix Table 13.1 and Table 13.2, respectively. The latter are discussed in detail in section 13.5.3 below.

Table 13.1: A Matrix Describing SDPRP Indicators & Indicative Targets

| Components of Welfare | Intermediate /outcome Indicators | Millennium Development Goals (MDGs) and Targets | Current Status in Ethiopia | SDPRP Indicative Target |
|---------------------------------|--|---|--|--|
| Poverty & Inequality | <ul style="list-style-type: none"> • Poverty headcount (P_0) | <ul style="list-style-type: none"> • Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day | <ul style="list-style-type: none"> • $P_0=44.2$ by 1999/2000 | <ul style="list-style-type: none"> • $P_0 = 40$ by 2004/05 |
| Food Security | <ul style="list-style-type: none"> • Percentage of people who are below the poverty line | <ul style="list-style-type: none"> • Halve, between 1990 and 2015, the proportion of people who suffer from hunger | <ul style="list-style-type: none"> • Food poverty = 41.9 in 1999/00 | <ul style="list-style-type: none"> • Food Poverty Head Count Index = 38% by 2004/05 |
| Agriculture | <ul style="list-style-type: none"> • No. of Farming Households covered by extension program | | <ul style="list-style-type: none"> • No. of Farming Households = 4 million in 2000/01 | <ul style="list-style-type: none"> • No. of Farming Households = 6 million by 2004/05 |
| | <ul style="list-style-type: none"> • No. of trainees in Agricultural TVET | | <ul style="list-style-type: none"> • No. of trainees = 12,400 in 2000/01 | <ul style="list-style-type: none"> • No. of trainees = 519,008 by 2004/05 |
| | <ul style="list-style-type: none"> • Quantity of Fertiliser consumption | | <ul style="list-style-type: none"> • Quantity of fertiliser consumption = 279,602 Metric ton in 1999/2000 | <ul style="list-style-type: none"> • Quantity of fertiliser consumption = 1,439,100 Metric ton by 2004/05 |
| | <ul style="list-style-type: none"> • Quantity of improved Seed sales | | | <ul style="list-style-type: none"> • Improved seed sales = 944,313 Quintals by 2004/05 |
| | <ul style="list-style-type: none"> • New cooperatives established | | | <ul style="list-style-type: none"> • New cooperatives established = 1639 by 2004/05 |

| Components of Welfare | Intermediate /outcome Indicators | Millennium Development Goals (MDGs) and Targets | Current Status in Ethiopia | SDPRP Indicative Target |
|-----------------------|--|---|---|---|
| Health | <ul style="list-style-type: none"> • Infant mortality rate | | <ul style="list-style-type: none"> • IMR=97/1000 | <ul style="list-style-type: none"> • 85/1000 by 2004/5 and = 50/1000 by 2017 |
| | <ul style="list-style-type: none"> • Under 5 child mortality rate | <ul style="list-style-type: none"> • Reduce by two thirds, between 1990 and 2015, the under-five mortality rate | <ul style="list-style-type: none"> • CMR=167/000 | <ul style="list-style-type: none"> • CMR = 160/1000 by 2005 |
| | <ul style="list-style-type: none"> • Maternal Mortality rate | <ul style="list-style-type: none"> • Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio | <ul style="list-style-type: none"> • MMR= 500-700/100,000 by 2000/01 | <ul style="list-style-type: none"> • 400-450 by 2004/05 and = 300/100,000 by 2017 |
| | <ul style="list-style-type: none"> • Access to health services | <ul style="list-style-type: none"> • No target | <ul style="list-style-type: none"> • Access to health service =52%by 2000/01 | <ul style="list-style-type: none"> • Access to health services • 65% by 2004/05 |
| | <ul style="list-style-type: none"> • Immunization of children | | <ul style="list-style-type: none"> • Immunization = 60% | |
| | <ul style="list-style-type: none"> • Health budget share | | <ul style="list-style-type: none"> • Health share of total budget =5.2% | <ul style="list-style-type: none"> • Health share of total budget 8.2% by 2004/05 |
| HIV/AIDS | | | | |
| | Transmission | <ul style="list-style-type: none"> • Halve halted by 2015 and begun to reverse the spread of HIV/AIDS | - | <ul style="list-style-type: none"> • Reduce transmission by 25% by 2004/05 |
| | Prevalence | <ul style="list-style-type: none"> • Halve halted by 2015 and begun to reverse the prevalence. | <ul style="list-style-type: none"> • 7.3% by 2000/01 | <ul style="list-style-type: none"> • Contain prevalence at 7.3% by 2004/05 |

| Components of Welfare | Intermediate /outcome Indicators | Millennium Development Goals (MDGs) and Targets | Current Status in Ethiopia | SDPRP Indicative Target |
|------------------------------|---|--|--|---|
| Education | <ul style="list-style-type: none"> Gross enrolment | <ul style="list-style-type: none"> Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling | <ul style="list-style-type: none"> GER (primary) =57.4%by 2000/01 | |
| | <ul style="list-style-type: none"> Repetition rate | <ul style="list-style-type: none"> No target | <ul style="list-style-type: none"> Average grade 4-8 repetition rate = 10.3% by 2000/01 | <ul style="list-style-type: none"> GER (primary) 65% by 2004/05 Average grade 4-8 repetition rate = 6.4% 20004/05 |
| | <ul style="list-style-type: none"> Girls/boys ratio | <ul style="list-style-type: none"> Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015 | <ul style="list-style-type: none"> Ratio of Girls to Boys students 40.6% by 2000/01 | <ul style="list-style-type: none"> Ratio of Girls to Boys students 45% by 2004/05 |
| | <ul style="list-style-type: none"> Primary school drop out | <ul style="list-style-type: none"> No target | <ul style="list-style-type: none"> Primary school dropout rate =17.8 % by 2000/01 | <ul style="list-style-type: none"> Primary school dropout rate 8.9% by 2004/05 |
| | <ul style="list-style-type: none"> Education. Budget share | <ul style="list-style-type: none"> No target | <ul style="list-style-type: none"> Education. Budget share =13.8 % by 2000/01 | <ul style="list-style-type: none"> Education. Budget share 19 % by 2004/05 |
| Clean water supply | <ul style="list-style-type: none"> Access to clean water | <ul style="list-style-type: none"> Halve by 2015 the proportion of people without sustainable access to safe drinking water | <ul style="list-style-type: none"> Access to clean water by 2000 = 30.0% national =72% urban =24% rural | <ul style="list-style-type: none"> Access to clean water =39.4 % national =82.5% urban =31.4% rural by 2004/05 |
| Road | <ul style="list-style-type: none"> Road network | <ul style="list-style-type: none"> No target | <ul style="list-style-type: none"> Road density 29-km/1000 km sq. | <ul style="list-style-type: none"> 47-km/1000km sq. by 2004/05 |

Table 13.2: SDPRP Performance Indicators

| A: Quantitative indicators | | | | | |
|-----------------------------------|--|---------------|-------|------------|----------------|
| Sector | Indicators | Current Level | Date | Target | Date of Target |
| Education | Repetition rate at primary level | | 00/01 | 7% | 02/03 |
| | Female Gross Primary Enrolment | | | 50% | 02/03 |
| Health | DPT 3 vaccination coverage (admin. estimate), as proportion of surviving infants | | | 50% | 02/03 |
| HIV/AIDS | Health service Utilization | 27 | 00/01 | 30 | 02/03 |
| | Condom distribution by social marketing (excludes free distribution) | | | 62 million | 2002/03 |

| B: Process Indicators | | | | | |
|-------------------------------|--|---------------|------|--------|----------------|
| Sector/area | Indicator | Current Level | Date | Target | Date of Target |
| SDPRP | SDPRP completed and implemented for one year | | | | June 2002 |
| Macroeconomic stability | Implementation of the PRGF program | | | | |
| Public Expenditure management | Reconciliation of monetary and fiscal accounts | | | | Starting 01/02 |
| | Consolidating federal and regional budgets, including all extra-budgetary accounts | | | | Starting 02/03 |

Indicators for each sector have been chosen carefully to reflect the critical dimensions of the challenge in the particular sector. For these reasons:

- a) The education indicators focus on quality and quantity as well as equity;
- b) The health indicators focus on quality, usage and prevention, since these are urgent constraints to making use of the existing facilities;
- c) In roads and water, special attention is given to maintenance;
- d) Net farm incomes are to be monitored because movements in output and input price have recently had serious effects on farmers' well being in some parts of the country;

13.5.3 Targets for the SDPRP: Aspirations and Commitments

It is important to distinguish between **aspirations** and **commitments**. Ethiopia aims to achieve certain objectives in the medium term, which are reflected in the targets of the various sectoral programs. These targets are to be taken seriously as declarations of public intent. The government of Ethiopia will endeavour to cooperate with all parties including regional and *Woreda* governments, civil society and international donors and lenders to achieve them, and if these targets are missed, it will be an important part of the SDPRP monitoring to examine the reasons and suggest corrective action. However, they cannot be interpreted as absolutely binding commitments. Targets of the type described in Matrix Table 13.1 referred to, as indicative targets are not going to be binding for the following reasons:

- a) Many of the targets are defined for outcomes, but these are not within the government's control. Even some public sector outputs, such as enrolment in state schools, depend on demand as well as supply factors.

- b) Decisions about public expenditure depend on regional agreement.
- c) The links between public outputs and outcomes are not precisely known in many cases, either in Ethiopia or elsewhere. The objective will be to use all the available evidence to improve the effectiveness of public actions in achieving the desired outcomes.
- d) The resources available in future years are not certain, both for domestic revenue and for foreign assistance.

Even if adequate aggregate resources are available, the targets will not be achieved unless they are available on adequately flexible terms. Repeated Public Expenditure reviews have shown that the administrative requirements of existing forms of assistance have reduced the efficiency with which they are spent; moreover, many donor projects adopt an international cost structure, which may increase the unit costs of achieving a particular objective.

However, it is necessary for a number of international agreements to have some agreed annual performance indicators. At this stage, for instance, Ethiopia is committed to a number of conditions (known as ‘HIPC triggers’), which have to be met before HIPC debt relief can be accessed (the ‘completion point, which will be mid-2003 at the earliest). In addition, discussions are under way for budget support to be offered by the EU on the basis of performance indicators.

It is clearly very undesirable for different donors to multiply performance criteria for budget support. For this reason, performance indicators have been defined for 2001-2 and 2002-3 and are included in Table 13.2 above.

The targets include the already existing commitments under the HIPC agreement and also include some of the targets, which have been proposed during discussions for the EU’s planned budget support.

Because donor resources will depend directly on these indicators, they have been designed to avoid setting perverse incentives or making commitments outside the government’s control. Two examples are the female share of primary school pupils and the utilization rate of health facilities.

While increasing the ratio of girls in primary school is an important objective, it is not within the government’s direct control and would present the perverse incentive that government would gain by reducing boys enrolment. Gross primary enrolment for girls is therefore a better measure, and has already been adopted as the HIPC trigger.

The performance target for utilization of the health service is a HIPC trigger and has therefore been included. However, experience shows that annual movements in this indicator tend to be dominated by the occurrence or non-occurrence of epidemics rather than by the longer-term increase in demand, which is sought. It was also found in one region that the health bureau intended to reduce utilization by preventive measures; it is certainly the case that the use of utilization risks penalizing the country for successful preventive strategies. None of these arguments apply to the long-run aspiration of increasing utilization. Hence, it is not appropriate to use this indicator as a form of conditionality, though it will be monitored and discussed as part of the SDPRP and the health sector strategy. If performance indicators are felt necessary to monitor improvements in health care, it will be better to focus on curative or preventive inputs, such as trained staff, vaccinations facilities with drugs and equipment. Systems to monitor these input measures are being strengthened.

13.6. Directions for strengthening the monitoring system

The need for adopting a holistic approach to developing monitoring and evaluation systems that is built up on existing structures/systems is already underscored. This is tantamount to mainstreaming monitoring systems and renders them efficient and transparent and thereby enable them serve the information requirement (for monitoring and evaluation) of all actors including the emerging private sector, donors, NGOs, and civil societies alike. The WMU being at the centre of such endeavours needs to be strengthened to enable it discharge its coordinating role in an efficient manner.

As already noted, the existing state of poverty monitoring in Ethiopia represents a very strong platform on which to build. There is scope to strengthen the system and its feedback into policy by:

- a) Faster analysis, disaggregation and dissemination of existing surveys and data;
- b) Filling some crucial gaps in the data collected;

- c) Collecting data from different sources; and
- d) Strengthening analysis and use of data at all levels of government – particularly at regional and lower levels of administration, in the light of government's commitment to deeper decentralization.

13.6.1 Data Collection and Utilization

The statistical base in Ethiopia is improving, with particular strength in the area of agricultural statistics, reflecting the importance of food security. The new Agricultural Sample Census will provide representative and high quality data at the *Woreda* level. The household data is of good quality but less frequent than in some comparable countries and gives limited information on incomes.

The very strong climatic influence on economic outcomes makes it hard to interpret any individual year of survey data. Experience suggests that at least three or four data points are likely to be needed. If the HICES were to be held once every four years, it will be very hard to say anything definitive about expenditure and income poverty in Ethiopia for another 4 to 8 years. For this reason, it would be preferable to gather more frequent economic data from households, to complement the very strong production data. The CSA is responsible for the design of survey questionnaires and consults a wide range of stakeholders during questionnaire design. For the SDPRP indicators, it will be necessary to consider the introduction of some new questions into the household surveys.

Capacity building efforts will focus on speeding up the analysis of data, through strengthening of CSA and the WMU. More use will be made of local research institutions in data analysis and related research. As regards administrative data, there will be efforts to streamline data collection and reporting. For all types of data, there will be particular emphasis on ensuring that, whenever relevant, data is used at *Woreda* and regional levels, and not simply relayed up the system. There will be increasing emphasis on ways of monitoring the quality of services, as well as their coverage, and innovative means, such as service delivery quality surveys will be introduced.

The framework of the Welfare Monitoring System was established in the mid 1990s, and was intended to include a systematic consultative mechanism and facilities for the commissioning of research. The WMS will be re-vitalized in view of its key role for monitoring and evaluation of the PRS. More policy-relevant research will be encouraged and directly commissioned. Important potential areas for such research include:

- a) Impact of food assistance on poverty (using the household survey);
- b) Determinants of productivity and incomes (using HICES and the crop survey);
- c) Returns to education and graduates' prospects in the labour market;
- d) Economic impact of the adoption of fertilizer and improved seeds, and other agricultural technologies;
- e) Studies on the impact of public expenditure;
- f) Links between income diversification and poverty reduction;
- g) The role of micro-finance institutions and other local institutions (including *idir* and *iqub*) on consumption smoothing, vulnerability and the consequent implications for productivity;
- h) Follow up to the poverty profile, in particular examining on more detail changes in urban and rural consumption patterns and poverty outcomes

Research is also being sponsored in a number of sectors, including a major study of the determinants of educational enrolment and the poverty impact of transport infrastructure. Particular attention will be paid to linking different areas of research and examining their inter-sectoral dimensions.

