

Ethiopia: Status Report on the Brussels Programme of Action (BPoA) for Least Developed Countries (LDCs)

Ministry of Finance and Economic Development (MoFED)

**January 2006
Addis Ababa**

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List of Acronyms

ADLI	Agricultural Development Led Industrialization
AGOA	African Growth and Opportunity Act
APRs	Annual Progress Reports
ART	Anti-Retroviral Treatment
BPoA	Brussels Programme of Action
BPR	Business Process Reengineering
CSOs	Civil Society Organizations
DAs	Development Agents
DPT	Diphtheria, Pertusis and Tetanus
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
EEPCCO	Ethiopian Electric Power Cooperation
EPE	Environmental Policy of Ethiopia
ESDP	Education Sector Development Programme
ETC	Ethiopian Telecommunication Cooperation
FDI	Foreign Direct Investment
FTCs	Farmers Training Centers
GPE	Gross Primary Enrolment
GOE-DAG	Government-Development Assistance Group
HICE	Household Income Consumption Expenditure
HSDP	Health Sector Development Programme
IDA	International Development Agency
JBAR	Joint Budget and Aid Review
JBS	Joint Budget Support
LDCs	Least Developed Countries
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MDGR	Millennium Development Goals Report
M&E	Monitoring and Evaluation
MFI	Micro Finance Institutions
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
NAP	National Action Plan
NBA	National Bank of Ethiopia
NGOs	Non-Government Organizations
NPLs	Non-Performing Loans
PASDEP	A Plan for Accelerated and Sustained Development to End Poverty
PSCAP	Public Sector Capacity Building Programme
PSIP	Public Service Delivery Improvement Policy
PRSP	Poverty Reduction Strategy Papers
SDPRP	Sustainable Development and Poverty Reduction Programme
RSDP	Road Sector Development Programme
SNNPR	Southern Nations Nationalities and People's Region

SSA	Sub-Saharan Africa
STDs	Sexually Transmitted Diseases
TIN	Tax Identification Number
TVET	Technical Vocational Education and Training
UN	United Nations
UNCT	United Nations Country Team
VAT	Value Added Tax
VCT	Voluntary Counseling and Testing
WMTC	Welfare Monitoring Technical Committee Members
WTO	World Trade Organization

Introduction

The Brussels Programme of Action (BPoA) is the outcome of the third United Nations (UN) Conference on Least Developed Countries (LDCsIII)¹. It was held in Brussels from November 14 to 20 May 2001. The basic objective of the BPoA is to achieve, with respect to LDCs, substantial progress in meeting the Millennium Development Goals (MDGs) of halving poverty by 2015 and promoting sustainable development.

The programme endorsed seven commitments with a wide range of issues for a follow up at national, sub-regional, regional and global levels. The commitments are:

- ✓ Fostering a people-centered policy framework;
- ✓ Good governance at national and international levels;
- ✓ Building human and institutional capacities;
- ✓ Building productive capacities to make globalization work for LDCs;
- ✓ Enhancing the role of trade in development;
- ✓ Reducing vulnerability and protecting the environment; and
- ✓ Mobilizing financial resources.

Poverty eradication, gender equality, employment, governance, capacity-building, special problems of landlocked and small island developing countries, and special problems faced by least developed countries affected by conflict are stated as cross-cutting priority issues in BPoA.

Objective and Scope of the Report

In response to the request made by the UN Regional Commissions, this report is intended to give an overview of Ethiopia's experience, achievements so far made as well as addresses opportunities and challenges faced and the monitoring and evaluation system used in implementing the BPoA. The findings of the report will serve as an input to the comprehensive mid-term review of the BPoA for the LDCs for the decade 2001-2010 during the General Assembly's sixty-first session in 2006.

As the Programme, in particular recommends the LDCs to undertake this task within their respective national development framework and poverty eradication strategy, this report will give an insight of the country's status with regard to the seven commitments based on studies and researches conducted on the MDGs and the country's development strategy document, the Sustainable Development and Poverty Reduction Programme (SDPRP) spanning the

¹ LDC III is the last of the ten yearly gatherings recommending policies and measures for economic and social development of LDCs.

years 2002/03 to 2004/05 later called "A Plan for Accelerated and Sustained Development to End Poverty (PASDEP)" spanning the 5 years period 2005/06 to 2009/10.

Overview of Ethiopia's Socio-Economic Performance

Ethiopia is a Federal country located in the eastern horn of Africa with a total surface area of 1.1 million square kilometers and a population of 72.4 million in 2004 with an annual growth rate of 2.75 and a total fertility rate of 5.9. Administratively, the country has bicameral parliament, the House of Representatives and the House of Federation. Local administrative boundaries are composed of nine regional states- Afar, Amhara, Oromia, Somlaia, Tigray, Benshangul-Gumuz, Southern Nations Nationalities and People's Region (SNNPR), Harari and Gambella- and two city administration councils, Addis Ababa and Dire Dawa.

