

*Ethiopia: Country Report on the
Implementation of the Brussels Program of
Action (BPOA)*

*Ministry of Finance and Economic
Development*



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I. Introduction

The Brussels Declaration and the Programme of Action for the Least Developed Countries for the decade 2001-2010 adopted at the Third United Nations Conference for Least Developed Countries, in Brussels on the 20th of May, 2001, constitute a framework for partnership for poverty eradication articulated around seven interlinked commitments:

- a) Fostering a people- centred policy framework;
- b) Good governance at the national and international levels;
- c) Building human and institutional capacities;
- d) Building productive capacities to make globalization work for the least developed countries;
- e) Enhancing the role of trade in development;
- f) Reducing vulnerability and protecting the environment;
- g) Mobilizing financial resources;

Accordingly countries are required to assess the progress they made and identify gaps against the programme's overarching goal "to make sustainable progress towards halving the proportion of people living in extreme poverty and suffering from hunger by 2015 and promote the sustainable development".

Therefore, Ethiopia as one of the countries that committed itself to the Brussels Program of Action(BPOA), has prepared this comprehensive assessment report on the progress it has made in the overarching goal of the BPOA and the interlinked commitments of social, economic and environmental development; challenges faced in implementing the Program of Action(POA); the implication of the recent world economic and financial crisis on the Ethiopian economy and development endeavour; and, addressing food security, climate change and reducing vulnerability.

II. The national development planning process including Key Economic, Social, Political and Environmental Trends

Ethiopia is one of those UN member countries that have signed the Millennium Development Goals (MDGs) commitment aimed at reducing severe poverty. Ethiopia has made tremendous progress towards achieving the MDGs. Reaching *at least* the MDGs has been adopted by the Government of Ethiopia as a central objective of national development strategy. The MDGs have been integrated in to the national development policy and planning framework of the country such as Ethiopia's First Generation PRSP entitled the Sustainable Development and Poverty Reduction Program (SDPRP) (2002/03-2004/05) and its successor Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/06- 2009/10). The PASDEP is currently in its last year of implementation (2009/10). The PASDEP is the first Five Year phase of Ethiopia's Ten Year indicative MDGs-based Development Plan formulated on the basis of the comprehensive MDGs Needs Assessment Exercise conducted from 2004 to 2005.

The MDGs have been put in to the national context (integrated in to the national development programs and over all development plans) in the following ways:

- a) Ethiopia is one of the first African countries that have put the MDGs in local development policy and strategy framework through the MDGs Needs Assessment that has been conducted in 2003/04 and 2004/05. The Needs Assessment quantified the financing gap confronting Ethiopia and laid the basis for a major effort to mobilize the massive additional external financing needed if Ethiopia is to achieve the MDGs. The PASDEP was designed to be implemented on the basis of aid flows articulated in the needs assessment exercise. This was accompanied by a strengthened structure for international cooperation to achieve the MDGs.
- b) The MDGs in the Ethiopian context has been taken as a holistic development agenda not a goal by goal success only. In view of that, the development effort has been mobilized towards a holistic national development. For instance, MDG 2 is about achieving universal primary education by 2015. However, the Ethiopian MDGs extends the priority towards the overall development of the education sector. Accordingly, Primary, Secondary, Technical and Vocational Training (TVET) and Higher education have received the required concern.
- c) Halve poverty by 2015 (Goal 1) in Ethiopian context has been framed to be achieved on a broad based swift and sustainable overall economic development approach supplemented by the expansion and development of growth enhancing overall infrastructure sector(roads, telecom, power and irrigation).
- d) The then SDPRP and its successor the PASDEP are Ethiopia's comprehensive policy and program/planning frameworks that placed MDGs in medium term perspective, particularly the PASDEP conceived as a medium-term plan to attain the MDGs. The

ultimate goal of the PASDEP is to ensure overall economic development via setting sustainable and broad economic base thereby move out Ethiopia from the yoke of poverty. Through the PASDEP, and its precursor the SDPRP, the Government has embarked upon an aggressive program to accelerate progress as quickly as possible, including a big push on education to create human capacity, expanding infrastructure to enhance the competitive advantage of the economy, building institutions, decentralizing government, and mobilizing the power of grass root communities including civil society. This has been accompanied since the mid-1990s by a massive re-orientation of public spending to pro-poor investments, and the launch of nationwide sector development programs to improve health care, education, and food security.

- e) The successor Plan to the on-going PASDEP (PASDEP II) which span the five year period of 2010/11 to 2014/15 is currently under preparation and is considered as the final medium term MDGs-based development Plan to achieve the MDGs by 2015.

The development policies and strategies pursued during SDPRP were the basis for the Five-Year Development Plan (PASDEP). The PASDEP deepens the fundamentals of the SDPRP. Ethiopia's vision is to reach the level of middle-income countries in the coming 20 years where democracy and good governance are maintained through people's participation and where good will and social justice are secured. This Plan is the first 5-year phase to attain the goals and targets set in the MDGs at a minimum. For Ethiopia's vision to be realized, the growth requirement should at least be 10 percent per annum and should surpass the growth requirement to meet the MDGs (average real GDP growth rate of 7 percent per annum). Thus, in order to realize the objectives and to ensure the country's vision come true, a coordinated and concerted effort at national level is critical. It is also necessary to aspire beyond what is required by the MDGs.

The country's vision, specifically on the economic sector, has set the following goals:

- To build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy;
- To sustain economic development and secure social justice; and,
- Increase per capita income of citizens so that it reaches at the level of those in middle-income countries.

The major objectives of the Five-Year Development Plan are to lay out the directions for accelerated, sustained, and people-centered economic development as well as to pave the groundwork for the attainment of the MDGs by 2015.

