

**The 2007 Annual Ministerial Level
Substantive Review of the Economic and
Social Council (ECOSOC)
Voluntary National Report**

**Emerging Ethiopia: Strengthening Efforts to Eradicate
Poverty and Hunger, Including Through the Global
Partnership for Development**

June 2007

CATCH THE MILLENNIUM IN ETHIOPIA

IF YOU DID NOT MAKE THE MOST OF THE NEW MILLENNIUM ELSEWHERE- THERE IS STILL TIME TO CATCH IT IN ETHIOPIA. ETHIOPIA HAS MAINTAINED ITS ANCIENT SYSTEM OF MEASURING TIME. SEVEN YEARS AFTER MOST OF THE WORLD CELEBRATED THE BEGINNING OF THE 21ST CENTURY, ETHIOPIA IS NEARING THE YEAR 2000, ITS MILLENNIUM.

FROM SEPTEMBER 12, 2007 TO SEPTEMBER 11, 2008, ETHIOPIANS AND FRIENDS OF ETHIOPIA CAN COME TOGETHER TO COMMEMORATE THE TRANSITION TO THIS UNIQUE ETHIOPIAN MILLENNIUM. THE AFRICAN UNION (AU) HAS RECOGNIZED THE EVENT AS THE AFRICAN MILLENNIUM

THE YEAR-LONG PROGRAMME WILL PROVIDE THE WORLD- THE TRUE IMAGE OF ETHIOPIA'S ANCIENT AND HISTORIC LAND, DIVERSE PEOPLES AND CULTURES, DIVERSE NATURAL ENVIRONMENT AND THE CRADLE OF HUMAN KIND.

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List of Acronyms

AAU	Addis Ababa University
ABECs	Alternative Basic Education Centers
ADLI	Agricultural Development Led Industrialization
AGOA	African Growth Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
ANC	Antenatal Care
APR	Annual Progressive Report
ART	Anti Retroviral Treatment
ASARECA	Association for Strengthening Agricultural Research in Eastern and Central Africa
BCG	Bacille Calmette Guérin
BPR	Business Process Re-engineering
CEM	Country Economic Memorandum
CFC	Cloro Floro Carbon
CPR	Contraceptive Prevalence Rate
CRC	Citizens Report Card
CSA	Central Statistics Agency
CSO	Civil Society Organizations
DAs	Development Agents
DHS	Demographic and Health Survey
DOTs	Directly Observed Treatment Short Course
DPPA	Disaster Prevention and Preparedness Agency
DPT3	Diphtheria Pertusis and Tetanus
DTIS	Diagnostic Trade Integration Study
EASE	Ethiopian Agricultural Sample Enumeration
EBA	Everything But Arms
ECA	United Nations Economic Commission for Africa
ECOSOC	Economic and Social Council
EEA	Ethiopian Economic Association
EEPRI	Ethiopian Economic Policy Research Council
EIAR	Ethiopian Institute of Agricultural Research
EMA	Educational Media Council
ENI	Ethiopian Nutrition Institute
ESDP	Education Sector Development Programme
ETC	Ethiopian Telecommunication Corporation
FDI	Foreign Direct Investment
FTCs	Farmers Training Centers
GDP	Gross Domestic Product
GER	Gross Enrolment Rate
GNI	Gross National Income
HEP	Health Extension Package
HEW	Health Extension Worker
HEWP	Health Extension Worker Programme
HICES	Household Income Consumption Expenditure Survey
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus

HSDP	Health Sector Development Program
ICT	Information Communication Technology
ICTA	Information Communication Technology Agency
IADG	Internationally agreed Development Goals
IDGs	International Development Goals
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
Kcal	Kilo Calorie
LAN	Local Area Network
LDCs	Least Developed Countries
M&E	Monitoring and Evaluation
MD	Millennium Declaration
MDGs	Millennium Development Goals
MDGR	Millennium Development Goals Report
MEFF	Macro Economic Fiscal Framework
MoARD	Ministry of Agriculture and Rural development
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
MOU	Memorandum Of Understanding
MoWR	Ministry of Water Resources
MSEs	Micro Small-scale Enterprises
NAP	National Action Plan
NBE	National Bank of Ethiopia
NDPF	National Development Policy Framework
NFA	Net Foreign Asset
NGO	Non Governmental Organization
NSSD	National Strategy for Statistical Development
ODA	Official Development Assistance
OECD-DAC	Organization for Economic Cooperation and Development-Development Assistance Committee
PASDEP	A Plan to Accelerate Sustained Development To End Poverty
PBS	Protection of Basic Services
PPA	Participatory Poverty Assessment
PPMS	Performance Planning and Management System
PPP	Purchasing Power Parity
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSDIP	Public Service Delivery Improvement Policy
REP	Rural Electrification Programme
RSDP	Road Sector Development Programme
SDPRP	Sustainable Development and Poverty Reduction Programme
SNNPR	Southern Nations Nationalities People's Region
SSA	Sub-Saharan Africa
TB	Tuberculosis
TVET	Technical Vocational Education and Training
UEAP	Universal Electrification Access Programme
UN	United Nations
UNCT	United Nations Country Team

UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
UNO	United Nations Organization
USD	United States Dollars
VAT	Value Added Tax
VCT	Voluntary Counseling and Testing
WB	World Bank
WFP	World Food Programme
WMS	Welfare Monitoring Survey
WMSC	Welfare Monitoring Steering Committee
WMSP	Welfare Monitoring System Programme
WMTC	Welfare Monitoring Technical Committee
WMU	Welfare Monitoring Unit
WTO	World Trade Organization

Executive Summary

Background

The 2005 World Summit entrusted the United Nations Economic and Social Council (ECOSOC), one of the principal organs of the United Nations Organization (UNO), with the function of assessing progress in the implementation of the outcomes of the major United Nations conferences and summits through a series of Annual Ministerial Reviews (AMR). In its follow-up resolution to the Summit outcome, the General Assembly further recommended that AMRs should provide an opportunity for countries to make voluntary presentations pertaining to their development experiences.

Focusing on the theme of the 2007 AMR, "*Strengthening efforts to eradicate poverty and hunger, including through the global partnership for development*", this Report highlights the success and challenges that Ethiopia has encountered in its journey towards achieving the Millennium Development Goals (MDGs) and recommends a way forward.

Features of the National Development Strategy

From the outset, it is important to note that Ethiopia's development policy goal is to fight and eradicate poverty. Ethiopia's Poverty Reduction Strategy (PRS) is the primary vehicle for achieving the MDGs. To date, two PRSs have been formulated; the Sustainable Development and Poverty Reduction Programme (SDPRP) and the Plan for Accelerated and Sustained Development to End Poverty (PASDEP). The SDPRP was launched in 2002 following wide-ranging public consultations in 2001. The strategy focused on improving human and rural development, food security, and capacity building through transformation of the agricultural sector; reforms in both the justice system and the civil service; decentralization and empowerment and; capacity building in the public and private sector.

The PASDEP is a five-year (2005/06-2009/10) strategic framework that builds on the strategic directions pursued under SDPRP but also embodies some bold new directions including a major focus on growth with particular emphasis on commercialization of agriculture, private sector development, and the scaling up of resources to achieve the MDGs.

PASDEP ranks among the first PRSs to be based on an MDG Needs Assessment. Costed MDG-required interventions span seven sectors (i.e., agriculture and rural development, education, health, water and sanitation, road, urban development, private sector and trade issues) as well as three cross cutting areas (i.e., gender, HIV/AIDS and population). In effect, PASDEP is explicitly linked to the MDGs and constitutes Ethiopia's medium term plan for achieving the MDGs. Furthermore, it has been synchronized and aligned with the longer term MDGs time frame.

Progress in the Implementation of the National Strategy

The implementation of Ethiopia's strategies for poverty reduction has been associated with positive trends in macro-economic as well as socio-economic indicators. At the macro-economic level, Ethiopia's per capita income growth has, over the past half-decade, exceeded the average for sub-Saharan Africa. Growth has been led by the agricultural sector but complemented by strong

performance in the manufacturing, construction and service sectors. In particular, construction has been spurred by the much needed public sector investment in infrastructure.

Ethiopia's socio-economic indicators have also improved. In particular, gross primary enrolment rates have improved markedly; immunization coverage has expanded; the nutritional status of the population has improved; and the absolute number of people living below the national poverty line declined between 1999/00 and 2004/05 with much of the decline occurring in rural areas. The decline in poverty has been associated with an improvement in food security in both the urban and rural areas.

Strategic Policy Successes

Although a number of innovative policy measures have contributed to Ethiopia's progress, policy successes in education, agriculture and infrastructure are worth noting.

A. Education

Ethiopia's remarkable achievement in gross primary enrolment is largely attributable to the government's Education Sector Development Programme (ESDP), which places emphasis on improving access to educational opportunities without compromising on quality. Specific measures to achieve these objectives include: promotion of universal free primary education; community control over schools and resources; upgrading teacher training; enhancing the English language curriculum; and emphasising information technology, computers, and television in teaching across the country. To support these efforts, government per capita spending on education more than doubled between 2001/02 and 2004/05.

B. Agriculture

The Agricultural Development Led Industrialization (ADLI) strategy is the government's overarching policy response to Ethiopia's food security and agricultural productivity challenge. The ADLI's distinctive features include: commercialization of smallholder agriculture through product diversification; a shift to higher-valued crops; promotion of niche high-value export crops; support for the development of large-scale commercial agriculture; effective integration of farmers with domestic and external markets; and tailoring interventions to address the specific needs of the country's varied agro-ecological zones.

Specific policy measures to improve agricultural productivity and promote food security include: agricultural extension and research; the design and operationalization of growth corridors; agricultural export promotion; a National Food Security Programme; a Productive Safety Net Programme; and a Voluntary Resettlement Programme.

Agricultural Extension Services and Research

A key feature of this innovative policy measure is the deployment of extension workers to every rural *kebele* in Ethiopia to facilitate sustained knowledge and skills transfer to smallholder farmers. This has contributed to increased agricultural productivity particularly for cereals, pulses, and oil seeds.

Growth Corridors

To enhance agricultural commercialization and diversification, the government is designing growth corridors to integrate complementary centers of production and marketing. Growth corridors facilitate integrated development by creating value chains within and across regional boundaries.

National Food Security Programme

The National Food Security Programme seeks to achieve food security by: increasing the availability of food through domestic (own) production; ensuring access to food for food deficit households; and strengthening emergency response capabilities.

Productive Safety Net Programme

The Productive Safety Net Programme is intended to bridge the income gap of chronically food insecure households, and engage such households in community asset-building efforts especially during the lean season and times of drought. Priority for household asset-building interventions is given to beneficiaries of the Safety Net Programme.

C. Infrastructure

Achieving ADLI's objectives requires focused infrastructure investments, especially in roads, energy and water and sanitation. To this end, the government has designed a number of programmes to improve the nation's infrastructure.

To date, the governments Road Sector Development Programme which was designed to integrate isolated rural communities with regional and national markets has resulted in a significant increase in the total road network of the country and the proportion of roads in good condition.

The catalytic role of telecommunications for development is now widely accepted. Accordingly, Government has taken major steps to enhance the sector's contribution to economic growth and poverty reduction. The Ethiopian Telecommunication Corporation (ETC) has developed a strategic plan to face the challenges of bringing telephone connectivity to the wider public particularly rural areas and towns.

The telecommunication policy/strategy framework stipulates that the backbone infrastructure will remain in the public domain, under the auspices of ETC, while the private sector is encouraged to become increasingly involved in downstream activities and services. At the same time, the Government and the regulatory authority will keep up sustained pressure to ensure that the ETC meets the highest service standards, attain roll-out targets and delivers world class network and service quality standards.

Furthermore, the Universal Electrification Access Programme, a large-scale rural electrification programme, is expected to benefit over 6,000 rural towns and villages in all regions of the country.

Finally, Ethiopia's *National Water Resources Management Policy*, *Water Sector Strategy*, and *Water Sector Development Programmes* seek to ensure efficient, equitable and optimum utilization of available water

resources to support the country's socio-economic development. Notable achievements of these programmes include: increased rural access to clean water and; increased access to irrigated land by farmers.

D. Health

One of the major policy initiatives that have been placed in motion recently, is institutionalization of the village health service through the implementation of health service extension programme as an institutional framework. This Programme would give momentum to the efforts directed towards the achievement of the MDGs, especially Goals 4, 5 and 6).

As a result of the diligent implementation of this Programme, the number of Health Extension Workers (HEWs) increased from 2,800 in 2004/05 to 9,900 in 2005/06. Complimentary measures have also been put in place to improve the number, skills, distribution and management of health workers. In addition, a new system of healthcare financing, including drug revolving funds has been introduced and efforts to mobilize additional foreign aid to over come some of the problems mentioned below have been scaled up.

E. Private Sector Development

Ethiopia has made significant improvement in business and investment climate to create a dynamic private sector and contribute to economic transformation. The recent vibrancy in the private sector (both domestic and foreign) including increasing trade, investment, employment and income growth clearly shows that the private sector is making its contribution to Ethiopia's development. PASDEP intends to deepen the business and investment environment for accelerating and sustaining private sector led growth in Ethiopia;

F. Gender Equity

Ensuring gender equity is also another critical issue that is being addressed in order that Ethiopia accelerates growth to achieve the MDGs and eradicate poverty. Since the 1990's, Ethiopia has moved firmly to promote and protect the rights of women to participate in the political, economic and social processes of the country- from the constitution to passing and revision of various laws, proclamation of rural development, education, health etc. Further, advances are still required in implementing the various gender equity initiatives particularly the National Action Plan for Gender Equity.

G. Devolution of Power and Empowerment

In the Ethiopian context, designing and implementing the economic transformation agenda in synergy with state transformation agenda through devolution and empowerment and civil service reform is central for peace, democracy and development, hence eradicating poverty. The on-going implementation of public sector capacity building programme including civil service reform, district level decentralization programme is intended to build a capable, accountable, and effective state. The priority focus is to empower and build-up the capacities of the lowest echelons of regional governments- *woredas* and *kebeles* by building effective democratic and public institutions. This will enhance democratic participation, governance and hence improve the delivery of services and contribute to poverty eradication.

H. Industry and Exports

The integration and interdependence between the agricultural and industrial sectors play a key role accelerating the country's economic development and bringing about socio-economic transformation. Following the sequence of reform measures, achievement of macroeconomic stability, the opening up of the market as part of efforts towards liberalization of the economy, the creation of an enabling investment environment, a steady growth of industry and trade has been registered in the recent past. As a result, value-added in industrial output grew on average by 7.1% and in services by 7.3% during between 2002/03 - 2005/06.

The linkages between the agricultural and industrial sector also provides opportunity for the expansion of the service sectors i.e., domestic trade, transport, banking and finance, and the tourism sectors. Hence, the overall strategic framework is comprised of the government's Industrial Development Strategy, the ongoing Privatization Programme, and MSE Development Strategy.

A sustainable and fast industrial development can only be ensured if the sector is competitive in the international market. Accordingly, it needs to be exposed to the rigorous of the international market. Apart from its linkage with agriculture, it should be export oriented and led by the industrial export sector. This is the thrust of the Industrial and Trade Development Strategy. The strategy is informed by ADLI and has been under implementation since 2001/02. In order to successfully implement the strategy, the state has focused on providing support to the private sector, coordinating & guiding the activities of all stakeholders, and addressing market failures through strengthening of inter-sectoral linkages (between agriculture and industry) on the domestic front and through exploiting the potentials and opportunities of regional and global economic integration.

Key Challenges

Notwithstanding these strategic policy interventions, a number of key challenges remain. They include: rising inflationary pressures; growing income inequality particularly in the urban areas; HIV/AIDS; a decline in the quality of education and; limited resources particularly for resource-intensive interventions in the area of infrastructure development.

In recent months, the country has experienced a rise in inflation and a corresponding decline in real incomes particularly of the poor. Long run solutions to this challenge rest on efforts to enhance productivity of smallholder farmers while expanding the modern sector to create more jobs.

Furthermore, despite the decline in the poverty rate and the impressive growth record, low income persists.

Moreover, ensuring universal primary health service including HIV/AIDS remains a major health challenge.

Undoubtedly, the gains in enrolment have placed considerable pressure on the nation's educational infrastructure and compromised the quality of education at both the primary and secondary level.

Additional human and financial resources are therefore required to improve the absorptive capacity of the educational system.

Additional investments in overall infrastructure development are needed to support and sustain Ethiopia's current economic expansion. Given the resource-intensiveness of infrastructure development, greater effort and assistance is required to scale up resources to finance such investments.

Support from the International Community

Addressing Ethiopia's development challenges will require a scaling up of both human and financial resources. Currently, over a third of PASDEP's capital expenditure is funded through External Aid. Development partners take PASDEP as the organizing framework and basis for support. In order to enhance partnership Government and partners have put in place dialogue architecture - at policy level - the High Level Forum (HLF) and various sectoral forums. We have also established Joint Government- Partners Task force on Harmonization to take forward the Paris Declaration. A number of multilateral partners (World Bank, EU, AfDB) and bilateral (UK, Ireland, Canada) have moved to supporting budgets and sector/programmes using public finance system.

However, the country faces challenges such as unpredictability in aid flows, lack of information on aid flows, lack of commitment by some donors to harmonize disbursement and reporting procedures. There is also need to accelerate the pace of implementing the Paris Declaration. We recognize that there is a lot of good will to support PASDEP. However, this good will needs to be translated in real aid flows on time.

Furthermore, despite debt relief and debt cancellation, per capita official development assistance to Ethiopia (US\$14.8 in 2005/06) is considerably lower than that of other low-income countries, including many with higher average per capita incomes and with better indicators of human development. It is worth noting that OECD/DAC figure for Ethiopia's ODA per capita refers to as US\$26. This is a reflection of information gap as well as scope. Even if we take this figure, Ethiopia still gets half of the average per capita ODA for Sub-Saharan Africa (SSA).

Increased, well-coordinated, transparent and harmonized inflows of external finances are critical for the achievement of PASDEP and the MDGs. In line with Monterrey, Gleneagles, and Blair's Commission Report, at least a doubling of aid is needed to implement the programmes and projects required to accelerate growth and achieve the MDGs. This can only be achieved through strengthened support from the international community.

Conclusions

Development interventions will only be effective if they are guided by long and medium-term home grown development plans that internalize the MDGs. To date, Ethiopia has achieved fairly rapid growth with measurable positive human development outcome. This has been accomplished through prudent macro-economic management and innovative policy interventions particularly with respect to primary and secondary enrolment, infrastructure development, increased agricultural productivity and improved food security. However, several challenges remain

including emerging inflationary pressures induced by excess demand, declining quality of educational services stemming from rapid increases in the enrolment rate, rising inequality particularly in the urban areas and continuous effort needed to bridge the infrastructure deficit.

Most importantly, financing remains a critical challenge to the effective implementation of the PASDEP. In particular, on-budget external finance (ODA) has leveled off since the implementation of PASDEP. As the Government enters the third year of implementing the PASDEP (2007/08), there is an urgent need to scale up Official Development Assistance (ODA) towards full-scale implementation of the PASDEP and MDGs. On its part, the Government has been doing its level best in mobilizing domestic resources through implementation of a comprehensive tax reform programme as well as putting in place an institutional framework for leveraging social mobilization and community contribution to facilitate implementation of the PASDEP and hence MDGs. However, the effort on the domestic front needs to be complemented through scaling up financing in the spirit of meeting the MDGs by our development partners.

Introduction

In the 1990s, the United Nations against the backdrop of deteriorating human development indicators in many countries convened a series of World Summits and Global Conferences, with a view to laying out comprehensive rights-based development agenda -including quantitative goals, time-bound targets and numerical indicators. Complemented by similar actions by other organizations such as the OECD/DAC, these goals came to be collectively known as the International Development Goals (IDGs).

In September 2000, this global effort at setting development goals receive further impetus when 147 Heads of State and Government -187 nations in total- among them Ethiopia, adopted the Millennium Declarations (MD) at the UN Millennium Summit. A key component of the MD is a series of eight interconnected and mutually reinforcing goals-now known as the Millennium Development Goals -MDGs- which the international community committed to achieve by 2015, and which today serve as the fulcrum of efforts to improve the human condition in poor countries.

The MDGs derived from the world summits and conferences of the 1990s are common set of principles and targets that would bring all people to a minimum acceptable standard of development by the year 2015. This commitment was strongly reaffirmed by all United Nations member states in the Monterrey Consensus and in the Johannesburg Plan of Implementation in 2002. Global targets were set to help mobilize political commitment and to provide benchmarks for measuring progress in promoting human development and poverty reduction.

In 2005, the UN World Summit entrusted the ECOSOC with new functions among which is an Annual Ministerial Review (AMR) to assess progress in the implementation of the outcomes of the major United Nations conferences and summits, with a specific emphasis on the MDGs. The review will provide countries with an opportunity to make voluntary national presentations that would articulate center stage national efforts to meet the goals and the challenges and constraints faced.

Upon request for volunteers for the AMR, Ethiopia voluntarily offered itself for review. Accordingly, this report is prepared to share Ethiopia's experience in pursuing the road to achieve the MDGs with a particular focus on the theme of the Review *'Strengthening Efforts to Eradicate Poverty and Hunger, including through the Global Partnership for Development'*.

Objective of the Report

This report is intended to give an overview of Ethiopia's specific experience in eradicating hunger and reducing poverty. The report will highlight efforts to align the Poverty Reduction Strategies (PRS) to the MDGs and anchor its implementation and progress and achievements towards the MDGs so far. The national Report will also address opportunities and challenges faced and the monitoring and evaluation (M&E) system used in implementing the MDGs.

The Report will serve as the basis for the national presentation. A major result of the analysis is that external finance (ODA) that passes through the budget has been leveling off even

compared to the trend (business as usual) as projected in the PASDEP. In addition, the Report highlights the nature of official development assistance (ODA) that flows to the country, its unpredictability character as well as its magnitude and timing. The Government also hopes to receive a feedback on its performance and on areas of weaknesses for further improvement.

Structure of the Report

The Report is structured as follows:

- Chapter I presents an overview of the policy measures taken towards eradicating poverty and hunger in Ethiopia by presenting the summary of the fundamentals and historical background of the MDGs, SDPRP, and the PASDEP;
- Chapter II discusses Ethiopia's recent macroeconomic performance and describes the trends in poverty since 1995/96;
- Efforts at eradicating poverty and hunger are discussed in Chapter III with emphasis on performance, achievements and challenges in the agricultural sector as well as in other major MDGs related sectors;
- Chapter IV discusses the resource requirement of meeting the MDGs by 2015 and the PASDEP as a medium term plan to achieve the MDGs. The chapter also briefly highlights the coordination and collaboration efforts among the development partners in reaching the MDGs;
- Chapter V touches upon the M&E aspect of the PASDEP and in broader terms the MDGs; and,
- Chapter VI presents the way forward, highlighting the prospects of meeting the MDGs by providing a policy response to the major challenges identified.

Expected Outcome

The expected outcome of the national report would be to enable other African and participating countries learn the practical actions the Government of Ethiopia has taken to improve the human conditions of its citizens.

Moreover, it is expected that the donor community would strengthen its support to the development process by ensuring committed foreign resources are obtained in a predictable manner as well as the need to scale up external finance for full-scale implementation of the PASDEP and hence the MDGs. Although additional assistance has increased in recent years (particularly up until 2005), Per capita Official Development Assistance (ODA) still stood at half the SSA level currently.

Chapter I

Eradicating Poverty and Hunger in Ethiopia – The National Development Policy Framework (NDPF)

1.1. Background

Ethiopia is a federation consisting of nine regional states- Afar, Amhara, Oromia, Somali, Tigray, Benshangul-Gumuz, Southern Nations Nationalities and People's Region (SNNPR), Harari and Gambella- and two city administration councils, Addis Ababa and Dire Dawa. It is located in the eastern horn of Africa with a total surface area of 1.1 million square kilometers and a population of 73 million in 2004/05 which is growing at an annual rate of 2.73 and a total fertility rate of 5.4 children per women. Administratively, the country has bicameral parliament, the House of Representatives and the House of Federation.

Poverty and hunger instigated and exacerbated by conflict were the country's endemic social and economic problems for most of the second half of the 20th Century. In the first decade of the 21st century they still remain of central policy concern to the Government of Ethiopia. In spite of tremendous efforts, Ethiopia is still among the poorest developing countries with an annual average per capita income of US\$180 in 2005/06.

Conditions for change were created in 1991 with the takeover of power of the current Government. Right from its inception, the Government made the eradication of hunger and reduction of poverty the prime focus of its efforts.

In 2002/03, informed by the MDGs and in the context of the Heavily Indebted Poor Countries Initiatives (HIPC), the country prepared and launched the 'Sustainable Development and Poverty Reduction Programme (SDPRP)'. This Programme defined poverty reduction as the central objective of government policy. It made clear that the Government seeks to achieve the objective through growth that is equitable, contributes to social development while ensuring macroeconomic stability.

The objective of the SDPRP was pursued through instruments and measures encompassing: maintaining the required growth, adopting proper macroeconomic strategies (fiscal policy, monetary policy and enhancement of the financial sector), institutional reforms as well as adopting socio-economic policies that will have the required impact. This was reinforced by Government's commitment to achieve the MDGs and by its strong poverty reduction focus expressed in the SDPRP and in its successor plan entitled 'Plan for Accelerated and Sustainable Development to End Poverty (PASDEP)'.