13.6.2. Ensuring Consistency and Standardization of Reporting Systems

There is a real need for documenting and standardizing methodologies employed in computing and generating indicators based on administratively generated data (secondary sources) with particular emphasis on harmonizing indicator systems at federal and sub-national (regional and *Woreda*) levels. Data generated by the CSA through national surveys and censuses are by design amenable for the computation of indicator systems at a level the sample is deemed representative. Currently any survey or census conducted, analyzed, and reported by the CSA has taken the federal administrative set up of the country in to consideration. Internationally accepted standard scientific methodologies that are self-weighting are used in the computation of indicator systems based on the results from national surveys and censuses. These indicators are also centrally computed and reported for the administrative

entity (region or *Woreda*) at which the sample is deemed representative. Methodological inconsistencies in the course of aggregation and consolidation may not be common in indicator systems developed from sample surveys and censuses.

However, there is a real concern in standardizing and harmonizing methodologies while computing indicator systems at different levels of consolidation (national, regional, and *Woreda* levels) of indicator systems. For instance, there is a need for outlining the weighting systems adopted in consolidating *Woreda* level outcomes into regional level and in turn regional level indicators into national ones. Commonly reported indicators that need to be harmonized at different levels include outcome/output indicators (coverage of health services, education enrollment, rural water supply coverage, farmers covered by extension services, etc); input indicators (expenditure on education, health, road, water shares in to the budget). The sector development programs on Education, Health, Road, Water, and Food Security have helped strengthen the database in those sectors and more importantly the flow of information both ways, from regional levels to federal ministries.

There is a need for harmonizing methodologies and formalizing the two-way flow of such information from lower levels of administrations (regions and *Woredas*) to pertinent federal level institutions. A case in point is the need for formalizing smooth flow of data /information on agriculture from regional bureaus to the federal Ministry of Rural Development (Ministry of Agriculture). Currently there seems to be a weak link in the flow of administrative data information between these entities.

There are also other indicators systems that need to be standardized and harmonized at the different levels of consolidation. In this regard, there is a need for the integration of data on inputs, especially expenditure data with information on outputs and outcomes. There is also a need for linking and complementing administrative & surveys data that help monitor output and outcome indicators. The ongoing decentralization process is aimed at rendering *Woredas* the centre of socio-economic development activities, which in turn calls for a huge data/information requirement for planning and monitoring. It is also important that the timing of surveys and censuses fit in to the budget cycle. The annual Public Expenditure Review (PER) process seems to be useful in this regard.

13.7 Regional and *Woreda*-level systems

The main focus of the SDPRP monitoring system is on monitoring at the national level. Although this itself requires disaggregations to capture important aspects of social and geographic diversity, the more specific needs of regions and *Woredas* also need to be considered. The following areas will be explored:

- a) Presentation of national data in ways that are useful for regional planning;
- b) The development of regional poverty profiles from the national data;
- c) The use of geographic information systems to assist the allocation of financial resources and infrastructure across *Woredas* (using poverty mapping);
- d) The development of simple systems of monitoring which *Woredas* themselves can use to guide their decisions (in the process, streamlining the various *Woreda*-level initiatives that are proceeding in parallel);
- e) The development of better feedback mechanisms to help *Woredas* assess their own progress.

As it stands now, the HICE & WM surveys based poverty analysis provides indicators at national, regional, and group of zones (for the three largest regions-Oromiya, Amhara, SNNPR) levels and by rural and urban areas. The 1995/96 HICE & WM based Poverty Situation and 1999/2000 HICE & WM based Poverty Profile reports report indicators at those levels, although the coverage of indicators of the latter is far better than the former. Given the on-going decentralization process that is aimed at rendering *Woredas* a centre of socio-economic development, the need for developing welfare/poverty indicators at local levels (particularly *Woredas*) seem to be of paramount importance. There is a need for devising proactive mechanisms to accommodate the information requirements of sub-national governments as the decentralization process evolves.

By way of addressing the information gap at local levels, the possibility to carry out poverty mapping study is being assessed within the WMU of MOFED. Poverty maps help bring together information from the HICE surveys with population census data. Thus, developing poverty maps at minimum require recent census data accompanied by HICE survey conducted preferably during the same period, preceding the census or superseding it. The HICE

provides pertinent indicators on the income dimensions of poverty for the reference period. The census indicators help project those income /consumption indicators to the lowest levels of administrative entity for the census reference period. Hence, the outcomes of the poverty mapping exercises refer to the census year under consideration. The recent Census in Ethiopia was conducted in 1994. Poverty mapping is a complex exercise that should not be left to a single institution and calls for concerted efforts of all pertinent actors (MOFED, pertinent regional Bureaus, CSA, Mapping Agency, Academic Institutions). If Ethiopia is to conduct poverty mapping exercise, more work will need to be done in consultation with regions and *Woredas* to identify their needs for data and what support may be required to build capacity in both the generation and use of data.

13.8 Outline of a Framework for the Preparation of SDPRP Progress Report & Other Dissemination Plans

There will be an annual report on the SDPRP, and the full SDPRP will be rolled over after three years. The annual report has a number of functions:

- An update on welfare and poverty Ethiopia, with special attention to reporting the findings of newly available surveys and reports;
- A general report on progress in implementing SDPRP policies and programmes, including the overall macroeconomic and budgetary situation,
- A more specific report on the indicators and targets included in the SDPRP, with special attention to those that are triggers for HIPC or other budgetary support;
- An update on the programme of poverty research and studies; and
- If required, gap filling and elaboration on the original SDPRP.

The annual report will serve a number of audiences:

- First and foremost, it is an operational document for government itself to check that SDPRP implementation is on track, and to prompt any necessary action;
- Second, it will be made available to other stakeholders in Ethiopia, in continuation of the participatory approach used in preparing this SDPRP;
- Third, it will be Ethiopia's main annual report to its donor partners. Government will seek to make the annual PRSP progress reports a comprehensive one, so as to minimize the need for additional separate reports to donors.

This is Ethiopia's first PRSP and other countries' experience with PRSP reporting is still very limited. Initial assessment of good practice indicates that the key elements of an annual SDPRP report should be an update on indicators (but recognising that the data interval for many indicators is longer than one year) and a revision and update of the SDPRP policy matrix. The annual report will also be an opportunity for Government to respond to any specific issues raised in the IMF/WB Joint Staff Assessment of the PRSP. As for timing, the report should fit into the annual planning and budget calendar. In Ethiopia's case, this would mean completion of the report shortly after the close of the fiscal year (in July). The report would thus feed into the planning phase of the fiscal calendar. This would also enable any donor disbursements dependent on the report to be decided in time to be reflected in the Government's expenditure guidelines to regions and ministries.

Primary responsibility for drafting the Annual SDPRP Progress Report will be assigned to the Economic Policy and Planning Department of MOFED.

The SDPRP annual progress report being an important and necessary output, reports from studies already envisaged by the WMU and other pertinent divisions within the Economic Policy and Planning Department of MOFED are also going to be outputs from the monitoring system to serve the needs of central and local government, private sector, donors, NGOs, and civil society groups. The Economic Policy and Planning Department of MOFED will develop a dissemination plan in consultation with pertinent information suppliers and users.

Attempts will also be made to complement results from quantitative analysis by outcomes generated through qualitative assessments. The monitoring system will make use of both quantitative and qualitative data that will be derived from the proposed new participatory poverty assessment (PPA). The aim will be to use the strengths of both quantitative and qualitative methods to build up a more complete picture of poverty in Ethiopia and on the impact of the poverty reduction strategy as a whole.

13.9 The Role of Development Actors in the SDPRP

The government realizes that the desired accelerated development and poverty reduction cannot be achieved merely through the efforts of the government. Given the magnitude and complexity of poverty in Ethiopia, its resolution requires the concerted and coordinated action of all concerned parties. The communities, the private sector, NGOs and Civil Society Organization (CSOs) have to play their part in a coordinated manner. International support is also critical from donors. Devolution to *Woredas* and *Kebeles*, among others, is meant to create enabling environment for them to play their roles in democratization process, national economic development and poverty reduction.

Consistent with the principle of operating within the regular structures, and therefore respecting the federal administrative structure, the Government (federal, regional and *Woreda*) is primarily responsible for the implementation of SDPRP. The different tiers of government will play their roles in accordance with the powers and duties they are given but in a coordinated manner. They are expected to provide central space to SDPRP in their annual plan and budget as well as its implementation. They are expected also to facilitate the coordination and effective utilization of the contributions of non-state actors. In a way the core sector development programs, which are central elements of SDPRP, have program management and implementation arrangements that too inform the roles of development actors in SDPRP.

The government recognizes NGOs as an important development force and partner. They are already involved in the core poverty oriented sectors-agriculture, health, education, water, rural roads and other rural development activities. These experiences and resources must be brought in and coordinated with SDPRP. In the contributions of NGOs' paper for SDPRP preparation, it is indicated that operational NGOs are involved in around 1200 projects, with health, agriculture and rural development as the major sectors.

In this respect, one task that will be accorded priority is the effort, which needs to be made to coordinate the development capacities of NGO's operating in regions and *Woredas*. Regional governments and *Woreda* councils are expected to create an enabling environment in which the resources and technical know-how of domestic and international NGOs' can be properly utilized in support of their plans. NGOs are expected to give information on their areas of activities and resources to regions and *Woredas* they operate to facilitate their planning and budgeting. At the same time NGOs' will have information in the regions/*Woredas* they operate about their development plans derived from SDPRP and will identify the contributions they are capable of making to the implementation of these plans and finally will operate according to these development plans. Further, efforts should be made on the part of NGOs' to mobilize resources for the implementation of *Woreda* development plans. Further, key sector development programs such as education, health are critical operational framework for NGO participation.

With regard to the private sector, the government will dialogue to encourage it to increase its investment by taking the opportunities created in the economy-thus contributing to growth and poverty reduction.

The donor community is also important development force and partner in Ethiopia. Donors have been assisting Ethiopia's development effort and have been active in the SDPRP preparation. The government wants increased resource flows (financial, technical assistance) and improved aid delivery mechanism for the implementation of SDPRP, monitoring and evaluation. The DAG has expressed its readiness to support SDPRP and some members of DAG have decided to move towards budget support in their aid delivery and the government will create conducive environment for its realization.

Given the government's policy to devolve responsibility and resources to the *Woreda* level beginning 2002/03, the challenge it poses both for the government and its interaction with non-state actors is well understood. It is a process, things will get refined as we learn by doing.

Finally, the Government would like to ensure the partnership in implementation, monitoring and evaluation with the non-state actors, which will strengthen the partnership that developed during the preparation of the strategy document.

XIV. Conclusions

The problem of widespread poverty is one of the most serious challenges facing Ethiopia. Accordingly the government's primary objective has been and still is to generate and sustain a robust and broad based economic growth with out which meaningful poverty reduction would not be possible. But this requires enabling political, economic and social environment to materialize. Ethiopia has had such an enabling environment created during the 1990s.

A decentralization processes that empowered different communities to manage their affair's; a development policy that rationalized the role of the state and created space for the private sector; the existence of a development strategy that addresses rapid and broad based growth and poverty reduction; a justice and civil service reform designed to create transparent, accountable, effective and efficient public service and capacity building all combined form the foundation for Ethiopia's SDPRP.

Currently, the government is seriously engaged to deepen the process of the 1990s. Commercialization, diversification and Specialization is to be intensified through farmers training and support of the extension system. This will help the farmer to transit from producing for subsistence to producing for the market, in the process realizing market driven agricultural development. This creates a basis for strong agriculture industry linkage for structural transformation of the Ethiopian economy.

Furthermore, the government has made a political choice to further deepen the democratization and devolution process by transferring a number of responsibilities from regional governments to Woredas and Kebeles. This will be accompanied by fiscal empowerment. This is a fundamental shift in the history of Ethiopia, which mandates communities through their elected councils to plan, allocate budget and implement to address their socio-economic problems. This is a key process that will unlock the energies of communities to face the challenge of poverty at its root. They will be provided with budget grants to make their empowerment effective and complement their local resources, which for sure they will mobilize to address their own problems by themselves.

Capacity building, in the Ethiopian context, is critical to ensure rapid, broad-based development and poverty reduction as well as deepen the democratization process. The program is designed in an integrated and holistic framework and targets the capacities of the public, private and civil society organization to optimize synergic effect to strengthen democracy accelerate development and poverty reduction.

The government is working towards effective mobilization and coordinated use of the resources of the public, private, NGOs and communities to ensure rapid, broad based development and effectively attack one of the most serious challenges that Ethiopia is facing –deep and wide poverty.

Given the level of poverty and the low level of per capita ODA Ethiopia currently receives (below the sub-Saharan average), there is expectation for increased inflow of ODA resources to support the country's strategy and priority programs for broad-based development and poverty reduction. It is also expected that aid flows are not impeded by traditional aid delivery mechanism. There is a clear and strong preference for budget support, which becomes an imperative with the ongoing decentralization from regions to Woreda and *Kebeles*. Development partners are also expected to facilitate market access trade and foreign investment flows to Ethiopia to contribute to the realization of development and poverty reduction objective of Ethiopia.