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

A well structured monitoring and evaluation system is critical for assessing the effectiveness or lack thereof of measures to eradicate hunger and poverty as articulated in the medium-term

national development programs/plans such as the then SDPRP and now PASDEP and by extension the MDGs. Having been built on existing structures and institutionally well coordinated, it can be safely said that Ethiopia has one of the best monitoring and evaluation systems in Africa to follow the progress in its poverty reduction effort. The indicator systems that constituted the existing monitoring and evaluation system was originally developed and has been updated in collaboration with federal executive bodies through consultation with non-state actors in 2001/02 and subsequently in 2004/05. The indicators systems have also been aligned with the MDGs indicators system.

The existing Monitoring and Evaluation system has been providing the necessary socio-economic data and information for the Monitoring and Evaluation system of then SDPRP and now PASDEP with MDGs implementation in perspective. In broader terms, the PASDEP/MDGs monitoring and Evaluation System involves three important actors: the Ministry of Finance and Economic Development (MoFED), the Central Statistical Agency, and Federal Line Ministries as a group with their respective sectoral M&E systems. The MoFED serves as the overall coordinating central institution through which annual review reports are generated by way of monitoring progress on set targets through synthesizing background reports from federal line ministries in their respective areas of competence while the CSA produces survey-based basic primary data from which outcome indicators are computed. Federal line ministries generate secondary data on an annual basis from which input and output indicators are computed to monitor progress on PASDEP/MDGs implementation to complement outcome indicators generated through CSA surveys.

The system encompasses both survey-based and administratively generated data supported by the development of matrix of indicators to track progress on inputs, outputs and outcomes. The various indicators have been and are being generated through surveys and censuses regularly conducted within the framework of the rolling Medium-Term National Statistical Program; the implementation of qualitative instruments/surveys; and use of routine administrative data generated by sectoral Federal line ministries linked to their counterparts at sub-national level. Besides, sectoral annual monitoring and evaluation reports serve in generating output and input indicators while reports prepared based on information from surveys conducted by the CSA serves to generate outcome and impact indicators to inform the Monitoring and Evaluation system.

Efforts have been made and are being made to render the Monitoring and Evaluation System more result-oriented and effective with a sharper focus on outcomes. This has been well reflected in the following M &E activities, among others: the added value to the poverty analysis work based on the 2004/05 HICES and WMS data sets (disaggregated information and information on the dynamics and determinants of poverty through triangulating various sources of data), the strengthening of weak links of Sectoral Monitoring Systems through the development of an M&E System for Agriculture and Rural Economy and M&E System for Urban Development, Housing, Construction, and the conduct of the 2007 Population and Housing Census, etc. In line with the results agenda, efforts are being geared towards re-orienting surveys to capture the dynamism of sectors (particularly the rural economy) given the change the Ethiopian economy is experiencing. According to the 2006/07 Annual Progress Review Report¹, the Government

¹ MoFED. 2007.

reaffirmed its commitment to continue emphasizing the strengthening of the Monitoring and Evaluation system.

III. Assessment of the progress and challenges in the implementation of the Commitments of the Program of Action for LDCs for the Decade 2001-2010

In response to the conditions confronting Ethiopia, since the mid-1990s the Government has made addressing human development needs and reducing poverty the core of its development strategy. Ethiopia's strategy is predicated on achieving poverty reduction through accelerated growth, while at the same time building the human and institutional capacity the country will need for the longer term and – above all – improving the basic conditions under which the majority of Ethiopians live.

The period from 1992/93 up to the eve of the Ethio-Eritrean border conflict (1997/98) witnessed an annual average real GDP growth rate of more than 6 percent per annum. This translated in to an annual average real GDP per capita growth rate of more than 3 percent per annum. The growth momentum was interrupted by the border war with Eritrea compounded by weather related factors such as El Nino and rain failures during the subsequent two years. The economy was also hard hit by the 2002/03 drought which affected about 13 million people. If the post-war period of economic down turn is included in the growth calculation of the period since 2002/03, overall real GDP growth averaged less than 5 percent per annum. Growth has been unstable largely influenced by instability in the performance of agriculture and allied activities up to the end of 2002/03. Growth in agriculture never exceeded 6 percent in any one year during this period. Overall, the economy up to 2002/03 was on a trend growth path. During this period, there were years that witnessed negative inflation. This shows that the economy was in a deflationary situation during the post –war years ending in 2002/03. Besides, inflation was largely associated with the performance of agriculture, particularly the crop sub-sector (inflation picked during years of crop failures and declined during bumper years).

Table 3.1: Annual percentage change (%) in Gross Domestic Product (GDP)

Item	Annual Percentage Change							Six Years Average (Percent) Excluding Drought Years	Average including Drought Year (2002/03)
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09		
Agriculture and allied activities	-10.5	16.9	13.5	10.9	9.4	7.5	6.0	11.6	8.0
Industry	6.5	11.6	9.4	10.2	10.2	10.4	9.2	10.4	9.7
<i>Manufacturing</i>	0.8	6.6	12.8	10.6	8.3	7.1		9.1	7.7
<i>Construction</i>	13.6	19.5	7.5	10.5	10.9	11.3		11.9	12.2
Services	6.0	6.3	12.8	13.3	14.3	17	15.0	12.7	11.6
<i>Distributive Services</i>	5.5	6.4	14.7	14.2	16	15.2	15.0	13.3	12.0
<i>Other Services</i>	6.5	6.1	10.9	12.5	13.1	14.2	15.0	11.4	10.6
GDP at 1999/00 constant prices	-2.1	11.7	12.6	11.6	11.4	11.6	10.2	11.8	9.5

Real GDP/cap	-4.9	10.5	8.8	7.8	8.2	8.3	7.6	8.7	6.5
General Inflation	10.9	7.3	6.1	10.6	15.8	25.3	36.4	12.7	13.0

Source: Ministry of Finance and Economic Development

The year 2003/04 is considered to be a turning point in the growth history of Ethiopia. The economy shifted to a higher growth path since 2003/04 and that trajectory has been maintained since then. Following the recovery commencing in 2003/04, growth has been very much sustained and complemented by strong performance in the construction, manufacturing, trade and tourism, banking and insurance, and real estate sectors/sub-sectors. The construction sector has been spurred by the much needed public sector investment in infrastructure (roads, rural infrastructure development including food security, telecom, power, irrigation, etc) and private sector expansion as well. Real GDP growth averaged 11.4 percent during the five year period ending in 2007/08. Per capita real GDP growth averaged more than 7 percent during this period. In its recent assessment (May 2008 Article IV Consultation) the IMF indicated that the Ethiopian economy has been one of the fastest growing non-oil and non-mineral economies in Sub-Saharan Africa.