1.2. The Ethiopian MDGs, SDPRP and the PASDEP

This section attempts to present the fundamentals as well as the historical background of the MDGs, SDPRP and the PASDEP. It should be, however, noted that the programmes should not be considered as separate from one another rather the country has one development plan. The PASDEP is a continuation of the SDPRP and that the MDGs are embraced within the PASDEP.

1.2.1 The Ethiopian 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 MDGR being a global initiative, helped place the MDGs into the local context and there by customize targets and indicators in the light of the available data systems, identify data and analytical gaps, and recommend research and analytical studies to improve the indicator systems for monitoring and evaluation of its implementation.

The MDGs Needs Assessment study¹ -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 studies together has been also finalized and shared with development partners, Civil Society Organizations (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 tracking progress towards the MDGs, are presented in the Report.

1.2.2 The 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 a few months after the adoption of the MDGs 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 SDPRP, which provided a sound basis to continue the implementation of the sustainable development and poverty reduction activities earlier on initiated was adopted in 2002.

The SDPRP was built on four pillars (building blocks) namely; ADLI, justice system reform and civil crevice reform, decentralization and empowerment, and capacity building in public and private sector. Major emphasis was given to ADLI as the agricultural sector is the source of the

¹ 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.

country's livelihood. In addition, it has the potential to generate primary surplus to fuel the growth of other sectors of the economy, specifically the industrial sector.

The Programme was fully implemented and an assessment report was prepared upon its completion to provide lessons and serve as a basis for public consultation to inform Ethiopia's successor plan known as the PASDEP. Annual Progress Reports (APRs) were prepared regularly to track progresses achieved, challenges encountered, and lessons learnt in implementing the Programme. The SDPRP was not a stand-alone strategy. Rather it was built on existing Government policies, strategies and programmes, and explored new options.

1.2.3 The PASDEP

Following the successful implementation of the SDPRP, the Government prepared a successor development plan-PASDEP. The PASDEP adopted in 2005/06 exploits the progress made during the implementation of SDPRP. It is in effect the continuation of the first by way of deepening the fundamentals of SDPRP, and serves as Ethiopia's guiding strategic framework for the five-year period, 2005/06-2009/10. Box 1.1 below presents the **eight** pillar strategies of the PASDEP.

Box 1.1: Pillar Strategies of the PASDEP

- Building all-inclusive implementation capacity;
- A massive push to accelerate growth;
- Creating the balance between economic development and population growth;
- Unleashing the potentials of Ethiopia's women;
- Strengthening the infrastructure backbone of the country;
- Strengthening human resource development;
- Managing risk and volatility; and,
- Creating employment opportunities.

The PASDEP carries forward important strategic directions pursued under SDPRP- related to human development, rural development, food security, and capacity building-but also embodies some bold new directions. Foremost among them is a major focus on growth -with particular emphasis on greater commercialization of agriculture and private sector development- and a scaling up of efforts to achieve the MDGs.

In terms of sectoral coverage, the PASDEP is more comprehensive than the SDPRP further encompassing sectors that were not adequately articulated in the SDPRP such as tourism, small and medium-enterprise development and job creation, urban development and construction, etc. It has also articulated policy and institutional innovation in agriculture and rural development, rural-urban linkages, and pastoral development, and spatial dimensions of the growth strategy.

Because of the country's deep-rooted poverty and the complexity of economic and social problems, concerted and sustained efforts are necessary to deepen the gains so far achieved and fundamentally transform the Ethiopian economy. The challenge, therefore, is one of accelerating growth and development in a sustainable manner, which is still at the core of the country's agenda in fighting poverty. Achieving and sustaining broad based growth through transforming the

agriculture sector (commercialization on small holders and utmost utilization of Ethiopia's water resource potential) and encouraging private initiatives founded on small enterprise development and job creation is considered central in the Government's poverty eradication effort.

Selected PASDEP targets by the end of 2009/10 as well as baseline achievements by the end of 2004/05 are depicted in Table 1.1 below while an overview of the over all targets is presented in Annex Table 1.3.

Table 1.1: Selected PASDEP Targets

Sector/Indicator	Base Line (Achievements by end of 2004/05)	PASDEP Target (2009/10)
Macro Economy		
Gross Domestic Product (GDP) growth rate (%)	10.6	Period average of 7.3% per annum
Poverty/Welfare		
Total poverty head count (%)	39	29
Food poverty head count (%)	38	28
Agriculture		
Growth of agricultural value added (%)	13.4	Period average of 6.2% per annum
% Share of agriculture & allied activities in GDP	46.2	43.9
Industry		
Growth rate of industry value added (%)	8.1	Period average 11.5% per annum
Share of industry in GDP (%)	13.6	16.5
Export		
Revenue generated from agricultural exports (in US\$ millions)	546	1,515
Revenue generated from industrial export (leather and leather products) (in US\$ millions)	63.73	500
Revenue generated from mining (in million Birr)	20	44.7
Human Development		
Gross primary enrolment (1 to 8) (%)	79.8	109.7
Primary school completion rate (%)	34	63
Ratio of girls to boys (in primary school)	0.84	0.97
Primary health services coverage (%)	70	100
Infant mortality rate	77/1,000	45/1,000
Maternal mortality rate	871/100,000	600/100,000
Contraceptive Prevalence Rate (CPR) (%)	15	80
Diphtheria Pertusis and Tetanus (DPT 3) vaccination coverage (%)	70	80
Population with access to potable water in rural areas (within 1.5 km) (%)	35	80
Infrastructure Development		
Average Time taken to all-weather road (hours)	5.0	3.2
Road density (km/1,000 km ²)	33.2	54.1
Population with access to electricity (%)	16	50
Population with access to telecommunication center/services (within 5 km radius) (%)	6	100
Number of <i>kebeles</i> with telephone access	3,000	15,000
Fixed telephone subscribers (in millions)	0.62	3.2
Mobile Telephone subscribers (in millions)	0.411	6.8
Urban Development		
Provision of housing and basic services (%)	30	65
Number of new houses built		100,000 (yearly average)
Reduction of slum areas (%)	70	35

As part of a participatory preparation process, the PASDEP was discussed at various levels with various stakeholders (communities, CSOs, and donors). Within Government, the document was first discussed in full federal cabinet followed by discussion with the pertinent regional officials, and finally revised and endorsed by the House of People's Representatives-Ethiopia's Parliament.

Both the MDGs and the SDPRP/PASDEP exercises are coordinated by the Ministry of Finance and Economic development (MoFED) with strong support from the Welfare Monitoring Technical Committee (WMTC)² members and representatives from the UN Country Team (UNCT), the World Bank and bilateral donors. Members of civil society organizations and the private sector also played a pivotal role in providing substantial comments to enrich the document.

1.2.4. Harmonizing the MDGs with the NDPF

Translating the global MDG targets into action requires an operational framework at the national level and in Ethiopia's case, sub-national levels. The need to depart from proceeding with business-as-usual so as to be able to seize the opportunity to move up to a different development pattern leading to the realization of the vision of the MDGs and improved living conditions for millions of Ethiopians was recognized immediately following the launching of Ethiopia's first generation PRSP (SDPRP). As a result, the poverty reduction effort of the Government of Ethiopia has taken a longer-term view with the MDGs in perspective.

Accordingly, the PASDEP was conceived as the medium term plan to attain the MDGs. In other words, it is an MDGs-based plan. It establishes concrete basis for human rights 'the right of every person in the country to health, education, shelter and security-' as pledged in the Universal Declaration of Human Rights and the UN Millennium Declaration. For the millions of Ethiopians still living in extreme poverty Ethiopia's MDG-Based Plan carries the hopes and aspiration of the next decade. Hence, this Five Year Development Plan (PASDEP) has been synchronized and aligned with the MDGs time frame. Current status of selected MDGs targets along with projected achievements at the end of the PASDEP period (2009/10) are presented in Annex Table 1.2.

² WMTC members are representatives from each of the sectoral ministries with regard to activities related to poverty reduction.

Chapter II

Overview of Ethiopia's Macroeconomic Performance and Trends in Poverty

This chapter discusses the results of the policy actions implemented in the context of the SDPRP/PASDEP by the Government of Ethiopia and its impact on poverty. It consists of two broad sections; namely overview of macroeconomic performance, and trends in poverty.

2.1 Overview of Macroeconomic Performance

2.1.1 Real Sector and Prices

Ethiopia's social and economic activities showed encouraging results since the early 1990s. The Government has done well in terms of achieving economic stability and keeping inflation low. In recent years, the Ethiopian economy has registered encouraging but mixed results with negative real GDP growth rate of 3.3% in 2002/03 as a result of drought, followed by strong positive performance of 11.9%, 10.6% and 9.6% during the subsequent three years, 2003/04, 2004/05 and 2005/06 respectively. In 2006/07, the economy is projected to register a growth rate of 10.1%. During the years 2000/01 to 2006/07, the economy registered average growth rate of 6.7%, which is above the average of 5.8% realized in SSA countries. Excluding the drought year (2002/03), average real GDP growth rate of 10.7% was registered between 2003/04-2005/06.

Even though the agricultural sector continued to be the major driver of the economy, the recent expansion has been broad based with significant contribution from manufacturing, construction and service sectors. The agricultural sector registered a growth rate of 11.2% during 2005/06 while it is expected to settle at 10.9% in 2006/07. In regard to industrial and service sectors, during 2005/06, growth rate of 7.4% and 9.2% has been registered respectively. In 2006/07, the industrial and service sectors are projected to register a growth rate of 10.9% 9.6%, respectively, which is higher than what was registered in 2005/06.

Inflation, which was on average in single digits for most of 2003/04 & 2004/05, accelerated by the end of 2005/06 and remained high at 12.3%. General inflation for the first nine months of fiscal year 2006/07 averaged 17.3%. The source of this increase in average price levels in recent years (particularly since 2005/06) is still under study; however, the likely potential factors are demand pressures caused by higher disposable income of small farmers, which improves their purchasing power. The on-going improvements in marketing system (crops) through cooperatives coupled with the expansion of telephone infrastructure in rural areas, which improve information communication, has helped reduce desperate sales by small farmers. An improvement in the road network has also increased the producers' price margin for crops. The suspension of in-kind food aid and the introduction of local purchases for emergency aid may also have contributed to demand pressure on food price inflation. The agro-processing activities taking place (e.g., farmers' sale of wheat, barely, etc to local processors) as the economy transforms may also be contributing to the overall demand pressure.

All this may have pushed prices of grains up to their international parity level. In addition, there is a boom in the construction industry, which increased employment opportunities and which in turn

increased income and purchasing power. Other potential factors include the construction and opening up of universities across almost all regions of the country; the increase in income of farmers as they have become able to sell their produce at a market price which resulted in increase of own consumption among grain-producing households, and the increasing trends in Diaspora return who are now engaged in different socio-economic investment activities. Finally, the recent increase in international oil price has also both direct and indirect impact on the general price inflation. The above-mentioned causes are still under investigation and various studies and research works are being conducted towards clearly identifying the major source factors for the recent pressure on prices.

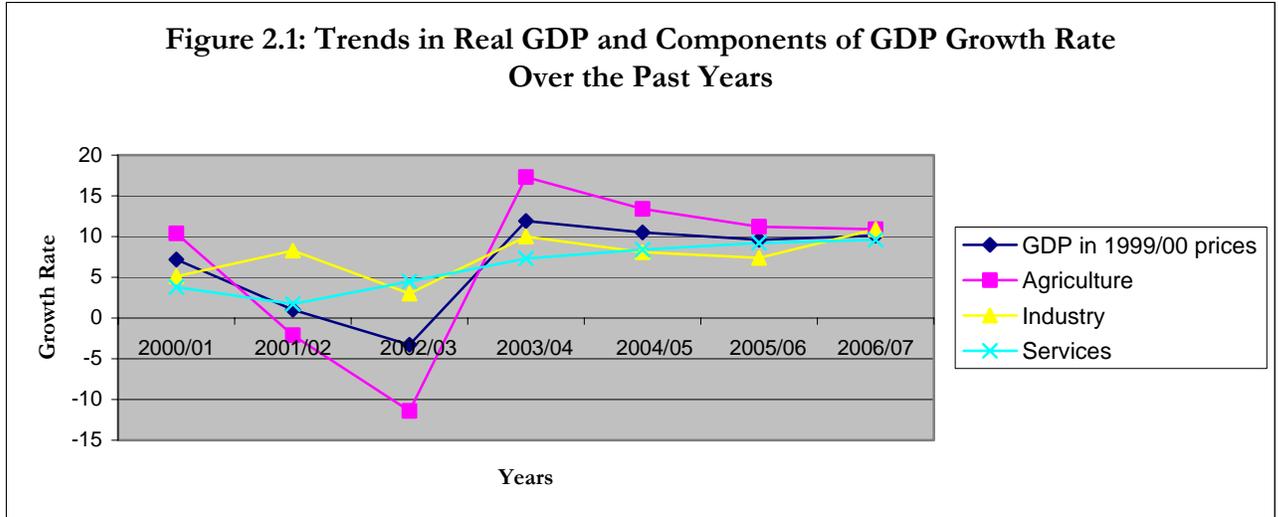
It should be noted here that the increase in inflation has been in no way a monetary phenomenon as reflected by the growth of broad money supply and nominal GDP growth rate (the growth in money supply has not exceeded the growth in nominal GDP).

Though not as high even by the SSA average, the current inflationary pressure has become a concern to the Government in so far as it affects low-income earners in urban areas. Accordingly, the Government has started taking measures through distributing grain at subsidized prices to low-income urban residents. However, the Government believes that this is a short run transitory phenomenon caused to a larger extent by demand pressures and is a sign of the on-going economic transformation as the economy takes-off.

Table 2.1 below further illustrates the growth trend in key socio-economic sectors between 2001/02 and 2005/06.

**Table 2.1: Trends in Macroeconomic Performance
Growth Rates (%)**

Description	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 (Estimate)
GDP in 1999/00 prices	7.2	1.0	-3.3	11.9	10.5	9.6	10.1
Agriculture	10.4	-2.1	-11.4	17.3	13.4	11.2	10.9
Industry	5.1	8.3	3.0	10.0	8.1	7.4	10.9
O/w: Manufacturing	3.6	1.3	0.8	6.5	8	8.1	12.5
Construction	8.1	16.3	4.8	15.3	8.2	5.2	11.0
Services	3.8	1.7	4.5	7.3	8.4	9.2	9.6
O/w: Banking and insurance	10.6	-21.6	30.4	16.8	13.4	29	2.7
Distributive services	5.6	3.3	2.9	8.2	7.6	7.4	8.7
Other services	2.3	0.3	6.1	6.4	9.1	10.9	10.4
Inflation	-7.2	-8.5	15.1	8.6	6.8	12.3	17.3 (11 month average)
Real GDP per capita GDP	4.2	-1.9	-6.2	9.1	7.7	6.8	7.3
Population in millions	64.4	66.3	68.2	70.1	72.1	74.1	76.1



Gross domestic investment reached 20% of GDP in 2005/06 and is projected to increase to 22% of GDP in 2006/07. This positive development is promoted by a favorable investment climate and acceleration of privatization as well as improved land lease management, and a series of investments in physical infrastructure and human development that contributed to a higher private investment growth.

Consumption expenditure accounted for 94.8% of GDP in 2005/06 and is projected to decline to 92% of GDP as a greater share of GDP goes into savings and investment as more surpluses are generated. The decline in consumption is indicative of an increase in domestic saving which has reached 5.2% of GDP in 2005/06 from about 2% in 2001/02. Domestic saving is projected to reach 8.0% of GDP in 2006/07.

Exports of goods and non-factor services reached 15% of GDP while imports of goods and non-factor services have stabilized at about 33% of GDP by the end of 2005/06. However, trade deficit widened and reached 18% of GDP during the same period from 15% in 2001/02. In 2006/07, exports of goods and non-factor services is projected to reach 17% of GDP while imports of goods and non-factor services is expected to amount to 35% of GDP. Trade deficit will remain at 18% of GDP in 2006/07.

2.1.2 Government Revenue and Expenditure

During 2005/06, government revenue reached 19.5 billion Birr while total revenue including grants reached 24.3 billion birr. In 2006/07, government revenue and total revenue including grants are expected to reach 17.3% and 23.3% of GDP, respectively. Tax revenue amounted to 12.2% of GDP in 2005/06 up from 12% of GDP in fiscal year 2002/03 and is expected to slightly increase to 12.5% of GDP in 2006/07. Following from the registered trend, in subsequent years, revenue from income taxes is expected to increase. This is testimony that fiscal development in the past years supported overall macroeconomic stability. Appropriate policy measures have been introduced to encourage taxpayers through facilitating the tax collection system and its revenue generation. Measures taken so far include: income tax streamlining and closing of loopholes,

improving the incentive system, 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. Recently, the Government also introduced a sur tax, in order to stabilize the recent price increase in grain market. It is to be noted that this system is a short-term plan to tackle the rise in food prices and to support the urban community until the situation is stabilized.

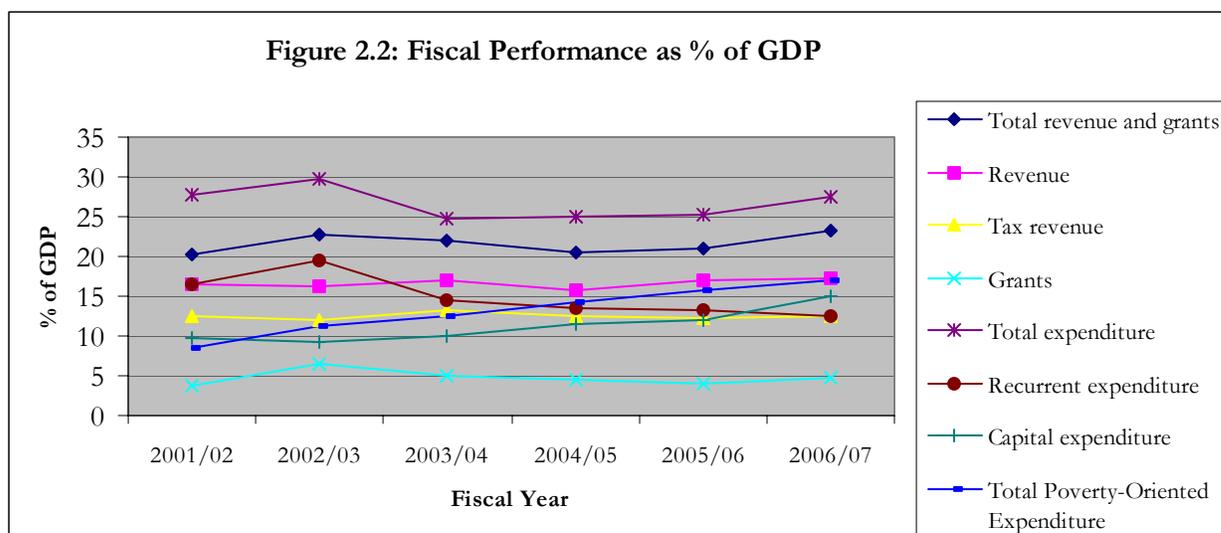
Domestic revenue mobilization efforts have been supplemented by increased external resource flows, which has increased from US\$693.6 million in 2002/03 to US\$1.05 billion and US\$1.1 billion in fiscal years 2004/05 and 2005/06, respectively. These resources were allocated principally to infrastructure and human resource development, a strategy which has greatly contributed to the achievement of growth and macroeconomic stability.

There has also been a substantial increase in government expenditure. Total government expenditure reached at 29.3 billion Birr in 2005/06 (25.3% of GDP). The figure is expected to increase and reach at 27.6% of GDP in 2006/07. During 2005/06, 52% of the expenditure was allocated for recurrent cost while capital expenditure accounted for 48%. In 2006/07, it is projected that capital expenditure will exceed recurrent expenditure and reaches at 53% of the total expenditure leaving the remaining 47% to recurrent expenditure. It is worth noting the increase in the share of capital expenditure, which was 46% and 40% during fiscal years 2003/04 and 2004/05, respectively.

The main beneficiaries of this were infrastructure development and pro-poor sectors-education and health. The Government will continue to pursue prudent expenditure policy by continuing to restrain public expenditure on defense and non-priority sectors and protect poverty-targeted outlays and capital expenditure, while containing total spending within affordable limits. Table 2.2 and Figure 2.2 below illustrates the trends in fiscal performance from 2001/02 to 2006/07.

**Table 2.2: Trends in Fiscal Performance (2003/04-2005/06)
(% of GDP at CMP)**

Item	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 (Budget)
Total revenue and grants	20.2	22.8	21.9	20.5	21	23.3
Revenue	16.4	16.2	17	15.8	16.9	17.3
Tax revenue	12.5	12.0	13.3	12.6	12.2	12.5
Grants	3.8	6.6	4.9	4.6	4.1	4.8
Total expenditure	27.8	29.8	24.7	25	25.3	27.6
Recurrent expenditure	16.6	19.6	14.6	13.4	13.2	12.6
Capital expenditure	9.7	9.2	10.1	11.5	12.1	14.9
Total Poverty-Oriented Expenditure	8.4	11.2	12.4	14.2	15.8	17.0



In general, encouraging achievements have been made since SDPRP with regard to fiscal management. This is evidenced by the fact that in 2005/06, the share of fiscal deficit amounted to 5.7 billion Birr or 4.5% of GDP. In 2006/07, the share of fiscal deficit is expected to reach at 5% of GDP.

As noted earlier, during the SDPRP and PASDEP period, government resource allocation and implementation is geared towards investments on development and pro-poor sectors. As indicated in Table 2.3 below, from the total government expenditure, spending on poverty-oriented sectors has increased to 62.4% in 2005/06 from 43% in 2001/02. In 2006/07, the figure is projected to reach 60% of GDP.

Table 2.3: Trends in Pro-Poor Sectors Allocated Budget Out of Total Government Expenditure (%)

Sector	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 (Budget)
Education	14.2	16.1	20.4	19.7	21.8	16.5
Health	5.9	4.9	4.3	4.8	4.6	6.1
Agriculture and food security	9.2	8.1	13.4	16.3	16.8	16.4
Road	10.7	9.9	9.6	11.3	14.8	12.7
Water and sanitation	2.8	2.9	2.0	4.5	4.4	6.9
Total	43	42	50	57	62.4	59.7

2.1.3 External Sector

With regard to the external sector, exports registered substantial growth in recent years, owing to both increase in volume and revival in the prices of major exports in the international market. Imports also surged, reflecting a general rise in private sector investment and consumption demand, and government spending on capacity building and poverty-reduction projects, in addition to escalating prices of basic imports such as fuel and construction materials. The unparalleled increase in imports of goods was reflected in a widening trade and current account

deficit of the balance of payments. The external current account deficit (excluding official transfers) widened to 13.4% and 16.9% of GDP in 2004/05 and 2005/06, respectively from 11.3% of GDP in 2003/04. In 2006/07, external current account deficit is projected to decline to 13.1% of GDP.

2.1.4 Financial Sector

With regard to the financial sector, there have been encouraging achievements particularly with the deepening of financial sector reform. At the close of 2004/05, the number of bank branches increased by 31 to reach 389 branches; of which 174 (or about 44.7%) belonged to the Commercial Bank of Ethiopia, which is the largest public bank in the country. During the same period, the number of private banks along with their branch offices registered a growth rate of 15% compared to 2003/04 and has reached 157. Despite such a move in branch expansion, Ethiopia remains one of the under banked economies by the SSA countries' standard.

Total capital of the banking system reached 3,486 million Birr by the end of June 2005; of which 1,979 million Birr (56.8%) was held by the three government-owned³ banks. The market share of private banks has been steadily increasing in terms of all banking operations as well. Accordingly, the total capital of the seven private banks stood at 1,507 million Birr (43.2%). By the close of 2004/05, the share of private banks in total banking system deposits has reached 25.3%, and they accounted for 49.4% of new loan disbursements.

Domestic credit increased by 31.5% by the end of 2004/05 and by 20.1% by the end 2005/06 as claims on the non-government sector increased by 58.5% in 2004/05 and by 29.8% in 2005/06. The latter was largely attributable to the increase in claims of commercial banks on public and private enterprises. As a result, the 19.6% growth in broad money supply is solely attributed to substantial growth in domestic credit, as Net Foreign Asset (NFA) are estimated to have decreased by 0.7% and 4.6% in 2004/05 and 2005/06, respectively.

The growth in domestic liquidity was 10.9% by the close of 2004/05 and increased to 17.4% in 2005/06. Despite these developments, however, commercial banks continue to face the problem of excess liquidity. The Government will continue to take the necessary measures to strengthen competitiveness in the sector and promote healthy formal/micro financial institutions.

2.1.5 Monetary Policy

An important objective of the Government's macroeconomic policy is to attain relative price and exchange rate stability with major objectives of containing inflation within single digits as well as to encourage saving and long-term investment. Credit to the private sector, which has showed substantial growth, is expected to maintain its current momentum as domestic demand expands and government's infrastructure development and capacity-building programme continues.