Ethiopia is among the poorest third world countries with an annual average per capita income of US\$116. And 36%² of the population is estimated to live under the poverty line, equivalent to 45US cents per day. In 1999/2000, 44.2% of the population was estimated to live under the poverty line. The country is extensively dependant on agriculture, which provides about 85% of the employment. Even though an average of 5% of annual GDP growth is registered over the period 2001/02-2004/05, very low productivity, as a result of unreliable rainfall, high population growth and structural bottlenecks are the daunting challenges of the country. GDP growth rate of 3.8% below zero was registered in 2002/03 as a result of drought, followed by strong positive performance of 11.3% and 8.9% during the past two years (2003/04 and 2004/05, respectively). The relatively strong GDP growth is primarily due to stable macroeconomic conditions (on average with single digit inflation³), better economic policies and development strategies, foreign resources inflow, strong private sector participation, and improved public sector service delivery, which improved total factor productivity, while the rest is catch-up growth following a long period of conflict.

In terms of social services, access to clean drinking water has increased from 30% of the population in 2001/02 to 40% in 2004/05. During the same year (2004/05), access to health services is estimated at 70% of the population while only 17% of the population has access to improved sanitation. Child mortality rate stood at 126.8/1,000 and maternal mortality rate at 871/100,000 by the end of 2004/05. During the same year, Gross Primary Enrollment (GPE) stood at 79%. And 62% of the population is illiterate, the rate for women being 79%. In 2004/05, unemployment rate stood at 8%. Only 16% of the population has access to electricity in 2004/05.

² This result is based on recent simulations conducted by the World Bank. This is reported pending the outcome of the on-going analysis based on the 2004/05 Household Income Consumption and Expenditure survey data sets to be issued subsequently.

³ Inflation stood at 15.1% in 2002/03, but declined to 9% in 2003/04 and 6.8% in 2004/05.

Commitment I: Fostering a People-Centered Policy Framework

Ethiopia has taken major steps in fighting poverty and bringing sustainable and equitable development. Accordingly, the Government has designed policy tools, which are people-centered and geared towards addressing the needs of the poor in terms of providing better social services as well as attaining a higher economic performance at the macro level. Human development and provision of infrastructure are also key areas that the country is making progress. This is witnessed by its commitment to achieve the MDGs and by its strong poverty reduction programme embraced in the SDPRP and in the PASDEP.

SDPRP: The executive board of the World Bank and the International Monetary Fund (IMF) approved Ethiopia's Interim Poverty Reduction Strategy Paper (I-PRSP) in November 2000. Consequently, the preparation of the full poverty reduction strategy for the country was initiated with extensive, transparent and wide-ranging public consultations in 2001. In order to compile the feedback of the consultations as well as comments from the various stakeholders, an institutional set up was put in place at the federal level. As a result, the final document entitled "Sustainable Development and Poverty Reduction Programme (SDPRP)" which provides a sound basis to continue the implementation of the sustainable development and poverty reduction activities is prepared in 2002.

The SDPRP is built on four pillars (building blocks) namely; Agricultural Development Led Industrialization (ADLI), justice system reform and civil crevice reform, decentralization and empowerment, and capacity building in public and private sector. The Programme has been implemented and assessment report prepared to serve as a basis for public consultation to inform Ethiopia's second generation PRSP now known as the PASDEP. Annual Progress Reports (APRs) have been prepared yearly to track progresses achieved, challenges encountered, and lessons learnt in implementing the Programme.

The Government of Ethiopia has already formulated the PASDEP, which represents Ethiopia's second generation PRSP. The Programme will deepen the fundamentals of SDPRP and is going to serve as Ethiopia's guiding strategic framework for the five-year period 2005/06-2009/10. It carries forward important strategic directions pursued under the SDPRP-related to human development, rural development, food security and capacity building- but also embodies some bold new directions. Major focus is given to growth in the coming five-year period -with a particular emphasis on greater commercialization of agriculture and a scaling-up of efforts to achieve the MDGs.

As part of the participatory preparation process, among other things, the Government has undertaken consultations with a wide range of stakeholders at regional and federal levels to draw lessons learnt and to be able to articulate gaps and issues to be addressed in the PASDEP. Currently, the draft document is widely distributed to government counterparts, development partners, Non-Government Organization (NGOs), Civil Society Organizations

(CSOs) and the private sector for comments and feedback in order to have a document, which reflects the vision of the broader stakeholders.

MDGs: The country has published its first MDGs Report (MDGR) called " The MDGs: Challenges and Prospects for Ethiopia" in 2004. The Report outlined the implications of the MDGs for Ethiopia from the perspective of context, past trends, prospects and a preliminary estimate of resource requirements for their realization.

The MDGs Needs Assessment study⁴-launched in July 2004- further broadened the costing exercise in seven sectors- agriculture and rural development, education, health, water and sanitation, road, urban development, private sector and trade issues- as well as in three cross cutting areas -gender, HIV/AIDS and population. The analysis produced by each sector was based on the review of relevant documents and existing sectoral strategies. In addition, the study addressed complimentary requirements such as a major increase in aid levels, continued institutional reform to strengthen the supportive environment for private initiatives, reinforcing the infrastructure backbone of the country, and addressing the emerging urban agenda.

The MDGs Needs Assessment Synthesis Report, which brings all the sectoral works together is also finalized and shared with development partners, CSOs and the private sector. The report represents the results of technical analysis and dialogue among the various stakeholders and reviews and consolidates the results of the sectoral assessments into an overall investment plan, building from the original sectoral estimates and considering the potential synergies that can arise between different types of interventions. Moreover, alternative costing scenarios and possible financing strategies as well as monitoring and evaluation system, which allow to track progress towards the MDG, are presented in the report.