ANNEXES

Annex Table 1.1: Trends in Real Expenditure Per Capita by Region (Birr)

| Regional State | 1995/96 | | | 1999/00 | | |
|------------------|-------------|-------------|-------------|------------|-------------|-------------|
| | Rural | Urban | Total | Rural | Urban | Total |
| Tigray | 904 | 1113 | 935 | 829 | 996 | 854 |
| Afar | 1106 | 2465 | 1595 | 998 | 1618 | 1178 |
| Amhara | 917 | 1271 | 961 | 1047 | 1490 | 1088 |
| Oromiya | 1184 | 1498 | 1216 | 1020 | 1354 | 1055 |
| Somalie | 1166 | 2079 | 1268 | 1071 | 1476 | 1211 |
| Benshangul-Gumuz | 1027 | 1642 | 1064 | 925 | 1513 | 965 |
| SNNPR | 945 | 1181 | 962 | 933 | 1349 | 962 |
| Gambella | 1223 | 1354 | 1280 | 901 | 1223 | 981 |
| Harari | 1768 | 1460 | 1599 | 1395 | 1350 | 1370 |
| Addis Ababa | 1113 | 1569 | 1560 | 1214 | 1712 | 1701 |
| Dire Dawa | 1054 | 1397 | 1259 | 1069 | 1360 | 1275 |
| Total | 1035 | 1411 | 1088 | 995 | 1453 | 1057 |

Annex Table 1.2: Trends in Poverty Head Count Indices (Po) by Region

| Region | 1995/96 | | | 1999/00 | | |
|------------------|---------|-------|-------|---------|-------|-------|
| | Rural | Urban | Total | Rural | Urban | Total |
| Tigray | 0.58 | 0.46 | 0.56 | 0.62 | 0.61 | 0.61 |
| Afar | 0.51 | - | 0.33 | 0.68 | 0.27 | 0.56 |
| Amhara | 0.57 | 0.37 | 0.54 | 0.43 | 0.31 | 0.42 |
| Oromiya | 0.35 | 0.28 | 0.34 | 0.40 | 0.36 | 0.40 |
| Somalie | 0.35 | 0.02 | 0.31 | 0.44 | 0.26 | 0.38 |
| Benshangul-Gumuz | 0.48 | 0.34 | 0.4 | 0.56 | 0.29 | 0.54 |
| SNNPR | 0.57 | 0.46 | 0.56 | 0.52 | 0.40 | 0.51 |
| Gambella | 0.42 | 0.24 | 0.34 | 0.55 | 0.38 | 0.51 |
| Harari | 0.13 | 0.29 | 0.22 | 0.15 | 0.35 | 0.256 |
| Addis Ababa | 0.40 | 0.30 | 0.30 | 0.27 | 0.36 | 0.36 |
| Dire Dawa | 0.37 | 0.25 | 0.29 | 0.33 | 0.33 | 0.33 |
| Total | 0.48 | 0.33 | 0.46 | 0.45 | 0.37 | 0.44 |

Annex Table 1.3: Trends in Consumption Poverty Indices¹⁴ among Major Towns

| Major Towns | 1995/96 | 1999/00 |
|-------------|----------------|----------------|
| | P ₀ | P ₀ |
| Mekele | 0.46 | 0.43 |
| Gonder | 0.34 | 0.18 |
| Dessie | 0.72 | 0.31 |
| Bahir Dar | 0.38 | 0.22 |
| Debrezeit | 0.44 | 0.37 |
| Nazreth | 0.29 | 0.28 |
| Jimma | 0.29 | 0.37 |
| Harar | 0.29 | 0.35 |
| Addis Ababa | 0.30 | 0.36 |
| Dire Dawa | 0.25 | 0.32 |

Annex Table 1.4: Trends in Food Poverty Head Count Indices

| Region | 1995/96 | | | 1999/00 | | |
|------------------|---------|-------|-------|---------|-------|-------|
| | Rural | Urban | Total | Rural | Urban | Total |
| Tigray | 0.60 | 0.44 | 0.57 | 0.52 | 0.65 | 0.54 |
| Afar | 0.46 | 0.00 | 0.30 | 0.64 | 0.29 | 0.53 |
| Amhara | 0.55 | 0.32 | 0.52 | 0.32 | 0.35 | 0.32 |
| Oromiya | 0.39 | 0.31 | 0.38 | 0.37 | 0.49 | 0.380 |
| Somali | 0.38 | 0.00 | 0.33 | 0.47 | 0.34 | 0.42 |
| Benshangul-Gumuz | 0.54 | 0.27 | 0.51 | 0.56 | 0.41 | 0.55 |
| SNNPR | 0.46 | 0.42 | 0.45 | 0.55 | 0.54 | 0.55 |
| Gambella | 0.33 | 0.19 | 0.283 | 0.62 | 0.433 | 0.57 |
| Harari | 0.14 | 0.21 | 0.18 | 0.16 | 0.48 | 0.33 |
| Addis Ababa | 0.37 | 0.31 | 0.31 | 0.36 | 0.48 | 0.48 |
| Dire Dawa | 0.26 | 0.29 | 0.28 | 0.25 | 0.28 | 0.28 |
| Total | 0.47 | 0.32 | 0.45 | 0.41 | 0.47 | 0.42 |

¹⁴ P₀= head count index; P₁= normalized poverty gap index; P₂ = squared poverty gap. P₀ measures the number of people below the poverty line. P₁ reflects the depth of poverty as it refers to the difference between the income (expenditure) of the poor person and the poverty line. P₂ being the square of P₁ reflects the severity of poverty -gives more weight to the poverty of the poorest.

Annex 3.1 Overview of the Major Outcomes of the Consultation Process

Woreda and Regional Levels Consultation Outcomes

According to the participants of Woreda and Regional consultations, poverty is the lack or shortage of the basic necessities of life. As such manifestations of poverty were mentioned as being lack of food, ill health, lack of or inadequate access to education, water supply, clothing and shelter, lack of or shortage of land, unemployment and lack of job opportunities.

In rural Ethiopia, causes of poverty include lack of income, wide spread disease and malnutrition, lack of decent health care, education, and clean water supply services. Fast depleting natural resources, and the shrinking of cultivable land compound these problems. Underlying all these is the low productivity of agriculture (crop and livestock) and limited off-farm income opportunities.

In urban areas, manifestations of urban poverty are fast growing population of unemployed, congested living conditions, low hygiene and sanitary conditions, lack or inadequacy of urban transport, inadequate public housing, water supply and electricity. The underlying factor is limited employment and income opportunities as well as limited capacity for urban management.

The participants of woreda and regional consultations also emphasized the multi- dimensional nature of poverty and called for coordinated efforts of the public, private, NGOs, and communities for its effective resolution. What follows here are the categorization and summaries of the major outcomes of the Woreda and Regional Consultations:

a) Agriculture

- Improve crop production and productivity,
- Broaden the scope of training for farmers,
- Improve the provision of farm inputs and marketing of outputs,
- Strengthen the prevention and control of pests and weeds,
- Expand irrigation schemes to reduce dependence on rain and insure food security
- Improve methods of farming and increase the delivery of farm implements,
- Produce drought-resistant crops that would ripen in a short period of time,
- Promote voluntary resettlement.

b) Livestock

- Expand veterinary clinics,
- Address the problem of shortage of veterinarians,
- Improve animal feed and delimit grazing lands,
- Improve livestock marketing,
- Provide professionals and the community with sustainable training.

c) Development and conservation of natural resource

- Utilize local water resources to increase access to water supply and ensure food security,
- Establish seedling nurseries and plant the indigenous species,
- Strengthen environmental protection,
- Prevent deforestation by imposing more stringent fines on people who fell trees illegally, planting trees on denuded hills and promoting alternative sources of energy like stoves that conserve firewood,
- Employ efficient methods of land use by raising public awareness about proper land use.

d) Health and HIV/AIDS

- Expand access to health services with due regard to quality and adequate provision of materials and drags,
- Educate the public about disease prevention,
- Provide family planning services,
- Improve the number and quality of trained human resource.
- Strengthen the efforts to control and prevent HIV/AIDS through concerted public, NGOs, religious, organization, and communities' action.

e) Education

- Expand access to education services with due regard to quality,
- Provide adequate education materials,
- Ensure security for female students at the schools and increase their attendance,
- Expand non-formal education programs,
- Expand vocational and technical training.

f) Infrastructure Development

- Construction of roads,
- Increase access to telecommunication and electricity,
- Complete unfinished irrigation projects,
- Expand water supply especially in rural areas to help reduce the time women and girls spend on fetching water from distant places,
- Delimit market places and keep them clean and construct public toilets and stables.

g) Public service

- Strengthen transparency, accountability and competence of public service offices,
- Ensure the prevalence of peace and stability,
- Track down criminals and bring them to justice,
- Educate the public about crime prevention,
- Strengthen administration of justice,
- Oversee and coordinate the development activities of both international and indigenous NGOs,
- Implement, monitor and evaluate government policies,
- Develop capacity of public institutions,
- Protect and support vulnerable groups like children and women as well as disabled,
- Expand job opportunities for youth through skill training.

h) Harmful traditions and social values

- Eliminate harmful traditions, practices and beliefs which seriously affected saving culture as well as undermined respect of the rights of women and their full participation in the political, economic and social life of the society,
- Discourage the development of dependency syndrome by enhancing self-reliance and work ethics,
- In the fight against harmful traditional practices and values mobilize and coordinate the efforts of communities, NGOs, community elders, and religious leaders.

i) Off-farm income-generating activities

- Develop a work culture and thereby tap potential human resource,
- Create job opportunities through private investment and skill training for self-employment,
- Expand micro finance institutions.

j) Strengthening civic and professional associations

- Organize the people and involve them in all development activities from planning to implementation and monitoring,
- Strengthen service cooperatives,

- Expand rural savings and credit associations in order to promote a culture of saving toward investment.

k) Encouraging the private sector

- Develop and promote small-scale industries,
- Revise the land lease policy so that private investors could have easy access to the land they need,
- Reduce tax rates,
- Develop tourism by protecting and conserving national parks and other tourist attractions,
- Make the bureaucracy efficient,
- Strengthen the promotion of mechanized farming.

Federal Level Consultation Outcomes

During the federal consultations, papers were presented by government and non-state actors. Presentations made by the government were mainly on the country's policy and consultation outcomes. The outcomes of woreda and regional consultations are discussed in the above sections. Following is the summary of ideas forwarded by non-state actors.

a) Private Sector Perspectives

The private sector represented by the Ethiopian Chamber of Commerce conducted a series of workshops on different sub sectors prior to the Federal consultation. The presentation made by the Ethiopian Chamber was focused on the findings of these workshops. The following are summary of the private sector ideas and insights:

With Respect to ADLI

- Broaden the center of attention to other economic sectors that have good prospects in economic growth and development such as manufacturing industry, construction, mining, tourism, etc.

With Respect to Rural and Urban Land Policy

- The rural land holding policy should be improved in a way that is conducive for the creation and expansion of modern farms.
- The urban land lease policy should be revised to encourage private investment and the lease price needs to be made affordable considering the financial capacity of investors.

With Respect to Tax and House Rent

- Increase the duty tax on imported goods to stabilize the market, lift cumbersome taxes on local products, and reduce tax on products assembled locally below duties levied on imported finished goods.
- Even though tax is deemed as the main source of revenue for the government to undertake development endeavors, it should focus on broadening the tax base and improve the tax collection system and reduce tax rate.
- The recently introduced withholding tax proclamation is creating difficulties and should be revised.
- Tax on income from house rent should have a grace period, which is not less than three years, and the tax rate should be set within the ranges of 5% and 20%
- The tax collecting system is affecting the private investors in terms of time and money. It needs to develop transparent valuation mechanism and build efficient payment system; and lift the 75% down payment required for appeal.

With Respect to Finance

- Create the environment for the establishment and strengthening of services of specialized banks such as export trade bank, agricultural development bank and industrial development bank.

- Set up credit guarantee scheme that help small businesses to have access to bank loans.
- Take policy and administrative measures for the creation of well-organized stock market.
- Make life insurance dividend and provident funds tax-free in order to promote and develop domestic private savings
- Allow foreign banks to work in partnerships with local banks as foreign banks help develop modern banking systems and contribute in foreign currency earnings and in building confidence of foreign investors.

With Respect to strengthening legal Trade

- The government should fervently wage war against contraband trade and take precautions measures to prevent legal businesses from going into illicit trade in an effort to avoid the repetitive tax overburden.

With Respect to Performance Capacity and Bureaucracy

- Identify implementation setbacks at federal and regional levels occurring as result of organizational structure, capacity, and inadequate resource; and build the efficient capacity and transparent mechanisms that would enable to achieve competent and concerted implementation capacity.
- Give the necessary support for the strengthening of chambers of commerce, and assist industrial and sectoral associations to curb administrative flaws.

With Regard to Employers and Labor Relations

- Improve and introduce the necessary amendments in the present employers and labor law to make it attractive to both local and foreign investors and enable employees get benefits proportional to the growth of the entity for which they are working. Assist the establishment and growth of employers' and labour associations.

With Respect to Import-Export Trade

- To engender new produces compatible for the international market and alter and diversify the combination of the existing export items;

With Respect to Education

- Strengthen and expand the existing basic education programs;
- Provide civic education in schools;
- Establish institutions that provide short-term vocational trainings for farmers for creating alternative job opportunities for them;
- Give incentives for the private sector to participate in the education sector especially in establishing vocational and technical schools in different parts of the country;

With Respect to Modern Agriculture

- Devise and implement the necessary policy and administrative measures for the expansion of modern mechanized private farms; for quality and diversified production of cash crops and support farmers to put out technology-assisted;
- Provide administrative and policy resolutions for the expansion of modern agricultural market facilities such as agricultural commodity exchange system;

With Respect to Industry

- Expand the infrastructure, namely, electric power, telecommunications, water and road facilities, crucial for the endeavors of the private sector. Put in practice stringent control mechanisms that prevent dumping and under-invoicing of industrial products. Introduce special tax incentive for locally manufactured goods. Establish specialized financial institutions that open special line of credits for investors entering in the manufacturing sector;
- Apart from metallic minerals, attention and support should be given for exploration and development of industrial and construction minerals. Formulate and implement favorable rules

and regulations that could attract potential investors who have the resource, technology and know-how to exploit minerals whose deposits are already proven to exist;

With Regard to Construction

- Not to accept any type of preconditioned loans or aids that omits local contractors from the ensuring international bids. Set up preconditions compelling foreign contractors to allow at least a 20% share of the contract value with indigenous companies; and reject bid proposals offering 15% less than contract price valuations quoted by certified engineers;

With Respect to Tourism

- Make available land free from lease or at low rates for investors who are planning to invest in tourist attraction areas. Allow duty free importation of equipments and goods that would be utilized for the new construction or furnishing of hotels intensively promotes tourism resources both locally and internationally. Make inhabitants of the tourist attraction areas beneficiaries from the proceeds obtained from tourism to efficiently protect tourist attractions;
- Taking in to consideration tour operators' important role in the development of the sector, provide them with assistance schemes (such as considering field vehicles as investment inputs and grant them duty free import of such vehicles);

b) NGOs Perspectives

The NGO community in Ethiopia has established an NGO Task Force on the PRSP to closely follow and coordinate the NGOs contribution and participation in the PRSP process in Ethiopia. Subsequently it produced "NGOs perspective on Poverty Reduction Strategy Paper for Ethiopia". The summaries of the ideas forwarded by NGOs are presented as follows: -

With respect to ADLI

- NGOs support the government attempt to promote broad based growth and the envisaged increased commercialization process within the ADLI framework. There are however major concerning issues which need to be addressed in order to realize the intention of improving the lives of the majority of the population.
 - ADLI in the short-term is solely focused on rural areas whereas pressing urban poverty problems already exist needing urgent interventions.
 - Non-farm including off-farm activities as sources of livelihood are neglected and the needs of non-farming communities mainly the pastoralists but also fisher folk, rural traders, rural entrepreneurs, etc. remain not addressed in the strategy.
 - In order to enhance the viability of smallholder productivity as an engine of growth, interventions that are aimed at enhancing the saving and investment culture of the farmer need to be promoted through education.
 - Given the low level of agricultural development, subsidy should be considered to areas such as drought prone vulnerable communities and protection of selected agricultural products through discouragement of imports.
- Give enhanced priority to food security, education, health, water and sanitation, democracy and good governance as well as to the following crosscutting issues: pastoral development, youth and children, gender and environment.