In an effort to make indirect monetary policy instruments effective, the NBE's strategy in the next five years is to encourage banks to reduce excess reserves as well as creating a sound financial system and performing such other activities which are conducive for economic growth and

³ The three government-owned banks are the Commercial Bank of Ethiopia, Development Bank, and Construction and Business Bank.

poverty reduction. The Bank targets broad money growth to be consistent with growth of nominal GDP and single digit core inflation. To achieve these objectives, the Bank uses a mix of both direct and indirect monetary policy instruments. These include, control on the minimum bank deposit interest rate, auctioning of Treasury bills on behalf of the government, monitoring ceiling on government borrowing from the banking system, reserve requirement ratio, etc.

At the close of 2005/06, the Bank achieved a broad money growth rate of 17.4%, which was consistent with the 16.1% and 17.3% growth forecasts of nominal GDP and broad money supply for the fiscal year, respectively. Monetary expansion during the year was also consistent with a single digit growth target of core inflation, which reached 8% in June 2006.

2.1.6 Fiscal Policy

The Government's intention is to maintain a fiscal stance that is prudent but also addresses the development needs of the country. During the medium term, the Government is focusing on maintaining the deficit at a sustainable level while at the same time increasing spending in key poverty oriented sectors. The Government also understands the need to balance the tremendous demands for services and investments with the need for macroeconomic discipline, which will protect the poor from inflation, and maintain the economic stability needed for private sector growth to create jobs and income. The Government's intention is to expand investments in education, infrastructure, and other services as fast as possible, but only to the extent affordable with rising domestic resource and aid inflows.

The Government, on the revenue side, is also determined to lay the foundation for strong revenue performance. The envisaged commercialisation of the agricultural sector and export-led industrial expansion are expected to be the major sources of additional revenue generation during the period of the PASDEP and beyond. As indicated earlier, it is also expected that revenue performance will benefit fully from the tax reform measures implemented since 2001, including improved tax administration.

In terms of inter-governmental fiscal transfer, the fiscal transfer to regional governments will continue to be effected through a credible and transparent budget subsidy formula, and this will take into account criteria for equity and efficiency. With the view to deepening the decentralization process, *woredas* will be fully empowered to take up expenditure and revenue assignments within their competence. A significant increase has been registered in federal transfers to the regions. Out of the general government consolidated spending, transfer to the regions increased from 22% in 2003/04 to 26% in 2005/06.

In general, addressing implementation bottlenecks at the local level, strengthening efforts to transform agriculture, the ongoing programme of export diversification and industrial expansion, the on-going infrastructure expansion and lagged effects of investments in human development, promoting productive employment through strengthening small and medium enterprise development, and scaling up domestic resource mobilization and external finance inflows combined are expected to drive higher output growth and hence real GDP.

2.2 Trends in Poverty

2.2.1 Background

The measurement and analysis of poverty and inequality is crucial for understanding peoples' situations of well-being and factors determining their poverty situations. The outcomes of the analysis are to be used to inform policy makers in designing appropriate interventions as well as for assessing effectiveness of on-going policies and strategies. Accordingly, the Government of Ethiopia made poverty analysis an integral part of its overall M&E System since 1996 as part of its endeavor for addressing the poverty agenda.

Subsequently, the Government of Ethiopia launched periodic household surveys such as the Welfare Monitoring Surveys (WMS) and the Household Income Consumption Expenditure Surveys (HICESs) in order to monitor and track changes in the level and depth of poverty. The WMSs, conducted every three years, helps measure the non-income dimension of welfare and living conditions in Ethiopia while the HICESs, conducted every five years, measure the income dimension of poverty. To date the Central Statistical Agency (CSA) has conducted three HICESs in 1995/96, 1999/00, and 2004/05. The WMSs were conducted in those years when the HICES are conducted as well. In addition, the recent Participatory Poverty Assessment (PPA) exercise assessed the poverty situation from the perspective of people's views on social services rendered by the Government.

Responsibility for poverty analysis and monitoring welfare changes lies with the Welfare Monitoring Unit (WMU) of MoFED. This Unit has produced two key reports entitled 'Poverty Situation in Ethiopia, March 1999' based on the 1995/96 HICES and WMS results and the 'Development and Poverty Profile of Ethiopia, March 2002' based on the data sets of 1999/2000 HICES and WMS results. Currently, the Government has started the groundwork for analyzing and producing a report based on the 2004/05 HICES and WMS data sets. The purpose is to undertake detailed analysis on the determinants of poverty, dynamics of poverty as well as on the link between economic policy and poverty. This section is informed by the preliminary findings of the recent survey results.

2.2.2 Trends in Income/Consumption Poverty

One of the dimensions of well-being is the monetary dimension of poverty called lack of opportunity or material deprivation. The income dimension of poverty is measured by real consumption expenditure since in most developing countries, income report of households is likely to be understated compared to consumption expenditure report. Income is so erratic and seasonal that it may be very difficult for respondents to recall. In Ethiopia, the levels of poverty in rural and urban areas are consistent with levels of per capita spending in the respective areas.

As indicated in Table 2.4 below, the level of income used to calculate poverty indices is 1,075 Birr at 1995/1996 national average constant prices. This in other words is the income poverty line. This poverty line was determined during the 1995/96 poverty analyses. It is based on the cost of minimum threshold level of calorie in-take to lead a normal and healthy life designated as 2,200 kilocalorie per day per adult. The food poverty line is 647.81 Birr at 1995/906 national average constant prices.

Table 2.4: Poverty Lines⁴ Used in Poverty Analysis between 1995/96 and 2004/05

Item	Food Poverty Line in Birr Per Adult Per Year	Kcal Per Adult	Total Poverty Line in Birr Per Adult Per Year
Poverty line	647.81	2,200	1,075.03
Moderate poverty line	809.76	2,750	1,343.78
Extreme poverty line	485.86	1,650	806.27

The ongoing analysis of the income/consumption dimensions of poverty and inequality situations based on the 2004/05 HICES assesses the dynamics of poverty in Ethiopia since 1995/96. The income dimension of poverty is measured by real consumption expenditure valued at 1995/96 national average prices in Ethiopian Birr. Both real per capita household consumption expenditure and real per adult household consumption expenditure are reported along with family size and the level of calories consumed. The following are some of the early results from the analysis:

- The average family size is 4.8 which is slightly lower than that of 1995/96 and 1999/00;
- Adult equivalent family size is 3.9, which is almost the same as that of 1995/96 and 1999/00;
- Average family size is higher in rural areas than in urban areas;
- The level of real total per capita household consumption expenditure stood at 1,256 Birr (US\$146) with food accounting for 577 Birr and the rest 678 Birr for non-food;
- Compared to 1999/00, real total per capita household consumption expenditure increased by 19% in 2004/05, which is mainly due to an increase in real non-food expenditure by 50%;
- In 2004/05, real per capita food expenditure declined by 6% compared to 1999/00 and by 5% against that of 1995/96;
- The decline in real food expenditure was witnessed mainly in rural areas. This is in part due to higher food-inflation, which is computed to be 34% from 1999/00 to 2004/05;
- Similarly the share of food in total expenditure declined from 65% in 1995/96 to 56% in 2004/05. However, the national average level of calorie consumed per adult is higher in 2004/05 (2,746.4 kilocalorie per day per adult) than the level indicated during the previous two surveys: 1995/96 & 1999/00. The corresponding level in 1995/96 and in 1999/00 was estimated at 1,954 and 2,606.2 kilocalorie per adult equivalent, respectively. This perhaps could be that, in 2004/05, households have shifted to cheaper calorie sources when food became relatively expensive.
- The level of real total per adult household consumption expenditure, which is used to calculate poverty, was 1,542 Birr. This magnitude is higher than the level in 1999/00 and 1995/96 by about 16% and 17% in real terms, respectively. This is tantamount at least to overall increase in material welfare over the years.

Income inequality is also found to be unusually high in the period under analysis. Inequality in urban areas increased sharply in the last decade. As indicated by the Gini Coefficient in the Table 2.5 below, income/ consumption inequality has increased consistently over time in urban areas from 0.34 in 1995/96 to 0.38 in 1999/00 and further to 0.44 in 2004/05 while inequality has not changed in rural areas over the period. As indicated in Figure 2.3, the Lorenz curve for urban

⁴ All measured at 1995/96 national average prices

consumption also tells the same story. The Lorenz curve for rural consumption is almost identical with that of the Lorenz curve for national level consumption.

Table 2.5: Real Annual Per Capita Consumption Expenditure at 1995/96 Constant Prices

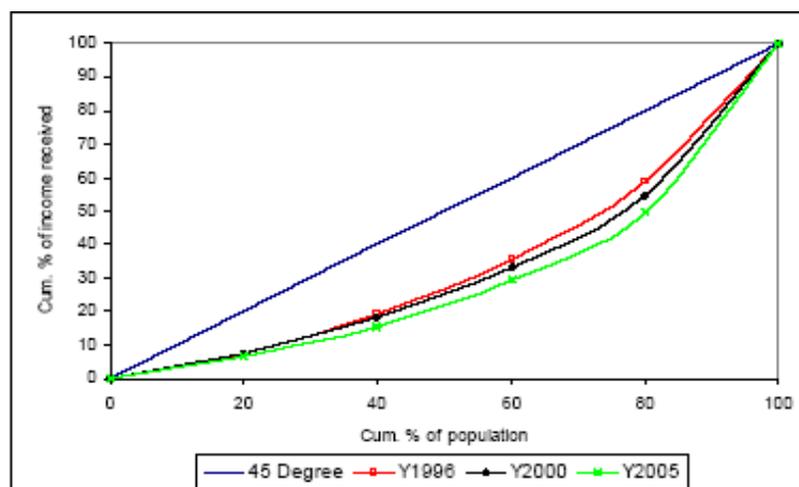
Item	1995/96			1999/2000			2004/05		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Real total expenditure per capita	1,035	1,411	1,088	995	1,453	1,057	1,147	1,909	1,256
Real total expenditure per adult	1,250	1,693	1,312	1,261	1,751	1,327	1,422	2,260	1,541
Kcal consumed per day per adult	1,938	2,050	1,954	2,723	1,861	2,606	2,806	2,387	2,746
Share of food in total expenditure	0.6	0.56	0.60	0.67	0.53	0.65	0.57	0.50	0.56
Household size	5.1	4.7	5.0	4.9	4.6	4.9	4.9	4.3	4.8
Adult equivalent household size	4.2	3.9	4.2	3.9	3.8	3.9	4.0	3.6	3.9
Gini coefficient (consumption) (%)	27	34	29	26	38	28	26	44	30

(Birr/Year)

Table 2.6: Change in Per Capita Consumption Expenditure at 1995/96 Constant Prices (%)

Item	(1999/00 /1995/96)			(2004/05/1999/00)			(2004/05/1995/96)		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Real total expenditure per capita	-3.86	2.98	-2.85	15.32	31.38	18.78	10.87	35.29	15.40
Real total expenditure per adult	0.88	3.43	1.14	12.74	29.05	16.10	13.74	33.47	17.42
Kcal consumed per day per adult	40.51	-9.22	33.37	3.04	28.24	5.39	44.78	16.42	40.55
Share of food in total expenditure	11.67	-5.36	8.33	-14.4	-5.9	-13.6	-4.37	-10.9	-6.37
Household size	-3.9	-2.1	-2	0.5	-6.7	-1.6	-3.4	-8.7	-3.5
Adult equivalent household size	-7.14	-2.56	-7.14	2.11	-4.99	0.59	-5.19	-7.43	-6.60
Gini coefficient (consumption)	-3.7	11.7	-3.45	0.06	14.80	8.41	-3.6	28.3	4.7

Figure 2.3: Lorenz Curve of Urban Consumption Expenditure Overtime (1995/96-2004/05)



National, Rural and Urban Poverty Indices in 2004/05: Using real per adult consumption expenditure, the levels of total, rural and urban poverty indices for 1995/1996, 1999/00, and 2004/2005 are provided in Table 2.7 below. According to the 2004/05 HICES, the proportion of poor people (poverty head count index) in the country is estimated to be 38.7% in 2004/05. During the same period, while the proportion of the population below the poverty line stood at 39.3% in rural areas, it is estimated to be 35.1% in urban areas. The poverty gap index is estimated to be 8.3% while it is 8.5% for rural areas and 7.7% for urban areas. Similarly, the national level poverty severity index stood at 0.027 with rural poverty severity index (0.027) being slightly higher than that of urban areas (0.026). Both the statistical test and the stochastic dominance analysis confirmed that for all indices (head count, poverty gap and poverty severity indices) urban areas have lower poverty than rural areas indicating that poverty is still more of a rural phenomenon. However, over time the gap in poverty between rural and urban areas is narrowing.

Table 2.7: Trends in Total Poverty Indices at National Level and by Rural and Urban Areas

Level	Indices			Changes in the Indices (%)		
	1995/96	1999/00	2004/05	1999/00 over 1995/96	2004/05 over 1995/96	2004/05 over 1999/00
National						
Head count index (P ₀)	0.455	0.442	0.387	-2.7	-14.8	-12.4
Poverty gap index (P ₁)	0.129	0.119	0.083	-7.7	-35.4	-30.0
Poverty severity index (P ₂)	0.051	0.045	0.027	-12.2	-47.1	-39.8
Rural						
Head count index (P ₀)	0.475	0.454	0.393	-4.4	-17.1	-13.4
Poverty gap index (P ₁)	0.134	0.122	0.085	-8.9	-37.0	-30.8
Poverty severity index (P ₂)	0.053	0.046	0.027	-12.9	-48.3	-40.6
Urban						
Head count index (P ₀)	0.332	0.369	0.351	11.1	5.9	-4.7
Poverty gap index (P ₁)	0.099	0.101	0.077	2.0	-22.1	-23.6
Poverty severity index (P ₂)	0.041	0.039	0.026	-7.1	-38.2	-33.5

Trends in National Poverty: As indicated in Table 2.7 above, compared to 1999/2000, poverty head count, poverty gap, and poverty severity indices have declined substantially. The 2004/05 poverty head count index is lower than the index for 1999/2000 by 12% while the poverty gap and severity indices are lower by 30% and 39%, respectively indicating a substantial decline in poverty during the five-year period ending in 2004/05. The decline in poverty is also much higher during the SDPRP period than the period preceding it.

Trends in Rural and Urban Poverty: Much of the decline in national poverty is attributed to a decline in poverty in rural areas. The decline in rural poverty is substantial. The head count, poverty gap, and poverty severity indices in 2004/05 for rural areas is lower by 13%, 31%, and 41%, respectively than the levels in 1999/00. The analysis indicates that there was a decline in the proportion of rural people who are below the poverty line and the average gap of the poor from the poverty line and improvement in the distribution of income among the rural poor. In general, the significant decline in rural poverty is clearly attributed to the wide-ranging and multi-faceted pro-poor programmes that have been implemented in rural areas such as menu based extension programme to support commercialization of smallholder agriculture, the Food Security Programme, and the recent Productive Safety Net Programme among others. The decline in urban poverty between 2004/05 and 1999/00 was only limited to the depth and severity of poverty.

Trends in Absolute Number of Poor Population: The decline in relative aggregate measures such as poverty head count indices may not give a complete picture of poverty situation overtime unless it is complemented by the trends in the absolute number of poor people. Overall, at national level, the absolute number of poor people declined from 28,063,909 in 1999/00 to 27,523,414 in 2004/05. In other words, the number of poor people has declined by about 2% from 1999/00 to 2004/05.

2.2.3 Food Poverty

The achievement of food self-sufficiency is one of the key objectives of the Government as articulated in its rural development policies and strategies. This is consistent with addressing the hunger component of MDG 1. As for total poverty, the various aggregate poverty measures could also be computed for food poverty. The food poverty index measures the proportion of food-poor people that fall below the food poverty line. Accordingly, the national food poverty index declined from 42% in 1999/00 to 38% in 2004/05. This showed that the food poverty index declined by 9% from 1999/00 to 2004/05. On-going programmes/interventions (particularly since the on set of the SDPRP) in pro-poor sectors such as rural development, food security, water, health and education, seems to have contributed to the decline in food poverty. These findings are summarized in Table 2.8 below.

When food poverty is decomposed in to rural and urban areas, it is found that both rural and urban food poverty head count index has declined by 7% and 25%, respectively. Despite this, no decline has been observed in the depth and severity of food poverty during the period. Given the substantial increase in food prices during the survey period, it is not surprising to witness stagnation in the depth and severity of food poverty. As many rural poor households are net buyers of food, it is likely that rising food prices may have negatively affected the food poverty situation of people in the country, especially in rural areas.

In terms of physical calorie in-take, national food poverty index showed an 8% decline over the period (53% decline in urban calorie-based food poverty head count index versus 7.6% rural calorie-based head count index).

Table 2.8: Trends in Food Poverty Indices at National Level and by Rural and Urban Areas

Level	Indices			Changes in the Indices (%)		
	1995/96	1999/00	2004/05	1999/00 over	2004/05 over	2004/05 over
				1995/96	1995/96	1999/00
National						
Head count index (P ₀)	0.495	0.419	0.380	-15.5	-23.3	-9.2
Poverty gap index (P ₁)	0.146	0.107	0.120	-26.8	-17.5	12.8
Poverty severity index (P ₂)	0.060	0.039	0.049	-34.494	-18.4	24.5
Rural						
Head count index (P ₀)	0.516	0.411	0.385	-20.4	-25.5	-6.5
Poverty gap index (P ₁)	0.152	0.103	0.121	-31.9	-20.5	16.8
Poverty severity index (P ₂)	0.062	0.038	0.049	-39.2	-21.5	29.0
Urban						
Head count index (P ₀)	0.365	0.467	0.353	28.0	-3.3	-24.5
Poverty gap index (P ₁)	0.107	0.127	0.117	18.4	9.0	-8.0
Poverty severity index (P ₂)	0.044	0.047	0.048	6.8	8.4	1.5

2.3 Trends in Non-Income Dimension of Poverty

Major programmes are being implemented to improve health services, education, infrastructure development to increase access to different economic activities and services for rural and urban people and conditions for women. According to the 2004 WMS, which provided outcome indicators on the non-income dimensions of poverty, education enrolment (1-6) has nearly doubled (74%) compared to its level in 1996 (37%). Primary gross enrolment as defined by the Ministry of Education (1-8) reached 79.8% by 2004/05. Note that the Ministry's report is based on census from school reports.

With regard to health, Under 5 immunization coverage for Measles and Bacillie Calmette Guérin (BCG) increased from 39% and 35% in 1996 to 57% and 55% in 2004 (46% and 57% increase, respectively). The nutrition status of children under 5 years, child stunting declined significantly from about 57% in 2000 to 47% in 2004 (10 percentage point decline) while child wasting declined from 10% in 2000 to 8% in 2004 (2 percentage point decline). The percentage of underweight children has also declined from 45% in 2000 to 37% in 2004 (8 percentage point decline). This also has implication on trends in income poverty. Figures 2.4, 2.5, and 2.6 below further illustrate the trends in stunting, wasting, and underweight children from 1996 to 2004.

Figure 2.4: Trends in Stunting



Figure 2.5: Trends in Wasting

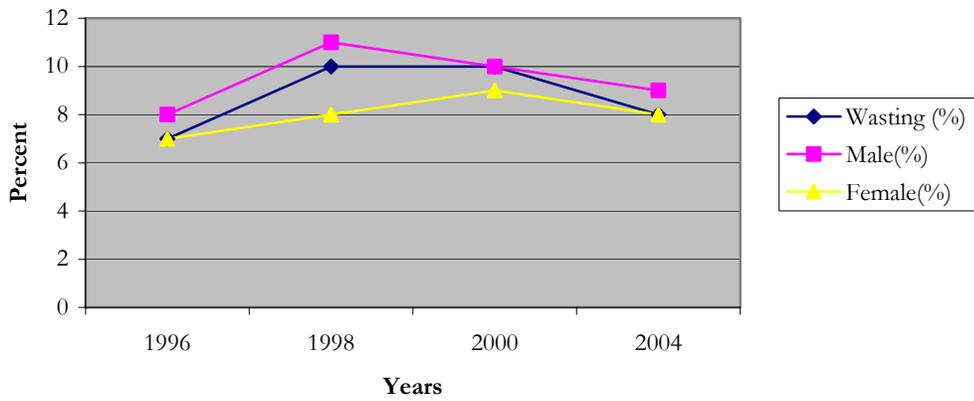
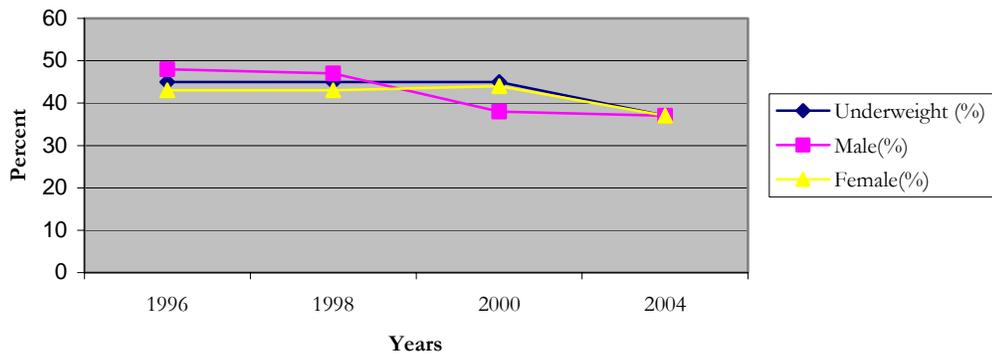


Figure 2.6: Trends in Underweight



With regard to access to clean water, overall access to clean water increased from about 19% in 1996 to 35.9% in 2004. This is also in line with what is reported by the Ministry of Water Resources (37.9%) based on data from water establishments. Trends in selected welfare indicators based on successive WMSs are presented in Table 2.9 below.

Table 2.9 Trends in Selected Welfare Indicators Based on Successive WMSs

Sector		Indicator	Year			
			1996	1998	2000	2004
Education	Primary GER (%)		37	52	61	74
	Male		45	63	70	80
	Female		29	41	52	68
	Secondary GER (%)		13	16	17	23
	Male		14	17	19	28
	Female		12	14	15	18
	Literacy rate (%)		26	27	29	38
	Male		35	36	40	50
Health: Coverage	Immunization	Measles (%)	39	47	48	57
		BCG (%)	35	47	46	55
		DPT3 (%)	40	52	51	58
Health: Nutrition	Stunting (%)		66	55	57	47
	Male		68	56	58	48
	Female		65	54	55	46
	Wasting (%)		7	10	10	8
	Male		8	11	10	9
	Female		7	8	9	8
	Underweight (%)		45	45	45	37
	Male		48	47	38	37
Female		43	43	44	37	
Water Supply		Percentage of people with access to safe drinking water source				
		Rural	10	14	17	25
		Urban	72	84	92	92
		National	19	24	28	36

2.4 Findings of the 2004/05 Ethiopian PPA

The 2004/05 Ethiopian PPA also yields important qualitative information on the many dimensions of poverty, complementing the outcomes of the quantitative 2004/05 HICES and WMS. The PPA was conducted over 45 research sites distributed across the country (31 rural and 14 urban) from November 2004 to January 2005. The outcomes of the PPA study aggregated at national level indicated positive developments as well as some challenges.

The findings indicate that progress has been made in improved service delivery at the grass root level in term of agricultural extension services as well as agricultural diversification, in basic social services (health, education, water and sanitation etc) and in infrastructure development (road upgrading, school construction, sewerage and sanitation installation, provision of communal toilet facilitates, and market place construction). Gender equality and empowerment of citizens also show progress in terms of awareness of rights and ability to voice views.

With regard to institutions, primary schools, *idir*, and the *kebele* administration emerged as the top three institutions valued by rural citizens. These are closely followed by the agricultural extension system, peace committees (often stated as “elders committee” or other conflict resolution body), NGOs, and formal religious institutions. In urban areas, in addition to most of the institutions stated above, health, water and electricity supply, the police, *idir*, banks and telecommunications are found to be important by the community.

Declining size of farmlands as well as livestock disease and the inadequacy of veterinary services are the major problems identified by the rural community. The most prevalent complaints across urban PPA sites are related with the rising cost-of-living (relative to earnings), the prevalence of petty crime and theft, the extent of unemployment, and sanitation problems.

Chapter III

Efforts to Eradicate Poverty and Hunger

The Government of Ethiopia has undertaken several efforts to eradicate poverty and hunger. Recognizing the importance of agriculture for food security and given the theme of the Review is on strengthening efforts to eradicate poverty and hunger, emphasis is given to the agricultural sector in this Chapter. However, the discussion has not been limited to this sector alone. Accordingly, effort is made to present sectoral performances, successes achieved as well as challenges faced in the other poverty-oriented sectors such as education, health, water and sanitation, roads, irrigation and other major cross cutting areas.

3.1 Agriculture

Agriculture is the main driver of the economy and is a source of income for the majority of the population. The sector contributes about 50% to total GDP, generates about 90% of export earnings and supplies about 70% of the country's raw material requirement for large and medium sized industries that are agro-based.

As indicated in the background section of this Report, Ethiopia's total land area is about 1.1 million square kilometers; of which about 73.6 million hectares (66%) is estimated to be potentially suitable for agricultural production. Out of the total land suitable for agriculture, the cultivated land is estimated to be 16.5 million hectares (22%). About 96% of the cultivated land area is under smallholder farming while the remaining is used for commercial farming (both state and privately owned). For over 80% of peasants, the average per capita land holding, including grazing land is less than 2 hectares. Per capita cultivated land holding averaged around 0.5 hectare. The number is even substantially less in some densely populated high land areas.