Both the MDGs and the SDPRP/PASDEP exercises are coordinated by the Ministry of Finance and Economic development (MoFED) with a strong support from the Welfare Monitoring Technical Committee (WMTC)⁵ members and representatives from the UN Country Team (UNCT), the World Bank and bilateral donors. Members of the civil society organizations and the private sector have also played a pivotal role in providing substantial comments to enrich the documents.

Commitment II: Good Governance at National and International Levels

The adoption of federal system of Government in Ethiopia resulted in open, transparent, and democratic governance that respects the right of all citizens. This is further strengthened by

⁴ The MDGs Needs Assessment study is an exercise initiated by the UN Millennium Project in selected priority countries -Ethiopia, Ghana, Kenya and Senegal, from Africa- in helping the countries develop MDGs Needs Assessment that feeds into MDG-based poverty reduction strategies.

⁵ WMTC members are representatives from each of the sectoral ministries with regard to activities related to poverty reduction.

the adoption of the decentralization process, which gave power to regional governments to implement development policies and strategies and provided the opportunity for local residents to participate in development programmes. Notable achievements in decentralization, improved democratic governance as well as justice system and civil service reform are briefly outlined below.

Decentralization: The stated objectives of the Government's decentralization policy are to improve the quality of service delivery and to empower local communities to take more responsibility for determining their priorities. Hence, the Draft Fiscal Decentralization Strategy that provides a clear overview of the goals and strategies, the fiscal instrument that the Government is employing, and some of the challenges that arise in creating accountable local governments in urban and rural areas has been prepared in 2004. The Strategy also lays out a balance between transfers and regional revenue mobilization. Between 40-60% of all government expenditures have been transferred to the local level, together with full responsibility for managing social services and increasing shares of capital investment starting in 2001. Continued efforts are being made to improve block-grant formula used to allocate resource to the regions and to strengthen urban governance structures. A national Urban Development Policy is currently being drafted as well.

Improved Democratic Governance:

- ✓ **Improved Law Making:** Study for enhancing the public consultation mechanism through TV and radio in order to reach out the wider public has been completed and report produced. The training for improved administration and operation of law enforcement organs is underway;
- ✓ **Human Rights:** A human rights Commission and Ombudsmen's office have been established, Commissioner and Ombudsmen appointed as well. Efforts will continue to strengthen the institution with the establishment of systems and procedures;
- ✓ **Elections:** National and Regional elections have been held in 2005. Over 25 million citizens participated in the election;
- ✓ **Transparency and Judicial Independence:** Names and qualifications of approved judges have been publicly announced;
- ✓ **Consultation:** The Government consulted with different groups in society, and held public debate over policies to a level which did not take place in Ethiopia before; and
- ✓ **Women's Empowerment:** The National Action Plan (NAP) on gender has been formulated. The Government has also taken steps to improve the condition of women, including passing laws to protect women's rights.

Justice System Reform: The design of the nation wide assessment of the Reform is completed. In respect to strengthening judicial independence, curriculum design completed and training of judges and prosecutors started. The study on judicial conduct and accountability in judicial administration is in progress and expected to be completed by the end of 2005. In addition, National Justice Information Center is to be established to provide better access and information on the justice system, with particular attention to gender issues.

Civil Service Reform: The Public Service Delivery Improvement Policy (PSIP) was adopted by the Council of Ministers in 2001. The Government has passed a new Civil Service Law as well. Most federal civil service reform offices have established Customer Services and Complaints Handling Units and prepared service standards. To improve service delivery, in addition to the Business Process Reform and Public Service Delivery Improvement Policy already completed during SDPRP I, performance and service-delivery baselines will be established for (a) core government functions, and (b) key services. In addition, Ethics and Anti-Corruption Commission has been established. Reforming government procurement systems were launched as well. A Public Servants' Code of Conduct and supporting systems are currently under development and will be approved and adopted during the first two years of the PASDEP.

Commitment III: Building Human and Institutional Capacities

Lack of capacity is recognized by the Government of Ethiopia in terms of not having the required number and quality of institutions, working systems and human resources as the chief impediment that stand in the way of realizing its development objectives and attainment of the MDGs. The Government is updating and refining the national capacity development strategy developed in 1998. The Government has reorganized its executive branch and created a few more line ministries considered instrumental for strengthening the strategy. Among them is the Ministry of Capacity Building, which is an umbrella institution that coordinates all the activities under one integrated and harmonized operation. In addition, the Public Sector Capacity Building Programme (PSCAP) is being implemented to strengthen Government institutional capacity across the board (federal, regional and Woreda levels).

The Government took a strong stand with regard to improving basic social services, especially in the education and health sector. The current status of the two sectors as well as some of the challenges faced are briefly outlined in the next few paragraphs.