However, this shift to a higher growth has been accompanied by an inflationary pressure which started in 2005/06 (annual moving average inflation rate of 12.3%) and reached its peak by the end of 2008/09 (annual moving average inflation rate of 36.4%). The observed inflationary pressure was a new phenomenon for Ethiopia. Historically, Ethiopia has been known for being a low inflation country (save some drought years of 1984/85, 1991/92 and 2002/03 when inflation peaked to as high as 20 percent). Thus, inflation had been associated with the performance of agricultural production, particularly major crops production which constitutes the bulk of agriculture GDP (about 50 to 60 percent of agriculture value added on average). Food items also constitute about 60 percent of household spending. However, what made the recent food price hike unique is that it coincided with high economic growth of above 10 percent. But this is not unique to Ethiopia. Demand pressure and structural factors compounded by inflationary expectations are important factors in explaining inflation in the context of Ethiopia. Given the structure of the economy (less monetized), the role of monetary factors in explaining inflation is believed to be very much limited.

The other challenge faced during the growth boom period has been the pressure on the balance of payment which resulted in foreign currency shortage as the government attempted to rebuild the reserve requirement following the fuel price hike that depleted the reserve position of the National Bank of Ethiopia. Although export has tripled during this period its narrow base coupled with the huge increase in import driven by the import requirement to support the growth effort (import of capital goods) and the unprecedented oil price increase that depleted the country's foreign reserves up to July 2008, it has not been able to keep pace with the foreign currency requirement of the country during this period. External finance flows has not also been forthcoming as promised by development partners in the spirit of the MDGs. This has also aggravated the shortfall in foreign currency. The reserve position went down to as low as 1 months of import (reasonable level of reserve position being 3 to 4 months on average).

Measures have been and are being taken by the Government to address the inflation agenda with in a short, medium and long-term time horizon. The ultimate solution in the medium and long-term is enhanced productivity of the agriculture sector (particularly crop sub-sector). Crop yield

(though it improved in recent years) has not yet reached the desired level (some agricultural researchers claim that it is on average at 2/3 of the desired yield level). The measures have included the import of food grain from government's own resources and distribution of grain (wheat) to the urban poor at subsidized prices, removal of the value added tax, turn over tax and surtax on food items mainly consumed by the poor (such as flour and bread), reducing domestic borrowing including borrowing by public enterprises. The food price stabilization measure has been successful in bringing general inflation down to single digits. As a result, annual average inflation (moving average) declined to 8.5 percent by the end of December 2009 from 44 percent during the same month of the preceding year (2008).

The decision made in 2008/09 to reduce public enterprise domestic borrowing from 4.4% of GDP in 2007/08 to 2.5% of GDP and subsequently monitor their borrowing, depreciation of the local currency by nearly 15% in January 2009, elimination of fuel price subsidy in October 2008 by fully adjusting the domestic price to import parity level, the blending of Ethanol with Benzene which started in September 2008 with 5% Ethanol and 95% benzene (5:95) are important short run measures taken by the Government by way of easing the pressure on the BOP. More importantly, the pressure on the reserve has eased thanks to the significant drop in international oil prices since July 2008.

What has transpired from the stocktaking of the growth performance of the Ethiopian economy during the three distinctive periods? Firstly, growth had been volatile through out the period up until 2002/03 largely determined by the instability of the agriculture sector which is prone to weather related shocks. This has been common across the three distinct regimes. Secondly, the dismal performance of the economy during the Military Regime (*Derge*) had been attributed to policy failures aggravated by weather related factors (such as drought) as well as the protracted civil war that led to its demise in May 1991. Thirdly, the significant policy shift by the EPRDF-led TGE and its successor the FDRE, helped to stabilize and jump start the economy and subsequently set the stage for sustained growth. But the growth momentum was disrupted by the Ethio-Eritrean border conflict which ended in November 2000. This was followed by minor weather related shocks in 2001/02 and the second biggest drought in the history of this country in 2002/03.

Taking all this in to consideration, in terms of growth performance, the period up to 2002/03 could be characterized as the period of trend growth. In other words, no significant shift had been witnessed in realizing the full growth potential of the economy during this period. Fourthly, the period since 2003/04 has witnessed a significant shift in the growth path of the economy and has been maintained since then even the midst of the global financial and economic crisis that set in by the end of 2007. Not only this, a relative shift in the sources of growth has also been witnessed as growth has been complemented by strong performance in the industrial sector (particularly construction and manufacturing) and service sectors (such as real estate and banking and insurance). However, this period of growth boom has been accompanied by immediate twin macroeconomic challenges which threaten the future growth prospect of the economy as noted above. Accordingly, the next section is devoted to outlining structural factors that may impede the growth momentum of the Ethiopian economy in the years to come.

On Commitment 1: Fostering People Centered Policy Framework

Growth is central in any Government's endeavor to reduce poverty. One of the MDGs related to the growth performance of the economy is achieving Goal 1 of the MDGs. Pursuing broad-based growth through focusing on agriculture and rural development has been at the centre of Ethiopia's poverty eradication agenda. Based on the analysis of the 2004/05 Household Income Consumption Expenditure Survey (HICES), growth has been translated into significant poverty reduction, particularly in rural areas. Real per capita Consumption expenditure of average Ethiopians has increased by 50 percent on average over its level in 1995/96. This has resulted in a notable decline in poverty incidence from 47.5 percent in 1995/96 to 39.3 percent in 2004/05 in rural areas. Poverty gap index also declined from 13.4 percent to 8.5 percent in rural areas during the same period – signifying a decline in the depth of poverty. On the other hand, urban poverty incidence has increased from about 33 percent in 1995/96 to about 35.1 percent in 2004/05 although the depth of poverty has declined from 9.9 percent in 1995/96 to 7.7 percent in 2004/05.