Furthermore, land suitable for irrigation is about 3.5 million hectares. According to the data obtained from the Ministry of Agriculture and Rural Development (MoARD) and the Ministry of Water Resources (MoWR), the total irrigated land in 2005/06 stood at 603,359 hectares; of which traditional irrigation accounts for 479,049 hectares while 124,569 hectares of land is developed through modern irrigation.

An overview of the sector's performance and the related policy measures taken with a major emphasis on the Agricultural Development Strategy as the forefront of the country's development strategic pillars are discussed in the sections below.

3.1.1 The Ethiopia's Agricultural Development Strategy

The interventions and programmes discussed in this sector along with their performances are within framework of the Ethiopia's Agricultural Development Policies and Strategies, which are seen as a long-term strategies to achieve faster growth and economic transformation. The Strategy mainly focuses on agriculture and rural development with the major objectives of strengthening of human resource capacity and its effective utilization; ensuring prudent allocation and use of existing land; adoption of development path compatible with different agro-ecological zones;

specialization, diversification and commercialization of agricultural production; integrating development activities with other sectors; and, establishment of effective agricultural marketing system.

The strategy states that to promote agricultural development, it is important to use labor-intensive methods to increase output and productivity by applying chemical inputs, diversifying production, utilizing improved agricultural technologies. Emphasis is also given to promoting quality and quantity of outputs by close monitoring of agricultural processes. This is mainly achieved through improvements in productivity by using the existing agricultural experience (indigenous knowledge) & integrating activities with other socio-economic sectors.

Adoption of a single-handed development strategy may not bring the best results as Ethiopia is characterized by differentiated agro-ecological zones, varying landscape, and agricultural production practices. Hence, another principle that the strategy takes into account is using agro ecological zones. Prioritization based on growth poles helps to promote rapid and sustainable growth, which integrates the agricultural sector with other off-farm activities, where transformation of agriculture leads to growth of non-farm economic activities which in turn feeds back and develops the traditional sector. ADLI emphasizes the importance of distinguishing agro-ecological zones and tailors strategies as well as interventions for optimal development outcomes. This distinction guides the differentiated interventions needed to promote cross-sectoral and integrated growth.

Accordingly, the rural development strategy divides the country into three main agro-ecological zones, which include regions with adequate rainfall, moisture stress areas, and pastoral areas. An integrated approach needs to be pursued in the effort to implement a geographically differentiated growth strategy. It is essential to integrate and coordinate the activities of these sectors recognizing their interdependence and to effectively benefit from the opportunities created through pursuing a geographically differentiated growth strategy. This approach ultimately enhances implementation of the mainstream ADLI strategy.

In regions with adequate rainfall, the focus is on exerting all possible efforts to efficiently utilize available rainwater to bring about the maximum possible rate of agricultural development, and promoting irrigation in areas where it is feasible. In moisture stress areas, major activities undertaken to enhance food security are focused on increasing off-farm income opportunities, and voluntary resettlement to more productive areas. In terms of pastoral areas, special efforts are made to enhance specialization in livestock production and marketing through the provision of water supply for the community and their livestock as well. Major interventions in this area also include improving livestock quality, expansion of animal health services, water points, feed production and improvement of breeds and development of market infrastructure. While the strategy is based on the three main zones described above, it is realized that there is complex diversity within each of these zones, and hence actual interventions are locally tailored accordingly.

The instruments to achieve this include: focused infrastructure investments, especially in roads, telecommunications and connection to the electricity grid; intensified efforts to strengthen the flow of development finance, and administrative capacity in selected areas; and, agro-processing, tourism, and health interventions for control of tsetse fly and malaria in low-lying areas.

In all regions, the emphasis will be on ensuring everything possible is in place to facilitate the take-off of commercial opportunities. The transformation of the smallholder farmer is to be achieved through area based specialization as well as diversification of agricultural commodities. In line with this, commercialization of smallholder agriculture will be the engine for rural growth in the coming decade or so.

In addition, the Rural Development Strategy will revolve around a major effort to support the intensification of marketable farm products - both for domestic and export markets, and by both small and large farmers. Elements of the strategy include the shift to higher-valued crops; promoting niche high-value export crops, a focus on selected high-potential areas, facilitating the commercialization of agriculture, supporting the development of large-scale commercial agriculture where it is feasible; and better integrating farmers with markets – both locally and globally. It is the expectation that the private sector, which includes millions of small farmers, will play a leading role in these activities, but given the early stages of transition to market agriculture, a range of public sector investments and services is needed to help jump-start the process.

In order to enhance commercialization and diversification and bring about accelerated development, efforts will be put in place to open up *growth corridors*. A growth corridor refers to a geographical region, such as a sub-basin rather than a single rural or urban centre, which generates economic activities well beyond regional administrative boundaries. Growth corridors/centers are in no way an alternative approach to the ADLI strategy. As understood by the Government, growth corridors/centers are fully consistent with ADLI and are conceived as vehicles to enhance the implementation of the ADLI strategy. It complements, enhances and sustains the growth impulse that emanates from greater commercialization of smallholder agriculture. Specialization, diversification, and commercialization of agricultural production are the starting points and basic direction.

The Tana-Beles region, Dire Dawa as a center-covering eastern and western Hararghe, the Rift valley, south and southwestern regions and the settlement areas are among the growth corridors identified so far for further study and implementation of focused programmes. However, it is envisaged that studies will be undertaken to identify additional potential growth corridors. Operationalization of growth corridors is expected to be progressive and based on learning by doing. Work is currently underway towards the operationalization of growth corridors /centers in a comprehensive and coordinated manner under the leadership of the MoARD through support under the United Nations Development Assistance Framework (UNDAF).

The Government has a difficult balancing act to manage, since improvement of pro-poor subsistence farming still needs to take place in parallel with this shift to commercialized agriculture. For several million households the main welfare improvement in the medium-term will still come from achieving higher yields of basic food grains. This is pursued through a combination of intensified extension support at the *kebele* level, establishment of a network of demonstration centers, increased low-level veterinary services, support for small-scale irrigation, and better use of ground water, complemented by productive safety net and off-farm income-generating initiatives supported under the Food Security Programme. Both of these approaches need to be pursued in conjunction with measures to manage the natural resource base and protect the environment.

The Government will largely restrict itself to playing an intermediating role where there are gaps. Areas where the Government would have a comparative advantage include setting the regulatory framework and standards, financing infrastructure –especially roads and the Rural Roads and Transport Programme– and small-scale irrigation primarily focusing on water harvesting at the household level, helping farmers build medium-scale irrigation on a cost-recovery basis, and construction of some multi-purpose dams that would support larger-scale irrigation. Finally, in some cases the Government may help with the acquisition of technology (such as specialized seeds or genetic material) from outside the country.

3.1.2 Crop Production and Productivity

As can be seen from Table 3.1 below, total cultivated area has been increasing since 2001/02 but slightly declined in 2006/07. In general, total production and productivity have been improving. This is related to the introduction of various new policies and strategies as well as an introduction of new extension packages that increased the use of fertilizer and improved seeds. Moreover, the introduction of new approach that deploys three extension workers in each rural *kebele* to live with the smallholder farmers has contributed to awareness creation in raising productivity among farmers. The trend in cultivated area under major crops, the yield, and volume of production over the period 2003/04 to 2006/07 is presented in the Table 3.2.

Table 3.1: Area Cultivated, Total Production, and Productivity

Year	Total cultivated land (million hectare)	Total production (million quintal)	Productivity (Quintal/ hectare)
2000/01	10.37	110.4	11.0
2001/02	8.79	103.5	12.9
2002/03	9.27	77.2	8.55
2003/04	9.54	106.2	11.1
2004/05	12.28	167.0	14.35
2005/06	12.40	235.0	20.03
2006/07	10.5	155.0	14.76

**Table 3.2: Trends in Cultivated Area, Volume of Production and Yield of Major Crops for the Main Season
(% Change Over Previous Year)**

Item	Years				Average
	2003/04	2004/05	2005/06	2006/07	
Area cultivated under crops	9.1	14.6	3.6	3.5	7.7
Cereals	10.7	9.2	5.7	6.1	7.9
Pulses	-5.6	34.6	-4.2	-7.1	4.4
Oil seeds	20.5	44.5	-3.4	-5.9	13.9
Production	39.4	16.1	12.4	15.8	20.9
Cereals	41.8	11.6	15.9	17.5	21.7
Pulses	15.8	41.5	-5.8	4.5	14.0
Oil seeds	59.2	68.3	7.6	4.3	34.9
Yield/hectare (productivity)					
Cereals	3.5	26.5	9.4	10.8	12.6
Pulses	22.7	5.0	-1.6	12.5	9.7
Oil seeds	32.1	16.4	-4.2	10.6	13.7

As shown in Table 3.2, the recovery from the 2002/03 drought season took place in 2003/04 where crop production increased by 9.1% and volume of production by 39.4%. There has been a sustained increase in the volume of output driven more so by increase in productivity from 2003/04 up to 2006/07. Over the period, productivity (yield per hectare) for cereals, pulses, and oil seeds on average increased by 12.6%, 9.7% and 13.7% per annum, respectively. As a result, total crop output of major crops has shown an annual average increase of about 20.9% over the period 2003/04 to 2006/07. In 2006/07, overall volume of crop production has shown an increase of 15.8% where as crop area for major crops increased by 3.5%. During the same period, productivity for cereals (which accounted on average for about 87% of major crops production) increased by 10.8%.

As productivity has increased much faster than area expansion (for all the three groups), increase in yield has been the major factor for increase in the volume of crop output over the period. This is attributed mainly to improved seeds application, favorable weather condition particularly in 2005/06 and 2006/07, and increased support to farmers by agricultural development agents, and expansion of the agricultural extension programme. Irrigation, which is also a critical component in reducing climate risk, also helped the use of modern inputs, thereby contributed to the increase in productivity.

Moreover, as shown in Table 3.3 below, fertilizer application has added to the increase in productivity since fertilizer used per hectare has increased by 17% in 2005/06 compared to 2003/04 although there was a modest decline in 2004/05 by 3.3%.

Table 3.3: Trend in Fertilizer Application

Item	2003/04	2004/05	2005/06
All crop area (ha)	9,654,159	10,887,953	12,417,947
Amount of fertilizer used (qt)	2,581,775	2,914,701	4,046,576
Fertilizer applied area (ha)	3,882,506	4,549,663	5,360,090
Fertilizer used per hectare (qt/ha)	0.66	0.64	0.75
Growth rate in fertilizer application (%)		-3.3	17

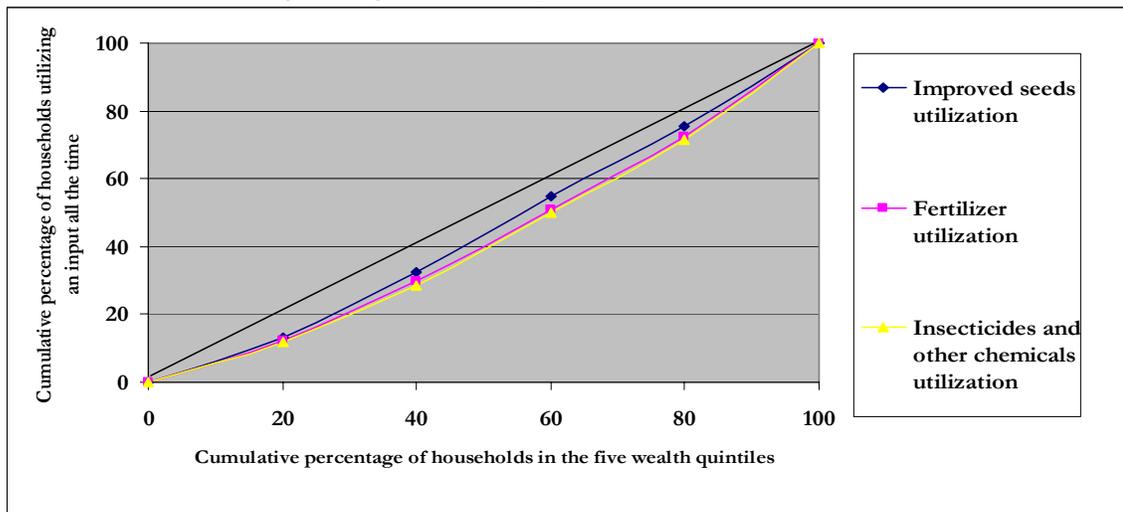
By way of ensuring tenure security a new programme of issuing over 4 million certificates in four regions (Amhara, Oromia, SNNPR, and Tigray) of the country has been put in place with the purpose of improving tenure security among farmers. This has contributed to the increase in productivity. Related to this is the issue of promoting proper land use and soil conservation. A national environmental programme has been initiated and is now under implementation. Regional environmental agencies and institutions have been established to compliment on going efforts and the necessary guidelines and laws have been enacted. There are also efforts to improve equity in access to agricultural inputs, an essential component of efforts to increase agricultural productivity. Box 3.1 below illustrates how equity in access relates with provision of basic agricultural inputs.

Box 3.1: Equity in access – Does it really matter for agricultural inputs?

Equity is an important as well as sensitive issue in politics and economics. For agricultural development, farmers' access to improved agricultural inputs and technologies is an important variable. However, a question that is very frequently asked is – how equitable is access? How this question is answered determines in large measure the poverty reduction effects of the provision of agricultural inputs. This Box explores whether Ethiopia's current efforts to provide inputs to farmers has been equitable.

Three basic inputs for agricultural production – fertilizer, improved seeds, and chemicals - were selected for the analysis. Data for this analysis is from the 2004 WMS. The agricultural input utilization Lorenz curve depicts that the effective access to the aforementioned inputs is overall balanced. This means that the degree of the inequity is not very big especially for improved seed utilization.

Fig 3.1: Agricultural Input Utilization Lorenz Curve



To deepen the analysis, overall determinants of agricultural input utilization were further explored. This was done by estimating an ordered probit model of the extent of usage based on the explanatory variables of distance from provider, wealth index, number of plots of land, education of the head of the household, distance from product (food) market, frequency of draught, frequency of price shock, utilization of complementary inputs, utilization of microfinance services, sex of the household head and dummy for a remote region. Three separate equations were estimated for fertilizer, improved seed and chemical utilization.

Results are striking. Distance from input provider was found to have a strong, negative impact on the likelihood of input utilization in all the three cases. Wealth has the expected positive influence on fertilizer and chemical utilization implying some sort of inequity. However, the wealth coefficient in the improved seeds equation came out with a negative sign contradicting the general impression in the Lorenz curve. This could be because the regression analysis has controlled for other factors and it happened that the net effect of wealth on improved seed utilization is rather negative. On the contrary, education of the head of the household is statistically significant for seeds utilization but insignificant for the other two inputs. As additional stratifiers for equity, gender and region were considered in the estimated equations. The gender coefficients consistently confirmed that male-headed households are very much likely to utilize agricultural inputs than female-headed households. The dummy for the remote region of Benishangul Gumuz appeared with a negative coefficient for all the inputs indicating a certain degree of regional inequity.

In order to examine the impact of risk and past experience on the utilization of agricultural inputs (assuming adaptive expectation by farmers), we included the frequency of drought and product price shock in the regression equations. The results were mixed. Drought has a strongly negative impact on fertilizer use while it positively affects utilization of improved seeds in subsequent harvests. Price shock affects the use of farm chemicals negatively while it has positive influence on the utilization of improved seeds. Strong complementarity of inputs is observed consistently across all the equations as the variables for the other two inputs came up with positive and highly significant coefficients affecting the utilization of every specific input.

3.1.3 Agricultural Extension Services and Research

Agricultural Extension: Improved extension package services that are geared towards addressing problems of production and productivity and that respond better to farmers' needs have been implemented in accordance with the existing environmental and market conditions. The transformation of Ethiopian agriculture from its current subsistence orientation into a market-oriented commercial production system forms the basis of the agricultural development strategy of the Government. To help achieve this, extension service is currently being strengthened through various means. In a situation where many farmers are illiterate, acquiring competence in production, adding value, and marketing presents challenges.

Recognizing this fact, the Government's response includes increasing the number and education level of Development Agents through providing extensive TVET in agriculture and through the establishment of Farmers Training Centers (FTCs) to transfer improved agricultural technologies and give adequate services at a closer reach. To date, 25 agricultural TVET colleges have been established and a total of 23,378 Development Agents (DAs) have graduated and assigned at FTCs in all regions.

In terms of household training package which is a type of agricultural activity carried out by farmers that earlier acquired experience by participating in various extension (minimum) packages, in 2005/06, 233,108 farmers were trained. In addition, in minimum package training, where farmers were trained on packages they have chosen from technology menus made available to them, and where the training duration ranges from 5 to 15 days, 3,065,927 farmers were trained during the year 2005/06. The results are mainly attributed to extra efforts made by the regional states. Extension and training programmes are also designed to pay particular attention to enhancing farmers' capacity to use water resources efficiently, and help build community-level institutional structures necessary for effective irrigation and water resource management.

During the PASDEP period, it is envisioned that all farmers will have access to agricultural extension services. All agricultural extension activities will give due emphasis to gender integration as well. Agricultural training and extension services will identify activities that will benefit both women and men. Throughout the planning period, all of the female headed households will have access to extension services and an estimated 30% of women in male-headed households will also get access to training and extension services in the type of extension packages that will benefit those most.

Agricultural Research: Effective agricultural research is also at the core of improving productivity and is central for making progress under PASDEP. The major outputs of the public research system are varieties with improved agronomic and protection practices that can be used in crop diversification and specialization, for both traditional food crops, as well as high value crops such as vegetables, spices and other horticultural crops. Research is also conducted on food science, socioeconomic and post harvest technology as well as farm implements. The research centers maintain improved varieties and multiply breeder and pre-basic seeds and seedlings of released varieties of crops, and distribute them to different stakeholders as well. A special effort will be made to improve the research coverage of dry land and pastoral agro-ecologies in the next five years, which has not been adequate in the past. Emphasis will also be given to introduction and adaptation of high value crops to support specialization and diversification programmes.

Additional areas of research include livestock research, with a focus on improved forage varieties, and generating better information on husbandry, health care, and breed improvement as well as research on land and forestry management, fisheries, and biotechnology. Biotechnology innovations have a substantial potential to enhance productivity: The agricultural biotechnology research in Ethiopian Institute of Agricultural Research (EIAR) focuses on technologies like tissue culture, mass propagation, marker-assisted breeding in crops and livestock, and promotion of useful microbial processes. Soil calibration of the major soil types of Ethiopia will also be conducted by the research system to better assess the amount of fertilizer required by different types of crops.

3.1.4 Agricultural Export Promotion

In 2004/05, US\$709.21 million was obtained from exporting 612.8 thousand tons of different agricultural products and 180 thousand live animals. The achievement was 100% and compared to 2003/04, it exceeds by 23% in volume and by 30% in value. Supply shortage and illegal trade were the major constraints identified in this area. Provision of improved breeds, forage development, and veterinary services are also some of the measures put in place to improve the development of livestock and to increase export earning from this sub-sector.

Moreover, a number of commodities have been identified from among cereals, pulses, oil crops, spices, fruits and vegetables based on their potential for a high growth impact. A process has started in studying international markets, 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 extension and research services have provided special support for intensification of these crops and Government has taken steps to help areas of high potential. In this respect, more effort will be made to organize out grower's schemes and ensure that transport is available and credit services are facilitated through micro-credit schemes, promoting savings, supporting cooperatives and linking smaller farmers with larger farmers through contractual agreements.

3.1.5 Food Security Programme

As estimated by the Ethiopian Nutrition Institute (ENI), a calorie level of 2,100 kcal per person per day is the minimum energy requirement for a person to lead a normal physical life. During the drought years of 2001/02-2002/03, about 13 million people (nearly one-fifth of the population) were victims of food insecurity. This was especially severe and critical in some remote areas, where many households' basic food and income is heavily dependent on rain-fed agriculture. The trends in total food aid portray a serious deterioration in food security situation of the country. This, as noted above, is due to crop failure primarily caused by low rainfall and poor harvest in most of the regions in 2002/03.

Ethiopia is constantly dependent on international aid for nearly 10% of its annual food need. This figure at times reaches about 25% in periods such as the drought years. This means that 4 to 5 million people are living in continuous risk of food shortage and their existence is directly related to external help. Comparing the two extreme years, 1998/98 and 2002/03, total grain, oil, and supplementary food increased by, four, eighty-three, and sixteen fold, respectively, showing that the country has a persistent chronically undernourished population.

It is clear from the above discussion that, vulnerability is a major challenge in Ethiopia. The effort to reduce vulnerability is a central part of the PASDEP strategy. Measures are being put in place to reduce the variance in crop production and food availability overall – through more irrigation and water control, diversification of crops, and better integration of markets, transport, and information links. Maintaining macroeconomic stability; expanding off-farm employment and income-earning opportunities, and better functioning credit markets, improving health services and nutrition, and, innovative measures, such as experiments with crop and weather-based insurance mechanisms -are key components of these measures. .

Furthermore, the National Food Security Programme -launched during SDPRP- is designed to manage the shift away from the cycle of dependence on emergency relief. The National Food Security Programme seeks to ensure food security for five million chronically food insecure people and another 10 million who are badly affected by shortages in drought years. The Programme 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.

As the Government recognizes the importance of improved credit services for food insecure rural and urban households in order to address both supply and demand side problems, the Programme lays strong emphasis on improving rural financing systems aimed at catering to the needs of MSEs as well as small, resource poor farmers. In this regard, the Government has already taken measures to strengthen the operation of the financial sector through strengthening and expanding rural micro financing institutions and cooperatives to provide banking services especially in food insecure areas. The Government will continue to increase the availability of rural financing and provide special support in reducing the credit administration cost extended to food insecure communities. Cooperatives are expected to play a big role in this regard. Along side the Government's initiative towards developing income generating and price support schemes, targeted interventions are also envisioned in the areas of health and nutrition in rural areas.

Furthermore, the need for carefully planned food assistance has been underscored in the Government's rural development strategy. The Government has gradually shifted from food assistance (assistance in kind) towards financial assistance for the purchase of food from the domestic market. This has helped augment the stocks of food security reserve in good times. This in turn contributed to the creation of effective demand through stabilization of prices.

Since the launching of the Programme, remarkable achievement has been made in narrowing overall food gap from domestic production. The recent report by the Disaster Prevention and Preparedness Agency (DPPA) shows that the number of people requiring emergency assistance stood at 1.36 million in 2006/07, evidence that the food security situation in the country has improved significantly.

3.1.6 Productive Safety Net Programme

Another measure introduced by Government is the Productive Safety Net Programme designed to serve the dual purpose of helping bridge the income gap for chronically food insecure households, and engaging such households in community asset-building efforts to earn income, especially during the lean season and times of drought.

The programme started in 2005 and covers 287 *woredas*. It has two components - labor-intensive public works and direct support for labor-poor households. The able-bodied are engaged in public works for which they are paid a minimum amount, while the labor poor are provided the same amount free. A programme implementation manual has been prepared, and training and awareness creation activities have been undertaken at different levels. The communities supported have identified target groups for public works and direct support. Programmes to build the capacity of those identified have been implemented and it is envisaged that training and capacity building efforts will continue where required.

A key feature of the Safety Net Programme is its household focus. It is linked to the household asset-building efforts of the Food Security Programme in that the priority for household asset-building interventions is assigned to those covered by the Safety Net Programme, as they are the chronically food insecure. The Safety Net Programme through its predictable transfer of resources will help prevent asset depletion, which is an important factor for the attainment of food security. This is in addition to the community assets it helps build.

Non Agricultural Income: As food insecure households are resource poor, living in drought-prone and degraded areas, focusing on crop and livestock production alone may not entirely solve the problem of food insecurity in some areas. Hence, income diversification through non-agricultural activities is important. To this effect, the Food Security Programme supports alternative or supplementary income sources in non-farm activities. This intervention involves strengthened market effectiveness, credit services through micro-finance institutions, establishment of marketing cooperatives, and provision of training, all of which are important for both agricultural and non-agricultural activities.

3.1.7 Voluntary Resettlement Programme

Over the last many years, a large portion of the country's population has lost the capacity to be productive mainly due to land degradation and high population pressure, while at the same time Ethiopia has a considerable amount of land currently under-utilized but still suitable for farm activities. To rationalize resource use, and thereby help food insecure households, the Government is supporting voluntary resettlement as part of its food security programme. To date, over 149,000 households have been resettled. However, in 2005/06, there was some underperformance in this area: out of the planned 30,950 households from the three regions (Amhara, Oromiya and SNNP), only 15,193 household heads were resettled. One of the reasons for this low performance was the delay in the preparatory works on the newly identified resettlement sites.

Resettlement is on a purely voluntary basis, and each settler household is guaranteed a package of assistance that includes provision of up to 2 hectares of fertile land, seed, oxen, hand tools,

utensils, and food rations for the first eight months. Settlers are also provided access to essential social infrastructure (clean water, health post, feeder road), and logistics support. To ensure the efficient and effective implementation of the programme, an implementation manual has been prepared, and extensive training and awareness creation works have been carried out at federal, regional, *woreda* and *kebele* levels.