Education: The Government launched the Education Sector Development Programme (ESDP) since 1997/98, which is now in its third phase spanning the years between 2004/05 to 2009/10. The policy pursued under this Programme focuses on improving quality of education, increasing access to educational opportunities with enhanced equity, equality and relevance. Some of the achievements in this sector are:

- ✓ The number of children in **primary school** increased from 7.4 million in 2000/01 to 9.5 million in 2004/05, taking the Gross Enrolment Ratio (GER) from 61% in 2001/02 to 79% in 2004/05. Ethiopia's goal is to have all children going to primary school by 2015 and even earlier than 2015. Construction of facilities, training and deployment of new teachers for primary level, development of text books, and the use of quality assessment mechanisms contributed to the higher enrollment rate;
- ✓ The number of students in **secondary school** increased from 780,636 in 2003/04 to 942,578 in 2004/05 with the GER rising from 22.1% to 27% during the same period. The steps that will be taken to increase primarily enrolment will be applied in this regard as well;

- ✓ Over **1,500 new schools have been constructed**, and the total number of teachers has increased by 23,000⁶;
- ✓ 6 regions have met the basic target of **1 text book** for each student;
- ✓ **Technical Vocational Education and Training (TVET)**: The number of TVET institutions has increased from 17 in 1996/97 to 158 in 2003/04, and enrolment from 2,924 to 102,649;
- ✓ **Higher education**: In 2004/05, about 28,400 students were admitted to higher education, while the annual intake at the beginning of SDPRP I was 16,600. This increased the number of students in the University from about 87,000 at the beginning of SDPRP I to over 172,000 today. The Government has given accreditation to 10 new private institutions and converted two public colleges to full-fledged universities. Cost-sharing arrangement under which students repay some of the costs of their education once they are employed has been introduced; and
- ✓ **Spending on education** by the government more than doubled from 35 Birr per person in 2001/02 to Birr 72 per person today (2004/05).

It has been difficult to keep up with the very rapid increases in the number of students, so quality might have been compromised in some instance due to:

- ✓ The average number of students per classroom has increased tremendously;
- ✓ The number of teachers has not increased as fast as the number of students. Pupil: teacher ration is 63.5 in 2004/05;
- ✓ High construction costs limit the construction of the number of new schools and classrooms that the Government can build;
- ✓ Drop-out and repetition rates are very high. Many children do not attend school regularly, or leave school before the end of year 5 (or even of year 1); and
- ✓ There are large regional disparities in access, particularly between rural and urban areas even though special programs were initiated to respond to the needs of rural and pastoral areas, where it is more difficult for children to go to school.

The Government's program under the PASDEP will continue to focus on improving the quality of education to attract and keep children in school. Educational inspection will be strengthened and an adequate management system will be put in place. The main effort will still be on getting more teachers, and to intensify the scope of the TVET programmes.

Health: Government designed the Health Sector Development Programme (HSDP) -20 year health strategy- implemented through a series of 5-year programmes. The Programme calls for democratization and decentralization of the health services, capacity building and development of preventive health care and equal access to health services. Performances in this sector are inclusive of:

- ✓ **Access to health services** has reached 70% in 2004/05 from 52% in 2001/02;
- ✓ **Under-five mortality rate** has gone down to 126.8/1,000 in 2004/05 from 167/1,000 in 2001/02 but infant mortality rate remained at 97/1,000;

⁶ Both primary and secondary.

- ✓ **Maternal mortality rate** is still one of the highest in the world, at about 871/100,000;
- ✓ **HIV/AIDS prevalence** rate has gone down to 4.4% in 2003/04 from 7.3 in 2001/02. Such a target could be indication of the reverse of the spread of infection though efforts should continue to decrease the rate further. In addition, the Government introduced preventive programmes and a policy for supplying Anti-Retroviral Treatment (ART) to AIDS sufferers and, increased Voluntary Counseling and Testing (VCT) services, launched programmes to control mother-to-child transmission, blood safety as well as Sexually Transmitted Disease (STDs) and;
- ✓ The Government trained over **10,500 new nurses, technicians, and front line health workers** and built over 1,900 new health posts and centers; and
- ✓ **Contraceptive prevalence rate and immunization coverage** (Diphtheria, Pertusis and Tetanus, DPT3) rate has reached 23% and 61% respectively in 2004/05. Immunization coverage (DPT3) in 2001/02 stood at 42%.

The major bottlenecks in the health sector are high population growth, low educational and income levels especially among women, lack of access to clean water and sanitation facilities, nutritional disorders and insufficient access to health services. Training and retaining trained health workers, lack of adequate management skills, and shortage of drugs also add to the factor.

The Government introduced the Health Extension Worker Programme which increased the number of nurses and health centers, increased the health budget from 12 Birr per person in 2001/02 to 19 in 2003/04, introduced special malaria and TB control programmes, put forward measures to improve the number, skills, distribution and management of health workers, introduced new systems of health care financing, including drug revolving funds as well and mobilized additional foreign aid to overcome some of the problems mentioned above. The focus under the PASDEP will continue towards primary health care and preventive services and improving the effectiveness of services in relation to difficulties in staffing and availability of drugs.

Commitment IV: Building Productive Capacities to Make Globalization Work for LDCs

Ethiopia has adopted market-oriented economy, which plays a crucial role towards globalization. An efficient network and transport system, which enables the exploitation of economies of scale and to reduce a country's vulnerability to shocks, is essential to promote and sustain economic growth as well as to fight against poverty in broader terms. Moreover, it facilitates the increase of volume and efficiency of trade and widens the market. Lack of access to transport networks restricts poor communities from market participation, decision making processes and constrains their economic opportunities as well as limits their access to social services.

The predominance of smallholder agriculture in Ethiopia indicates the importance of good access to markets and transshipment centers for their produce and input supply. As Ethiopia

faces food security problems, access to markets and road infrastructure and transport services in order to reduce isolation of communities and to create a link to regional and national markets is essential. Statistics indicates that some 60% of farmers are estimated to be more than half a day's walk from all-weather road.