The poverty analysis work based on the 2004/05 HICES has pointed out that the growth impact of poverty reduction has been dampened by increased inequality particularly in urban areas as reflected by the significant increase in the Gini Coefficient (a measure of inequality) from 0.34 in 1999/00 to 0.44 in 2004/05. The increase in poverty incidence in urban areas has to a large extent been attributed to increased income inequality. On the other hand, in rural areas, inequality as measured by the Gini Coefficient has declined from 0.27 in 1995/96 to 0.26 in 2004/05. That seems to be the reason for the significant decline in income poverty in rural than in urban areas. The poverty analysis work based on the 2004/05 HICES also showed that the inequality elasticity of poverty stood at 1.8 in 2004/05. This means that as inequality measured by the Gini Coefficient increases by 1 percent (other things equal), poverty head count increases by 1.8 percent. This indicates that the Government has to undertake broad-based and pro-poor programs (such as the urban housing programs and Small and medium enterprise developments) in a more structured manner to redress inequalities through neutralizing the poverty increasing impact of inequalities in urban areas

Sustaining the hitherto achieved growth, among others, is central to achieving Ethiopia's development objectives. The on-going investment expansion in growth enhancing sectors: Roads, Telecommunication including Information Communication Technology (ICT), Power Sector Development including Universal Electricity Access Program (UEAP) and Irrigation development is meant to sustain the recent growth momentum in the coming years. The last three years commencing in 2005/06 has also witnessed the initiation of programs/projects with particular focus on urban areas.

The narrow base of the modern industrial sector in terms of job creation in the face of rural-urban migration may have contributed to increased poverty level in urban areas.

Table 3.2: Poverty in Ethiopia: 1995/96, 1999/2000 and 2004/05

Year/Period	National			Rural			Urban		
	P ₀	P ₁	P ₂	P ₀	P ₁	P ₂	P ₀	P ₁	P ₂
	Level								
1995/1996	0.455	0.129	0.051	0.475	0.134	0.053	0.332	0.099	0.041
1999/2000	0.442	0.119	0.045	0.454	0.122	0.046	0.369	0.101	0.039

2004/2005	0.387	0.083	0.027	0.393	0.085	0.027	0.351	0.077	0.026
Percentage change (Percent)									
1995/96-1999/2000	-2.7	-7.7	-12.2**	-4.3*	-8.9**	-12.9*	11.1	2.0	-7.1
1999/2000-2004/05	-12.4**	-30.0***	-39.8***	-13.4***	-30.8***	-40.6***	-4.7	-23.6***	-33.5***
1995/96-2004/05	-14.8***	-35.4***	-47.1***	-17.1***	-37.0***	-48.3***	5.9	-22.1***	-38.2***

Source: MOFED, 2008

There have been significant developments in terms of pro-poor activities in urban Ethiopia since 2005/06. The on-going SME development activities, the urban Low Cost Housing Programs and the recently introduced Women and Youth packages are aimed at addressing urban poverty. The urban housing program complemented by the small and medium enterprise development is primarily aimed at achieving two objectives in tandem: addressing the housing problem and job creation for the urban unemployed, particularly the youth.

Given that these interventions have been introduced recently, it is too early to judge what impact they will have on the conditions of the urban poor. But judged by what is already in the pipe line in the areas of urban development and housing and Small and Medium enterprise development across towns in Ethiopia, conditions for urban slum dwellers is expected to improve significantly in the remaining 7 years. Thus, there is a reason for optimism regarding the target of improving conditions for urban slum-dwellers. But the impact of the current inflationary pressure coupled with the consequences of the global economic slow down may have an offsetting impact on the on-going effort to reduce urban poverty in Ethiopia. This is the central theme of this paper and will be pursued in the subsequent chapters of this paper.

The Government's commitment towards poverty reduction and its ultimate eradication via pursuing broad-based pro-poor growth has been and still is very strong and well grounded. The policy and strategy framework across sectors has taken poverty reduction as their central objective. The Agricultural Development Led Industrialization (ADLI) strategy seem to have begun to bear fruit as reflected in the shift in the growth trajectory of the Ethiopian economy during the last five years ending in 2007/08. There seem to be a sign of hope to transform subsistence farmers into producers of high value crops. The Government has put in place credible and functioning policies, strategies and programs that reflect the realities of the country. The focus on human capital formation, infrastructure expansion, addressing vulnerability to shocks, the decentralization and empowerment process, the capacity building program are all aimed at speeding up the transformation process on all fronts given the backlog of developmental deficits this country had incurred in the past. The developmental approach is holistic and all rounded.

Overall, Ethiopia is well poised to meet the MDGs if on-going efforts are sustained and scaled up during the remaining seven years. It is particularly worth noting that Ethiopia is on track to meet the education MDGs even with current trends. The Health, water and sanitation MDGs are also within its reach given the ongoing innovative programs such as the Health Extension Workers Program and the Universal Access Program in regard to achieving Water and Sanitation MDGs provided resources are scaled up in the spirit of the MDGs.

On Commitment 2: Good Governance at National and International Level

A core part of the PASDEP strategy is to strengthen the capacity of the public services, to build new institutions to serve the people, and to improve service delivery. These include the national Capacity-Building program, civil service reform, including Business Process Reengineering, judicial reform, and building the institutions needed to safeguard people's basic right, such as the Ombudsman, Human Rights Commission and Anti-Corruption Commission. These are seen not as mere bureaucratic reforms, but are meant to establish the fundamental institutions Ethiopia needs for effective government in the long term.

A major part of PASDEP has been to continue to give greater power to *Woredas* to implement development plans based on local priorities; and giving more autonomy to city administrations and municipal governments. Among the challenges are: strengthening the *Woreda* and local governments so that they have the capacity to manage and deliver quality services; getting enough good, qualified staff, and finding ways of effective communication between people and government, especially in the rural areas.