With Regard to Capacity

- A major constraint in the implementation of development programs is weak human resource and institutional capacities especially at lower levels of regional administration systems. Capacity building is therefore an important development intervention that enhances the utilization and effectiveness of both domestic and external resources. This component of the government strategy should be tailored to address the gaps in the recent move towards further decentralization to district level.

With respect to decentralization

- The government plan of further decentralization to district (*Woreda*) level is highly appreciated by NGOs. This needs to be accompanied, however, by human capital formation and institutional building at *Woreda* level.

With Regard to Food Security

- Ensure food security. To this effect, among others, carrying out a full and an independent review of the ADLI strategy and current extension programs; ensure land tenure security; implement voluntary resettlement programs; promote and support the use of small scale irrigation; create mechanisms to stabilize and expand markets in rural areas; and ensure development policies are inclusive of all rural communities including pastoralists and fisher folk,

With respect to education

- Promote the expansion of non-formal education; implement national-level adult literacy program; support the expansion of formal education by the private sector and NGOs; introduce compulsory and free education to all at the primary level (grades 1-8) where schools availability is insured,
- Promote HIV/AIDS education in schools and strengthen prevention and control of HIV/AIDS;

With respect to health

- Use health education as the main strategy for mitigating the impact of communicable disease; expand free primary health care services but make sufficient charges on costly curative services; give due emphasis to strengthening the human resource and institutional capacities for facilitating the implementation of the HSDP; strengthen preventive measures such as immunization; revisit the 4-tier health structure and reassigning the role of health posts and human resources; and improve the management of health care inputs such as pharmaceuticals, health professionals and equipment,
- Providing special focus on the education of girls and women
- Ensuring development policies are addressing pastoral communities; empower pastoralist through participation to address their own problems and devise solutions; support livestock feed, breeding and veterinary service and improve livestock marketing,
- Improve both crop and livestock marketing,
- Promote community based natural resource management.

In the area of Water and Sanitation:

- Promote surface water collection and storage in small dams, ponds, and tanks together with run-off irrigation employing rainwater with temporary storage and flood diversion in semi-arid areas of the country.
- Provide incentives for crop intensification, increased access to micro-credit facilities and establish irrigation development fund for infrastructure development.
- Building capacity of water resource management personnel at all levels of the government structure with particular emphasis at community level institutions.
- Ensure a strong extension support that backstops farmers in intensive and appropriate water management practices in irrigation development.
- Develop an information base that takes stock of the resource base in the country and that can be regularly updated.
- Give top priority to domestic water supply followed by irrigation, hydropower development and capacity building.
- Promote the involvement of the private sector in the water and sanitation sectors.

Ideas to address Urban Poverty include:

- Make sectoral urban policies poverty focused. Most policies already in place such as the land lease policy and housing strategy are not designed to cater for the needs of the urban poor.
- Design an urban development policy that is multi-sectoral in nature, addressing all facets of urban management and most of all urban poverty reduction.
- Institute an urban governance system that includes local government, voluntary and community organizations, professional and trade associations, private sector and NGOs involved in providing services to urban communities.
- Facilitate access to working capital by promoting the establishment of community-managed savings and credit cooperatives, micro finance institutions and community support mechanisms such as “Idir” and “Iqub”.
- Amend urban land tenure policy so that land leases facilitate equitable, effective and efficient land distribution, providing the poor with security of tenure.
- Promote community based rehabilitation programmes for disadvantaged groups (elderly, handicapped, commercial sex workers, street children, and orphans) with full participation of target groups and the surrounding communities.
- Develop policy on urban sanitation with clear guidelines detailing the roles and responsibilities of households, communities, kebeles and municipalities

With regard to Gender Problems:

- Promote gender awareness.
- Invest in girls’ education including basic and reproductive health.
- Address both the strategic and practical needs of women to facilitate their access to all forms of assets and optimize their participation in political process.
- Compile statistical facts and indicators in a gender-disaggregated manner and utilize in decision-making.

Regarding the Promotion of Enabling Environment:

- Improve good governance by promoting transparent and accountable administration system.
- Improve the efficiency and effectiveness of the government bureaucracy.
- Strengthen the democratization process in the country.
- Encourage and support civil society institutions and facilitate their active involvement in decision-making process.

Annex Matrix Table 5.1
Poverty Reduction Policy Matrix, 2002/03-2004/05

| Objective | Policy Measures | Implementation Schedule | Implementing Agency |
|--|--|--------------------------------|----------------------------|
| Maintain macroeconomic stability and growth | <ul style="list-style-type: none"> ▪ Achieve 6 percent real growth in 2002/03 and 7 percent an annual average real GDP growth over the program period. ▪ Maintain stable prices (at no more than 5 percent inflation rate) ▪ Maintain foreign exchange reserve to cover 4-5 months import for goods and non-factor services | June, 2005 | MOFED/NBE |
| Improve productivity and growth in the agricultural sector | <ul style="list-style-type: none"> • Encourage the establishment of rural banks, saving and credit cooperatives, insurance firms, warehouses and micro-finance institutions. | 2002/03-04/05 | MORD/NBE |
| | <ul style="list-style-type: none"> • Encourage the participation of the private sector in the development of rural technology. | 2002/03-04/05 | MORD/MOTI |
| | <ul style="list-style-type: none"> • Further Expand agricultural technical and vocational training (TVET) centers | 2002/03-04/05 | MOCB/MORD/MOA |
| | <ul style="list-style-type: none"> • Develop agricultural training programmes for farmers with some years of schooling | 2002/03-04/05 | MOCB |
| | <ul style="list-style-type: none"> • Establish an institute for diploma-level training of extension agents | 2002/03-04/05 | MOCB |
| | <ul style="list-style-type: none"> • Introduce warehouse receipt schemes | 2002/03-04/05 | MOCB/MORD/MOA |
| | <ul style="list-style-type: none"> ▪ Study and introduce commodity exchange | 2002/03-04/05 | MOCB/MORD/MOA |
| | <ul style="list-style-type: none"> ▪ Remove any hindrances to the improved functioning of markets for agricultural inputs, | 2002/03-04/05 | MORD |
| | <ul style="list-style-type: none"> • Organize, strengthen and diversify autonomous cooperatives to provide better marketing services | 2002/03-04/05 | MORD |
| Promote private sector development | <ul style="list-style-type: none"> • Revise the existing law of chambers of commerce, and foster the establishment of industrial associations | 2002/03-04/05 | MOTI/CC |
| | <ul style="list-style-type: none"> • Conduct a study to explore ways and means of enabling private entrepreneurs to establish industrial estates. | 2002/03-04/05 | MOTI |
| | <ul style="list-style-type: none"> • Promote public-private sector partnership in development through creating institutionalized forums for structured dialogue | 2002/03-04/05 | MOTI/CC |
| | <ul style="list-style-type: none"> • Establish permanent exhibition centers as a means of dissemination of standard quality of products to be produced domestically; and give technical training | 2002/03-04/05 | MOTI/CC |
| | <ul style="list-style-type: none"> • Study and institute a central information center where all relevant information related to the operation of private and public business could be collected and disseminated to users | 2002/03-04/05 | MOTI |
| | <ul style="list-style-type: none"> • Strengthen the tertiary education in business and management, tailored to conditions in Ethiopia | 2002/03-04/05 | MOCB |
| | <ul style="list-style-type: none"> • Improve the functioning of urban land lease market to improve the availability of land | 2002/03-04/05 | MOFA |
| | <ul style="list-style-type: none"> • Consider the establishment of a leasing company to be financed by IFC and/or other commercial banks. | 2002/03-04/05 | MOIS |

| Objective | Policy Measures | Implementation Schedule | Implementing Agency |
|--|---|-------------------------|---------------------|
| | <ul style="list-style-type: none"> Revise telephone tariff for international calls and Internet tariff. | 2002/03-04/05 | MOIS |
| | <ul style="list-style-type: none"> Expedite implementation of private sector participation in the production of electricity. | 2002/03-04/05 | MOIS |
| | <ul style="list-style-type: none"> Remove and amend regulatory impediments, which hinder private sector development. | 2002/03-04/05 | MOTI |
| | <ul style="list-style-type: none"> Bring 38 public enterprises to the point of sale | June 2003 | EPA |
| Develop and diversify the export sector | <ul style="list-style-type: none"> Implement bonded manufacturing warehouse system | June 2002 | MOTI/ECA |
| | <ul style="list-style-type: none"> Help coordination among different firms with a view to realize external benefits | 2002/03-04/05 | MOTI |
| | <ul style="list-style-type: none"> Improve and simplify duty drawback system | June 2002 | MOTI/ECA |
| | <ul style="list-style-type: none"> Enhance application of export credit guarantee scheme | 2002/03 | MOTI |
| | <ul style="list-style-type: none"> Remove any hindrances of access to foreign collaboration and financing | 2002/03-04/05 | MOTI |
| | <ul style="list-style-type: none"> Encourage linkages between buyers abroad and domestic suppliers; and solicit technical assistance for technology absorption when necessary | 2002/03-04/05 | MOTI |
| | <ul style="list-style-type: none"> Encourage diversification of exports to products and industries with high potential of foreign exchange earning and saving (horticulture including cut-flowers and organic coffee, tourism, textiles and garment, leather, oilseeds and pulses) | 2002/03-04/05 | MOTI/MORD |
| | <ul style="list-style-type: none"> Build capacity in the private and public institutions so that they can develop a marketing strategy for priority areas/sectors that takes into account regional context/integration | 2002/03-04/05 | MOTI/MOCB |
| | <ul style="list-style-type: none"> Improve competition in the transport, telecom, and power sector to reduce costs for export. | 2002/03-04/05 | MOTI/MOIS |
| | <ul style="list-style-type: none"> Link domestic producers to export market through contracting growers and agencies | 2002/03-04/05 | MORD/NBE |
| Reduce food insecure rural households | <ul style="list-style-type: none"> Prepare food security projects for the regions not yet covered by the program | 2002/03 | MORD |
| | <ul style="list-style-type: none"> Implement regional food security programs including irrigation with a view to reducing the number of food insecure households | 2002/03-04/05 | MORD |
| Increase public Expenditure on Poverty Reduction and Strengthen Expenditure Management | <ul style="list-style-type: none"> Maintain consistency between current and capital expenditures | 2002/03-04/05 | MOFED/RFEDB |
| | <ul style="list-style-type: none"> Increase the share of public expenditure in education, health, agriculture and natural resources and roads sectors | 2002/03-04/05 | MOFED/ RFEDB |
| | <ul style="list-style-type: none"> Introduce macroeconomic and fiscal framework (MEFF) in planning and budgeting | 2002/03 | MOFED |
| | <ul style="list-style-type: none"> Adhere to the Financial calendar | December 2002 | MOFED |
| | <ul style="list-style-type: none"> Consolidate federal and regional budgets for both the past year and the budget year | September 2002 | MOFED/ RFEDB |
| | <ul style="list-style-type: none"> Review intergovernmental relationships at federal, regional, and woreda levels | December 2002 | MOFED/ RFEDB |

| Objective | Policy Measures | Implementation Schedule | Implementing Agency |
|--|--|-------------------------|---------------------------|
| | <ul style="list-style-type: none"> Introducing an integrated computerized financial information management system | 2003/04 | MOFED |
| Reduce the prevalence of HIV/AIDS | <ul style="list-style-type: none"> Establish HIV/AIDS councils at regional, zonal and district levels | 2002/03 | MOH, HIV/AIDS Secretariat |
| | <ul style="list-style-type: none"> Define work programmes for the functioning of district councils | 2002/03 | MOH, HIV/AIDS Secretariat |
| | <ul style="list-style-type: none"> Increase by 10% clinics providing voluntary HIV/AIDS counseling and testing services | 2002/03-04/05 | MOH, HIV/AIDS Secretariat |
| | <ul style="list-style-type: none"> Increase the number of anti-AIDS clubs in high schools by 20% per year | 2002/03-04/05 | MOH, HIV/AIDS Secretariat |
| Enhance revenue by improving tax administration & introducing new measures | <ul style="list-style-type: none"> Draft and approve by parliament a revised tax code that enforces powers of revenue agencies to collect tax revenue and promote compliance | June 2002 | MOR |
| | <ul style="list-style-type: none"> Adopt TIN and computerize taxation at the federal and regional levels | June 2003 | MOR |
| | <ul style="list-style-type: none"> Implement presumptive taxation | July 2002 | MOR |
| | <ul style="list-style-type: none"> Introduce VAT | January 2003 | MOR |
| | <ul style="list-style-type: none"> Complete the design and computerization of the tax payer registration | June 2003 | MOR |
| | <ul style="list-style-type: none"> Complete the operational development of taxpayer services activities, return process, and debt and audit activities | 2002/03 | MOR |
| | <ul style="list-style-type: none"> Initiate a publicity campaign, and taxpayer education and advisory visits | 2002/03 | MOR |
| | <ul style="list-style-type: none"> Start the computerization of revenue accounting | 2002/03 | MOR |
| Enhance efficiency and competition in the financial sector | <ul style="list-style-type: none"> Adopt regulations by NBE on the provisioning for non-performing loans and other doubtful assets in line with international standard practices. | August 31, 2002 | NBE |
| | <ul style="list-style-type: none"> Take steps to strengthen the NBE, following the completion of the ongoing comprehensive study of the NBE | December 2002. | NBE |
| | <ul style="list-style-type: none"> Revise the existing Banking Act to increase the autonomy by the NBE, | December 2002 | NBE |
| | <ul style="list-style-type: none"> Tighten bank supervision and building capacity of NBE and commercial banks | 2002/03-04/05 | NBE |
| | <ul style="list-style-type: none"> Adopt a restructuring plan to address the weak financial condition of the development Bank of Ethiopia, | September 2002 | NBE |
| | <ul style="list-style-type: none"> Revive the DBE to enable it resume long term lending | 2002/03-04/05 | NBE |
| | <ul style="list-style-type: none"> Consider options for financing SMEs (including contractors) | 2002/03-04/05 | NBE |
| | <ul style="list-style-type: none"> Prepare (by CBE) financial restructuring plan | End March 2003 | NBE/CBE |
| | <ul style="list-style-type: none"> Reduce non performing loans (CBE) by Birr 0.8 billion from Birr 3.9 billion | End December 2002 | NBE/CBE |
| | <ul style="list-style-type: none"> Complete the audit of CBE by an internationally reputable audit firm. | January, 2003 | NBE/CBE |
| | <ul style="list-style-type: none"> Improve the management of CBE through employment of management consultant. | September 2002 | NBE |
| | <ul style="list-style-type: none"> Encourage private banks to upgrade their efficiency | 2002/03 | NBE |
| | <ul style="list-style-type: none"> Bring CBB to point of sale | December, 2002 | NBE/EPA |
| | <ul style="list-style-type: none"> Establish a credit rating system for medium and large borrower of banks | 2002/03 | NBE |
| | <ul style="list-style-type: none"> Allow private banks to enter into management contracts with foreign institutions | 2002/03 | NBE |