It is with this thrust that the Government of Ethiopia has intensified its Road Sector Development Programme (RSDP), which tackles the constraints of social development arising from lack of inadequacy of infrastructure. Even though road transport is the major mode of transport in Ethiopia, carrying about 95% of the country's passengers and freight traffic, road density is one of the lowest compared to other Sub-Saharan Countries (SSA) but has shown substantial increase from 29 km/1,000 km² at the beginning of 2001/02 to 33.6 km/1,000 km² in 2004/05. During SDPRP I, a total of 5,392 km road rehabilitation/upgrading, construction and maintenance works were completed; of which 1,276 km were new rural roads.

There is a strong link between energy and development. One of the key measures that need to be taken to reduce poverty is to increase access to electricity in all parts of the country including the rural areas. 94% of the country's electric power generation relies on water resources. Even though Ethiopia's hydroelectric power generation potential is in the range of 15,000 to 30,000 MW, only 663 MW (2 to 4%) has been put in use. Due to that, less than 17% of the population has access to electricity supply. Current per capita electric power generating capacity of the country is about 10 W and the annual per capita electric energy consumption is limited to 28 KW⁷. The share of oil and electric power in the energy consumption of Ethiopia is only 5.5%. A long-term plan is developed by the Ethiopian Electric Power Cooperation (EPCO) for power system expansion, improving the existing network and construction of two new generation plants.

Major steps have been taken by the Government with regard to network expansion, including the mobile network. Accordingly, telephone coverage by Ethiopian Telecommunication Cooperation (ETC) has increased from 400,000 lines at the beginning of SDPRP I to over 1 million at the end of 2004/05. Ethiopia has made huge investment in basic multi media infrastructure backbone and is executing project to lay fiber optic cables. This has facilitated school net and woreda-net projects and ICT programmes to take off. Further more, corporate reforms by the ETC to increase efficiency, the partial liberalization of the ETC in terms of letting the private sector to distribute mobile phones, reducing the cost of international calls as well as Internet connection can be cited as a positive move in bringing development to this sector. In order to overcome the challenges in this sector, upgrading and expanding the backbone infrastructure as well as improving the service of mobile⁸ and fixed⁹ phones¹⁰ are identified as priority areas in (ETC's) strategic plan.

⁷ Ethiopia's per capita electric power consumption in 1998 was only 24 kwh.

⁸ 0.56% of the population has access to mobile phone.

⁹ 0.79% of the population has access to fixed telephone.

Commitment V: Enhancing the Role of Trade in Development

As a result of the liberalization of the restrictive policy in 1991/92, increasing trends have been witnessed in the contribution of the private sector to the over all growth of the economy. The investment climate improved in terms of the provision of macroeconomic stability, institutional and legal environment, efficient taxation system as well as maintaining peace in the country. Hence, during the last two years, value added in services grew by about 6.2%, industrial output by 7%, and construction by 8.2%.

The Government internalized private sector development in its national development strategies and programmes, particularly in labor-intensive sectors. Significant progress was made under SDPRP I due to Businesses Process Reengineering (BPR) in reducing the bureaucratic bottlenecks in the Ethiopian Investment Commission, Ministry of Trade and Industry (MoTI), the Ethiopian Customs Authority as well as regulatory impediments to doing business in Ethiopia. For example customs clearance times were cut from weeks to a matter of days or hours. The time taken to get a business license was reduced from 25 days to 2 days, and procedures to access land for businesses were streamlined.

Accelerating privatization, creating the right environment for businesses, strengthening the institutional framework that supports and encourages the supply of affordable land as well as strengthening the finance and banking system are the major steps pursued by the Government to enhance the private sector. BPR will continue under PASDEP for all public institutions that deal with private sector investment.

The opportunities for dialogue between Government and the private sector have expanded substantially in the recent past. Recent innovations include establishment of the Public-Private Consultative Forum of Chambers of Commerce, and of sector associations as well as involvement of the private sector in reviewing and commenting on the Government's strategy during the formulation of SDPRP and of the current PASDEP.

The Government of Ethiopia has recently initiated the process of Ethiopia's accession to the World Trade Organization (WTO), which facilitates the integration of the Ethiopian economy with the international trading system through developing skills in bilateral and multilateral trade negotiations. In addition, efforts are being strengthened to gain from African Growth Opportunity Act (AGOA) and Everything But Arms (EBA) initiatives. It is also in the plan of the Government to implement the findings of the Diagnostic Trade Integration Study (DTIS), which include recommendations in the areas of diversification, removal of trade constraints, and strengthening the capacity of trade support organizations.