Decentralization and Empowerment: Subsequent to the adoption of the Federal Constitution in 1995, the Government of Ethiopia has laid out the goal of promoting democracy and economic development through a decentralized federal administration. The intent was to empower the people to exercise self-rule at different levels and advance their collective socio-economic interests. An equally important goal was to empower hitherto disadvantaged and marginalized groups to fully and actively participate in the political process through democratic representation and election.

The District-level Decentralization Program (DLDP) launched in 2002/03 has articulated the responsibilities of *Wereda* structures for services delivery. In the governance realm, there have been improved signs of responsiveness to the service needs of the people and heightened accountability by elected officials and administrators at *Wereda* levels of government.

Devolving power and authority to *Weredas* have been key to local empowerment and meaningful self-government in Ethiopia. In recognition of this, the Government has launched the expanded program of *Wereda* decentralization, otherwise known as District-Level Decentralization Program (DLDP) in 2002/03. This is an important measure that has added to the institutionalization of democratic governance and participatory development that could adequately respond to the needs of the people.

There have been significant strides in public services delivery at the *Wereda* level. Primary and secondary education enrolments have significantly increased in many regions. Access to modern health services and supply of clean drinking water has substantially improved. Noticeable successes have been registered in rural and urban roads; expansion of agricultural extension services; registration and certification of farm land; water wells and small-dams construction; and provision of fertilizers and selected seeds to rural farmers.

There have been significant improvements in openness and accountability in *Wereda* governments. *Wereda* officials have improved the quality of public services by taking the opinion of the public into account. In addition, *Wereda* councilors have become more responsive to the needs of the citizenry.

The District-level Decentralization Program (DLDP) in 2002/03 has helped to partially overcome challenges in devolving power and responsibilities down to *Wereda* government levels. There has been an easing of the excessive concentration of governmental power at regional levels with more autonomy and decision making authority having been devolved to *Weredas*. Measures have been taken to address the limited administrative and budget capacity of *Wereda* governments that have hampered efforts for self-rule and local decision making.

Kebele administrative units are the lowest tiers of government very close to the people. Their proximity to the people gives them a unique advantage to be responsive and relevant to community needs. Nevertheless, there is the need to improve the autonomy and the institutional strength of *Kebele* administrations.

Community participation in planning and prioritizing local needs has been heightened through *Wereda* decentralization. There is now an enhanced opportunity for the community to contribute their share in poverty reduction-related program such as education, health services, environmental conservation and the like. Although improvements are noticeable, disparities in institutional and human resource capacities especially in ‘emerging regions’, a legacy of marginalization in the past, need to be addressed. In this regard, it is worthwhile to mention that efforts that have been underway to deal with the shortage of skilled indigenous personnel and build leadership and planning institutions for the execution of development programs need to be strengthened.

Measures for Promoting and Protecting Rights of Women:

Following the adoption of the FDRE Constitution in 1995, various laws have been amended to harmonize subordinate laws with the Constitution. The laws that are amended include the Family law that used to be part of the 1960 Civil Code of Ethiopia (currently known as the Revised Family Law of Ethiopia) the Pension law, the Nationality law, as well as the Criminal law. Furthermore, the civil service law as well as the labour laws have provided for the equal rights of women in employment and protection of maternity rights, as well as the right to be free from workplace violence.

The Penal Code of 1957 entitled the Criminal Law after its revision in 2004 also strengthened existing provisions and added new provisions to protect women from HTP including FGM, as well as from sexual offences committed on minors and adult women. Furthermore, the Revised Criminal Law explicitly prohibited domestic violence against women

Measures towards enhancing Participation of Women in Society:

Efforts have been made to improve the participation of women in decision making in Ethiopia. For instance, the number of women in the parliament as well as Regional councils has increased over time. There was an encouraging increase in women’s representation in parliament in the 2005 election when close to 22% of the seats were won by women. Women’s roles in parliament have also gained importance. The Women’s Standing Committee was created during the 1995 - 2000 parliaments and it is one of the 13 parliamentary committees.

In the first two parliaments women were only members of the Women's Committee whereas in the current parliament women represent 27% of the parliamentary committee members across all committees. Moreover, three women are chairs of committees and two are deputy chairs.² The leadership role of women in parliament has improved compared to the last two parliaments, but this is by no means adequate.

Although the large majority of women parliamentarians are still from the ruling party (107 of 116) a few women opposition members are represented in the parliament for the first time in Ethiopia's history.

Data from the Election Board shows that 4 of the Regional councils have passed the 30% threshold for women's representation. These are *Oromia, Tigray, Amhara* and *Harari*. *Oromia* and *Tigray* are getting close to the 50 % parity.

Promotion and Protection of the Rights of Children and Youth:

The Ethiopian Constitution recognizes many of the important rights of children. Subordinate laws – including the Family Code and the Criminal Code – have been amended with a view to better enforce the rights secured for children in the Constitution.

Ethiopia has also ratified major international conventions that seek to safeguard the rights of children. These include the Convention on the Rights of Children and the African Charter on the Rights and Welfare of Children.

The Ethiopian government has also made efforts to create institutions that implement domestic laws and international instruments that protect the rights of children. Among these is the Ministry of Women's and Children's Affairs. On the practical plane, it should be recognized that the plight of children has significantly improved over the last decade. Many more children are attending school and intensive efforts that target childhood illnesses have largely been successful.

Implementation of Transparent, Predictable and Credible Government Economic Policies:

The country has taken important measures to make public administration, legislative system and fiscal authorities work effectively and in a transparent manner. These include: (i) the important role of the House of Peoples' Representatives in the budget process for some key elements in ratifying the Federal budget; (ii) the budget of the Office of the Auditor General has to be approved by the House of Representatives; and, (iii) there are over ten laws, Proclamations and regulations for effective and transparent public financial management. Moreover, Ethiopia has effective operational procedures for internal and external audits. There is a well developed organizational structure of the Office of the Federal Auditor General (OFAG). The OFAG is a member of the International Organization of Supreme Audit Institution (INTOSAI) and uses INTOSAI code and ethics and auditing standards in carrying out its duties.