| Objective | Policy Measures | Implementation Schedule | Implementing Agency |
|--|--|---|-----------------------------|
| | <ul style="list-style-type: none"> Establish legal and institutional framework for long-term debt security market | 2002/03 | NBE |
| Build sustainable external sector performance | <ul style="list-style-type: none"> Finalize bilateral debt agreements Seek comparable terms from non-Paris creditors Reduce the average (non-weighted) import tariff from 19.5 to 17.5 percent | October 2002 December 2002 January 2003 | MOFED MOFED MOFED |
| Enhance good governance to ensure and guarantee justice that provide conducive environment to all citizens | <ul style="list-style-type: none"> Submit draft proclamation of penal code and procedure code | June 2003 | MOCB/MOJ |
| | <ul style="list-style-type: none"> Submit draft proclamation of commercial code | June 2003 | MOCB/MOJ |
| | <ul style="list-style-type: none"> Operationalize the human rights commission and Ombudsman office | 2002/03-2003/04 | MOCB/MOJ |
| | <ul style="list-style-type: none"> Submit draft law on notary public | June 2003 | MOCB/MOJ |
| Ensure efficient and transparent financial management system | <ul style="list-style-type: none"> Prepare operating systems and procedures for financial expenditure management and control regarding cash management, fees and charges, financial information system, internal auditing and external auditing | 2002/03-04/05 | MOFED |
| | <ul style="list-style-type: none"> Reconcile monetary and fiscal accounts | December, 31, 2002 | MOFED/NBE |
| Enhance transparency and accountability of government institutions in service delivery | <ul style="list-style-type: none"> Adopt human resource information system Complete job classification | 2002/03 | MOCB/CSC |
| | <ul style="list-style-type: none"> Design development and recommendation of an improved remuneration system | 2003/04 | MOCB/CSC |
| | <ul style="list-style-type: none"> Adoption of procedure for recruitment, selection, transfer and promotion | 2002/03 | MOCB/CSC |
| | <ul style="list-style-type: none"> Prepare procedure guidelines for performance appraisal and time management | 2002/03 | MOCB/CSC |
| | <ul style="list-style-type: none"> Prepare human resource development plan for the civil service | 2002/03 | MOCB/CSC |
| | <ul style="list-style-type: none"> Adoption of national policy of service delivery | 2002/03 | MOCB/CSC |
| | <ul style="list-style-type: none"> Introduce civil service code of ethics | 2002/03 | MOCB/CSC |
| | <ul style="list-style-type: none"> Strengthen investigative capacity of the police and prosecutors to fight corruption | 2002/03 | MOCB/CSC |
| Build capacity in the private and public sector | <ul style="list-style-type: none"> Undertake in-service training within the public sector along with the civil service judicial reform | 2002/03-04/05 | MOCB |
| | <ul style="list-style-type: none"> Overhaul the training programmes of vocational and technical training to fit development objectives | 2002/03 | MOCB |
| | <ul style="list-style-type: none"> Promote training for the private sector and local NGOs | 2002/03-04/05 | MOCB |
| | <ul style="list-style-type: none"> Prepare policy and strategy for the development of information technology | 2002/03-04/05 | MOCB |
| | <ul style="list-style-type: none"> Design and start implementing NGOs and Civil Society Organizations capacity building | 2002/03-04/05 | MOCB |
| | <ul style="list-style-type: none"> Prepare a programme for the development of higher education taking into account the manpower needs of the country | 2002/03-04/05 | MOCB |
| | <ul style="list-style-type: none"> Encourage the establishment of public- | 2002/03-04/05 | MOTI/MOFA/Regiona |

| Objective | Policy Measures | Implementation Schedule | Implementing Agency |
|---|--|-------------------------|---------------------------|
| | private forums at regional and Woreda tiers of government | | I Governments |
| | <ul style="list-style-type: none"> Develop ICT capacity that can enhance efficiency and competitiveness in production and service sectors | 2002/03-04/05 | MOCB |
| Promoting the process of decentralization and empowerment | <ul style="list-style-type: none"> Start implementing district level decentralization | 2002/03 | MOCB |
| | <ul style="list-style-type: none"> Implement capacity building programs designed to improve the performance of public sector in Regional Governments and deepen decentralization. | 2002/03-04/05 | MOCB/Regional Governments |
| | <ul style="list-style-type: none"> Encourage community participation in the process of social and economic development | 2002/03-04/05 | MOCB |
| | <ul style="list-style-type: none"> Enhance decentralization and democratization process through capacity building at Woreda levels towards poverty reduction and overall economic and social development. | 2002/03-04/05 | MOCB/MOFA |
| Enhance urban development and management. | <ul style="list-style-type: none"> Formulate urban development policy and strategy in line with the realization of the urban sector to the overall national development and poverty reduction. | 2002/03 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Review and rationalize organizational structure and staffing of municipal local governments as well as their legal framework. | 2002/03 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Enhance mobilization and efficient management of financial resources | 2002/03 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Formulate housing development policy | 2003/04-04/05 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Start urbanization study | 2002/03 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Strengthen urban planning and management skills | 2002/03-04/05 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Improve municipal service delivery | 2002/03-04/05 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Take measures to streamline the process of land lease, reduce the costs of land preparation to improve the process of land valuation. | 2002/03-04/05 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Undertake study to understand the implementation problems of land lease policy and prepare specific list of actions. | 2002/03-04/05 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Construct and improve various infrastructures such as markets, roads, drainages, sewerage systems and sanitation projects that increase accessibility in low-income settlements. | 2002/03-04/05 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Design and implement extensive employment generation public works program | 2002/03-04/05 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Provide vocational and skill-training programs that enable to promote self-employment and job creation. | 2002/03-04/05 | MOCB/MOFA |
| | <ul style="list-style-type: none"> Promote micro-finance and credit facilities in urban centers. | 2002/03-04/05 | MOCB/MOFA |
| Ensure and understand the nature and distribution of poverty. | <ul style="list-style-type: none"> Complete data collection and processing of 1999/00 HICE and WMS | Completed | MOFED |
| | <ul style="list-style-type: none"> Complete agricultural sample census and disseminate results | June 2003 | MOFED |
| | <ul style="list-style-type: none"> Medium term plan for statistics approved | December 2002 | MOFED |
| | <ul style="list-style-type: none"> Preparation for Participatory Poverty | 2002/03 | MOFED |

| Objective | Policy Measures | Implementation Schedule | Implementing Agency |
|--|---|--------------------------------|----------------------------|
| | Assessment (PPA) | | |
| | <ul style="list-style-type: none"> Conduct study and finalize the report on PPA | 2003/04 | MOFED |
| | <ul style="list-style-type: none"> Complete and publish first set of General Data Dissemination System metadata | October 2002 | MOFED/NBE |
| | <ul style="list-style-type: none"> Complete preparation of Poverty profile of Ethiopia based on 1995/96 & 1999/00 HICE and WMS published | Completed | MOFED |
| | <ul style="list-style-type: none"> Complete next stage of pro-poor growth study | June 2003 | MOFED |
| | <ul style="list-style-type: none"> Further analysis of HICE & WMS surveys | May 2003 | MOFED |
| | <ul style="list-style-type: none"> Proposals for further poverty research programs identified and agreed | December 2002 | MOFED |
| | <ul style="list-style-type: none"> Plans for WMS/PRSP monitoring system prepared & agreed and funding proposal approved | December 2003 | MOFED |
| Monitor the implementation of the actions contained in the PRSP. | <ul style="list-style-type: none"> Assess and review monitoring needs at regional and Woreda levels | June 2004 | MOFED |
| | <ul style="list-style-type: none"> First PRSP progress report completed | September 2003 | MOFED |
| Assess the social impact of reform program | <ul style="list-style-type: none"> Conduct study on the implication of VAT on price and purchasing power of the poor | December 2002 | MOR |

| Objective | Targets/Measures | Implementation Schedule | Implementing Agency |
|--|---|-------------------------|---------------------|
| <p>2.1 Agriculture</p> <p>Increase agricultural production and improve food security</p> | <ul style="list-style-type: none"> ▪ Increase the number of farmers covered by extension program ▪ Increase fertilizer usage ▪ Increase distribution of improved seeds ▪ Increase the number of development agents per farmer ▪ Increase the number of students who complete agricultural technical and vocational training ▪ Expand the number of farmers who receive training | 2002/03-2004/05 | MOCB/MOA/MORD |
| <p>2.2 Education</p> <p>Achieve a GER of 65 percent in the short run with the objective of providing good quality universal primary education by 2015.</p> | <ul style="list-style-type: none"> • Construct 1405 lower primary and 76 complete primary schools and upgrade 795 first cycle primary schools to complete primary • Provide in-service training for 6304 untrained first cycle primary school teachers • Enroll a total 19,807 teachers in the distance education and summer diploma programs • Build 2 new teacher training institutes • Print and distribute a total of 37.4 million books and thereby attain a student textbook ratio of one to one | June 2005 | MOCB/MOE/REB |
| <p>Achieve a GER of 16 percent for the first cycle of secondary education and a GER of 8 percent for the second cycle</p> | <ul style="list-style-type: none"> • Build 75 new secondary schools; upgrade 24 schools; construct 874 additional classrooms; and rehabilitate 58 schools • Upgrade the 6,957 teachers now teaching in the secondary schools through in-service and on the job distance education programs • Train 434 secondary school principals • Increase the participation rate of girls in secondary schools • Develop and disseminate supplementary reference materials, including materials on HIV/AIDS • Print and distribute 4.37 million copies of textbooks so that every student will be provided with essential textbooks • Reduce class size to ratio of 1:60 gradually | June 2005 | MOCB/MOE/REB |
| <p>Increase TVET enrolment from the current 25,000 to 130,000 with the objective of producing middle level skilled man power to the economy in the short term</p> | <ul style="list-style-type: none"> • Develop and implement standards for TVET institutions, facilities and staff • Construct 40 new TVET institutions and upgrade or rehabilitate 75 existing ones • Upgrade the technical skills of 1800 TVET teachers through in-service training • Upgrade eight TVET schools to 10+3 colleges and establish seven new TVET colleges (10+3) and train 1500 teachers • Increase annual intake capacity to 55,000 | June 2005 | MOCB/MOE/REB |
| <p>Increase higher education enrolment from the current 87,500 to 152,000 with the objective of producing high level skilled human power to the economy the short term</p> | <ul style="list-style-type: none"> • Construct necessary additional infrastructure—classrooms, laboratories, computer centers, workshops etc • Train five hundred academic staff in pedagogy and teaching materials preparation through in-service programs • Upgrade two colleges to university level • Increase annual intake capacity to 30,000 and 6,000 for under graduate and post graduate programs respectively | June 2005 | MOCB/MOE |

| Objective | Targets/Measures | Implementation Schedule | Implementing Agency |
|---|---|-------------------------|--|
| Health Increase life expectancy of the population | <ul style="list-style-type: none"> • Increase life expectancy at birth from 52 in 2000/01 to 58 years • Reduce infant mortality from 97 per 1000 live births in 2000/01 to 85. • Reduce Maternal Mortality from 500-700/100,000 live births in 2000/01 to 400-500. | June 2005 | MOCB/MOH/RHB |
| Increase access to health services | <ul style="list-style-type: none"> • Increase healthcare coverage from 52% in 2000/01 to 65%. • Increase contraceptive coverage from 18.7% in 2000/01 to 21%. • Expand EPI coverage from 41.9 % in 2000/01 to 65%. | June 2005 | MOCB/MOH/RHB |
| Enhance health opportunity and promote disease prevention and control | <ul style="list-style-type: none"> • Reduce malaria prevalence from 7.7/1000 in 2001/02 to 6.2/1000 • Maintain HIV/AIDS prevalence 7.3% in 2001/02 the same 7.3% • Expand tuberculosis prevention and control services from 60% in 2001/02 to 75%. | June 2005 | MOCB/MOH/RHB |
| Road Develop and construct rural roads with the objective of improving accessibility to market and other public facilities | <ul style="list-style-type: none"> • Increase the proportion of good roads from an average of 28% in 2001/02 to 70%. • Increase the road density from the current 29km/1000km² and 0.49km/1000 people to 39km/1000km² and 0.58km/1000 people • Construct a total of 7000 km of low-level rural roads by the Ethiopian Rural Travel and Transport Sub-Program (ERTTP) | June 2005 | MOCB/ERA/Rural Road Authorities/ Communities |
| Water Provide water supply both for rural and urban and develop and manage the country's water resource and develop small scale irrigations | <ul style="list-style-type: none"> • Increase the coverage of water supply of urban, rural and national to 82.5%, 31.4% and 39.4% respectively. • Developing an irrigation scheme, which covers total of 29,043 hectares. • Developing a small-scale irrigation scheme covering a total of 23,823 hectare benefiting 93,510 households. | June 2005 | MORD/MOWR |

Annex Matrix Table 6.1 Capacity Building Programs and Major Activities Completed To Date And Planned For The Next Three Years