Exports are growing in high value agricultural products, (flowers¹¹ and organic coffee), high quality commercial crops and high quality skins/leather and textile garments. Exports of

¹¹ There has been an investment of 2.6 billion Birr (over US\$300 million) in the flower industry that created many new jobs for the rural poor, especially for women. It has also generated new export earnings valued at US\$ 4 million in 2003/04.

goods and services as a share of GDP has increased from 13% in 2001/02 to 14% in 2004/05. Merchandise exports are estimated at 8.8% of GDP in 2004/05. In 2003/04 and 2004/05, total value of exports grew by 25% and 36%, respectively. However, the share of goods exported remains low in most sectors. Creating a well functioning trading system and improvements in the infrastructure network are essential to diversify the export sector. Moreover, the Government is strengthening the customs authority, streamlining the activities of trade support services, and facilitating credit schemes. For example, securing loading permits from Djibouti only takes 6 steps and 15 minutes from 43 steps and 2 days prior to the BPR. Checking and fixing a container with a customer seal used to take 8 steps and two days, whereas now it only takes 3 steps and 40 minutes. Declaration acceptance, approval, examination, release of exported items and distribution o declaration used to take 8 steps and 2 to 15 days, whereas now it only takes three steps and 26 minutes to get same service for a business entity.

The Government has taken a number of steps to develop the tourism sector, which contributes nearly 2% of the GDP, due to its potential of foreign exchange earning capacity. The construction of airports at the main tourist sites and the restoration of major cultural and historical assets can be cited as key steps taken towards this end. Ethiopia has three major segments of tourism. Vacation tourists currently account for 31% of arrivals, business and conference 28%, and tourists visiting relatives 13%. Growth has been strong in all of these segments in recent years, growing at an average annual rate of more than 13%, nearly quadruple the growth rate for Africa as a whole. The fastest growth is recorded in vacation tourism, at 25% per year. Nevertheless, growth in this sector is constrained by factors such as limited number and capacity of tourist facilities and the negative image in the international media. In order to overcome these drawbacks, the Government in its PASDEP is committed to provide the required support and to ensure that tourism considerations are integrated into the policy-making process of related sectors. Establishing an enabling environment, provision of infrastructure as well as encouraging a balanced and profitable industrial structure are among the major strategies to develop the sector.

Commitment VI: Reducing Vulnerability and Protecting the Environment

As 85% of Ethiopia's population live in rural areas and depend on rain fed agriculture, promoting the agricultural sector remains at the center of the Government's development policy and strategy. Specifically, under the strategy of ADLI, agriculture is seen as the driving force to produce surpluses that will fuel expansion of industry and modern sector growth.

Performance of the sector in the recent past has generally been good even though the amount of production always fluctuates from year to year. For example, a trend in annual agricultural value added has shown an increase from nearly 7.5 billion in 2001/02 to an estimated amount of 9 billion in 2004/05 and agricultural production in 2003/04 has increased by 18.9% compared to the 12% drop below zero in fiscal year 2002/03 as a result of good weather condition. This indicates that agricultural production is highly variable owing to drought, shocks, and natural disaster. It is also the main reason for the growing food

insecurity problem that the country is facing. Every year, on average, close to 5 million people face food insecurity that is either chronic or transitory in nature. In order to overcome that, the Government Launched the National Food Security Programme during SDPRP I that seeks to attain food security for five million chronically food insecure people and another 10 million who are badly affected by shortages in drought years. The Programme is inclusive of providing grants to the Regions and provision of safety net programmes.

Prominent results of the agricultural sector are inclusive of:

- ✓ Increased **extension and research services** through designing better extension packages that respond to farmers needs, taking account of the different conditions in different parts of the country, and likely market demand;
- ✓ **Designed agricultural training and TVET** programmes to train extension agents and farmers in new techniques. This includes training of about 24,000 skilled Development Agents (DAs) and building over 5,000 Farmers Training Centers (FTCs).
- ✓ Special programs designed to **support the pastoral areas** in Afar, Somali, Oromia and SNNPR;
- ✓ A **new rural land proclamation** system and programme of issuing over 4 million certificates in the four largest regions of the country put in place to increase security of tenure among farmers;
- ✓ Improving grain marketing and introducing the warehouse receipt and inventory control system to address problems of high seasonal price variability, poor storage and infrastructure;
- ✓ Restructuring and strengthening **cooperatives**;
- ✓ Support to **Micro Finance Institutions (MFIs)** to improve rural finance services;
- ✓ **Strengthening livestock** through improved breeds, forage development, and veterinary services; and
- ✓ With respect to the **commercialization of agriculture**, so far 35 commodities have been identified that have the potential for a high growth impact (such as spices, cardamoms, sericulture, cut flowers, and lowland and highland fruits and vegetables). A process has started to assist agricultural producers to better understand issues of demand, standards, duties, transport costs and competition in each of these crops; and indicative business plans are being developed for each sub-sector.

The focus in the next stage, under PASDEP, will be on transforming smallholder peasant agriculture to commercial farming systems by ensuring that transport and credit services are available, reducing dependence on rain fed agriculture by investing more in irrigation, rural roads and electrification, research and extension services, export diversification and promotion, resettlement programmes, capacity building as well as strengthening livestock development. In addition, the major directions of rural and agricultural development are inclusive of adoption of labor-intensive technology, proper utilization of agricultural land, improving farmers' capacity and a coordinated development approach towards the enhancement of the sector. With regard to food security, the Government has developed the New Coalition for Food Security within the framework of the wider PASDEP. The

Programme has been under implementation in most of the chronically food-insecure Woredas since 2003.

A critical part of agriculture, and of reducing poverty in general, is enhanced management of the environment, including reducing soil erosion, protecting and regenerating forests, and managing water resources. Environmental degradation challenges prospects of fighting poverty and achieving sustainable development. Ethiopia's commitment to take the measures necessary to address the challenges of poverty reaffirmed by adopting the country's Environmental Policy, the Rural Development Policy and Strategy as well as the UN Millennium Declarations.