Promotion of Sound Financial Management:

² Social, Infrastructure and Women's Committee are chaired by women. The deputy chairs of the Legal and Women's Committee are also women.

There has been a relatively long and successful track record of public financial management (PFM) reform in Ethiopia. Current reforms are encapsulated in the Expenditure Management and Control Program (EMCP), which started life in the 1990s bringing together eight individual PFM reform projects. Since then both the size and scope of the EMCP has grown. In 1998, the EMCP was subsumed under the Civil Service Reform Program (CSRP). Public financial management (PFM) reforms are seen as a vital element of enhancing civil service delivery. CSRP has itself now been subsumed into the multi-sector Public Sector Capacity Building Program (PSCAP).

Government leadership and ownership regarding ongoing PFM reform efforts are both high. Reform processes in Ethiopia need to be understood against the policy context; the government believes that issues around poverty and growth are best addressed through governance systems that empower people at the grassroots level. The Public Sector Capacity Building Program (PSCAP) is thus seen by many as a process that enables democratization by building capacities at the local level.

The Government has set out the institutional framework and the basic principles of fiscal federalism. Accordingly, major revenue sources to be under the federal and regional governments have been specified by law. Allocations from the central government budget appropriations have been a significant and often predominant source of funding for regional authorities in Ethiopia. The central government's control over most lucrative revenue sources has been a contributory factor to the dependence of the regional governments on central grant transfers.

The Government uses the weighted method approach to allocate grants among regional governments. The formula consists of several variables, including population, level of development, own revenue to budget ratio, revenue collection effort and development indicators, such as level of poverty. These variables have been regularly revised to factor in the different need and concerns of regions. Key challenges in fiscal federalism relate to lack of consensus on the grant formula; federal government dominance of inter-governmental expenditure and revenue management; weak revenue base of regions; inadequate borrowing authority by regions rationalized on macroeconomic stability grounds; and weak capacity of regions to mobilize resources for local economic development and service delivery.

Combating Economic Corruption:

In Ethiopia, the anti-corruption battle and the formulation of anti-corruption policy have been spearheaded by the Federal Ethics and Anti-Corruption Commission (FEACC) established in 2001. This is the first ever measure by the country to institutionalize the fight against corruption.

The Government of Ethiopia follows a zero tolerance policy towards official corruption. Persecution and sentencing of several high profile corruption cases point to the Government's determination to stamp out corruption in public life.

A draft bill and a policy document have been prepared to register the incomes and property of high-level politicians and senior public servants. The draft bill and policy document are currently

awaiting endorsement by parliament and will hopefully be operational across government at all levels. Since its establishment the FEACC has launched vigorous anti-corruption efforts. To date the Commission has received more than 11,000 tips. In 2006/07 alone, FEACC had 250 individuals sentenced to jail for terms ranging from 1-19 years. There are 185 pending court cases involving corruption in the High and Supreme Courts. The Government believes that civil society organizations are important stakeholders in the fight against corruption and impropriety. Hence, it wishes to encourage their participation in the fight against corruption. This view is overwhelmingly supported by the findings from a panel of expert's opinion survey conducted for this study - a welcome sign for the two sides to work together in the battle against corruption.

On Commitment 3: Building Human and Institutional Capacities

In regard to *Education MDGs*, Ethiopia is well on track to meet Goal 2 of the MDGs. Primary school gross enrolment has risen from 32 percent in 1990/91 to 95.6 percent by the end of 2007/08. Primary school (1 to 8) net enrolment reached 83.4% during the same period (end of 2007/08). The number of children in school has more than tripled from 3.8 million in 1995/96 to over 15 million in 2007/08; and most of them are completing school. At the same time, the gender parity has improved dramatically and ratio of girls to boys in first cycle primary reached 0.91 by the end of 2007/08, and many more of the poor are currently attending school.³

These impressive results have been achieved through a massive nationwide effort on education. The Government has made achieving universal primary education a central plank of public policy. To this effect, public spending on education has increased by 170 percent in real terms in the decade between 1996/97 and 2006/07 (MOFED, 2008), and successive five year nationwide Education Sector Development Programs (ESDP) have been implemented. ESDP I and ESDP II had been already implemented while ESDP III (2005/06-2009/10) is currently in its last year of implementation.

Ethiopia realizes that increasing the coverage of education is only part of the battle. In recent years, the push to increase coverage has been accompanied by a national program to improve the quality of education delivered, to keep children in school and reduce drop-out rates and to ensure the relevance of the curriculum. The foregoing efforts are beginning to show results in terms of increased completion rates including the other target under Goal 2 as well as improved literacy.

The other challenge is equity which needs to focus on redressing the gap in access between advanced regions on one side and underserved regions on the other. For instance, in 2007/08, primary school gross enrollment rate in Afar and Somali regional states each stood at 24 percent and 42 percent, respectively of the national average enrolment rate of 95.6 percent. With overall gross primary enrolment rate of 80 percent, *Dire Dawa* fell short of the national average enrolment rate by nearly 12 percentage points. The rest of the regional states including Addis

³ Note that, benefit-incidence data, and results of household surveys both show that the proportion of poor Ethiopians going to primary school has been increasing.

Ababa with gross primary enrolment rate(GPER) of 146.6 percent all fare above the national average for the same year⁴.

Ethiopia is well on track in achieving the Goal of universal primary education by 2015. As Ethiopia approaches the 100 percent enrolment level, it may become harder to reach those who have been left behind. These include pastoral and semi-pastoral communities, living in remote areas, and the very poor. Ethiopia is addressing this by launching a program of special interventions under PASDEP which include development of non-formal education programs for out-of-school youth, construction of mobile and community schools for pastoral areas, and launching a national program of Alternative Basic Education (ABE). At the same time, increasing the quality of education and reducing drop-outs rates and repetition rates remain a challenge. This is being addressed through a combination of upgraded teacher training, and better student-teacher ratios, as well as textbook and curriculum reform which are currently well underway.