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|--|---|--|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| 1. Civil Service Reform <ul style="list-style-type: none"> • Expenditure control and management • Human resource management • Service delivery • Ethics • Top management | - To build a civil service that helps achieve Government development policies, programmes and projects; capable of promoting the principles of federalism and democracy; serves the citizenry honestly and diligently; and is transparent, responsive; and accountable to elected representatives of the people; and imbued with professional ethics. | 1.1. Promulgation of Federal Government Financial Administration Law and Regulations; issuance of financial administration directives based on the law by the Ministry of Finance and Economic Development (MOFED); adoption as appropriate of the laws, regulations and directives by most of the Regional Governments; conducting various training programs at federal and regional levels to create awareness among stakeholders. | X | | | |
| | | 1.2. Assessing the applicability of the Federal PIP Formula in different Regional Governments and preparing the appropriate documentation for the assessment of the result | X | | | |
| | | 1.3. Assessing and identifying strengths and weaknesses in the present budget practices and making the necessary recommendations to be encapsulated in policy papers | X | | | |
| | | 1.4 Designing improved and expanded government accounting system including <ul style="list-style-type: none"> • Purchase of PC Servers, printers, PCs, network accessories, software and consumables, • Installation of Local Area Network (LAN). • Conversion and redevelopment of the Medium System Payroll and Government Accounting system (BDA) packages to a PC based system. • Drafting of the Internal Audit Principal Manual and Procedural Guide | X | X | X | X |
| | | 1.5 Preparation of systems, procedures and guidelines on job evaluation and grading, performance appraisal & time management, recruitment, selection, transfer and promotion remuneration and conditions of service, human resource planning, human resource management information system, human resource development, records management | X | | | |
| | | 1.6 With respect to service delivery, formulation of a service delivery policy; preparation of a service users complaints handling directive; and | | X | X | |
| | | 1.7 A program to undertake service delivery improvement in selected civil service institutions; | | X | X | |
| | | 1.8 Develop technical guidelines for the measurement and setting of service standards and prepare training manual/modules for civil service employees in the application of the guidelines; | | X | X | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|-----------------------|------------|--|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| | - | 1.9 Prepare the organizational structure, staffing plan and other resource requirement of the central body that oversees the implementation of the Policy; | X | X | | |
| | - | 1.10 Widely publicize the civil service program and its modalities of implementation among civil service institutions (providers) as well as service users and enable civil service institutions to share good practices. | X | X | | |
| | - | 1.11 Explore and recommend organizational arrangements options for the establishment of the Civil Service Reform Program implementing bodies within civil service institutions; and | | X | X | X |
| | - | 1.12 Develop the capacity of Civil Service institutions in preparing and implementing service delivery improvement programs by providing technical, material and financial support through service delivery performance improvement program support | X | X | | |
| | - | 1.13 Develop an award system for exemplary institutional performance in service delivery so as to promote healthy competition between institutions in organizing, managing and delivering services | X | X | | |
| | - | 1.14 Development of codes of ethics for elected representatives, political appointees, judges and civil servants | X | X | | |
| | - | 1.15 Establishment of a central body (The new Federal Ethics and Anti-Corruption Commission), with the proper organizational set-up, powers, and duties | X | X | X | X |
| | - | 1.16 The preparation of protocol on government-press relation and a code of conduct for journalists, media and press and consultation with stakeholders | | | | |
| | - | 1.17 The preparation for capacity building of the Police the Prosecution and the Judiciary a training manual and an anti-corruption manual intended to enable government line institutions to prevent, detect and investigate corruption and impropriety, and conducting a series of training of trainers Finalizing the National and Institutional charters on citizens' right and responsibilities and presenting it to a stakeholders' workshop | X | X | | |
| | - | 1.18 Developing a syllabus for ethics education . | | | | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|---|---|--|-------------------|--|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| 2 Tax System Reform <ul style="list-style-type: none"> • Tax policy and legislation project • Tax identification number project • Presumptive taxation project • Value added tax project • Operational program, systems and procedures • Large Taxpayer Office project • FIRA Reorganization • Taxpayer recruitment project | To encourage capital investment and development, improve tax revenues and ensure equity and fairness in the tax system through a comprehensive overhaul of the current legislation; to develop a modern tax administration system capable of executing the Government's revenue policy initiatives, and to effectively collect revenues that the economy generates. As the government envisages policies to reduce poverty by allocating more funds to social sector development including education, health and roads, which require domestic resources mobilization, the tax system reform program measures by enhancing revenue would support the implementation of PRS. | 2.1. Amend the current income tax legislation to reflect the current business environment and strengthen in the legislation the enforcement powers for the revenue authorities | X | | | |
| | | 2.2. Achieve a better understanding by taxpaying community | X | X | X | X |
| | | 2.3. Develop and introduce Value Added Tax legislation replacing the existing sales tax | | X | | X |
| | | 2.4. Implementing the TIN system <ul style="list-style-type: none"> • Within FIRA • In the regional and city administrations | | X | X | X |
| | | 2.5. Promulgate a Proclamation providing for the presumptive taxation schemes | X | | | |
| | | 2.6. Undertake legislative and administrative amendments to address problems encountered in the course of implementation | | X | X | X |
| | | 2.7. Finalize the legislation of Income Tax Proclamations | X | | | |
| | | 2.8. Complete the development of the VAT implementation plan and identification of potential registrants | | X | | |
| | | 2.9. Establishment of the Large Tax payer base, operational programs and procedures and the Large Tax Payer (LTP) Office organization | | X | X | X |
| | | 2.10. Implementation of the operational programs, manual systems and procedures to support the revenue accounting and receivables management functions <ul style="list-style-type: none"> • in the newly created LTP Office • in the other offices of FIRA | X | X | X | X |
| | | | | 2.11. Reorganize FIRA to carry out its proposed strengthened functions | | |
| 3 Urban | To create an enabling environment | 3.1. To formulate a national urban development policy and | | X | X | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|---|---|---|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| <ul style="list-style-type: none"> ➤ Management ➤ CBP • Policy and strategy formulation • Local Gov. (Municipal) restructuring and empowerment • Human resource development including institutional CB for urban management training • Urban service delivery • Investment in urban infrastructure - re-habilitation | <p>and to strengthen the capacities of major institutions that are involved in urban management at the federal, regional and local levels with a view of helping urban areas to realize their potential to contribute to the socio-economic development of the country, poverty reduction and healthy living conditions of urban dwellers.</p> <p>To support the development of autonomous and self-sufficient municipalities and strengthen their capacities for achieving improved urban management; and leading and coordinating local economic development,</p> | strategy on the basis of the assessment of the socio-economic development policies of the country and their impact on urban development. | | | | |
| | | 3.2.Consultation with regions, municipalities and other stakeholders during the preparation of the study leading to the formulation of policy and a awareness raising and promotion at regional and municipal levels. | | X | | |
| | | 3.3.Evaluation of implementation experiences of urban land leasehold policy. | X | X | | |
| | | 3.4.Support and training for implementing organizations Workshop discussion and reflections on related international experiences. | | X | X | X |
| | | 3.5. Restructure the MWUD, its specialized arms, the regional bureaux and the zonal departments on the basis of the overall policies and strategies developed for the urban sector. | | X | X | X |
| | | 3.6. Develop a working definition of urban areas and national criteria for the incorporation of municipalities as well as their classification prepared and used by regional states | | X | | |
| | | 3.7. Formulate an effective urban land policy that facilitates the allocation of plots and ensures efficient use of prime land | | X | | |
| | | 3.8. Establish the Urban Development Capacity Building Office (UDCBO), which will have improved organisational capacities for the effective implementation of the urban management capacity building programme. | X | | | |
| | | 3.9.Organise an urban information system (database) within MWUD, the RBWUDs and the UDCBO to enable | | X | | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|-----------------------|------------|--|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| | | them to properly document various urban management experiences and to support research undertakings and disseminate results to users. | | | | |
| | | 3.10. Establish regional and national associations of municipalities. | | X | | |
| | | 3.11. Create a conducive operating environment for urban management by issuing municipal proclamations defining the legal status, powers and duties, governance structure and management system of municipalities in Tigray, Oromiya, SNNPR and Harari regional states. | | X | X | |
| | | 3.12. Create an institutional capacity within the Ethiopian Civil Service College (ECSC) for sustainable urban development and efficient urban management systems consistent with decentralisation and good governance. | | X | X | X |
| | | 3.13. Set up within the ECSC an Ethiopian Urban Management Centre (EUMC), which will be able to offer assistance to Municipal capacity building throughout the whole country through research, consultancy and training programmes on various levels (short courses, diploma, bachelor and master's degree courses). | | X | X | X |
| | | 3.14. Develop a revised personnel service system on the basis of the review of the system currently in use in the municipalities of the four major regions | | X | X | X |
| | | 3.15. Institute improved systems of financial resource mobilization and financial management practices in municipalities. introduce a computerised land 3.16. Information system that will assist municipalities in raising land and building related taxes in an efficient manner | | X | X | X |
| | | 3.17. Train and develop the staff of urban management institutions operating at the national, regional and local levels with a view to improve municipal capacity for planning and management of projects. | | X | X | |
| | | 3.18. Procure operating equipment and essential instruments for municipalities. | | | | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|---|--|---|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| 4. District Level Decentralisation <ul style="list-style-type: none"> • Capacity Building for Woreda institutional structure <ul style="list-style-type: none"> • Capacity Building for Woreda working systems for planning and implementation and service delivery Capacity Building for manpower development | Establish institutional arrangements to ensure empowerment, democratization and efficient administration at Woreda and Kebele levels ; set efficient and effective working systems at Woreda and Kebele; establish systems for minimum standard services and monitor the systems to facilitate the delivery of services at Woreda and Kebele levels; develop human capital, set systems of training in specialized and general fields to enhance the capacity of public servants, electorates and other stakeholders at Woreda and Kebele levels and support decentralisation & democratization process through capacity building at woreda level towards poverty reduction and overall economic and social development. | 1. Conducting workshop to share experiences and disseminate findings of the Woreda and Municipal Studies(WMS) | X | | | |
| | | 2. Carry out studies in the Woredas and Kebeles of the four major Regional Governments through various task forces | X | | | |
| | | 3. Sensitization workshop for the task forces assigned in different studies | X | | | |
| | | 4. Exploratory field works by the task forces | | | | |
| | | 5. Completion of studies on overall organizational structure and studies of organizational structure of public bodies | | X | | |
| | | 6. Undertaking Studies on working environment and incentives | | X | | |
| | | 7. Implementation of organizational structure and incentive packages | | X | | |
| | | 8. Consultation and sensitization activities | | X | X | X |
| | | 9. Preparation of budget reform manual adaptable to woreda | | X | X | |
| | | 10. Implementation of budget reform manual | | X | X | |
| | | 11. Design and implementation of Woreda block grant formula and community funding | | | X | |
| | | 12. Preparation and implementation of working guideline for disbursement of Woreda block grant, capital and recurrent expenditure | | | X | |
| | | 13. Undertaking preliminary of studies on revenue collection, utilization and revenue sharing arrangements | | | | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|--|---|--|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| | | 14. Developing proposal on community participation arrangements and implementation monitoring systems | | | | |
| | | 15. Improvement of Woreda block grant formula and community funding | | | | |
| | | 16. Undertaking inventory of manpower and determining manpower requirements and scertaining short-term and long-term requirement of for existing and additional employees | | | | |
| | | 17. Technical support to short-term training of Woreda civil servants, administrators and electorates on key fields | | | | |
| 5. Justice System Reform Program <ul style="list-style-type: none"> ▪ Enhancing the institutional capacity of legislative and affiliated organs structure, system and process of law making and related tasks; ▪ Enhancing the institutional capacity structure, system and process of the judiciary; ▪ Enhancing institutional capacity structure, system, process of the law enforcement; ▪ Enhancing institutional capacity structure, system and process of legal education, and research; and Enhancing | <ul style="list-style-type: none"> • Achieve the level of justice that provides a conducive environment to all actors (private, civic society, etc.) to tackle institutional & normative aspects of the various legal transactions in the society and the prevalence of the rule of law as envisaged in the constitution of the country and ultimately serve as one of the corner stone of the effort of poverty reduction & sustained growth. | 5.1. Develop a comprehensive Justice System Reform Program document with the assistance of consultants to conduct detailed design study | X | | | |
| | | 5.2. Undertake a study to explore ways and means that would improve efficiency and effectiveness in the operation and management of courts | X | X | X | X |
| | | 5.3. Implementing the results of the study at the Supreme Court level and at the lower Federal and Regional courts and replicate it at all courts in the country | | X | X | X |
| | | 5.4. Revising existing laws in light of the Constitution and the present needs of the country and study and propose the issuance of several new laws that are timely and necessary for enhancing the socio-economic development of the country | | X | X | X |
| | | 5.5. Conduct continuous skill upgrading training programs for members of parliament on parliamentary procedures, upgrade their legal and information technology (IT) skills; | X | X | X | X |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|---|--|---|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| | | 5.6.Revise and improve rules of Ethical Standards for members of parliament; 5.7.Revise the parliaments' public consultation mechanism in its law making process with a view to strengthen the participation of the public, civil society and other stakeholders; | | X | | |
| | | 5.7.Establish the office of the ombudsman and Human Right Commission; and see to it that the two organs are properly equipped with the necessary facilities, equipment, budget and personnel; and | X | | | |
| | | 5.8 .Increase the number of judges and conduct continuous professional development program for judges upgrade their IT skills; | X | | | |
| | | 5.9 .Establish training center/institute for members of the judiciary; | | X | X | |
| | | 5.10. Establish the office of the Public Defender and see to it that the office is equipped with the necessary facilities, equipment, budget and personnel; 5.12.Conduct and implement case load management system within the federal and regional courts. | | X | | |
| | | 5.12.Conduct continuous professional development training programs for prosecutors; | X | X | X | X |
| | | 5.13. Conduct continuous professional development program for members of the police on crime prevention, Human Rights, constitutional and criminal procedure laws as well as for penitentiary administrators engaged in rehabilitation works | X | X | X | X |
| | | 5.14. Conduct special training programsfor police officers at the higher level to enable them to properly direct and manage police institutions with a view to develop a modern police force. | X | X | X | X |
| | | 5.16. Conduct public awareness programs to fight crime and its causes; and | | X | X | X |
| | | 5.17. Establishing a National Justice Information Center. | | | | |
| | | 5.18.Reform the curriculums of legal education institutions with a view to make the learning institutions more responsive to the needs of institutions who employ trained professionals; | X | X | X | X |
| | | 5.19. Establish new law faculties at regional universities; | | | | |
| | | 5.20. Conduct continuous professional developments for members of the Lawyers and Civic Legal Associations; | | | | |
| | | 5.21.Establish and/or strengthen lawyers, civic legal associations and community level legal service institutions; and | | | | |
| | | 5.22.Promote legal training and awareness programs for community level legal service institutions and the public. | | | | |
| 6. TVET (Agriculture) <ul style="list-style-type: none"> Middle level training Junior level | Produce practitioners for agricultural transformation and rural development as well as poverty reduction as linked in the ADLI and RDS | 1. <u>Middle level training</u> | | | | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|---|---|---|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| training • Human resource development Program development | | | | | | |
| | | 1.1 Selection of 28 training centers. | X | | | |
| | | 1.2 Major maintenance and design of civil works for future expansion | X | | | |
| | | 1.3 Necessary arrangements made for classrooms dinning facilities etc. | X | | | |
| | | 1.4 Establishment of 6 new training centers | X | X | | |
| | | 1.5 Training of trainers | | X | | |
| | | 2. Junior level training. | | X | | X |
| | | 2.1 Establishment of training centers | | X | | X |
| | | 2.2 Selection, training and employing trainers | | X | | X |
| | | 2.3 Develop new curriculums, revise and improve the existing once. | | X | | X |
| 7. Co-operative Development • Human resource and institutional development. • Strengthening capital base • Systems development • Credit facility | Organize, strengthen, and diversify autonomous co-operatives so that they provide better marketing services and competitive edge for farmers, thereby enabling them to increase their income which would necessarily entail poverty reduction and sustained growth. | 1. Education and Training | | | | |
| | | 1.1 Members education (in 000) | X | X | X | X |
| | | Short-term training | | | | |
| | | 1.2 Staff training | X | X | X | X |
| | | 1.3 Board of Directors | X | X | X | X |
| | | 1.4 Cooperative societies employees | X | X | X | X |
| | | Long-term training | | | | |
| | | 1.5 Diploma level | | | | X |
| | | 1.6 Degree level | | X | X | |
| | | 2. Institutional Dev't | | | | |
| | | 2.1 Strenthing Ardayita national training Institute | | | | |
| | | 2.2 Establishing 5 Regional cooperative training centers (Tigray, Amahara, Oromia, SNNP and A.A City) | | | | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|---|--|--|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| | | <ul style="list-style-type: none"> • Tigray • Amahara • Oromia • SNNP • A.A City Administration | | | X | |
| | | 2.3 Establishing cooperative dev't Banks | | | X | |
| | | 3. Formation and strengthening cooperatives | X | X | X | X |
| | | 3.1 New primary cooperatives | X | X | X | X |
| | | 3.2 New secondary (Unions) Cooperatives | X | X | X | X |
| | | 3.3 Reorganizing (Restructuring) Derg's time cooperatives | X | X | X | X |
| | | 3.4 Feasible cooperatives awarded certificate (registering) | X | X | X | X |
| <ul style="list-style-type: none"> ➤ 8. Higher Education Reform • Expanding undergraduate program • Expanding post graduate program Overhauling the system | Produce medium- and high-level trained manpower resources in sufficient quantity and quality for poverty reduction and sustained growth. | 1. Expanding Undergraduate Programs | | | | |
| | | 1.1 Open new degree programs | | X | X | X |
| | | 1.2 construct necessary infrastructure (classrooms laboratories, computer centers workshops, etc | X | X | X | X |
| | | 1.3 prepare necessary requirement for each program and institution and procure teaching equipment, furniture, computers. | X | X | X | X |
| | | 1.4 Recruit and employ required local and expatriate teaching staff. | X | X | X | X |
| | | 1.5 Train the required academic staff locally and abroad at masters and doctoral level. | | X | X | X |
| | | 1.6 Promote and assist the involvement of the private and NGOs in HEd. | | X | X | X |
| | | 2. Expanding Postgraduate Programs | | | | |
| | | 2.1 Open new PHD and Masters programs and strengthening the existing one in AA University. | | X | X | X |
| | | 2.2 Open new PHD and Masters programs in Alemaya University | | X | X | X |
| | | 2.3 Open Masters programs in Jimma, Dehub and Mekele University as well as Arba Minch Water Technology Institute and Gonder College of medical science | | X | X | X |
| | | 2.4 Construct necessary infrastructures and other requirements | X | X | X | |
| | | 2.5 Recruit and employ expatriate teaching staff, and train Ethiopian academic staff both locally and abroad | | X | X | |