Despite some problems encountered early in the implementation, especially during the first year, the resettlement programme has proved itself as a crucial and reliable alternative that ensures food security in a very short period of time. Recent assessments have shown that the majority of the settlers have attained food self-sufficiency and their livelihoods have improved considerably. The programme will therefore be expanded to accommodate as many settlers as possible.

3.1.8 Environmental and Natural Resource Management

Environmental resources are the foundation of social and economic development as they are the sources of goods and services needed for poverty reduction and economic growth. Their mismanagement coupled with their underutilization has so far reduced their contribution to Ethiopia's overall development.

Environmental degradation threatens physical and economic survival. It reduces the environment's ability to produce biomass for food, feed and household energy. It undermines prospects for fighting poverty and achieving sustainable development. Reversing environmental degradation and poverty eradication are, therefore, mutually reinforcing and have to be implemented together in Ethiopia's development initiatives.

Major achievements in this area so far include:

- All regional states have established environmental agencies or have assigned environmental responsibilities to existing agencies;
- Different proclamations, strategies, standards and guidelines have been prepared;
- Various environmental awareness activities have been undertaken at the federal and regional levels;
- Environmental audit has been conducted in 36 industrial enterprises, 11 of which have subsequently prepared their respective Environmental Management System (EMS);
- An Environment and Social Management Framework for the Productive Safety-net Programme has been prepared;
- 81 drought prone *woredas* are implementing the Sustainable Dry Land Management Programme to reverse land degradation and prevent desertification;
- Action plans for the enforcement of the Montreal Protocol on the Protection of the Ozone Layer, the Convention on Biological Diversity and the Convention to Combat Desertification have been prepared and are being implemented;
- Improved rural environment for gender equality and sustainable livelihoods through the preparation, implementation, monitoring and evaluation of *woreda* environmental management plan; and,
- Preparation of waste management and pollution reduction for healthy life and ecological integrity plan.

National economic development programs and national environmental regulatory systems must, therefore, be harmonized to optimize these initiatives. This means that it is urgent for Ethiopia to take the necessary action, as envisaged in target 9 of the MDG 7, to promote sustainable social and economic development through the sound management and use of natural, human-made and cultural resources and enhance the quality of life of its present generation of citizens without compromising that of its future generations.

3.2 Education

Inadequate capacity is recognized by the Government of Ethiopia as the chief constraint to the development of the country and attainment of the MDGs. This inadequacy is manifested in the country in not having the required number and quality of institutions, working systems and human resources.

To address the capacity constraints, the Government of Ethiopia launched in 1997/98 the ESDP, The Programme being now in its third phase, spans the years 2005/06 to 2009/10. The policy pursued under this Programme focuses on improving the quality of education, increasing access to educational opportunities with enhanced equity, equality and relevance. Some of the achievements recorded so far in this sector include:

- The Government launched a very big push to increase primary school enrolments, including the promotion of universal free primary education. The number of children in primary school increased from 8.1 million in 2001/02 to 12.6 million in 2005/06 taking the gross enrolment ratio (GER⁵) from 61.6% in 2001/02 to 91.3% in 2005/06. GER for females has increased from 52.2% in 2001/02 to 83.9% in 2005/06; As for primary school GER for children aged 7-14, the rate has increased from 51.2% in 2001/02 to 74% in 2005/06;
- The Government increased spending on education, in construction of schools, and of textbooks. In particular, spending on education by the Government has more than doubled from 35 Birr per person in 2001/02 to 72 Birr per person in 2004/05;
- A greater shift to community control over schools and resources, so villages and parents have more say in education and school management;
- Programmes to improve the quality of education, including upgrading teacher training, revising the curriculum and textbooks, and improving English language teaching;
- Special programmes to use information technology, computers, and television in teaching across the country; and,
- Six regions have met the basic target of 1 textbook for each student.

Among the factors that contributed to the accelerated progress achieved in this period is the significant increase in the number of primary schools from 11,780 in 2000/01 to 16,513 in 2004/05. The progress is supplemented by the fact that 80% of the constructed schools are located in rural areas and by the increased awareness of the community towards girls' education.

With the considerable success in raising enrolment rates, however, it is becoming apparent that enrolling to school is not the end of the story. The dropout rate has increased significantly and has

⁵ Both the gross and the age based enrolment ratios do not include those attending informal education.

become a major challenge to policy makers as they try to secure success of the sector. By the end of 2004/05, primary school drop out rate for females stood at 13.6%. Box 3.2 below provides further analysis on the possible factors determining primary school drop out in Ethiopia.

Box 3.2: The challenge of primary school completion-Determinants of primary school dropout in Ethiopia

Following the theoretical propositions in the literature that children's educational attainment is determined by social, family and personal factors, the probability of dropping out in Ethiopia is estimated as a function of various socioeconomic factors⁶. The results let this empirical analysis confirm the theoretical expectation.

Social factors: The WMS data which was used for this analysis provides information on physical access to school by every household. Accordingly, distance to primary school as well as distance to secondary school was included as explanatory variables. The effect of distance to primary school is found to be statistical insignificant. The possible explanation behind this result is the fact that distance is more important for enrolment rather than for dropping out. More interestingly, the physical access to secondary school is strong in influencing dropping out negatively. This is in line with the theoretical argument in Heckman et al. (2003)⁷ claiming that children would have incentive to complete one level of education if they foresee that they can easily continue to the next level. Culture is proxied by region and a dummy for the southern region was incorporated to capture any influence from the huge diversity of traditions in that particular region. The result confirmed that dropouts are indeed high in the Southern region, relative to other regions.

Family factors: in most of the literature it is presumed that family background is a strong factor for children's educational attainment. Parental education is one of those factors. In this respect, the model revealed strong and highly significant effect of both mother's and father's education in hindering their children from dropping out. Wealth is found to be statistically insignificant while agricultural livelihood is very strong in increasing the likelihood of dropping out. The usually higher demand for labor on the farms is the most plausible explanation behind the latter result. Whether the family is female headed or not does not appear to affect dropping out at a statistically significant level.

Personal factors: apart from social and family foundations, the residual influence on school dropout comes from personal factors. Gender is perhaps one of the most pertinent factors in this respect. The result shows that girls are more likely to drop out of primary school than boys. Another factor that could be considered personal to the individual is the highest grade already achieved before dropping out. The theoretical proposition in this case is that higher grades encourage children to complete primary school since they have already invested a lot in education. In the logit estimation, primary attainment is divided into two halves, before and after grade four. Accordingly, it was found out that the probability for kids to drop out is higher before they reach half way in primary education.

⁶ For further theoretical review, see Haveman and Wolfe, 1995. (Haveman, Robert and Barbara Wolfe, 1995, "The Determinants of Children's Attainment: A Review of Methods and Findings", Journal of Economic Literature, Vol. XXXIII, pp. 1829 – 1878)

⁷ Heckman, J., L. Lochner, P. Todd (2003), "Fifty Years of Mincer Earnings Regressions", Institute for the Study of Labor (IZA), Discussion Paper No. 775.

With more children completing primary school, there is also increased pressure for more secondary schools. So Government has simultaneously launched a programme to expand the number of secondary education places. Accordingly, secondary school 1st cycle and 2nd cycle acceptance/enrolment capacity has increased from 860,645 and 45,671 to 1.01 million and 73,133, respectively. The GER for secondary school reached 27% in 2004/05 as well.

In terms of higher education, in 2005/06, enrolment capacity reached 40,440 while the annual intake at the beginning of SDPRP was 16,600. This increased the number of students in the University from about 87,000 at the beginning of SDPRP to over 172,000 today. The Government has given accreditation to 10 new private institutions and established 13 new higher education institutions as well as upgraded existing ones. Cost-sharing arrangement under which students repay some of the costs of their education once they are employed has been introduced. With regard to Technical Vocational Education and Training (TVET), the number of TVET institutions has increased from 17 in 1996/97 to 158 in 2003/04, and acceptance/enrolment capacity has reached 94,592 in 2004/05.

With these successes also come new challenges. 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 because:

- The increase in average number of students per classroom exceeds the caring capacity of available classrooms;
- The number of teachers has not increased as fast as the number of students, so the number of students to each primary school level teacher has increased from 61 in 1993 to 67 in 2004/05, and the number of students in an average secondary school section has gone up to 77;
- High construction costs limit the construction of new schools as well as the speed of construction of additional classes which is much slower than the rate of increase in number of enrolled students;
- Dropout rates are very high; absenteeism is also high and many children leave school before the end of year 5 (or even of year 1), so get very little education;
- Whereas enrolment ratios show an overall increasing trend, it is necessary to note that there is disparity among regions. In particular, the enrolment ratio of Afar and Somali regions are found to be low; and,
- Resource shortage to access qualified teachers as well as problems related with management and implementation capacity.

Government is working on these drawbacks, including trying to find ways to hire more teachers and to reduce construction costs. Special programmes were initiated to respond to the needs of rural and pastoral areas where it is more difficult for children to go to school. Accordingly, Alternative Basic Education Centers (ABECs) are being built to reach out-of-school children and children from pastoral areas. There are now 1.3 million children in ABECs. Moreover, efforts will be made to strengthen community and NGOs participation in the provision of primary **education** as well as to increase the participation of women. Emphasis will also be placed on to support children with special needs.

Ethiopia's goal is to have all children attending primary school by 2015 or earlier. In line with this, the Government's programme under PASDEP has continued to focus on improving the quality of education to attract and keep children in school. The main effort will still be on mobilizing more teachers and provision of capacity building programmes to upgrade their skill through on job training and summer courses.

3.3 Health

The Government of Ethiopia recognizes that the poor health status of its citizens is a constraint to their enjoyment of the full prerogatives of life, on productivity growth and on efforts to reduce poverty. Common poverty-related diseases including malaria, Tuberculosis (TB), childhood illnesses, and HIV/AIDS, continue to cut short the lives of Ethiopians. The Government therefore fully concurs with the emphasis on health in the MDGs (MDGs 4, 5, 6) and consistent with this, has developed and is implementing a 20-year Health Sector Development Programme (HSDP). This health sector strategy – consisting of 4 five-year programmes – takes into account the time horizon of the MDGs calls for further improving health service delivery, capacity building and development of preventive health care and equal access to health services. Efforts are also being intensified to move services out from facilities to the household and village level. The gap in access to health services between rural⁸ and urban areas is also being bridged. Early results of this strategy show that:

- Access to health services has reached 72% in 2004/05 from 52% in 2001/02;
- Under-five mortality rate has gone down to 123/1,000 in 2005/06 from 167/1,000 in 2001/02 and infant mortality rate has declined to 77/1,000 in 2004/05 from 97/1,000 in 2001/02;
- Maternal mortality rate has also declined to 673/100,000 in 2005/06 from about 871/100,000 in 2001/02;
- Vaccination coverage has improved over the last five years, albeit marginally. The percentage of children 12-23 months fully vaccinated increased from 14% to 20% in 2005/06;
- Contraceptive prevalence rate has reached 15% in 2004/05 as well;
- Over 10,500 new nurses, technicians, and front line health workers have been trained; over 1,900 new health posts and centers have been built; and the proportion of the population living within less than 10 km away from a health post has increased from 51% to 64 %; and,
- So far, 3,000 women workers have been trained to deliver basic sanitation, immunization, and other health services. In addition, in 2005/06 over 7,505 additional health workers were trained and deployed to expand the service of the programme nationwide.

On a programme level, the Government put in place:

- **A special malaria programme**, encompassing spraying houses, distributing bed nets, and involving communities in prevention and control of malaria, and early diagnosis and

⁸ As 85% of the Ethiopian population lives in rural areas, it is clear that improvements in nominal and effective access of the rural population to health services will have a major effect on health outcomes.

- treatment mechanisms. In 2005/06 more than 5.8 million insecticide- treated bed nets were distributed;
- A **TB and Leprosy Control Programme**, to diagnose TB and leprosy patients at the early stages of the disease, and achieve a success rate of 85% in treating new cases. So far the programme has reached 86% of *woredas*;
 - A focus on **National Child Survival**, concentrating on the illnesses that account for 90% of child deaths: pneumonia, measles, diarrhoea, malaria, neonatal care, malnutrition, and HIV/AIDS;
 - A **Blindness Prevention Programme**, with a focus on the main causes of childhood blindness (measles, vitamin-A deficiency) and an increase in the number of eye doctors and treatment centers; and,
 - **Making Pregnancy Safe**, with emphasis on strengthening the safe delivery of babies, and healthy pregnancies.

A key contributing factor to the success of the Health Sector strategy is the Health Extension Worker Programme (HEWP) introduced by Government increase the number of nurses and health centers. As a result of the diligent implementation of this Programme, the number of Health Extension Workers (HEWs) increased from 2,800 in 2004/05 to 9,900 in 2005/06. Complimentary measures have also been put in place to improve the number, skills, distribution and management of health workers. In addition, a new system of healthcare financing, including drug revolving funds has been introduced and efforts to mobilize additional foreign aid to overcome some of the problems mentioned below have been scaled up.

Still, the health status of many Ethiopians remains very poor and the system is not yet big enough to meet all of the demand. The major fetters of progress in the 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. In addition, training and retention of trained health workers, lack of adequate management skills, and shortage of drugs accentuate these problems.

Under the PASDEP, Government retains its focus on accelerated expansion of primary health care with the goal of making sure that all rural people have access to basic health care by 2008. To this end, it is emphasizing preventive services and improving their effectiveness. This will be achieved mostly through increasing the coverage of the Health Extension Programme, by continuing construction, equipping, and staffing of new health posts and centers, improving training and deployment of staff, and finding ways to encourage health workers to stay in their post, by making available the necessary drugs and supplies as well as by strengthening the drug management system. Box 3.3 below presents a success story in the health sector.

Box 3.3: Success Story in Health

Bezunesh Zewde, Health Extension Worker

My name is Bezunesh Zewde and I come from Jewe kebele in Limu woreda of the SNNPR. I am 32 years old and grew up in the same kebele. I have been working in this kebele for a long time.

In my kebele, there are 116 households with a population of 6,790. I used to work in the community for 8 years. Then, I become a volunteer Community Health Promoter and worked for 2 years. While, I am working as a health promoter, I have been selected to work as a HEW and have been given a one-year training. When I finished the training, I started working and usually visit up to 200 homes per month.

The nearest Health Post is 4 hours on foot. The community appreciates our work very much because of the service the HEWs provide. The Health Post is open one fixed day a week for antenatal care and counseling. Currently, I am the only HEW working in our kebele, therefore I can not be at the Health Post the whole day and wait for people to come because I go from house to house to visit mothers with newborns to teach them about breast feeding, immunization, and family planning.

Women are given priority to become HEW as they are key in empowering other women to bring change in their family since they are the primary care givers in the community. The acceptance of the community as well as their living conditions has improved gradually.

I feel extremely proud of the hygiene in my *kebele*. Almost everyone has constructed a latrine. As a community, we have had a campaign to clean the water source and have fenced it to prevent animals from entering.

Source: Ministry of Health

3.4 HIV/AIDS

Like many countries in Africa, HIV/AIDS – the objective of MDG 6 - is a major health and development challenge for Ethiopia. It is a major health challenge, not just because of its direct effects, but also because it places extra strain on health services. But its adverse impact on other dimensions of development is far more wide-ranging than space permits us to discuss here. Suffice it to say that the development cost of HIV/AIDS is high. The Government of Ethiopia recognizes this and is committed to confronting and overcoming this challenge.

Pursuant to this objective, it and has put into effect a Multi-sectoral HIV/AIDS Plan, key elements of which include expansion of service delivery facilities and introduction of prevention programmes along with a Social Mobilization Strategy against HIV/AIDS, and a clear policy for supplying Anti Retroviral Treatment (ART) to AIDS cases. Furthermore, Government launched the National HIV/AIDS Forum to deal with coordination issues. Similar structures were formed in all the regional states and down to the *kebele* level. In addition, at the federal level, 15 government institutions established HIV/AIDS revolving funds.

There is evidence that this Plan is beginning to bear fruit. Trend analysis of HIV/AIDS prevalence rate shows that the urban epidemic appears to have leveled off at high prevalence in the past years while the rural epidemic gradually increased, with a reduced rate of progression, resulting in a slowly growing overall prevalence. Against the SDPRP target of keeping the prevalence rate at

7.3% (2001/02), the rate has decreased to 3.5% in 2005/06. The prevalence rate between the ages of 15-24 declined to 8.6% in 2004/05 from 12% at the beginning of the SDPRP period. Owing to expansion in the number of health centers, the rate of HIV-positive pregnant women from Antenatal Care (ANC) receiving complete course of ART has reached 42% from its targeted rate of 15% by the end of the SDPRP period. About 35,000 orphans and vulnerable children (OVC) have received support by the end of 2004/05. With respect to the provision of ART, 45,595 patients received treatment in 2005/06. Successes in this area have been attributed to the provision of treatment at no cost to 94% of patients.

The encouraging results achieved with respect to stemming and reversing the spread of HIV/AIDS are due to Voluntary Counselling and Testing (VCT) before marriage, reducing early marriage, avoiding harmful traditional practices, provision of support to HIV/AIDS orphans and vulnerable children and community mobilization for HIV/AIDS prevention AIDS and support for people with the disease. Additional explanations for the success include new programmes to control mother-to-child transmission, improve blood safety, and control and treat sexually transmitted diseases as well as rules to protect those who are infected or living with AIDS and stamp out stigma.

But there is no room for complacency. HIV/AIDS remains of particular concern with serious social and economic consequences. The observed positive results are vulnerable to reversal given that about 85% of the population lives in rural areas where the epidemic is still on the increase. Increasing people's participation in awareness creating activities, high turnover of medical staff as mentioned in the health section of the report, and the imbalance between services demanded and service delivery capacity continue to be major challenges in this cross cutting area. Hence, it is very important to scale up efforts significantly to contain the spread of the epidemic on a national scale.

3.5 Infrastructure

Infrastructure intersects with all the MDGs especially MDGs 1, 3, 4, and 5. With respect to MDG 1, there is evidence good showing that infrastructure enhances growth and poverty reduction. The welfare losses associated with poor infrastructure are not insignificant. This is especially so in the areas of health and education. Transport, for example, facilitates access to health care and education, eases the staffing problem and improves access to rural clinics and schools. Electricity is essential for certain operations (e.g. delivering vaccines which require refrigerated storage) and reduces the direct risks of alternative heating and lighting methods, as well as favouring hygienic practices by reducing the cost of boiling water. As a result the Government has made huge investment on the provision of infrastructure in terms of expansion of the road network, irrigation, and electricity supply and telecommunication services for the achievement of the MDGs targets.

3.5.1 Roads

The predominance of smallholder agriculture in Ethiopia underscores 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 creating a link to regional and national markets is essential. Recognizing the importance of road transport for national economic and social development, the

Government of Ethiopia is devoting high priority to improving road infrastructure. It has developed and is implementing a 10-year Road Sector Development Programme (RSDP) launched in 1997, the aim of which is to tackle the constraints of economic and social development arising from the inadequacy of infrastructure. It is doing this by creating adequate capacity in the road sector by constructing and rehabilitating the essential road network. Box 3.4 below presents a case of 15 rural villages, which demonstrates evidence on the impact of roads on crop income, consumption and poverty in Ethiopia.

Box 3.4: Empirical evidence on the impact of roads on crop income, consumption and poverty in Ethiopia: case of fifteen rural villages

Evidence suggests that the expansion of road infrastructure has had a positive impact on agricultural productivity in Ethiopia. A study using the Ethiopian Rural Household Survey data, (a unique longitudinal survey of approximately 1,400 households found in 15 villages from all major farming systems of rural Ethiopia interviewed six times between 1994 and 2004), examined whether public investments that led to improvements in road quality and increased access to agricultural extension services led to faster agricultural growth, higher consumption growth and lower rates of poverty. The evidence from Generalized Methods of Moments-Instrumental Variables-Household Fixed Effects estimator shows positive impacts with meaningful magnitudes. It shows that access to all-weather roads increases consumption growth by 16% and, reduces the incidence of poverty by 6.7%. In line with this, since improved infrastructure is believed to have facilitated agricultural extension services, the study also investigated the impact of extension services. Hence, the finding is that receiving at least one visit from an extension agent also increases crop income and consumption growth by 15% and 7%, respectively and reduces poverty incidence by nearly 10%. These results are found to be robust to changes in model specification and estimation methods.

In conclusion, the result from this study suggests that the expansion of road infrastructure can play an important role in facilitating increased growth and poverty reduction in Ethiopia.

Some major achievements in the sector are listed below:

- Total road network of the country has reached to 39,477 km (excluding community roads) as of June 2006;
- During 2005/06, 429.5 km of rehabilitation and upgrading of primary roads, construction of 1945.7 km of primary and rural roads, and 33,302 km of community roads construction have been completed;
- Road network density has increased from 32.3 km/1,000 km² in 2001/02 to 35.9 km/1,000 km² by the end of 2005/06; and,
- Proportion of roads in good conditions has increased from 30% to 64% during the period 2001/02 to 2004/05. The target for the PASDEP period is to increase further to 84%.

It is clear that much has been achieved. However, much still remains to be done. The Government is building on its current successes to provide a springboard for economic development and poverty alleviation. In light of this, the Government has set out a revised 5-year RSDP that spans the period 2005/06-2009/10 as part of the Government's overall plan.

The main challenges to government effort are lack of adequate financing for the major investments required, ensuring continued maintenance, and the limited domestic construction

capacity. A major effort is now being undertaken to develop the domestic construction industry. External finance can help bridge the financing gap.

3.5.2 Water and Sanitation

One of the MDG targets within the environmental sustainability goal calls for halving the proportion of people without sustainable access to safe drinking water and basic sanitation. Ethiopia was until recently, a laggard on this score: access to water and sanitation - essential to the health and nutrition goals, as well as to education (by reducing the time spent on household activities in collecting water and by improving quality of school facilities) and female empowerment - was very poor. To reverse this situation, Government formulated and implemented a set of interconnected policies and strategies - the National Water Resources Management Policy, Water Sector Strategy, and Water Sector Development Programme- with the objective of enhancing and promoting efforts towards an efficient, equitable and optimum utilization of available water resources. A long-term plan focussed on provision of clean water supply, development of irrigation systems and electric power generation has been launched..

Visible achievements have been recorded in the sector. Access to clean water supply has increased from 23% to 41.2% in rural areas and from 74% to 80.3% in urban areas during the period 2001/02 to 2005/06. At national level, access to potable water reached 47.3% at the end of 2005/06. There has been an expansion of rural drinking water supply schemes. 758, deep wells and 2,405 shallow wells have been constructed. Similarly during the period under review, there were 50,267 new hand-dug wells, and 4,424 spring developments completed. By the end of 2004/05, the total land developed through irrigation reached 62,057 hectares. Pre-design studies were initiated for small-scale irrigation of 8,293 hectares and medium/large scale irrigation of an additional 9,220 hectares. Finally, water supply systems were built or rehabilitated in 83 towns, benefiting some estimated 1.6 million people, studies or design work are underway for another 47 towns during PASDEP.

The challenges in the water sector include keeping rural systems operational and maintained, and financing the large up-front investment costs of city and town schemes. To address this, the Government is moving towards a system of organizing communities to take responsibility for village water supplies, and for commercialization of urban water supply systems.

During PASDEP, emphasis has been given to improving overall water resource management, strengthening the information base of the sector, and to capacity building through training and better equipping the Ministry of Water Resources as well as affiliated institutions.

3.5.3 Telecommunications

The catalytic role of telecommunications for development is now widely accepted. Accordingly, Government has taken major steps to enhance the sector's contribution to economic growth and poverty reduction. The major organ of government action in this area is the Ethiopian Telecommunication Corporation (ETC). The ETC has developed a strategic plan to face the challenges of bringing telephone connectivity to the wider public particularly rural areas and towns.

As a result of these measures:

- Telephone coverage has increased, from about 400,000 lines at the beginning of SDPRP to over 1 million by the end of 2004/05;
- Old networks have expanded and new ones such as *woreda-net*, *cable-net* and *agri-net* created. By the end of 2005/06, the number of users reached 740,257 for regular fixed telephone lines, 866,700 for mobile phones, and 25,724 for Internet lines; and,
- Total telecommunication density has increased from 0.5 lines per 100 habitants in 2002 to 2.14 in 2005/06.

The telecommunication policy/strategy framework stipulates that the backbone infrastructure will remain in the public domain, under the auspices of ETC, while the private sector is encouraged to become increasingly involved in downstream activities and services. At the same time, the Government and the regulatory authority will keep up sustained pressure to ensure that the ETC meets the highest service standards, attain roll-out targets and delivers world class network and service quality standards.

3.5.4 Power

One of the key measures that need to be taken to eliminate poverty is to increase access to electricity in all parts of the country including rural areas as there is a strong correlation between energy and economic development. As a result, the Government launched a large-scale rural electrification programme known as Universal Electrification Access Programme (UEAP). Over 6,000 rural towns and villages are identified for electrification in all regions of the country and the selection of generation technology has been based on a least-cost analysis of supply options. The Government has liberalized the sector by allowing the participation of the private sector in the generation of power for sale to the grid, and also allowed the private sector, communities and cooperatives to participate in off-grid transmission, distribution, and sale of electricity.