Accordingly, the Government, long before SDRP I, launched the Environmental Policy of Ethiopia (EPE). The objective of the policy is to improve and enhance the health and quality of life and to promote sustainable social and economic development through the sound management and use of natural, human made and cultural resource and the environment as a whole so as to meet the needs of the present generation without compromising the ability of future generation to meet their own needs. Furthermore, it initiated the establishment of regional environmental agencies and institutions by developing the necessary guidelines and laws that promote proper land use and soil conservation, water resource management, forest resource management as well as wild life and biodiversity utilization and conservation. The next steps during the PASDEP will concentrate more on implementation, and supporting community-based environmental management actions, with a major focus on combating desertification and reducing the effects of drought.

Commitment VII: Mobilizing Financial Resources

There has been encouraging achievement in the financial sector, particularly with the deepening of financial sector reform. Supporting initiatives, including civil service reform, capacity-building, and institutional development helped strengthen macroeconomic and fiscal management. The fiscal deficit including grants for the period 2002/03 to 2004/05 averaged 5% of GDP.

The market share of private banks has been steadily increasing in terms of all banking operations. For example, their share in total banking system deposits, fresh loans disbursement and total outstanding credit at the close of 2004/05 reached 25, 48, and 32 percent, respectively. Domestic credit increased by 29.5% in 2004/05 as claims on non-government sector increased by 20%. The latter was largely attributable to the increase in claims of Commercial Banks on public and private enterprises.

All banks disbursed 52% more fresh loans reaching Birr 9.45 billion in 2004/05 compared to Birr 6.21 billion a year earlier - reflecting the continued strong economic growth. Nearly 86% of the fresh loans went to the private sector. Despite these developments, however, commercial banks are still faced with excess liquidity.

During the PASDEP period, banks will be encouraged to modernize and raise efficiency by adopting improved banking practices and building their capacities. The strategy in the financial sector will continue to be geared towards ensuring a favourable environment for the banking sector through such measures as reducing information asymmetry, strengthening the existing credit information sharing, encouraging the habit of loans repayments and creating internal dynamism. Banks will also be encouraged to improve and modernize their activities through adoption of international best practices. This is inclusive of using management contracts, consultancy services, adhering to NBE's directives (such as provisioning and reserve requirement directives, etc) and building their capacities through training and experience sharing.

MFIs are also playing a significant role in expanding financial services to low-income groups, entrepreneurs and traders, who are not usually reached by banks. Improvements have been witnessed not only in terms of number but also in operational efficiency as well as coverage. The number of clients served by MFIs reached about 1.2 million by the close of 2004/05, compared to 461,326 in 2001. Loan outstanding increased from 308 million in 2001 to 1.5 billion Birr by June 2005. Savings mobilized reached Birr 501 million in June 2005 from 243 million Birr in 2001.

Fiscal developments in the past three years supported the overall macroeconomic stability. In order to boost revenue, the government embarked on a comprehensive tax policy and administration reform. Measures taken included: income tax streamlining and closing of loopholes, improving the incentive system, and strengthening tax administration, overhauling the income tax law and regulations, introducing a broad-based Value Added Tax (VAT) and tax identification numbers, and rationalizing tariff rates. As a result, tax revenue is estimated to have increased to 13% of GDP in 2004/05 from nearly 12% of GDP in fiscal year 2002/03.

Efforts will be made to further improve tax collection and compliance. In the coming five years, the government will accelerate the pace of the tax reform program. In particular, it will (a) further strengthen revenue collection institutions through reorganizing, adequate staffing and training, particularly for its revenue collection, accounting and audit functions, (b) implement the Tax Identification Number (TIN) system throughout the country, (c) improve the implementation of presumptive tax system, (d) develop and implement an audit program to cover all taxes, and (e) expand and improve the administration of VAT.

Domestic revenue increased by an average of 19% annually during SDPRP I. Its mobilization efforts have been supplemented by increased external resource flows which has been stable at around 12% of GDP. Net aid per capita, though increased from 10.41 in 1997 to 14.57 in 2000 and 27.67 in 2003, is much lower than other low-income countries in Africa with higher average per capita incomes and with better indicators of human development – Ethiopia receives an average of 13 dollar per capita in 2004, against the 28 dollars average of Sub-Saharan Africa, 35 dollars of Tanzania, 44 of Rwanda and 112 of Mozambique.

On the other hand, an important recent development is seen in the steady progress made by donors in harmonizing their lending plans and support to the Government. Budget support is a key area in which progress has been made, with two rounds of financing completed over

the last two years. The number of partners providing direct budget support as well as the total amount of resources provided through this instrument has increased over time. External grants, particularly in the form of direct budget support, rose significantly in the past three years, to a level of Birr 2.8 billion in 2004/05, compared to Birr 467 million in 2002/03. Importantly, the composition of external assistance has shifted markedly from loans to grant mainly due to part of International Development Agency's (IDA's) financing shift to grants.