X

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|---|--|--|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| | | 3. Overhauling the Higher Education System. | | | | |
| | | 3.1 Establish a Higher Education Strategic Institute/Brain Centers and procure equipment, facilities and employ staff. | | X | | |
| | | 3.2 Establish a Higher Education Quality and Relevance Assurance Agency. | | X | | |
| | | 3.3 Recruit and employ international co-managers for Universities. | | X | | |
| | | 3.4 Train top and middle level management and administrative staff of HEIs. | X | X | X | X |
| | | 3.5 evaluate and improve the working system and procedures. | | X | | |
| | | 3.6 Introduce cost-sharing/ cost-recovery scheme | | X | | |
| | | 3.7 Include civic education and ICT in all curricula and activities of HEIs. | X | X | | |
| | | 3.8 Evaluate and improve the quality and relevance of higher education curricula and programs. | | X | X | |
| | | 3.9 Networking HEIs and provide ICT networking facilities | | X | X | |
| 9. Private Sector Development | Enhance the capacity of selected manufacturing industries, in particular the small and the medium ones to broaden the bases for income generating activities for poverty reduction and sustained growth. | 1. Human Resource | | | | |
| <ul style="list-style-type: none"> • Strengthening the financial base of the manufacturing sector. • Studying sub-constructing mechanisms • Establishing food R&D institute • Human resource development • National industrial network • Quality improvements and service promotion • Introductions of quality management system, establishment of quality accredited certification centers and improvement of national standard regulation system | | 1.1 Training of 200 technicians in various fields. | | X | X | X |
| | | 1.2 Up grade the capability of 100 managers through training | | X | X | X |
| | | 1.3 Conducting workshops and seminars | | X | X | X |
| | | 1.4 Support 20 in-house training initiatives | | X | X | X |
| | | 2. Institutional Development | | X | X | X |
| | | 2.1 Establishment of a food R&D Institute | | X | X | X |
| | | 2.2 Establishment 5 quality accredited certification centers | | X | X | X |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|--|---|--|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| <ul style="list-style-type: none"> • Introduction of waste treatment plants and implementation of industrial environment protection. • Clustering MSEs, and establishment of MSEs training centers at regional level • Establishment of business incubation centers • Establishing industrial zones <ul style="list-style-type: none"> • Supporting the installment of public-private partnership • Establishing and strengthening chambers & association | | 2.3 Establishing MSEs training centers at regional level | | X | X | X |
| | | 2.4 Establishing Chambers Commerce and Sectoral Associations | | X | X | X |
| | | 2.5 Study for/and establishing business incubation centers | | X | X | X |
| | | 3. System Development | | | | |
| | | 3.1 Studying and establishing sub-constructing mechanisms | | X | X | |
| | | 3.2 Establishing National industrial information network | | | X | X |
| | | 3.3 Quality improvements and service promotion | | X | X | X |
| | | 3.4 Clustering MSEs | | X | X | X |
| | | 3.5 Studying and establishing industrial zones | | | X | X |
| | | 3.6 Supporting the installment of public-private partnership (PPP) | | X | X | X |
| | | 3.7 Introduction of waste treatment plants and implementation of industrial environment protection | | X | X | X |
| | | 3.8 Establishment of business incubation centers | | | X | X |
| | | 3.9 Strengthening the financial base of manufacturing sector | | X | X | X |
| 10. Textile and Garments CBP. | Create a competitive textile and garments industry capable of generating revenue in export market for overall national development. | 1. <u>Human Res. Dev't</u> | | | | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | | |
|--|--|--|-------------------|---------|--------|--------|---|
| | | | | 2002/3 | 2003/4 | 2004/5 | |
| <ul style="list-style-type: none"> • Establishing textiles and garments industry support institute • Human resource development, skill training. • Modernizing management system • Establishment of Textile and Garments industry promotion agency. <p>11. Construction Sector CBP</p> <ul style="list-style-type: none"> • Create conducive working environment. • Capital base enhancement. • Human resource development | <p>Create an effective and efficient construction sector that can support poverty reduction effort and sustained growth.</p> | 1.1 Training of 300 managers in modern management system | | X | X | X | |
| | | 1.2 Undertaking skill training for 5000 middle level & supervisory staff | | X | X | X | |
| | | 1.3 Train about 8000 middle level technicians in Textile and Garment technology and fashion design | | X | X | X | |
| | | 1.4 Training of trainers | | | | | |
| | | 2. Institutional Dev't | | | | | |
| | | 2.1 Establishing Textile and Garments Industry support Institute with well equipped central laboratory | | | | X | X |
| | | 2.2 Establishing Textile and Garment Industry promotion Agency | | | | X | X |
| | | 1. Creating Conducive Working Atmosphere | | | | | |
| | | 1.1 Undertaking studies and issuing building code & standards | | | X | | |
| | | 1.2 Review foreign exchange regulation | | | X | | |
| | | 1.3 Review taxation system for the sector | | | X | | |
| | | 1.4 Devise credit facility methodology | | | X | X | |
| | | 1.5 propose investment incentives | | | X | | |
| | | 1.6 Strengthening CIA's & data center | | | X | X | X |
| | | 1.7 Establishing 9 Regional LAB's | | | X | X | X |
| | | 2. Capital Base Enhancement | | | | | |
| | | 2.1 Strengthening Crew for Road Projects (5 crews) | | | X | X | X |
| 2.2 Strengthening contractors (crew for power supply) | | | X | X | | | |
| 3. Human Res. dev't | | | | | | | |
| 3.1 Rehabilitation of training centers | | | | X | X | | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|---|--|---|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| 12.TVET (non-Agriculture) | Enhance and support ADLI by providing new generation middle level skilled manpower, especially to industrial as well as construction sector. | 3.2 Training of trainers (for lower level short-term training of semi-and skilled laborers) | X | X | X | X |
| | | 3.3 Execution training programs for semi- and skilled laborers | | X | X | X |
| | | 3.4 Provision of equipment for training | | X | X | X |
| | | 3.5 Capacity building for middle and higher level decision makers and professional staff of the public and the private sector | | X | X | X |
| | | 1.1 Preare and introduce standards for TVET traing centers | X | | | |
| | | 1.2 Evaluate and revise the existing curriculum for TVET for middle level TVET programs | X | | | |
| | | 1.3 Develop new multilevel programs based on socio-economic need assessment in different areas | | | X | X |
| | | 1.4 Developing a legal framework for delivery of TVET by public and non- public institutions. | | X | | |
| | | 2. Infrastructure dev't (training centers) | | X | X | X |
| | | 2.1 Upgrading of 7 TVET centers to college level | | | | |
| | | 2.2 Rehabilitation of existing TVET centers | | | | |
| | | 2.3 Establishing additional 7 new TVET colleges | | X | X | X |
| | | 3. Training of trainers | | | | |
| | | 3.1 Skill up-grading (pre-service training for 1500 teachers) | | | X | X |
| 3.2 In service training (for 1700 trainers) | X | X | X | | | |
| 13.Civil Society & NGOs CBP | Create the necessary institutional environment and capacity for effective participation civil society and NGOs in poverty reduction and democratization process. | 1.Establishing and strengthening program management unit | | X | X | |
| | | 2.Desining the program | | X | | |
| | | 3.Implementing the program | | | X | X |
| 14. .National ICTs policy implementations and evaluation capacity | Develop ICT capacity that can enhance efficiency and competitiveness in production as well as service sectors by narrowing the gap in information to bring about poverty education and sustained growth in the economy | 14.1.National ICTS HRD requirement study | X | | | |
| • ICTs human | | 14.2.Capacity building in ICTs education and training | | X | X | X |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|---|------------|--|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| resources development <ul style="list-style-type: none"> • Establishment of Gov. information network. • Content and application development • Community based information system and services. | | infrastructure of the higher education system | | | | |
| | | 14.3.Strengthen existing AAU units engaged in ICTs education and training and lay a foundation for a national ICTs excellence center; | X | | | |
| | | 14.4.Capacity building in regional universities | | X | X | X |
| | | 14.5.Capacity building in teachers training colleges | X | X | X | X |
| | | 14.6.National ICT Technical Institute Establishment | | X | X | X |
| | | 14.7.Launch distance learning program in ICTs | | X | X | |
| | | 14.8.ICTs curriculum development for use at the middle and higher level education and training | | X | X | |
| | | <ul style="list-style-type: none"> • For the entire government information network & systems activity, contract out a system study development and supervision service. | | X | X | |
| | | <ul style="list-style-type: none"> • Procure Hardware & software facilities for federal and regional government offices as deemed necessary. | | X | X | X |
| | | <ul style="list-style-type: none"> ▪ Expand the existing Digital Data Network | | X | X | |
| | | <ul style="list-style-type: none"> ▪ Expand Internet points-of-presence (PoPs) across the country. | | X | X | |
| | | <ul style="list-style-type: none"> ▪ Lease telecommunication circuits, both dedicated and dialup | | X | | |
| | | <ul style="list-style-type: none"> • Hire ICT experts and supporting staff for federal and regional offices | | X | X | |
| | | <ul style="list-style-type: none"> ▪ Collect, analyze and compile data and generate output and make available in electronic format | | X | | |
| <ul style="list-style-type: none"> • Procure software packages for content development, licensed for all stake-holding institutions. | X | X | X | | | |
| <ul style="list-style-type: none"> • Develop electronic content in standardized and usable format (preferably web-based) for all federal and regional institutions | | | | X | | |
| <ul style="list-style-type: none"> • Establish an ICT documentation and electronic library. | | X | X | X | | |

| Programs & Components | Objectives | Major Activities | Completed To Date | Planned | | |
|-----------------------|------------|--|-------------------|---------|--------|--------|
| | | | | 2002/3 | 2003/4 | 2004/5 |
| | | <ul style="list-style-type: none"> In all stake-holding institutions, create service portfolio to deliver information to users (institutional as well as individual). | | X | | |
| | | <ul style="list-style-type: none"> Study and lay down a frame work for the establishment of the community based information systems and services. | | X | X | X |
| | | <ul style="list-style-type: none"> Sensitizing authorities and the community at large. | | X | X | X |
| | | <ul style="list-style-type: none"> Procure and install ICTs facilities | | | X | X |
| | | <ul style="list-style-type: none"> Provide connectivity to the local and world pool of information | | | X | X |
| | | <ul style="list-style-type: none"> Study and organize appropriate community based local contents for a wider usage | | | | |
| | | <ul style="list-style-type: none"> Identify and establish ranges of government services to be provided for the local community through the center | | X | X | X |
| | | <ul style="list-style-type: none"> Repackage globally available knowledge in the form usable to the community structure | | | X | X |
| | | <ul style="list-style-type: none"> Regularly organize awareness raising events and forums for community participation in the development process. | | | X | X |
| | | <ul style="list-style-type: none"> Conduct regular training programs to maximize the level of exploitation of ICTs at varying levels. | | X | X | X |
| | | <ul style="list-style-type: none"> Acquisition and development of basic reference sources/ materials | | | | |