Some of the major achievements during 2001/02-2004/05:

- Total power generated from the inter-connected and self-contained systems has increased from 473 Mega Watts to 791 Mega Watts;
- Power generated from self-contained systems increased from 19.99 Mega Watts to 22.78 Mega Watts;
- Total length of high voltage transmission lines (230 kilo volt, 132 kilo volt, 66 kilo volt and 45 kilo volt) has increased from 6,304.22 km to 7,927 km; and,
- Length of distribution lines has increased from 9,512.9 km to 25,000 km.

Power supply will increase three-fold during PASDEP by increasing generating capacity from the existing 791 MW to about 2,218 MW by 2009/10. Four major hydropower projects with varying capacities – Gilgil Gibe 2 (420MW); Gilgil Gibe 3 (1,800MW); Beles (460MW); and Tekeze (300MW) - that will contribute to this higher national power generating capacity are under still construction. In addition, a total of 13,054 km transmission grids is under construction to bring power to the users.

However, there are considerable spatial and regional differences in access to power. Hence, one of the challenges during the PASDEP and even beyond, not only in the power sector but also in water, roads and telecommunications- is to redress regional imbalances in infrastructure, especially in the less-developed regions. In some cases, provision of this infrastructure is not cost-effective, because of low population concentrations, or the high costs of reaching remote areas, but to the extent possible within available resources, efforts will be made to extend connection to these areas. As part of this effort, there will be more regional decentralization of large national level institutions to integrate their activities within localized planning and development needs.

3.5.5 Information and Communications Technology (ICT)

Government attaches high priority to Information and Communication Technology (ICT) as this is sector critical to promoting growth and reducing poverty. ICT create new jobs, promotes the growth of new business opportunities, provides tools for modernizing education, and improving the effectiveness of government administration and service delivery. Therefore, a major priority is being attached to leap-frog forward by building a major ICT backbone coupled with affordable local-level access to ICT. The ICT strategy in PASDEP is:

- Promoting human resource development in the ICT field;
- Mainstreaming the use of ICT in all sectors of the economy, in the administration of government, and in the education system;
- Developing the necessary telecommunications infrastructure;
- Promoting research and development through ICT; and,
- Creating the enabling legal and regulatory framework.

A central part of the strategy is applying the principle of modern ICT to the delivery of services and administration of government, to improve effectiveness and reduce costs. For the implementation of the strategy, the Government has established the Ethiopian ICT Development Authority, and the College of Telecommunications and Information Technology; as well as significantly upgrade the technical capacity of the Educational Media Agency (EMA). The programme also draw heavily on mobilizing existing institutions such as the ETC and the Ethiopian Telecommunications Agency as well as increasing private sector suppliers, providers and trainers.

3.6 Industry and Trade

The integration and interdependence between the agricultural and industrial sectors play a key role accelerating the country's economic development and bringing about socio-economic transformation. However, industrial development in Ethiopia is still in its infancy and has had a narrow base. Moreover, its linkage with the agricultural sector is still weak. Nevertheless, following the sequence of reform measures, achievement of macroeconomic stability, the opening up of the market as part of efforts towards liberalization of the economy, the creation of an enabling investment environment, a steady growth of industry and trade has been registered in the recent past. For example, value-added in industrial output grew on average by 7.1% and in services by 7.3% during between 2002/03 - 2005/06.

The linkages between the agricultural and industrial sector also provides opportunity for the expansion of the service sectors i.e., domestic trade, transport, banking and finance, and the tourism sectors. Hence, the overall strategic framework is comprised of the government's Industrial Development Strategy, the ongoing Privatization Programme, and MSE Development Strategy.

A snap shot of the tourism sector in Ethiopia is captured in Box 3.5 below while an overview of the contributions of the Ethiopian Airlines to the tourism sector as well as for economic growth is presented in Box 3.6 below.

Box 3.5: Tapping the Potential of Tourism

Ethiopia has a rich menu to offer to visitors. It has diverse agro-ecology defining its spectacular scenery, abundant wildlife, historic sites, diverse cultures and home to human ancestors. Though the tourism sector has started to grow, Ethiopia is lagging behind in using its tourism potential-thus limiting its potential contribution to growth. PASDEP intends to change this. Government investment in infrastructure including airports in various parts of the country, private investment in hotels, tour services etc is and will support the growth of the sector.

The Government will continue to strengthen the enabling environment. The private sector will be the engine of growth and the primary source of investment. Active partnership between the public and the private sector will be promoted through the National Tourism Council. The public sector will both initiate and encourage selected imaginative projects that accelerate growth in the sector.

Box 3.6: Ethiopian Air Lines Going to Great Lengths to Support Ethiopia's Economic Growth

The Ethiopian Air Line, with its sixty years of flying, has had proven track record in expanding its network of flight services linking Africa and the world. As a result, it has increasingly contributed to the service earnings of Ethiopia. Ethiopian is also facilitating the expansion of tourism in Ethiopia.

Furthermore, it is continually upgrading its capacity to cater for an ever-increasing air cargo. Ethiopian has already invested in a new ultra-modern cargo terminal with a capacity to handle 200,000 tons annually. The warehouse and cold room is equipped with the latest cargo handling and storage facilities to ensure safe storage of shipments and quick movements of cargo. Currently, Ethiopian is providing essential services to the increasing local and foreign investment in the horticulture and flower production and exports-thus contributing to export growth and diversification.

The Ethiopian Air Line has a well developed and FAA certified maintenance base, which is fully capable in Airframe, Engine, Components, Light Air Craft maintenance and Technical and management assistance. Experiencing the increasing demand for maintenance of its new and existing fleet and customer aircraft, the Air Line has expanded its maintenance capability by constructing state-of-the-art maintenance hangar. The New Hangar that was commissioned last year accommodates one Boeing 747-400 aircraft at one time or more medium size aircraft. In support of its engine overhaul facility, Ethiopian uses State-of-the Art facility 100,000 pound thrust test cell that provides safe and fully overhaul engines.

A sustainable and fast industrial development can only be ensured if the sector is competitive in the international market. Accordingly, it needs to be exposed to the rigorous of the international market. Apart from its linkage with agriculture, it should be export oriented and led by the

industrial export sector. This is the thrust of the Industrial and Trade Development Strategy. The strategy is informed by ADLI and has been under implementation since 2001/02. In order to successfully implement the strategy, the state has focused on providing support to the private sector, coordinating & guiding the activities of all stakeholders, and addressing market failures through strengthening of inter-sectoral linkages (between agriculture and industry) on the domestic front and through exploiting the potentials and opportunities of regional and global economic integration.

As a result of the lifting of the restrictive policy of the Derg (military regime), encouraging developments have been witnessed in the contribution of the private sector to the overall growth of the economy. The Government strongly believes that expansion of the sector with a major emphasis on export diversification is very important to create better opportunities and for improving the lives of many Ethiopians as well as to produce more of the required goods and for the provision of enhanced services. Box 3.8 below provides a snapshot of the developments in diversification in Ethiopia.

Box 3.7: Diversification in Ethiopia-A Story of Booming Horticulture and Textile Exports

Ethiopia, like most low-income countries in SSA, has relied on traditional exports such as coffee, oil-seeds, hides and skin, pulses and other export crops to earn foreign exchange. For instance, during the period 1980-1990, the share of traditional exports in total exports was close to 95%. This has begun to change in recent years, however. Non-traditional exports, such as flowers, textile and garments, honey, and natural rubbers have begun to play an important role as sources of foreign exchange and employment generation in Ethiopia. In late 2000, the share of non-traditional exports reached a record level of about 11%, more than double what it was in the 1990s.

This dramatic increase in non-traditional exports is partly explainable by the overall policy stance and stable macroeconomic environment that characterized the Ethiopian economy over the last decade and half. In 1994, Ethiopia embarked on an Economic Reform Programme designed to achieve macroeconomic stability and long-term growth. This reform emphasized Export-led Industrialization Programme, through export diversification and import substitution. Greater attention was given to the private sector to lead the country's industrialization effort. Significant changes in the structure of the Ethiopian economy as a consequence of this policy have been observed. Exports as a percentage of GDP doubled from 9% in 1994 to 19% in 2004 although it was just 15.1% by the end of 2005/06 due to growth in other sectors. In addition, the country's position in attracting Foreign Direct Investment (FDI) improved greatly during the decade, from a paltry 0.3% of GDP in 1994 to 7% in 2004/05.

An important element of the surge in private investment and non-traditional exports is the incentive package that the Government introduced to attract foreign as well as national investors to the export sector. From the point of entry up to exit investors receive preferential treatment in accessing suitable sites, basic infrastructure, duty-free privileges for importation of key capital goods and raw-materials, credit facilities and repatriation of profits and a number of other supports necessary for the creation of a secure environment for private businesses. It is expected that these measures will contribute to develop an industrial base that paves the way for substantial economic transformation and sustainable growth.

Source: The Ethiopian Customs Authority & various official documents.

Significant progress has been made during the years owing to the on-going Businesses Process Reengineering (BPR) in reducing bureaucratic bottlenecks in the Ethiopian Investment Agency, Ministry of Trade and Industry (MoTI), the Ethiopian Customs Authority as well as regulatory impediments to doing business in Ethiopia. In addition, 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. Box 3.8 presents the testimonies of two private investors who have witnessed and appreciated the encouraging investment environment put in place by the Government of Ethiopia.

Box 3.8: Testimonies of Private Investors

When we decided to come to Ethiopia in 1998, it was because of its natural advantages in particular its climate, which was ideal for growing roses. We are delighted that now, in 2004, the natural advantages are beginning to be matched by man-made ones, those deriving from improvements in policies and procedures. If these improvements can be sustained, there is almost no limit to investment opportunities in Ethiopia.

*Ryaz Shamji
General Manager
Golden Rose Agrofarms Limited*

We believe that this is exactly the time to invest in the garment business in Ethiopia. Not only are labor costs low & the workforce trainable, access to major markets like the US and the EU is available on preferential terms, What's more, the investment climate has improved notably in the past year or so. Our own recent experience has been positive enough to lead us to expand our garment business (tripling employment) and setting up a related dyeing and knitting venture with two other foreign investors.

*Worku Zewde
Managing Director
Garment Express Private Limited*

The opportunities for dialogue between Government and the private sector have expanded substantially in the recent past as well. Recent innovations include establishment of the Public-Private Consultative Forum of the 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. Besides, efforts are being strengthened to benefit from the African Growth and Opportunity Act (AGOA) and Everything But Arms (EBA) initiatives. The Government is also on the verge of implementing 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.

These efforts have given impetus to the expansion of services, trade, industry, and construction. Moreover, there are some real success stories in new businesses. For example, with the streamlining of procedures for business ventures, and especially the increased ease of access to land, there has been a significant investment expansion in horticulture during the past 2 to 3 years. Investment in this sector is estimated to be worth 2.6 billion Birr and land coverage of 1,787.6 hectares. This has resulted in the creation of many jobs for the rural poor, especially for young women. As at end of 2005/06, Some 35,000 people were employed in the flower growing industry, out of which 75% were women.

3.7 Urban Development & Construction

The main objective on the urban front during the PASDEP period is to achieve the goals of the National Urban Development Policy approved by the council of ministers in March 2005, which stipulates that:

- i) Ethiopia's cities provide efficient and effective public services to their residents;
- ii) Complement and facilitate rural development; and,
- iii) Serve as models of participatory democracy and help build accelerated economic opportunities that create jobs.

The strategy has four pillars:

- i) Support for small and micro enterprises and job creation;
- ii) Integrated housing development;
- iii) Improved access to land, infrastructure, and services; and
- iv) Promoting urban-rural and urban-urban linkages.

The focus of activities during the first year of PASDEP implementation was on preparing the groundwork for full-scale implementation of the pillars of the urban development strategy.

The Urban and Industrial Development Package that constitute three major programmes and one implementation plan have been prepared during 2005/06. The programmes that constitute this package are Integrated Housing Development Programs, Small and Micro Enterprise Development Programme, and Youth-Oriented Local Development Programme.

A social mobilization plan has also been designed to facilitate coordinated and effective implementation of the package. The following activities have been undertaken during 2005/06:

- Preparatory work for the construction of 60,500 housing units in 2006/07 completed;
- Completion of the low cost housing construction work that started earlier in Addis Ababa, Adama, Dire Dawa, Awassa, and others;
- Priority has been given to preparatory works to launch the Urban and Industrial Development package. The preparatory work has focused on building implementation capacity that include institutional capacity for regions and municipalities, design of working systems and procedures, training and recruitment of professionals, feasibility study, supply of construction materials, land preparation and financing, etc.

- In regard to micro and small enterprise development, the activities undertaken in 2005/06 include preparation of detail plan for the programme, preparatory work for full-scale implementation of the programme. These activities in the main relate to building implementation capacity of the sub-sector which focus on devising working systems and procedures, conduct training, etc.;
- Given that the construction industry plays a critical role in urban development, the Ministry of Works and Urban Development has undertaken a number of activities to enrich and fine-tune the already prepared construction policy Document. The policy is about to be submitted to the appropriate Government body for approval. The policy is expected to be put in to effect during the 2006/07 fiscal year;
- In an effort to standardize the activities of the construction industry, the Draft National Building Code Proclamation has been prepared and submitted to the appropriate Government body for approval. Model Rules and Regulation to facilitate implementation of the policy is also already prepared;
- In an effort to maintain international standards and quality of building construction works, particular focus has been made on public buildings to render them efficient, planned and purpose-oriented. Special attention will be given to federal ministries that have not had enough office space; and,
- Maintaining the quality and standard of buildings has remained a challenge that needs to be addressed in the subsequent years of the PASDEP.

As indicated above, the road network contributes to rural–urban linkages, and the spatial dimensions of regional development. It is also worth looking from the perspective of urban-rural linkages and their contribution to the intensification of small towns through creating demand for agricultural produce. Box 3.9 below presents analysis based on the study conducted on 15 Ethiopian villages that demonstrates the impacts of rural links to urban areas.

Box 3.9: Importance of Rural Links to Urban Areas-The Study of 15 Ethiopian Villages

Links to local and regional urban centers - here meaning mostly towns and small and medium size cities, as opposed to large cities and metropolitans areas- convey numerous benefits to rural localities. Benefits includes access to a larger market for agricultural and non-agricultural goods produced by rural households; improved access to the inputs needed for production of these goods and to a wider variety of commodities; additional opportunity for employment; opportunity to diversify income sources and thus reduce income variability; and improved access to health care, education, and the legal system.

A recent study of 15 Ethiopian villages undertaken by International Food Policy Research Institute (IFPRI)⁹ under the programme entitled '*Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA)*' explored the significance of urban centers particularly market towns to economic activities of rural households and how access to these centers affects economic activities of these households. The study also examined whether or not better connection to these localities make rural house holds better off.

The study was based on longitudinal data from Ethiopian Rural House Hold Survey (ERHS) from 15 Peasant Associations (Pas). These Pas usually have a primary school but other amenities are only rudimentary. On the other hand, the local market towns and cities usually have electricity, telephone service, and a post office. They are 0.5 km to 20 km away and range in size from a few thousand to fifty thousand kilometers.

Three core findings emerged from the study. First: Local market towns and cities are extremely important to the economic activities of the rural households. Apart from remittances rural households have few direct links with more distant urban centers or the capital city-Addis Ababa. Rural households purchase half their inputs for agricultural production in these local urban centers, and more than half of other household items, such as batteries, matches and food. Although the proportion of crops sold in these local market towns and cities varies widely (from about 25% of Eucalyptus to about 60% of wheat), rural households sell their livestock there. These towns and cities are also the primary locations for the sale of artesian products particularly produced by women. Few households, however, trade with more distant regional centers or in Addis Ababa.

Second, proximity to a market center affects the extent of economic activity even after controlling for other factors. The closer the village is to a market town, the more likely are rural households to purchase inputs or sell a variety of products there. Third, improved access to market towns and cities has a positive effect on welfare. Improving the presence and quality of roads and widening transport options increase consumption. Communities with better roads have higher growth rate than others. More remote communities have a tendency to grow somewhat slower beyond any effects related to infrastructure.

The findings of the study being consistent with the policies and strategies pursued by the Government of Ethiopia show that market towns and cities are an important source of demand for products produced in rural areas, and rural residents are a source of demand for goods sold in urban areas. Improving the network of roads and their quality and the range of transport available will make important contributions towards further brining these spaces (rural and urban localities) together and improving rural welfare.

⁹ Box 3.9 is extracted from a brief based on: Stefan Dercon and John Hoddinott, 2005 "Livelihoods, Growth, and links to market towns in 15 Ethiopian Villages", FCND discussion paper No.194, Washington, D.C: IFPRI.

3.8. Employment

In Ethiopia, underemployment and unemployment - especially in urban areas and among the youth- are serious challenges. Creating employment and income-earning opportunities in the modern sector, the informal sector, and on farms is thus central to accelerate growth. This is because in 2004/05 the working age population (labor force) stood at 54% of the population and is growing by about 1.2 million people per year. It is important to note the fact that pressure on the labor market comes directly from the supply of labor, which in turn is induced by the growth rate of the population.

It is known that about 85% of the population in Ethiopia is engaged in agricultural activity which means that the sector is the main source of employment. But recent developments have shown that the prospects for employment generation in other sectors is promising and many new jobs have been created due to conducive investment environment as well as appropriate policy and strategies designed by the Government. Also there is a focus on strengthening the MSEs as a source for creating the opportunity for employment generation for those not engaged in the agricultural sector. In 2005/06, a total of up to 124,711 new employment opportunities have been created, generally in different sectors. Achievements in the areas of textile and garment, metal and woodwork, food processing, construction, municipality services as well as low cost housing could also be cited. This has greatly contributed towards reducing the unemployment rate in Addis Ababa and elsewhere in urban areas of the country.

Accordingly, to address the unemployment problem and help people create jobs, in 2004/05, credit worth 109.4 million Birr has been given to many loan applicants of which, 39.6% was accounted for by the construction sub-sector. During the same period, the number of people that organized in cooperatives in the various sub-sectors reached 58,659.

But challenges remain for increasing employment. And these challenges are two-fold: managing the dynamics of population growth, and expansion of labor-intensive productive activities. This is why PASDEP's strategic emphasis is on labor-intensive sectors. Particular focus is given to the promotion of MSE. The growth in MSE and integration with TVET system development are considered instrumental in increasing youth employment. The returns to education are high, and improving education levels both through general education and through specialized TVET skills training is an important part of this effort.

3.9 Capacity Building and Good Governance

Although there is no specific MDG on capacity and governance, Ethiopia fully recognizes that improvements in these two areas are critical for success in achieving the MDGs. In this context, Government has consistent with this view, formulated a national programme - the National Capacity Building Strategy/Programme – to anchor reforms in these areas. Implementation of the Programme is being executed step by step to strengthen the democratization process in the country. Accordingly, this section reviews developments in the various aspects of the Programme: Civil Service Reform, Justice System Reform, Improved Democratic Governance, and Decentralization.

3.9.1 Civil Service Reform

The main objective of the Civil Service Reform programme is to help effectively implement and efficiently enforce government policies, programmes and strategies in a transparent and accountable manner. The Public Service Delivery Improvement Policy (PSDIP) was adopted by the Council of Ministers in 2001. In addition, the Government has passed a new Civil Service Law. 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, performance and service-delivery baselines have been established for (a) core government functions, and (b) key services. In addition, the Ethics and Anti-Corruption Commission has been established. Reforming government procurement systems were launched as well. During PASDEP, a significant number of activities are being implemented in the context of the Civil Service Reform Programme such as strengthening the BPR and implementing an improved Performance Planning and Management System (PPMS) in federal institutions and their counterparts in regional states. 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.

3.9.2 Justice System Reform Programme

The Justice System Reform Programme is designed with the objective of improving the legal system that should serve as a basis to speed up the on-going democratization process. Necessary efforts were exerted for implementation through reform programmes designed for various legal bodies. During SDPRP, a final consolidated Baseline Study Report covering all pertinent institutions of the justice system including federal and regional law making bodies, courts and police prosecution services, higher education institutions providing legal training, and civil society organizations, etc was produced. In addition, the National Court Administration Reform Programme was successfully implemented at the Federal Supreme Court Level. Furthermore, a study on the justice system was undertaken and a working manual of law enforcement organs was prepared. A number of programmes to build capacity in the sector were also completed. Moreover, the judicial training centre was established, equipment and facilities procured and the centre has started training federal and regional judges and prosecutors. During the implementation of PASDEP, the justice system reform programme will be further strengthened.

3.9.3 Improved Democratic Governance

Progresses made in this area include:

- ✓ **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 were 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.

3.9.4 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 own priorities. Hence, a Draft Fiscal Decentralization Strategy was prepared in 2004. This Document provides a clear overview of the goals and strategies, the fiscal instrument that the Government is employing, and some of the challenges that would arise in as a consequence of efforts to create accountable local governments in urban and rural areas. The Document also lays out a balance between transfers and regional revenue mobilization efforts. 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. Moreover, efforts have been wedged to expand the participation of the rural population in development, in building democratic system as well as to function within an organized administration. A manual has also been prepared and put into effect to encourage and secure adequate participation of the public in all activities.

In the course of the implementation of PASDEP period, these reforms will be further reinforced and democratic decentralization will be further strengthened. The capacity, capability and competence of *woreda* administration will be improved and grassroots participation will be encouraged through the implementation of the District Level Decentralization Programme.

3.10. Gender and Development

The Government has placed a strong emphasis on the participation of women in the development process. Accordingly, policies and strategies have been formulated to integrate and mainstream the gender dimensions in economic, social, and political decisions. Hence, the Government has taken strong measures in placing gender responsive goals and targets to reduce the workload of women so as to enable them to participate in political and socio-economic decision-making. Furthermore, progress has been made in the adoption of a new Penal Code, which contains strong measures in support of women's rights. Protective legislations have been passed in terms of women's access to land, credit facilities, and productive resources as well.

The Government will continue to emphasize gender equality in the process of decentralization and empowerment, and will take measures to reduce violence against women including enactment of protective legislation. In addition, the pursuit of the HEWP is part of an effort to reduce the very

high number of maternal deaths, which constitute a major element of gender-based poverty in Ethiopia.

During the remaining years of the PASDEP period, efforts will be strengthened to vigorously and comprehensively address issues of women and children: a continued focus on enhancing female school enrollment, access to reproductive health, child growth promotion and nutrition, among others are critical. The issues of women and children will be comprehensively addressed within the context of implementing the National Plan of Action for Gender during the remaining years of the PASDEP.

Chapter IV: Financing the MDGs/PASDEP and the Need for Scaling up ODA

A lot of the progress made by Ethiopia during the period under review owes in large measure to international development cooperation. The debt relief and increased overseas development assistance, by expanding fiscal space, made it possible for the government to finance priority social sectors. But more progress towards the MDGs could have been achieved were more resources available through international development cooperation.

The cost of achieving the MDGs in Ethiopia is enormous and it is clear that the government cannot raise needed financing from domestic sources alone. The 2005 UN World Summit Outcome recognizes the importance of international cooperation for achieving the MDGs and hence one of the major objectives of the AMR is to explore how international cooperation can be better leveraged to accompany countries in their efforts to achieve the internationally agreed development goals. This Report, in addition to discussing Ethiopia's progress towards the MDGs, also seeks to present how the international community can assist, especially with respect to the resource requirements of achieving the MDGs in the Ethiopia.

As mentioned elsewhere in this report, PASDEP is Ethiopia's medium term MDG-based plan to reach the MDGs by 2015. This chapter presents the summary of sectoral costing of the Plan based on the MDGs Needs Assessment methodology. The chapter will show that PASDEP is aligned with the country's financial capacity (revenue, external loan and grants) within the framework of achieving stable and sustainable macroeconomic environment during the medium term. It also briefly outlines developments in regard to efforts in mobilizing resources both on the domestic and external front during the first two years (2005/06 and 2006/07) of implementing the PASDEP.

4.1 Overall MDGs Financing Need

As indicated earlier, the preliminary cost assessment of reaching the MDGs started through the preparation of the 1st MDGR. This was followed by the full-fledged MDGs Needs Assessment—a long-term resource needs study covering a period of 10 years, 2005/06-2014/15. The Study used a bottom-up and intervention based approach, which is built on the findings of the sectoral cost assessments by assessing the extent of inter-sectoral linkages and synergies, and outlined a financing strategy and indicated the financing gap. Moreover, the exercise was considered as a key input, rather than a substitute for the existing planning and institutional framework and provided a strategy for increasing absorptive capacity as well as strengthening the coherence between the planning and budget processes.

The general assumptions considered in the needs assessment exercise and in projecting financing framework for the PASDEP included: the required institutional framework for PASDEP implementation is in place and will be further strengthened, reforms and regulatory frameworks will be undertaken in the course of implementing the PASDEP/MDGs; no financial and institutional constraints (the overall investment requirement to achieve the MDGs will be made available); implementation capacity will be further strengthened; macro economic stability will be maintained; and private sector, NGOs and civil society will be active

partners of the Government in the development endeavor along with enhanced support from external development partners in the spirit of scaling up to meet the MDGs.

Accordingly, the total cost of reaching the MDGs is projected at 878.8 billion Birr for the 10 year MDG period (2005/06-2014/15). The bulk of the interventions (71%) are in sectors identified as “pro-poor” in the PASDEP (rural development, education, water, health-HIV, roads). Roughly one quarter of the costs would be covered by community contributions and NGOs, with the rest to be covered by government expenditure from treasury and external finance (aid and loan). Table 4.1 below provides a summary of the sectoral assessments presented in the MDGs Needs Assessment, outlining total sectoral costs, the share of each sector in the overall costs and the amounts the public sector is expected to cover.