Government and partners have agreed on the mechanisms that provide information to development partners on the progress of implementation. These are the Joint Budget and Aid Review (JBAR), fiduciary assessments, implementation of the SDPRP Monitoring & Evaluation (M&E) Action Plan, and reports from the Government- Development Assistance Group (GOE-DAG) sector review/coordination groups that exist in the SDPRP Structures. The Joint Budget Support (JBS) has now stabilized into a cycle of two missions per year carried out jointly by development partners, aligned with the Government's budget and sector review cycles, and benefiting from the year-round policy and implementation engagement that takes place.

It is also believed that the policy and institutional measures taken so far have created a favorable and credible environment for the inflow of Foreign Direct Investment (FDI). The revised investment law created additional incentives to FDI. The law reduced the minimum capital requirement and eliminated minimum capital requirements for foreign investors exporting at least 75 percent of their proceeds, and reduced the minimum threshold for FDI to US\$ 100,000 for wholly foreign-owned businesses. The improved service delivery is also going to assist in FDI flows. The devolution of power to districts and semi districts since 2001 has created institutional framework for social mobilization to enhance service delivery and management of local affairs.

Annex Table 1. 1: Summary of Selected Thematic/Sector Performance Indicators

S/N	Development Objective	Indicators	2002/03	2003/04	2004/05
I.	Growth and Poverty				
1.1	Growth	Real GDP Growth Rate (%)	-3.9	11.6	8.9%
1.2	Reducing Poverty	% Of people who are below the poverty line		44.4	36
1.3	Improving the Food Security Situation	% Of people who are below the food poverty line			33
II.	Agriculture and Rural Development				
		Growth of agricultural Value Added (%)			12
		Cumulative number of households who benefit from the extension package (in millions)	4.1	4.5	6.9
		Cumulative number of cooperatives engaged in the distribution of improved seeds and fertilizer			4,092
		Cumulative number of farming households who receive joint certificates (Million)			4.1
		DAs that receive extensive technical and vocational training in agriculture			23,445
		Cumulative number of FTCs			7,000
III.	Improvement of Education Service				
		Gross Primary Enrolment (%)	64.4	70	79
		Gross Secondary Enrolment (%)		22.1	27
		Preparatory admission			45,126
		Higher education admission			47,458
		TVET Admission			97,108
		Post graduate admission			2,532

		Completion rate of primary school (%)			34
		Average grade 4-8 repetition rate (%)	9.8	5.6	2.9
		Primary school dropout rate (%)	19.2	19.2	14.7
		1st grade dropout rate (%)			12.8
		Text book/pupil ratio for core subjects for grade 1-8	1:2	1:1.5	1:2
		Pupil/teacher ratio (1-8)	64	65	63.5
		Classroom/pupil Ratio			1:69
IV.	Improvement of Health Service				
		Under-five child mortality rate (deaths per 1,000)	140.1/1,000	140.1/1,000	126.8
		Infant mortality rate per 1,000			97
		Maternal mortality rate (deaths per 100,000)	871	871	871
		Fertility rate			5.9
		Access to health service (%)	61	64	70
		Immunization/ Diphtheria, Pertusis and Tetanus (DPT) 3 coverage (%)	50.4	60.8	61
		Nutrition			
		Stunting		51.5	46.9
		Wasting			37.1
		Nurses/population ratio	1:4,882	1:4,572	1:4,572
		Doctors (health officers)/population ratio		1:27,302	1:26,527
		Technicians/population ratio	1:19,967	1:18,344	
V.	Fighting HIV/AIDS				
		Reduction in Adult Incidence of HIV (%)			0.56
		Overall HIV/AIDS Prevalence Rate (%)	6.6	4.4	4.4
		% Of HIV positive pregnant women receiving a complete course of ARV prophylaxis to reduce the risk mother-to- child transmission (%)			42

VI.	Expansion of road construction to facilitate social and economic development				
		% of roads in good condition	34	37	64
		New road construction (k.m)			532
		Road density (km/1000 km ²)	31	33.2	33.6
VI.	Improving the welfare of the society through keeping up the pace of population growth with economic growth				
		Contraceptive prevalence rate (%)	21.5	23	23
VII.	Improving access to potable water				
		Percentage of people with access to potable water:			
		Urban (%)		83.1	83
		Rural (%)		29.5	37
		Total	34.1	37.9	40
		Cumulative farm land developed with medium and large scale irrigation (ha)			62,057
		No. of households who benefit from small scale irrigation schemes		73,854	394,500
VIII.	Electricity				
		Access to electricity (%)			16
		No of cities that have access to electricity			648
IX.	Telecommunication				
		Access to telecommunication services within 5 kms (%)			6
		No. of localities with telephone			3,000
		Persons with mobile telephone line (%)			0.65

		Persons with fixed telephone line (%)			0.70
X.	Banking (Financial) Services				
		Access to bank services			
		Share of total savings out of total capital (%)			24.1
		Share of total credit out of total capital (%)			23.9
		Reduction of large Non-Performing Loan (NPL) portfolios for CBE (%)			29.7
XI.	Private Sector Development				
		Total credit outstanding to the private sector as % of GDP			24.4
		Volume of micro finance credit (in million birr)			996.6
		Outreach of MFIs (no. of clients in millions)			1
XII.	Share of Poverty-Targeted Spending in Total Budget				
		Education	16.1	20.4	18.7
		Health	4.9	4.3	4.8
		Agriculture and Food Security	8.1	13.4	16.0
		Roads	9.9	9.6	16.6
		Water and Sanitation	2.9	3.0	3.4
		Total	42	50	60