With regard to promoting gender equality and empowerment of women, the Government of Ethiopia has undertaken major steps to improve the status of women, and to integrate them more fully into the development process. A massively scaled up effort is being undertaken as part of the PASDEP to release the untapped potential of Ethiopian women. Direct interventions include: (i) major efforts to get more girls into school and ensuring that they complete school, with a target of gender parity by the end of the 5-year period; (ii) major efforts to improve women's health, through an extensive program of health extension workers who will get down to the village and family level; and a nationwide Making Pregnancy Safe Program to ensure healthier pregnancies and the safer delivery of babies; (iii) liberating girls' and women's time from the unproductive hours spent fetching water, by making water supply available within 0.5 km. for 85 percent of the population by 2010; (iv) adapting economic programs to be more responsive to women clients, including a wide range of programs designed to boost productivity; including agricultural extension, micro-credit, natural resource management, and small business promotion; and, (ii) continuing legislative and institutional reforms to protect the rights of and open opportunities for women, including implementation of the National Action Plan for Women.

Safeguarding rights such as access to land, credit, and other productive resources are central to the strategy, as is protecting women from the multiple forms of other deprivations, such as longer working days, and violence and discrimination against women which are still widespread in the country. Specific steps in recent years have included a program to register the names of both spouses for land certification, revision of the Penal Code to outlaw Female Genital Mutilation (FGM), and adoption of specific laws against gender-based violence.

Ethiopia is one of the few handful countries in the developing world that has quotas for affirmative action for women in leadership and politics. The number of women representatives in the House of People's Representatives (HPR) reached 117 by the end of 2007 and the proportion of elected women at regional council level has increased to 40 percent in the

⁴ Ministry of Education (MoE), 2008): Current Status of Girls Education in Ethiopia. Paper presented at the National Women's Meeting Organized by the Federal Ministry of Women's Affairs on Gender and Educational Equity.

relatively economically better off regions, although it still lags far behind in emerging and less-developed regions. In addition, a significant number of initiatives are underway, including the National Action Plan on Gender, which forms the core of the gender strategy under PASDEP, as well as analytical initiatives such as a gender budget analysis, and strengthening gender-disaggregated data reporting to better inform policy.

These policy measures have been complemented by conscious choices to promote the participation of women in essential public services, for example in education. The number of girls in primary school has risen by over 4.6 million in the last ten years, representing an increase of 420percent since 1995/96. In secondary education it has more than doubled, and in tertiary education has increased by over six-fold. The target to ultimately deploy 30,000 Female Health Extension Workers (HEWS) has been met in December 2008. A total of 30,190 HEWS were trained which enabled the provision of services directly to women at the community level (FMoH, Health Extension Program Report, 2008). With respect to the target of gender parity by 2015, the ratio of females to males has risen to 0.91 by the end of 2007/08 for the primary first cycle education, and to 0.78 for the second cycle and secondary education.

With regard to Child Health, the national policy framework in the health sector includes the National Child Survival Strategy, which has set the overall objective of reducing under-five mortality to 63/1,000 by 2015 to the level needed to achieve the MDG. The strategy addresses the major causes of child mortality that account for 90 percent of under-five deaths i.e. pneumonia, neonatal conditions, malaria, diarrhoea, measles, malnutrition and HIV/AIDS. As noted in the recent Africa-wide review of progress on the MDGs by the UN Economic Commission for Africa (UNECA) and the African Union⁵ (AU), Ethiopia is one of the few countries to have made significant progress in reducing child mortality in recent years

Many of the measures outlined above to achieve the reduction of child mortality are also similarly needed for improving maternal mortality, for example, providing essential health services geared especially to the needs of mothers and young children, expanded coverage of rural outreach programs, and the recent innovative approach in the delivery of a package of health services in rural areas through female health extension workers are helpful in this regard. In addition to these, there are two specialized programs: Making Pregnancy Safe and Integrated Management of newborn and Childhood Illnesses. These are central to improve maternal and child health. The Government's emphasis on female education is also an important aspect of the strategy for improving maternal health outcomes; while the intensified program of reproductive health and family planning is intended to reduce the number and frequency of pregnancies.

The other target under the goal of improving maternal health relates to access to reproductive health. The contraceptive prevalence rate has risen from a little over 4 percent of married women in 1992/93 to about 51 percent by the end of 2007/08. While this is a tremendous achievement, it still leaves Ethiopia below the level needed to have a major impact on both population growth rates and the levels of maternal mortality. The still low levels of contraceptive prevalence rate are indications that there are unmet demands for family planning services especially in rural

⁵ Assessing Progress towards the Millennium Development Goals in Africa – 2008; the UN Economic Commission for Africa, African Union Commission, and African Development Bank, 2008.

areas. However, given the trend, there is reason for cautious optimism, since the improvements of the last decade have been driven by changes in demand pattern for services- owing to more urbanized and better educated women – combined with a major effort to improve the availability of safe and reliable family planning services.

In regard to HIV/AIDS, the prevalence of HIV infection in Ethiopia which stood at 2.1 percent in 2006/07(MOFED, 2008) is not as high as in many other African countries. However, given the large population, this means that there are still an estimated 1.1 million people living with HIV/AIDS, and the number of orphans (estimated at over 800,000) is particularly high. Cognizant of the potentially huge devastating impact of the HIV/AIDS epidemic, the government's response was initiated as early as 1985. A national AIDS Policy was issued in 1998 and the Strategic Framework for the National Response was updated in 2002. With a significant infusion of funding from both domestic and international sources, progress in reducing prevalence rates is now being recorded, and many of the necessary national and local-level structures are now in place and functioning to provide effective programs for prevention, treatment, and care.