Table 4.1: Overview of the Bottom-up Sectoral MDGs Needs Assessment Costs (In Million Birr)

Sector	Total Sectoral Cost	Sectoral Share in Total Cost (%)	Total public Spending (Treasury +Donor)
Agriculture and rural development	59,285.46	6.7	44,468.43
Food security	14,660.97	1.7	14,660.97
Health	99,713.67	11.3	72,602.58
HIV/AIDS	70,200.99	8.0	52,020
Education	141,095.58	16.1	83,084.61
Infrastructure	405,478.56		331,757.6
o/w Road	238,771.8	27.2	199,566.1
Water and sanitation	61,296.9	7.0	38,737.56
Irrigation, hydropower and water infrastructure	55,297.26	6.3	48,109.83
Telecommunication	28,949.13	3.3	26,053.35
Power	5,202	0.6	4,924.56
Railway	15,961.47	1.8	14,366.19
Trade and industry	30,821.85	3.5	23,426.34
Gender	962.37	0.1	658.92
Urban development	54,603.66	6.2	35,937.15
Population	1,959.42	0.2	1,369.86
Total	878,782.53	100	659,986.4

4.2 Overall Financing Need of the PASDEP

4.2.1 Allocation of Resources Based on the MDGs Needs Assessment

The PASDEP is the first five-year phase of Ethiopia's ten-year MDGs Plan (2005/06-2014/15). The costing of the PASDEP is drawn from the MDGs Needs Assessment exercise discussed earlier. Before going through the detailed PASDEP costing, it is essential to note that higher levels of expenditure are shown in the MDGs Needs Assessment than what is reflected in the PASDEP since a larger amount of the costs are assumed to be funded by stakeholders outside of the Government, or from sources other than the government budget.

To align the cost estimates emerging from the MDGs Needs Assessment through line ministries with the Macroeconomic and Fiscal Framework (MEFF) used to forecast the PASDEP budget envelope, the following adjustments were made:

- The parameters of the financing strategy as outlined in the MDGs Need Assessment exercise for each sector/thematic area were reviewed and applied, permitting the estimation of the amounts that will be required for each sector out of the public budget in accordance with projected levels of private sector financing, cost-recovery, and community, NGO, and local government financing;
- Investment costs to be borne by public companies from their own internal sources were identified (for example the whole of telecommunication and rail costs and the bulk of the investment costs for power apart from the Rural Electrification Programme, REP); and;
- Programme costs that were to be covered from external off-budget sources outside of the public domain were identified (programmes under this category include HIV/AIDS through the Global Fund and some cost components for gender and development as well as population and development); and

However, the total cost requirements could not be fully aligned within the existing framework, as some of the costs do not fall within the public domain (that is, the proclaimed public budget from treasury, external loan, or external assistance sources) and also because the MDGs Needs Assessment just indicated the total cost requirements of each sector, irrespective of their source of finance.

Accordingly, the projected PASDEP programme cost for overall development and for poverty-oriented sectors based on the MDGs Needs Assessment was projected at 332.6 billion Birr; of which 99 billion Birr is allocated for recurrent expenditure while 234 billion Birr is allocated for capital expenditure. This implies that out of the total finance required for the next five years 70% is assumed to be allocated for capital expenditure while the remaining 30% is allocated for recurrent expenditure. The projected outlay required for the implementation of the planned programmes is presented in Table 4.2 below.

**Table 4.2: Projected PASDEP Programme Cost Requirements Based on the MDGs Needs Assessment
(In Million Birr)**

	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Agriculture & rural development and Food security	5,017	3,784	3,506	3,953	5,798	22,058
Irrigation	2,150	3,785	3,507	5,031	6,282	20,755
Education	8,236	9,372	11,612	12,620	11,902	53,742
Health	4,725	5,677	6,872	8,133	9,473	34,880
Water & sanitation	3,816	4,174	4,015	1,768	1,815	15,590
Roads	5,126	6,307	9,533	10,907	11,287	43,160
Power	9,728	11,964	9,941	11,319	7,670	50,622
HIV/AIDS	578	881	1,214	1,526	2,001	6,200
Population & development	99	666	193	240	115	1,313
Private Sector development	2,737	2,737	3,293	3,293	3,293	15,353
Urban housing development	4,850	4,850	5,834	5,834	9,334	30,702
Gender & development	161	130	120	112	118	641
Telecommunication	4,680	5,841	8,566	9,649	8,814	37,550
Grand Total	51,903	60,168	68,207	74,385	77,902	332,566

4.2.2 Allocation of Resources within the Macroeconomic Fiscal Framework (MEFF)

The MEFF is used by the Government as a tool for establishing the resource envelope and broad sectoral allocations, in line with its overall policy objectives of ending poverty and achieving the MDGs targets, while maintaining fiscal discipline. In addition, the MEFF is an instrument by which three-year resources are identified on the basis of the macroeconomic framework. An extended version of the MEFF (stretching to 5 years) has been used in the PASDEP to illustrate the broad financing and affordability implications of the Plan. But it should be emphasized that these 5-year projections can only be indicative. Hence, the MEFF is reviewed at the beginning of each budget cycle.

The approach used in PASDEP within the MEFF is to start with a thorough assessment of available resources and to allocate them to sectors within this resource constraint. Accordingly, no scaling up of foreign aid is considered in projecting the costs. Hence, the projection is constrained by the current trend of available domestic and external resource inflows. It should be noted, however, that the Government has also fully costed the programme on the basis of what it would take to reach the MDGs. The Government believes in pursuing this modest approach until a concrete background is presented regarding the increase in external finance flows in the context of scaling up.

As indicated in Table 4.3 below, overall projected total spending (for both pro-poor and other sectors) during the period of the PASDEP (2005/06-2009/10) stood at about 232 billion Birr, with agriculture and rural development and education accounting for the lion's share of projected programme costs. Total projected allocations for both poverty-oriented and non-poverty sectors increased from about 36.5 billion Birr in 2004/05 to about 53.5 billion Birr by the end of 2009/10. The total projected programme costs for development and poverty-oriented sectors (recurrent and capital) is expected to reach at 44.3 billion Birr by the end of 2009/10 from 14.0 billion birr in 2004/05 taking the total projected allocations for the full period of the PASDEP (2005/06 to 2009/10) to about 174.9 billion Birr. This figure amounts to 76.9% of the total expenditure.

Table 4.3: Indicative Programme Costs within the MEFF Framework for Poverty Oriented Sectors Under Base-Case

Item	2005/06	2006/07	2007/08	2008/09	2009/10	5-year Total
Agriculture & rural development and food security	4,584	3,343	3,155	3,558	5,218	19,858
Irrigation	1,965	3,530	3,262	4,729	5,654	19,140
Education	6,618	6,888	7,166	7,611	7,776	36,058
Health	1,291	2,555	3,161	3,822	4,547	15,376
HIV/AIDS		220	304	382	500	11,406
Clean water and sanitation	2,709	2,923	2,811	1,768	1,815	12,026
Roads	4,147	5,317	8,761	10,187	10,587	38,999
Rural electrification	1,610	3,027	2,023	1,426	1,024	9,110
Urban housing		3,395	4,200	4,259	6,049	17,903

development						
Others ¹⁰		1,377	1,206	1,233	1,150	4,966
Total poverty-oriented sectors cost	22,924	32,532	36,049	39,102	44,319	174,926
Projected non-poverty recurrent cost	9,230	8,914	8,719	8617	8,475	43,955
Projected non-poverty capital cost	4,398	3,620	2,451	2078	666	13,213
Projected total non-poverty cost	13,628	12,534	11,169	10,695	9,141	57,168
Projected total expenditure	36,552	45,066	47,218	49,797	53,460	232,094
Poverty-oriented as % of total expenditure (%)	63	72	76	79	83	75 ¹¹

As already mentioned, capital expenditure accounts for the bulk of projected spending, particularly in growth-enhancing sectors such as agriculture and rural development, roads, and power. In addition, the food security programme is financed under the capital budget. Furthermore, spending on those sectors is front-loaded, given the Government's focus on infrastructure expansion early in the programme to stimulate the envisaged economic transformation. Capital spending on the human development sectors is also projected to increase, although the majority of spending in these sectors will inevitably be recurrent. Capital expenditure is projected to increase from 11.3 billion Birr in 2004/05 to 31.3 billion Birr by the end of the plan period. On the other hand, out of the projected total allocation, the recurrent cost is expected to reach 22.1 billion Birr by the end of 2009/10 from 13.2 billion Birr in 2004/05.

4.3 Financing the Gap

Two macroeconomic scenarios were prepared for the PASDEP to determine the financing gap: a base-case of 7% annual real GDP growth, and a high- case based on 10% real GDP growth per annum over the period of the PASDEP. The PASDEP is formulated based on the base-case scenario, which is presented below.

4.3.1 Financing the Gap under the Base Case Scenario

The factors underlying the **base-case** scenario are:

- An annual average real GDP growth rate of 7% per annum, which is equivalent to 'MDGs–Consistent' scenario;
- The country would be able to relatively overcome a series of internal and external shocks;
- Domestic revenue is projected to increase at an annual average rate of about 20% per annum while tax revenue is projected to increase at an annual average rate of about 22% per annum. The financing gap will be relatively scaled down and its impact on the macroeconomic stability will be minimized;

¹⁰ Others include projected costs on private sector development, population and development, and gender and development. The allocated finance is in the ratio of 76:17:7, respectively.

¹¹ Five-year average.

- A narrowing domestic and external balance owing to an increase in domestic revenue, relatively constant prices of imports, and increased export earnings; and,
- The inflation rate will not exceed an annual average rate of about 8%.

Moreover, for the envisaged GDP growth of 7% at 1999/00 constant basic prices, value-added in agriculture, industrial output, and services are expected to grow on average by 6.2%, 12%, and 7.1%, respectively.

In 2006/07, the projected total resource (revenue and external grants) is estimated at 31.5 billion Birr while total expenditure is 45.1 billion Birr. Hence, budget deficit (including grants and loans) stand at 13.5 billion Birr (10.2% of GDP). Of the total deficit, 7.1 billion Birr (5.4% of GDP) is expected to come from external grants and loans as well as from internal borrowing while the remaining 6.2 billion Birr (4.7% of GDP) is projected as a gap to be financed.

Similarly, by the end of the plan period, total resource is projected to reach 46.8 billion Birr while total expenditure is projected to reach at 53.5 billion Birr. Consequently, budget deficit (including grants and loans), will stand at 6.7 billion Birr (3.3% of GDP). Out of the total gap to be financed, 6.5 billion Birr (3.3% of GDP) is expected to be financed from external grants and loans as well as from internal borrowing while the remaining 0.1 billion Birr (0.05% of GDP) is projected as a gap to be financed.

The total gap to be financed in this scenario is projected to reach at 10.2 billion Birr or US\$1.2 billion based on the average current foreign exchange rate. This implies the need for drastic efforts to mobilize the resources needed to fill the gap.

This gap (gap remaining to be financed) varies from a maximum of 6.4 billion Birr to a minimum of about 0.1 billion Birr, depending on the year, generally being higher in the first few years due to the need to front-load investments in infrastructure. Details of projected resource envelope and broad MEF parameters under the base case scenario for the entire plan period (2005/06-2009/10) are presented in Annex Table 4.1.

In terms of mobilizing external sources of financing, given the size of the resource gap and the limited capacity of the economy to mobilize domestic resources, the sectoral shortfalls need to be covered from donors' assistance, community contributions and NGOs as far as possible. In addition, while there are limits to the surpluses available locally, every effort will be made to mobilize additional resources outside of the tax system such as using local materials and community labor to reduce cost. Various specialized sectoral financing is also expected to continue to flow into the country outside of the official government budget. These include, for example, global and bilateral initiatives for various health and AIDS programmes.

4.3.2. Overview of Performance in Financing Implementation During the First Two Years of the PASDEP (2005/06-2006/07)

The effort on the domestic front has been encouraging as reflected by the domestic revenue performance evaluated against both the PASDEP target as well as the budget for 2005/06. Resources have been further decentralized to sub-national level as reflected by the sharp increase in federal transfers to regions as well as the fast increase in both recurrent and capital spending.

Scaled-up foreign financing to ensure full-scale implementation of programmes articulated in the PASDEP could have complemented this effort. However, what has been witnessed during the first two years of implementing the PASDEP is that external finance that passed through the budget process has not been forthcoming even as projected in the PASDEP (business-as-usual scenario). In 2005/06, external grants fell short of the budget, the PASDEP target, and even the 2004/05 outturn by a wider margin (52% of the budget & PASDEP target and 82% of the 2004/05 level). Even though, external assistance in the order of 8% of GDP was planned to be forthcoming in 2005/06, only 4.5% of GDP (equivalent of about US\$600 million) has been realized. This level is far lower than the average achieved in the years preceding 2005/06. Overall, additional Official Development Assistance (ODA) that passes through the budget has been and still is on the decline.

4.4 The Need for Scaling up Support during the Coming Three Years of the PASDEP

Increased, well-coordinated and harmonized inflows of external finances are critical for the achievements of PASDEP & MDGs. In line with Monterrey, Gleneagles, and Blair's Commission Report; doubling of aid is needed to ensure financial viability as growth and poverty reduction efforts accelerate. This can only be achieved through concerted efforts of a strong partnership among different stakeholders and a strengthened support from the international community. Accordingly, this section will briefly discuss the trends and modalities of ODA to Ethiopia as well as the shortcomings associated with it.

Source of External Assistance to Ethiopia: Ethiopia receives ODA from two major sources; bilateral and multilateral donors¹². The assistance is provided through development financing, technical assistance and debt relief while the modalities used within the medium-term development cooperation framework are Protection of Basic Services (PBS), programme support, project support as well as pool fund arrangement.

ODA Disbursement: Including emergency aid and technical assistance, Ethiopia currently receives about USD \$1.1 billion per annum in aid. On per capita terms, this is equivalent to US\$14.8 in 2005/06. The amounts have risen sharply from an average of US\$500 million per annum in the mid-1990s to over US\$1 billion per annum recently. Over the last five years (2001/02- 2005/06), ODA has averaged at US\$932.5 million per year. The contribution of bilateral donors to ODA over the five years period was on average, US\$270.9 million per year (30%). Multilateral donors were the principal providers of external assistance; on average they contributed USD\$ 661.6 million (70%) of total ODA to Ethiopia. Details are presented in Table 4.4 below.

The figures presented here under include technical assistance as well as emergency relief. However, what is of crucial importance for the country is the volume of development aid that passes through the budget process. The figures are also indicate rough estimates, since the full amount of the aid are not reflected in the government budget, either because donors spend it directly, or do not report it through government systems.

¹² Multilateral institutions include International Financial institutions (IDA, AfDB, EIB, IFAD, etc.), European Union and UN organizations (UNICEF, UNDP, UNFPA, WFP, etc.)

**Table 4.4: ODA Disbursement
(In Million USD)**

Source	2001/02	2002/03	2003/04	2004/05	2005/06	5-Year Average
Multilateral	734.5	552.4	652.5	736.0	632.8	661.6
Bilateral	133.8	141.1	285.0	320.1	474.5	270.9
Total	868.3	693.5	937.5	1,056.1	1,107.3	932.5
ODA per capita(USD)	12.96	10.05	13.37	14.64	14.87	13.18

Notable improvement has not been observed in disbursement during the last five years. Besides, there has been tremendous volatility in aid flows. The level of funding needed if Ethiopia is to have any hope of approaching the MDGs implies a significant push over the coming ten years, with a sizeable increase in support from the international community. Furthermore, the level of official development assistance that Ethiopia currently receives in terms of per capita assistance (US\$14.8) is considerably lower than that of other low-income countries in the SSA, including many with higher average per capita incomes and with better indicators of human development¹³. Despite the debt relief and debt cancellation that Ethiopia has benefited, additional ODA has not been forthcoming in the spirit of the global call for scaling up to meet the MDGs such as the Millennium Declaration, the Monterrey Consensus, the Paris Declaration on Aid Effectiveness, Blair's Commission Report as well as the Gleneagles agreement.

As the country enters in to the third year of implementing the PASDEP (2007/08), there is an urgent need to scale up ODA towards full-scale implementation of the PASDEP and hence MDGs. The magnitude of the gap to be financed as indicated in the PASDEP is the minimum level by which development partners could scale up financing in Ethiopia.

There is already a strong partnership between the Government and development partners within the framework of the SDPRP and now the PASDEP that focuses on poverty reduction. Nonetheless, the country faces challenges such as unpredictability, lack of aid flows information as well as lack of commitment in harmonization and alignment among development partners. These shortcomings are briefly touched upon in the section below.

Predictability facilitates efficient utilization of resources and makes the planning & budgeting process credible. However, an aid flow is frequently much less predictable both in terms of timing as well as amount of disbursement. Aid to Ethiopia has been leveling off and new commitments of several donors are falling. Furthermore, external resources should not come with preconditions that have adverse effect on ownership of the development process and should not depend on political situations. This results in undermining budget realism and discipline, lack of trust in the reliability of donor finance, and skepticism on the part of beneficiary institutions in taking external finance components in to consideration in designing projects and programmes and preparation of annual budgets.

Aid Flows Information: The Government expects donors to provide full information on aid flows regularly, disbursement plans with in a medium-term time frame (3 years), on a timely

¹³ For example ODA per capita for Ethiopia has been on average a quarter of that of Mozambique and half of that of Uganda (Country Economic Memorandum (CEM), World Bank 2005).

manner, and based on classifications/categories (federal vs. regional). This will ensure that aid flows are properly captured in the budget as well as enable the Government to publish details of aid received from the development partners on a regular basis.

Harmonization and Alignment: The center of aid harmonization & alignment endeavor is the transaction cost related to various policies, procedures and practices of donors. There is also lack of interest on part of some donors to practically implement the harmonization and alignment agenda, which resulted in a tendency of losing momentum that undermines the efforts & achievements recorded in the past few years.

Notwithstanding the drawbacks just outlined, External Aid is still an important source of financing capital expenditure (accounting on average for 30 to 40 percent of overall capital expenditure) to sustain the accelerated growth path witnessed during the last four years. Moreover, stable macroeconomic situation, low inflation and prudent exchange rate management, the Government's commitment to spending on poverty-reducing programmes, and track record of sound financial management and implementation, serve to strengthen the case. Furthermore, the wide range of institutional and structural reforms that have been taking place will help enhance the transparency of government expenditure management and accountability of the public sector. These efforts are expected to encourage all development actors including our development partners to mobilize their resources towards the common goal of poverty reduction and its ultimate eradication.

Chapter V

Monitoring and Evaluation (M&E) System of the PASDEP and the MDGs

A monitoring and evaluation scheme is critical for assessing the effectiveness or lack thereof of measures to eradicate hunger and poverty. Recognizing this, the Government of Ethiopia has adopted wide ranging measures to strengthen its monitoring and evaluation systems. The monitoring and evaluation system adopted by the Government of Ethiopia is built on the existing Welfare Monitoring System Programme (WMSP), which had been in place even before the advent of the PRSP process in 2000. The WMSP was launched in 1996, and the WMU of MoFED was established thereafter to oversee implementation of the system. The System has been providing the necessary socio-economic data and information for the M&E system of SDPRP and PASDEP with MDGs implementation in perspective.

The System includes the use of specialized surveys; the development of a matrix of indicators to track progress on inputs, outputs and outcomes that are generated through surveys and censuses regularly conducted within the framework of the Medium-Term National Statistical Programme; the implementation of qualitative instruments such as the PPA; and use of routine data generated by sectoral ministries and local governments. These sources are supplemented through information generated by Civil Society Organizations such as the findings of the Citizen's Report Card (CRC) recently produced by the Poverty Action Network of Civil Societies in Ethiopia (PANE).

In terms of the institutional set up, MoFED is the coordinator/chair of the Welfare Monitoring Steering Committee (WMSC) as well as the Welfare Monitoring Technical Committee (WMTC). To this end, the Ministry coordinates the preparation of PRSPs and MDGs as well as the WMSP. The background reports prepared by the WMTC members of poverty oriented federal executing bodies serve as a basis for the reports consolidated and synthesized by MoFED. Besides, sectoral annual implementation, monitoring and evaluation reports serve in generating output and input indicators while reports prepared by the CSA based on information from surveys conducted by the Agency serve to generate outcome and impact indicators to inform the M&E system.

Some of the survey results so far issued by CSA include: WMSs¹⁴, HICESs, the Demography and Health Survey (DHSs), labor force survey, and the Ethiopian Agricultural Sample Enumeration (EASE). The Third National Housing and Population Census launched on May 2007 is also expected to strengthen the M&E system through the provision of comprehensive and up to date socio-economic data for policy analysis and planning.

The preparatory work for the formulation of the National Strategy for Statistical Development (NSSD) through financial support from the World Bank is almost completed as well. In addition, to facilitate timely availability of electronic data and decentralized data coordination, connecting the CSA head office with in itself and its branch offices with Local Area Network (LAN) is being completed in collaboration with the Information Communication Technology Agency (ICTA) with financial support from the World Bank. Once the network is completed, piloting will be undertaken in two branch offices before it is made operational across all the 25 branch offices.

¹⁴ The recent (2004/05) WMS report is already issued.

These instruments have helped monitor the implementation of the SDPRP, PASDEP and the MDGs.

Through utilizing all official sources of information, the MoFED has prepared three APRs for the implementation of SDPRP and a first year implementation report of the PASDEP is being finalized to be used as an input for the welfare monitoring system and for distribution to the relevant government authorities as well as to non-governmental bodies. A policy matrix, which presents a list of actions or policy measures and annual quantitative targets for the M&E of the achievements/drawbacks in relation to the sectoral socio-economic development targets of the PASDEP, is refined, updated and presented for use as well.

In addition, the WMU of MoFED developed an analysis plan for the preparation of the 2004/05 HICES and WMS based poverty analysis report, which is the third in the series. The first phase of the analysis, which involved undertaking data cleaning in consultation with CSA and issue basic outcome indicators on the non-income dimension poverty, has been already completed. The preparation of the full-fledged report based on the survey results and the through triangulating the findings from the quantitative (PPA) as well as quantitative small scale surveys from independent sources as deemed relevant is also well in progress. The draft report is expected to be issued in September 2007. As part of the preparatory process, a launching workshop to train staff members of WMU and the CSA, and relevant experts from each of the Finance and Economic Development Bureaus of Regional States on the methodologies of the analysis by way of building in-house analytical capacity was held from April 10th -19th, 2007.

Furthermore, MoFED collaborates with the World Bank on specific and specialized analytical works on poverty and welfare with focus on gender, urban poverty (employment creation), and rural-urban linkages, etc. In terms of sharing relevant information and making documents prepared by the Ministry available to the public, MoFED posts its publications on www.mofaed.org¹⁵. The English and Amharic version of the PASDEP are also being printed to make hard copies available to interested parties.

As the M&E capacity of the federal implementing bodies is much variable, the information base needs to be further strengthened to better inform the preparation of the progress/implementation assessment reports. The sectoral M&E systems of education, road, health, water and sanitation in that order are relatively more systematized and well linked to the grass root level than the M&E system for other sectors. However, the M&E system for agriculture (except that of food security) is relatively weaker and hence, needs to be strengthened.

The challenge therefore is in terms of: (i) better integrating the wealth of routine data already generated by various federal and regional institutions in to the common M&E system, so that the findings are known to all actors and can be fed in to policy discussions; (ii) the need to follow and properly utilize existing M&E structures; (iii) better dissemination of the findings of M&E so that they feed in to the thinking of senior policy-makers; (iv) greater gender desegregation of data, and effective use of the data for planning and policy analysis; and (v) the need to further tune national

¹⁵ Documents such as the MDGs Needs Assessment Synthesis Report, APRs of the SDPRP, and both the English and Amharic versions of the PASDEP are posted on the website. The draft PPA Report has also been posted on the World Bank's website and is the most widely cited document.

surveys and censuses and official administrative data sources towards monitoring requirements of PASDEP/MDGs.

Activities to address these are underway by MoFED (WMU) and the CSA. Strengthening the M&E of the PASDEP and MDGs implementation is one of the measures being undertaken. Other activities towards this end include: developing the Roadmap document for statistical work in Ethiopia, improvement in the provision of timely and quality information, establishment of the Central Data Bank, and strengthening the ETHIO-INFO Data base in order to generate and analyze sectoral socio-economic time series data.

Moreover, the focus on the M&E system to track the medium-term development agenda and progress towards the MDG targets is further supported by the formulation and adoption of the M&E Action Plan entitled '*Strengthening SDPRP and Ethiopian MDGs Monitoring and Evaluation Action Plan*' encompassing the period 2004/05-2007/08. The Action Plan is designed to monitor input and process indicators across levels of government (e.g. public spending, adoption of reforms) as a measure of implementation; monitor output indicators (e.g. education, health, infrastructure) at various levels of aggregation (household, woredas, national) as a measure of institutional efficiency; monitor developmental outcomes and final objectives to track overall progress; relate performance to indicators of reform processes for decentralization and capacity building to provide information on the effectiveness of the reform process in improving outcomes; and evaluate impact to determine the effectiveness of key government policies and programmes in reaching desired objectives. Box 5.1 below captures the salient elements of the successes in the course of implementing the Ethiopian M&E system.