Annex Table 12.1
Ethiopia: Summary of Government Finance, 1999/00-2004/05

| Ethiopian fiscal year Fiscal year ending July 7 | 11:30:34 PM | 1992 | 1993 | 1994 | | 1994 | 1995 | 1996 | 1997 |
|---|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 11-Apr-02 | 1999/00 | 2000/01 | 2001/02 | | 2001/02 | 2002/03 | 2003/04 | 2004/05 |
| | | Prel. Act. | pre act | Budget | RevBudg | Pre est | Budget | Forecast | |
| Total Revenue and Grants | | 11222 | 12827 | 14628 | 14628 | 13815 | 15189 | 16795 | 18791 |
| Revenue | | 9498 | 10199 | 11506 | 11506 | 11092 | 12441 | 14096 | 16194 |
| Tax revenue (inc measures) | | 6482 | 7452 | 8646 | 8646 | 8296 | 9464 | 10939 | 12816 |
| Direct taxes | | 2367 | 2746 | 3512 | 3512 | 3172 | 3740 | 4383 | 5270 |
| Indirect taxes | | 4116 | 4706 | 5134 | 5134 | 5124 | 5724 | 6556 | 7546 |
| Domestic indirect taxes | | 1440 | 1382 | 1830 | 1830 | 1590 | 1862 | 2204 | 2729 |
| Import duties & taxes | | 2528 | 3231 | 3252 | 3252 | 3504 | 3828 | 4352 | 4817 |
| Export taxes | | 148 | 93 | 52 | 52 | 30 | 34 | 0 | 0 |
| Non-tax revenue | | 3016 | 2747 | 2860 | 2860 | 2796 | 2977 | 3157 | 3378 |
| Grants | | 1724 | 2628 | 3122 | 3122 | 2724 | 2748 | 2700 | 2597 |
| Grants in kind/earmarked | | 1694 | 1651 | 2337 | 2337 | 2060 | 2267 | 2023 | 2108 |
| Untied cash & CPF/grants | | 30 | 977 | 786 | 786 | 664 | 481 | 677 | 489 |
| Expenditure | | 17184 | 15461 | 17418 | 18602 | 17864 | 19734 | 21396 | 23626 |
| Current expenditure | | 13742 | 10449 | 11390 | 11498 | 11184 | 12310 | 12501 | 13170 |
| Defense | | 6842 | 3307 | 3000 | 3000 | 3000 | 3000 | 3000 | 3000 |
| Poverty-targeted expenditure | | 2324 | 2718 | 3303 | 3303 | 2739 | 3853 | 4300 | 4826 |
| Education | | 1305 | 1508 | 1868 | 1868 | 1508 | 2172 | 2423 | 2721 |
| Health | | 395 | 468 | 534 | 534 | 468 | 622 | 695 | 777 |
| Agriculture | | 530 | 636 | 781 | 781 | 636 | 898 | 1003 | 1128 |
| Roads | | 94 | 106 | 120 | 120 | 106 | 161 | 179 | 200 |
| <i>o/w: HIPC poverty targeted expenditure</i> | | | | 0 | 0 | 21 | 39 | 40 | 34 |
| Interest payments | | 1122 | 1080 | 1183 | 1183 | 969 | 1280 | 1312 | 1441 |
| Domestic interest | | 723 | 575 | 679 | 679 | 545 | 686 | 693 | 714 |
| External interest | | 399 | 505 | 504 | 504 | 424 | 594 | 619 | 727 |
| External assistance (food & related relief aid) | | 1289 | 978 | 1027 | 1027 | 1006 | 902 | 451 | 293 |
| Others | | 2164 | 2366 | 2877 | 2985 | 3469 | 3275 | 3438 | 3610 |
| <i>o/w Wages & salaries</i> | | 3531 | 3597 | 4017 | 4125 | 4455 | 4455 | 4837 | 5273 |
| Capital expenditure | | 3442 | 5011 | 6028 | 7104 | 6680 | 7424 | 8894 | 10457 |
| Central Treasury | | 1917 | 2594 | 2819 | 3638 | 3719 | 3860 | 4842 | 5815 |
| External assistance | | 405 | 673 | 1310 | 1310 | 1054 | 1365 | 1572 | 1815 |
| External loans | | 1120 | 1744 | 1899 | 2156 | 1906 | 2200 | 2481 | 2827 |
| <i>o/w HIPC poverty-targeted expenditure</i> | | | | 0 | 0 | 404 | 740 | 766 | 655 |
| <i>o/w: Poverty targeted expenditures</i> | | 2404 | 3644 | 4903 | 5220 | 5220 | 6669 | 8128 | 9573 |
| Special programs | | | 404 | 1715 | 1715 | 1020 | 982 | 887 | |
| Overall balance including grants (excl. special program) | | -5961 | -2634 | -2790 | -3973 | -4049 | -4545 | -4600 | -4836 |
| Overall balance excluding grants (excl. special program) | | -7685 | -5262 | -5912 | -7095 | -6772 | -7293 | -7300 | -7432 |
| Overall balance including grants | | -5961 | -3038 | -4505 | -5689 | -5069 | -5527 | -5487 | -4836 |
| Overall balance excluding grants | | -7685 | -5665 | -7627 | -8811 | -7792 | -8275 | -8187 | -7432 |
| Financing | | 5961 | 3038 | 4505 | 5689 | 5069 | 5527 | 5487 | 4836 |
| External (net) | | 868 | 2070 | 4105 | 5288 | 4669 | 4677 | 4408 | 3756 |
| Gross borrowing | | 1366 | 2686 | 4755 | 5605 | 4858 | 4555 | 4539 | 3929 |
| Capital budget | | 1120 | 1744 | 1899 | 2155 | 1906 | 2200 | 2481 | 2827 |
| CPF generations/loans | | 246 | 171 | 1141 | 1734 | 1932 | 1373 | 1170 | 1102 |
| Special programs | | | 770 | 1715 | 1715 | 1020 | 982 | 887 | 0 |
| HIPC relief | | | | 334 | 425 | 425 | 779 | 806 | 689 |
| Amortization paid | | 498 | 616 | 650 | 650 | 614 | 657 | 937 | 862 |
| Domestic(net) | | 4975 | 54 | 0 | 0 | 200 | 500 | 779 | 780 |
| Banking system | | 5499 | -213 | -422 | -422 | 200 | 500 | 779 | 780 |

Annex Table 12.1 (Continued)
Ethiopia: Summary of Government Finance, 1999/00-2004/05

| Ethiopian fiscal year | 11:30:34 PM | 1992 | 1993 | 1994 | 1994 | 1994 | 1995 | 1996 | 1997 | |
|---|-------------|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--|
| Fiscal year ending July 7 | 11-Apr-02 | 1999/00 | 2000/01 | 2001/02 | 2001/02 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | |
| | | Prel. Act. | Preliminary | Budget | RevBudg | Pre est | Budget | Forecast | | |
| | | (In percent of GDP) | | | | | | | | |
| Total Revenue and Grants | | 21.6 | 24.7 | 24.7 | 24.7 | 27.0 | 26.6 | 26.2 | 26.0 | |
| Revenue | | 18.3 | 19.6 | 19.5 | 19.5 | 21.7 | 21.8 | 22.0 | 22.4 | |
| Tax revenue | | 12.5 | 14.3 | 14.6 | 14.6 | 16.2 | 16.6 | 17.1 | 17.7 | |
| Nontax revenue | | 5.8 | 5.3 | 4.8 | 4.8 | 5.5 | 5.2 | 4.9 | 4.7 | |
| Grants | | 3.3 | 5.1 | 5.3 | 5.3 | 5.3 | 4.8 | 4.2 | 3.6 | |
| Expenditure | | 33.1 | 29.8 | 29.5 | 31.5 | 34.9 | 34.6 | 33.4 | 32.7 | |
| Current expenditure | | 26.5 | 20.1 | 19.3 | 19.5 | 21.9 | 21.6 | 19.5 | 18.2 | |
| Defense | | 13.2 | 6.4 | 5.1 | 5.1 | 5.9 | 5.3 | 4.7 | 4.2 | |
| Poverty-targeted expenditure | | 4.5 | 5.2 | 5.6 | 5.6 | 5.4 | 6.7 | 6.7 | 6.7 | |
| Education | | 2.5 | 2.9 | 3.2 | 3.2 | 2.9 | 3.8 | 3.8 | 3.8 | |
| Health | | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 1.1 | 1.1 | 1.1 | |
| Agriculture | | 1.0 | 1.2 | 1.3 | 1.3 | 1.2 | 1.6 | 1.6 | 1.6 | |
| Roads | | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | |
| Interest payments | | 2.2 | 2.1 | 2.0 | 2.0 | 1.9 | 2.2 | 2.0 | 2.0 | |
| Others | | 4.2 | 4.6 | 4.9 | 5.0 | 6.8 | 5.7 | 5.4 | 5.0 | |
| o/w Wages & salaries | | 6.8 | 6.9 | 6.8 | 7.0 | 8.7 | 7.8 | 7.6 | 7.3 | |
| Capital expenditure | | 6.6 | 9.6 | 10.2 | 12.0 | 13.1 | 13.0 | 13.9 | 14.5 | |
| o/w HIPC Poverty-targeted expenditure | | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 1.3 | 1.2 | 0.9 | |
| o/w Poverty-targeted expenditure | | 4.6 | 7.0 | 8.3 | 0.0 | 10.2 | 11.7 | 12.7 | 13.2 | |
| Total poverty targeted expenditures | | 9.1 | 12.2 | 13.9 | | 15.6 | 18.4 | 19.4 | 19.9 | |
| Special Programs | | 0.0 | 0.8 | 2.9 | 2.9 | 2.0 | 1.7 | 1.4 | 0.0 | |
| Overall balance including grants (excl. special progr | | -11.5 | -5.1 | -4.7 | -6.7 | -7.9 | -8.0 | -7.2 | -6.7 | |
| Overall balance excluding grants (excl. special progr | | -14.8 | -10.1 | -10.0 | -12.0 | -13.2 | -12.8 | -11.4 | -10.3 | |
| Overall balance including grants | | -11.5 | -5.8 | -7.6 | -9.6 | -9.9 | -9.7 | -8.6 | -6.7 | |
| Overall balance excluding grants | | -14.8 | -10.9 | -12.9 | -14.9 | -15.2 | -14.5 | -12.8 | -10.3 | |
| Financing | | 11.5 | 5.8 | 7.6 | 9.6 | 9.9 | 9.7 | 8.6 | 6.7 | |
| External (net) | | 1.7 | 4.0 | 6.9 | 8.9 | 9.1 | 8.2 | 6.9 | 5.2 | |
| o/w HIPC external assistance | | 0.0 | 0.0 | 0.0 | 0.6 | 0.8 | 1.4 | 1.3 | 1.0 | |
| Domestic, net | | 9.6 | 0.1 | 0.0 | 0.0 | 0.4 | 0.9 | 1.2 | 1.1 | |
| Banking system | | 10.6 | -0.4 | -0.7 | -0.7 | 0.4 | 0.9 | 1.2 | 1.1 | |
| Privatization | | 1.3 | 0.8 | 0.7 | 0.7 | 0.4 | 0.6 | 0.5 | 0.4 | |
| Residual | | -1.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Memorandum item | | | | | | | | | | |
| GDP at current market price | | 51869.4 | 51961.8 | 59108.7 | 59108.7 | 51158.1 | 57091.9 | 64000.0 | 72256.0 | |

Annex Matrix Table 13.1: Selected Welfare Monitoring Data

| <u>Source</u> | Survey Type | Coverage (Reference Year) | Coverage | Reporting Levels | Institutions Responsible for Collection/Analysis |
|--|---|-------------------------------------|--------------------------------------|--|--|
| A. Nation-Wide Official Data | | | | | |
| Welfare Monitoring Survey (WMS) | Cross-section household data | 1995/96, 1997, 1998, 2000/01 | Nationally Representative | National, Regional, Zonal, Urban/Rural | CSA, WMU |
| Household Income, Consumption and Expenditure Survey (HICES) | Cross-section household data | 1995/96, 2000/01 | Nationally Representative | National, Regional, Zonal, Urban/Rural | CSA, WMU |
| Demographic and Health Survey | Cross-section household data | 2000 | Nationally representative | National, Regional, Urban/Rural | CSA |
| Census | Household and individual data | 1994 | National | National down to Woreda | CSA |
| Data from Health Sector Development Program | Administrative reporting | Yearly | National | Currently National down to Region ** | Ministry of Health |
| Data from Education Sector Development Program | Administrative reporting | Yearly | National | Currently National down to Region ** | Ministry of Education |
| The Agricultural Sample Census | Census | 2001/02 | National | National, Regional states, and woreda (district) levels | CSA |
| National Labour Force Survey | Survey | 1999 | National | National, Regional, Urban/ Rural | CSA |
| Numbers Compatriots Eligible For Food Aid | Administrative reporting | Yearly | Aggregation from administrative data | Region, Zone, Woreda ** | DPPC |
| B. Independent quantitative sources | | | | | |
| Ethiopian Rural Household Survey – sub sample | Panel household data (i.e. same households) | 1994, 1994b, 1995, 1997, 1999, 2000 | 15 Villages * | Villages (reflecting livelihood diversity, not statistically representative) | Economics Dept, AAU with Oxford University |
| Ethiopian Urban Household Survey | Panel household data | 1994, 1995, 1997, 1999 | 10 major towns, 1,400 households | Main towns | Economics Dept, AAU with Gothenburg University |

| <u>Source</u> | Survey Type | Coverage (Reference Year) | Coverage | Reporting Levels | Institutions Responsible for Collection/Analysis |
|--|------------------------------|---------------------------------|---|---|--|
| C. Qualitative Data Collection And Analysis | | | | | |
| Participatory Poverty Assessment | Multiple qualitative methods | 1997 | 10 specific communities, 6 rural and 4 urban | Diverse communities, but not statistically representative | World Bank in collaboration with Government |
| Consultations with the Poor | Multiple qualitative methods | 2000 | 10 specific communities (drawn from Addis Ababa and two regional woredas) | Poor villages, not representative beyond specific communities | Forum for Social Studies/World Bank |

* For 6 communities (350 households) data go back to 1989; for 4 communities (500 households) data extend to 2001.

** Reporting levels are statistical units for survey based data (i.e. the lowest level of geographical disaggregation at which the results can be reported without compromising statistical representativeness). For administrative data, we give the reporting levels typically used in publications and databases.

Annex Matrix Table 13.2: Key Welfare Indicators from National Data

| | <i>Economic opportunities</i> | <i>Capabilities</i> | <i>Vulnerability</i> | <i>Empowerment</i> |
|--|--|---|--|---|
| A. Nation-wide official data | | | | |
| Welfare Monitoring Survey (WMS) | Limited consumption and asset information | Health access and use, literacy, enrolment and dropout Malnutrition | Malnutrition, vaccination, gender issues etc Access to roads, access to public service, infrastructure and communications | |
| Household Income, Consumption and Expenditure Survey (HICES) | Consumption, income | | | |
| Demographic and Health Survey | | Health access, knowledge and use; fertility | Malnutrition; infant, child and maternal mortality | |
| Census | Limited asset (housing) | Population, literacy, enrolment | | |
| Health Sector Development Program indicators | | Health infrastructure, recurrent health inputs | | |
| Education Sector Development Program indicators | | Education infrastructure, recurrent education inputs | | |
| Food security monitoring | | | Eligibility for food aid | |
| B. Independent quantitative sources | | | | |
| Rural Household Survey | Consumption, income, assets, labor, land, investment, activities, credit | Health access and use, literacy and education access, enrolment and dropout | Nutrition, risks faced, coping mechanisms, informal insurance, safety net access, mortality | Intra-household power, local politics and participation |
| Urban Household Survey | Consumption, income, assets, labor, investment, activities, credit | Health access and use, literacy and education access, enrolment and dropout | Nutrition, coping mechanisms, informal insurance, safety net access, mortality | |
| C. Qualitative data | | | | |
| Participatory Poverty Assessment | Wealth rankings, perceived problems | | Perceptions of security, risk and vulnerability | Poor people's perspective on autonomy and participation |
| Consultations with the Poor | Perceived problems and opportunities | | Perceptions of security, risk and vulnerability | Involvement in formal and informal institutions |
| The 2002 Federal Consultation on PRSP | Peoples' own perspective of poverty | Socio, economic cultural, political Governance, etc. | Source of vulnerability | Poor peoples' perspective on autonomy |

NB: Some indicators are relevant to more than one dimension of poverty