Box 5.1 Success Story in the Ethiopian M&E System

In measuring progress towards Ethiopia's development aspiration in general and the PRSP and MDGs process in particular -in assessing needs, planning and monitoring- has led to increased coordination, efficiency and effectiveness in development planning, financing and implementation. Moreover, the synchronization has increased national ownership and commitment, coordination of UN and donor approaches, dialogue and MDG incorporation into the policy debate.

The fact that Ethiopia has received an award for best practices in establishing and institutionalizing a well integrated, home grown and forward-looking (with MDGs in perspective) M&E system at the Third International Roundtable Conference on Managing for Development Results (MfDR) held in Hanoi, Vietnam, from February 5-8, 2007 is a recognition of the country's advanced status in integrating the MDGs in to the national development planning processes.

Chapter VI

Challenges, Opportunities, and the Way Forward

6.1 Challenges and Opportunities

The strengthened effort in implementing the policies and strategies put in place in the PASDEP reinforces the commitment by the Government of Ethiopia to achieving the MDGs. The sectoral performances presented in Chapter III of the Report demonstrate that the MDGs are well integrated in the country's development policy and planning framework. Moreover, the stable macroeconomic environment and recent encouraging growth performance show that the country is well over the required average GDP growth rate of 7% required by the SSA countries to reach the MDGs. This is evidence that the country is on a higher growth path and well poised to achieve the Goals. However, despite these achievements, there are still many serious challenges to overcome to make the achievement of the MDGs a reality, not a possibility.

The challenges are considerable and need the Government's continued attention. Foremost among them are: low-income levels and hence low saving, high population growth, low productivity, a declining resource base and continuing food security pressures, domestic(weather) and external(balance of payment) shocks, and a volatile external and regional environment. No less important is the issue of low level of external finance flows for development and its unpredictability.

Accelerating and sustaining growth: The country has to sustain the registered economic growth until 2015 and must transit to the ultimate phase of ADLI (industrialization) in order not to only depend on the agricultural sector as the driver of the economy. Enhancing commercialisation and specialization on small holder agriculture, strengthening the linkages between agriculture and industry through expanding agro-processing in small and peri-urban areas, and expanding the export base of the country are among the major steps outlined in the PASDEP towards this end.

Another important elements of the growth strategy that need to be addressed include managing volatility, addressing income inequality, pursuing the ongoing infrastructure expansion, and sustaining the efforts to promote a dynamic private sector by creating an enabling environment which allows it to become the engine of economic growth, employment and income generation.

Pursuing the human development agenda: The Government clearly understands that economic growth is not an end by itself rather it is the means for human development and is central to poverty reduction. Hence, improved human development outcomes and effective service delivery are vital to improve productivity and foster the socio-economic transformation needed in the development process. Notwithstanding the policy emphasis already given to improvements in human development, there are challenges in providing these basic services in a transparent, accountable and equitable manner. Vigorous efforts need to be exerted to address disparities between groups and in particular across gender groups. In addition, increasing poor people's share of growth should be a central part of the strategies for achieving the MDGs and the wider human development goals.

Further expanding infrastructure investment: The Government of Ethiopia recognizes that infrastructure plays a pivotal role for a country's development as it very much influences the socioeconomic transformation of the country through creating favorable environment for private sector development and enabling farmers benefit from their agricultural produce through improving rural connectivity. Despite the progresses achieved, infrastructure gaps remain a major challenge. The combination of low connectivity through roads, telecommunication, railways, lack of water infrastructure, and limited urban infrastructure and energy has created a situation where it is hard for competitive supply chains to emerge for non-traditional high-value activities, and 'crowd in' private investment. This in turn affects the realization of rapid and sustained growth, through it combating deep-rooted poverty. The scale of these needs call for a big push in infrastructure investment.

Addressing gender inequality: Ethiopia has moved decisively to create conducive environment for women's effective participation, contribution to and benefits from the economic, social, and political processes of the country. Given the multidimensional problems faced by women, there are still differences on historical and social roots of the number of socio-economic indicators between men and women- all of which demand continued comprehensive actions. For Ethiopia to be successful in accelerating growth, human development and eradicate poverty, removing gender disparity and ensuring gender equality and women empowerment is critically important.

Good governance and strengthening capacity: Ethiopia is faced with significant disparities in terms of implementation and supervision capacities of the wide-ranging sectoral strategies at the various national and regional levels. Attenuating or overcoming these constraints particularly at the local level is important. This calls for undertaking assessment studies at the grassroots level, strengthening the decentralization process, improving absorptive and administrative capacity, and building the capacity of local governments to ensure an inclusive, transparent and accountable development process. Success in these efforts will require close coordination of sectoral policies and prioritizing the most effective interventions in terms of delivering progress, clears reporting and monitoring mechanisms on all the MDGs.

Strengthening Resource Mobilization: Enhancing resource mobilization effort (both domestic and external) is of paramount importance to realize the envisioned socio-economic transformation that would enable the country attain the MDGs by 2015. Although domestic revenue, particularly tax revenue, has increased significantly in recent years, the available resource has not matched the rising level of financing requirements. Domestic resource mobilization efforts could be further enhanced through strengthened implementation of the on-going tax reform, further improving the efficiency of tax administration, broadening the tax base, promoting private saving and investment, and social mobilization augmented by external finance in the context of scaling up, harmonization, and improved predictability as well as increased trade and FDI. The desired actions on the part of our development partners include scaling up level of grant, improving predictability of external finance, the need to align aid disbursement with the MEFF with in a medium-term time frame to facilitate the planning and budgeting process, aid harmonization and reducing transaction costs.

Tackling these constraints in partnership with development stakeholders is necessary to ensure success in the attainment of the PASDEP targets and hence the MDGs. Political commitment and cautious implementation of the development policies and strategies also contributing factors. What is more important, however, is the scaling up of external finance resources called upon to

achieve the PASDEP targets and hence MDGs. It would not be possible for Ethiopia to implement the PASDEP to fully achieve the MDGs without external support in the scale and time required. It is also important to mobilize, coordinate and lead the efforts of the NGO community towards the realization of PASDEP targets, particularly in basic service delivery.

6.2 The Key Messages

The MDGs have been well integrated and harmonized in Ethiopia's NDPF. The PASDEP is the first five year phase of the Ethiopia's MDGs Plan as articulated in the Study Report entitled **Ethiopia: MDGs Needs Assessment Synthesis Report, MOFED, December 2005**. Thus, Ethiopia has been implementing a home grown comprehensive five year development plan (PASDEP) during the last two years including this current fiscal year (2005/06 and 2006/07). The following messages are worth conveying:

- a) Development interventions will only be effective if they are guided by long and medium-term home grown development plans internalizing the MDGs. Formulating plans such as the Ethiopian MDGs Plan(2005/06-2014/15) and the PASDEP(2005/06-2009/10) calls for the conduct of research studies on sources of growth, concretization of policies and strategies, and long-term financing requirements;
- b) To eradicate poverty and end hunger, high and sustained growth is critical for Ethiopia. This can be achieved through commercialization of smallholder agriculture, MSE development and diversified exports. Strengthening rural urban linkages is also essential for sustained rural growth. We know there is no room for complacency. Ethiopia has to sustain the recent high growth rate for lasting impact on poverty;
- c) Macroeconomic stability has been a positive feature of the Ethiopian economy although recent inflationary pressure has become a concern insofar as it affects low-income earners in urban areas. Accordingly, the Government has already started taking measures through distributing grain at subsidized prices to low-income urban residents. However, the Government believes that this is a short run transitory phenomenon caused to a larger extent by demand pressures and is a sign of the on-going economic transformation as the economy takes-off. The way out in the long-run is by enhancing productivity of small holder farmers and at the same time expanding the modern sector to create more jobs and there by improving income earning capacity of our people. The various programmes in the pipe-line as outlined above are meant to address this challenge;
- d) Medium-term programmes such as the SDPRP and its successor plan (the PASDEP) are important vehicles towards reaching the MDGs. Taking note of the good performance to date and given the ambitious and still well thought out programmes being implemented in the areas of food security and rural development, Health Extension Package (HEP), Urban Housing Programmes, Universal Access Programme for Water Supply, rural roads, electricity, telecommunication, women and youth packages, and MSE development; the Government believes that Ethiopia's development effort is well grounded and has a good chance of meeting the MDGs during the remaining **eight** years. The hitherto progress towards the MDGs targets is indicated by the achievements in outcome indicators by the end of the first year of the PASDEP implementation (2005/06) while the achievements by the end of the SDPRP period (2004/05) are taken as a baseline for the PASDEP as depicted in Annex Table 1.2 below;
- e) The Government has recognized that financing is a critical challenge in implementing the PASDEP. As has been witnessed during the first two years of implementing the PASDEP

- (2005/06 and 2006/07), external finance (ODA) that passes through the budget has been leveling off even compared to the trend (business as usual) as projected in the PASDEP. As the Government enters in to the third year of implementing the PASDEP (2007/08), there is an urgent need to scale up ODA towards full-scale implementation of the PASDEP and hence MDGs consistent with Monterrey, Gleneagles, and Blair's Commission Report;
- f) Given the size, topography, diversity of the country infrastructure investment expansion needs to be seen from the standpoint of enhancing and sustaining pro-poor growth, which is a necessary condition for poverty reduction and its ultimate eradication. Given also that Ethiopia is required to diversify exports, the need for being competitive in the international market calls for infrastructure expansion to reduce per unit transport and delivery costs of export commodities. Accordingly, investment expansion in those areas (human development and infrastructure expansion) is seen as a top priority given that the country's human and physical capital has not yet reached its critical minimum. The Government believes that the current growth momentum could not be maintained with out enhancing our human and physical capital;
 - g) Building partnership with research and higher education institutions and think-tanks is of paramount importance to utilize local expertise (build national capacity) and thereby strengthening in-house analytical capacity of government institutions such as MoFED. The informal partnership established with the Economics Department of Addis Ababa University (AAU) and recently formalized with the Memorandum of Understanding (MoU) signed with the Ethiopian Economic Association (EEA)/Ethiopian Economic Policy Research Institute (EEPRI) has helped conduct analytical works to inform the M&E system of the PASDEP and hence the MDGs which is a well integrated, home grown, and forward looking system designed to achieve development results;
 - h) Ethiopia has made significant improvement in business and investment climate to create a dynamic private sector and contribute to economic transformation. The recent vibrancy in the private sector (both domestic and foreign) including increasing trade, investment, employment and income growth clearly shows that the private sector is making its contribution to Ethiopia's development. PASDEP intends to deepen the business and investment environment for accelerating and sustaining private sector led growth in Ethiopia;
 - i) Ensuring gender equity is also another critical issue that is being addressed in order that Ethiopia accelerate growth to achieve the MDGs and eradicate poverty. Since the 1990's, Ethiopia has moved firmly to promote and protect the rights of women to participate in the political, economic and social processes of the country- from the constitution to passing and revision of various laws, proclamation of rural development, education, health etc. Further, advances are still required in implementing the various gender equity initiatives particularly the National Action Plan for Gender equity; and,
 - j) In the Ethiopian context, designing and implementing the economic transformation agenda in synergy with state transformation agenda through devolution and empowerment and civil service reform is central for peace, democracy and development, hence eradicating poverty. The on-going implementation of public sector capacity building program including civil service reform, district level decentralization programme is intended to build a capable, accountable, and effective state. The priority focus is to empower and build-up the capacities of the lowest echelons of regional governments- *woredas* and *kebeles* by building effective democratic and public institutions. This will

enhance democratic participation, governance and hence improve the delivery of services and contribute to poverty eradication.

Annexes

Annex Table 1.1: MDGs Targets and Indicators

Goal1: Eradicate extreme poverty and hunger		
	Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	<ol style="list-style-type: none"> 1. Proportion of population below \$1 per day (PPP-values)¹⁶ 2. Poverty gap ratio [incidence x depth of poverty] 3. Share of poorest quintile in national consumption
	Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	<ol style="list-style-type: none"> 4. Prevalence of underweight children (under-five years of age) 5. Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve universal primary education		
	Target3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	<ol style="list-style-type: none"> 6. Net enrolment ratio in primary education 7. Proportion of pupils starting grade 1 who reach grade 5 8. Literacy rate of 15-24 year olds
Goal 3: Promote gender equality and empower women		
	Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015	<ol style="list-style-type: none"> 9. Ratio of girls to boys in primary, secondary and tertiary education 10. Ratio of literate females to males of 15-24 year olds 11. Share of women in wage employment in the non-agricultural sector 12. Proportion of seats held by women in national parliament
Goal 4: Reduce child mortality		
	Target 4:	<ol style="list-style-type: none"> 13. Under-five mortality rate 14. Infant mortality rate

¹⁶ For monitoring country poverty trends, indicators based on national poverty lines should be used, where available.

	Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	15. Proportion of 1 year old children immunized against measles
Goal 5: Improve maternal health		
	Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	16. Maternal mortality ratio 17. Proportion of births attended by skilled health personnel
Goal 6: Combat HIV/AIDS, malaria and other diseases		
	Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS	18. HIV prevalence among 15-24 year old pregnant women 19. Condom use rate of the contraceptive prevalence rate ¹⁷ 19a. Condom use at last high-risk sex 19b. Percentage of population aged 15-24 with comprehensive correct knowledge of HIV/AIDS 20. Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14
	Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases	21. Prevalence and death rates associated with malaria 22. Proportion of population in malaria risk areas using effective malaria prevention and treatment measures ¹⁸ 23. Prevalence and death rates associated with tuberculosis 24. Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course)
Goal 7: Ensure environmental		

¹⁷ Amongst contraceptive methods, only condoms are effective in preventing HIV transmission. The contraceptive prevalence rate is also useful in tracking progress in other health, gender and poverty goals. Because the condom use rate is only measured amongst women in union, it is supplemented by an indicator on condom use in high-risk situations (indicator 19a) and an indicator on HIV/AIDS knowledge (indicator 19b).

¹⁸ Prevention to be measured by the percentage of children under 5 sleeping under insecticide treated bed nets; treatment to be measured by percentage of children under 5 who are appropriately treated

sustainability		
	<p>Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources</p>	<p>25. Proportion of land area covered by forest 26. Ratio of area protected to maintain biological diversity to surface area 27. Energy use (kg oil equivalent) per \$1 GDP (PPP) 28. Carbon dioxide emissions (per capita) and consumption of ozone-depleting Chloro Fluoro Carbon (CFC) (ODP tons) 29. Proportion of population using solid fuels</p>
	<p>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water</p>	<p>30. Proportion of population with sustainable access to an improved water source, urban and rural 31. Proportion of people with access to improved sanitation</p>
	<p>Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers</p>	<p>32. Proportion of people with access to secure tenure</p>
<p>Goal 8: Develop a Global Partnership for Development</p>		<p><i>Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked countries and small island developing States</i></p>

	<p>Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally</p> <p>Target 13: Address the Special Needs of the Least Developed Countries. Includes: tariff and quota free access for LDC exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction</p>	<p><i>Official Development Assistance</i></p> <p>33. Net ODA to LDCs, as percentage of OECD/DAC donors' gross national income</p> <p>34. Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation)</p> <p>35. Proportion of bilateral ODA of OECD/DAC donors that is untied</p> <p>36. ODA received in land locked countries as proportion of their Gross National Incomes (GNIs)</p> <p>37. ODA received in small island developing States as proportion of their GNIs</p>
	<p>Target 14: Address the Special Needs of landlocked countries and small island developing states (through the Action for the Sustainable Development special session of the General Assembly)</p>	<p>Market Access</p> <p>38. Proportion of total developed country imports (by value and excluding arms) from developing countries and LDCs, admitted free of duties</p> <p>39. Average tariffs imposed by developed countries on agricultural products and textiles</p> <p>40. Agricultural support estimate for OECD countries as percentage of their GDP</p> <p>41. Proportion of ODA provided to help build trade capacity</p>
	<p>Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</p>	<p>Debt Sustainability</p> <p>42. Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)</p> <p>43. Debt relief committed under HIPC initiative, US\$</p> <p>44. Debt service as percentage of exports of goods and services</p>
	<p>Target 16:</p>	<p>45. Unemployment rate of 15-24 years-olds, each sex and total</p>

	In co-operation with developing countries, develop and implement strategies for decent and productive work for youth	
	<p>Target 17:</p> <p>In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries</p>	<p>46. Proportion of population with access to affordable essential drugs on sustainable basis</p>
	<p>Target 18:</p> <p>In co-operation with the private sector, make available the benefits of new technologies, especially information and communications</p>	<p>47. Telephone lines and cellular subscribers per 100 population</p> <p>48. Personal computers in use per 100 population and Internet users per 100 population</p>

Annex 1.2: Selected MDGs Indicators Synchronized With PASDEP Targets and Progress to Date (2005/06)

MDGs	Component	Selected Targets	2004/05	2005/06 Outturn	PASDEP Targets
Goal 1	Eradicate extreme poverty and hunger	GDP growth rate	10.6	9.6	7.3 (period average per annum)
		Percentage of people who are below the poverty line	39		29
		Percentage of people who are below the food poverty line	38		28
		Percentage of stunted children	47		
		Percentage of wasted children	8		
Goal 2	Achieve universal primary education	Gross primary enrolment (1 to 8) (%)	79	91.3	109.7
		Grade 5 completion rate	57	63	136.6
		Grade 8 completion rate	34	42	62.7
		Pupil: text book ratio	2:1	1.5:1	1:1
		Pupil: class room ratio			
		Primary 1-4	71	70	50
		Primary 5-8	68.4	67	50
		Pupil: teacher ratio			
		Primary 1-4	70	64	54
Primary 5-8	55	55	45		
Goal 3	Promote gender equality and empower women	Girls to boys ratio			
		Primary 1-4	0.87		0.97
		Primary 5-8	0.69		1
Goal 4	Reduce child mortality	Child mortality	140/1,000 (2003/04)	123/1,000	85/1,000
		DPT 3 coverage	70	79	80
Goal 5	Improve maternal health	Maternal mortality	871/100,000 (2003/04)	673/100,000	600/100,000
		Proportion of birth attended by trained health personnel	9	16	32
		CPR	15	36	80

MDGs	Component	Selected Targets	2004/05	2005/06 Outturn	PASDEP Targets
Goal 6	Combat HIV/AIDS, malaria and other diseases	HIV prevalence rate	4.4	3.5	4.4
		Prevalence rate among 15-24 years old pregnant women	8.6		8.4
		Percentage of HIV positive pregnant women receiving complete course of ARV	42		50
		Percentage of people with advanced HIV receiving ART	10		70
		Proportion of households in malaria exposed areas with 2 bed nets, properly utilized	1	43	100
		Proportion of patients cured from TB	76		85
Goal 7	Ensure environmental sustainability	Access to safe drinking water	42	47.3	84.5
		Percentage of land covered by forest	3.6		9.0
		Provision of housing and basic services (%)	30		65
		Percentage of reducing slum areas	70		35
Goal 8	Develop a Global Partnership for Development	Net ODA to LDCs, as percentage of OECD/DAC donors' gross national income	0.2		

Annex Table 1.3: Overview of PASDEP Targets

Sector/Indicator	Base Line (Achievements by end of 2004/05)	PASDEP Target (2009/10)
Macro Economy		
GDP growth rate (%)	10.6	Period average of 7.3% per annum
Gross domestic investment as % of DGP	20.5	26.1
Gross domestic saving as % of GDP	3.7	13.1
Export of goods & services as % of GDP	15.8	19.7
Imports of goods & services as % of GDP	34.3	31.2
Domestic revenue as % of GDP	15.8	18.7
Tax revenue as % of GDP	12.5	17.0
Total expenditure as % of GDP	25.2	27.0
Total poverty-oriented expenditure as % of GDP	14.2	22.3
Capital expenditure as % of GDP	11.8	15.8
Poverty/Welfare		
Total poverty head count (%)	39	29
Food poverty head count (%)	38	28
Agriculture		
Growth of agricultural value added (%)	13.4	Period average of 6.2% per annum
% Share of agriculture & allied activities in GDP	46.2	43.9
Major crops production (million tons)	16.7	38.2 (level by end of 2009/10)
Meat production (1,000 metric tons)	566	837 (level by end of 2009/10)
Meat export (1,000 metric tons)	8	62 (level by end of 2009/10)
Industry		
Growth rate of industry value added (%)	8.1	Period average 11.5% per annum
Share of industry in GDP (%)	13.6	16.5
Export		
Revenue generated from agricultural exports (in US\$ millions)	546	1,515
Revenue generated from industrial export (leather and leather products) (in US\$ millions)	63.73	500
Revenue generated from mining (in million Birr)	20	44.7
Human Development		
Gross primary enrolment (1 to 8) (%)	79.8	109.7
Primary school completion rate (%)	34	63
Ratio of girls to boys (in primary school)	0.84	0.97
Pupil: text book ratio	2:1	1:1
Pupil: class room ratio	1:69	1:50
Grade 1 drop out rate	22.4	6.3
Primary health services coverage (%)	70	100
Infant mortality rate	77/1,000	45/1,000
Maternal mortality rate	871/100,000	600/100,000
CPR (%)	15	80
Pregnant women with access to treatment to prevent mother to child transmission of HIV/AIDS (%)	0.56	0.52
DPT 3 vaccination coverage (%)	70	80

Share of births attended by skilled health personnel (%)	9	32
Population with access to potable water in rural areas (within 1.5 km) (%)	35	80
Infrastructure Development		
Average Time taken to all-weather road (hours)	5.0	3.2
Road density (km/1,000 km ²)	33.2	54.1
Roads in acceptable condition (%)	64	84
Population with access to electricity (%)	16	50
Mobile users density (per 100)	0.56	8.1
Telephone density/fixed lines (per 100)	0.85	3.87
Population with access to telecommunication center/services (within 5 km radius) (%)	6	100
Number of <i>kebeles</i> with telephone access	3,000	15,000
Fixed telephone subscribers (in millions)	0.62	3.23
Mobile Telephone subscribers (in millions)	0.411	6.761
Internet service subscribers	17,375	193,100
Irrigated land out of the total irrigable land (%)	5	8
Mining		
Increase regional geological mapping coverage (%)	38	53
Increase hydro geological mapping coverage (%)	27	42
Increase engineering geology coverage (%)	7	15
Increase geophysics/gravity coverage (%)	65	80
Urban Development		
Reduce urban unemployment rate in towns with 50,000+ population (%)	40	20
Provision of housing and basic services (%)	30	65
Number of new houses built		100,000 (yearly average)
Provision of land and infrastructure		3,800 hectares/annum
Reduction of slum areas (%)	70	35
Number of micro and small enterprises		12,000 per annum

**Annex Table 4.1: Projected Resource Envelope and Broad MEFF Parameters Under the
Base-Case Scenario
(In Million Birr)**

Items	2005/06 Budget	2006/07 (Forecast)	2007/08 (Forecast)	2008/09 (Forecast)	2009/10 (Forecast)	5-Year Total
Government revenue	22,465	24,604	27,887	32,633	38,229	145,818
Tax revenue	16,164	20,270	24,121	28,680	34,129	123,364
Non-tax revenue	6,301	4,334	3,766	3,953	4,100	22,454
External grant	7,221	6,919	7,839	7,911	8,587	38,477
Total revenue including grants	29,686	31,523	35,726	40,544	46,816	184,295
Total expenditure	36,552	45,066	47,218	49,797	53,460	232,094
O/W poverty oriented expenditure	22,924	32,532	36,049	39,102	44,319	174,926
Recurrent	16,557	18,873	19,584	20,505	22,118	97,637
Capital	19,995	26,193	27,634	29,292	31,343	134,457
Overall balance including grants	-6,866	-13,543	-11,492	-9,253	-6,645	-47,799
Gap to be financed including grants	6,866	13,543	11,492	9,253	6,645	47,799
Gap financed	6,865	7,124	8,019	9,083	6,537	37,628
External (net)	2,083	2,371	2,633	3,088	3,532	13,707
Domestic (net)	4,782	4,753	5,386	5,995	3,005	23,921
Gap remaining to be financed in million Birr	0	6,419	3,473	170	108	10,170
Gap remaining to be financed in US\$ million	0	740.4	400.6	19.6	12.5	1,173
GDP at current market price (CMP)	115,543	132,874	152,539	175,030	198,359	
Inflation	8.6	8.2	8.1	8.5	8.1	8.4
As % of GDP						
						5-Year Average
Domestic revenue	19	18	18	18	19	19
Tax revenue	14	15	16	16	17	16
Non-tax revenue	5	3	2	2	2	3
External grant	6.2	5.2	5.1	4.5	4.3	5.1
Total revenue including grants	26	24	23	23	24	24
Total expenditure	32	34	31	28	27	30
O/W poverty-oriented expenditure	20	24.5	24	22	22	22.5
Recurrent	14.3	14.2	12.8	11.7	11.2	12.8
Capital	17.3	19.7	18.1	16.7	15.8	17.5
Overall balance including grants	-6	-10	-8	-5	-3	-6
Gap financed	5.9	5.4	5.3	5.2	3.3	5
External (net)	1.8	1.8	1.7	1.8	1.8	1.8
Domestic (net)	4.1	3.6	3.5	3.4	1.5	3.2
Gap remaining to be financed as % of GDP	0.0	4.7	2.3	0.1	0.1	1.5