Recent data suggest that Ethiopia has not only achieved the goal of halting the rise in the incidence of HIV/AIDS, but appears to be experiencing the beginnings of a decline⁶. While there is variance between areas, many of the sentinel sites used to measure AIDS prevalence report a decline between 2003 and 2005; and the estimated and projected levels of AIDS prevalence suggest that it peaked in the late 1990s and showed a slow decline since 2000. Furthermore, Ethiopia is making significant progress in coverage of anti-retroviral treatment and in programs of prevention and support for people living with HIV/AIDS. The most recent data indicate that almost 50 percent of people living with HIV/AIDS who are eligible for treatment (134,000) are now receiving anti-retroviral treatment from almost none just four years ago⁷. Does this mean that one can be complacent about the HIV/AIDS situation? No, there are still new cases emerging daily; and relaxing the major programs of intervention could easily result in a reversal of the recent positive trends.

On Commitment 4: Building Productive Capacities to Make Globalization Work for the Least Developed Countries

As has been already noted, there have been and still are programs that are already in the pipe line to improve the productive capacity of the economy in a coordinated and concerted manner. The National Capacity Building Program initiated in 1998 particularly the Civil Service Reform Program is meant to address limited implementation capacity (both public and private entities) and improve access and quality of service delivery; the development of irrigation infrastructures to insulate small holder farmers from drought shocks; private sector development and export diversification to address term of trade shocks; expansion of infrastructure such as roads, telecom, power and irrigation for enhanced private sector expansion and its external competitiveness; expansion of education of farmers (enhanced labor productivity); improved access to menu-based extension (increase productivity of land); efforts to streamline and

⁶⁶ MoFED, 2007. Op. cit.

⁷ MoH/HAPCO, 2008.

strengthen the marketing system for agricultural outputs and inputs(through commodity exchange system); and the on-going small and medium enterprise(SMEs) development complemented by the formulation and implementation of women and youth packages to address the unemployment and underemployment problems. Given these ongoing efforts, the challenges may not be insurmountable.

The on-going preoccupation on small and medium-enterprise development (SMEDs) with the necessary interface with Technical Vocational Education Trainings (TVETs) is aimed at creating job opportunities for the youth. The urban low cost housing program initiated recently is also aimed at achieving two objectives in tandem: addressing the housing problem and creating jobs. The on-going youth and women's package is also aimed at addressing the employment agenda. More importantly, the government strongly believes that the private sector should be the engine of growth as well as the biggest and ultimate employer. The hitherto effort in expanding infrastructure and human capital is all meant to create a conducive environment for the operation of the private sector which in turn would help expand employment generation. One of the pillar strategies of the PASDEP is job creation.

On Commitment 5: Enhancing the Role of Trade in Development

Ethiopia is a founding member of the Common Market for Eastern and Southern Africa (COMESA), which was formed in December 1994. The COMESA is one of the pillars of the African Economic Community. Although Ethiopia has signed and ratified several COMESA legal instruments and protocols, it is still not a member of the Free Trade Area (FTA) arrangement.

The country has not kept pace with the agreed liberalization of trade, i.e. of a zero percent tariff in order to join the FTA. However, Ethiopia has completed studies and consultations concerning the proposal to join the FTA, which is being considered by the Government. Ethiopia is still in a process of studying the benefits of joining the FTA, as joining the FTA might lead to loss of revenue and closure of small industries because of its level of competitiveness.

Nonetheless, Ethiopia, as a non-FTA country still conducts substantial trade with the FTA COMESA countries on preferential terms determined by the level of tariff reduction. Accordingly, the country's intra-COMESA exports is about 10 percent of total global exports and intra-COMESA import amount to about 8 percent.

Ethiopia has signed and ratified the following COMESA Legal instruments and Protocols:

- The Regional Customs and Bond Guarantee;
 - The Charter establishing the Federation of National Associations of Women in Business in Eastern and Southern Africa;
 - The Protocol for the Establishment of the Fund for Cooperation, Compensation and Development;
 - Protocol of the Rules of Origin;
 - The Charter on a Regime of Multinational Industrial Enterprises (not ratified);
- and,

- The Charter for the establishment of a Metallurgical Technology Centre (MTC) (not ratified).

In regard to benefits of participation, Ethiopia participates in the Generalized System of Preferences (GSP) and is also a member of the Intergovernmental Authority on Development (IGAD). Exports originating in Ethiopia are eligible for benefits under the Africa Growth and Opportunity Act (AGOA). *Customs duties generally range from 0 percent to 35 percent.* Tariffs levied on goods originating in COMESA member states are reduced to 10 percent. Ethiopia has completed national studies and consultations concerning the proposal to join the FTA, which is being considered by the Government of Ethiopia.

With regard to challenges and lessons drawn, the challenges for Ethiopia from participating in COMESA are twofold:

Firstly, Ethiopia has **not kept pace** with the agreed liberalization of trade, i.e. of a zero percent tariff in order to join the Free Trade Area (FTA) and the country is still not yet a member of the FTA arrangements. A free trade area is defined as a grouping of countries which agree that goods produced by them can be traded without payment of customs duties or charges. Descriptions of goods which are eligible for duty treatment are agreed in a set of Rules of Origin. The countries also agree to eliminate all non-tariff barriers (NTBs) to trade among them. However, Ethiopia, as a Non-FTA country conducts trade with the eleven FTA COMESA countries on preferential terms determined by the level of tariff reduction,

Secondly, the Government is in the process of studying the benefits of such FTA arrangements to the country. There is understanding that at this stage of development, joining the FTA might lead to loss of revenue and closure of small industries because of the level of competitiveness. As to lessons learned from participating in COMESA, the Government has conducted a couple of studies in the past to determine the costs and benefits of joining the FTA. More importantly, the Ethiopian Development and Research Institute (EDRI) is currently finalizing a study on COMESA-FTA membership, which may serve as a background document for final decision

With regard to foreign relations in trade and investment, Ethiopia coordinates the China Africa Forum, in November 2006, the Chinese President visited Ethiopia and the visit has further strengthened Ethio-Sino ties. Aside from trade, Ethiopia has benefited from Chinese investment in the areas of personnel training and infrastructure construction. Future growth in the energy sector is anticipated, owing to investment in water resources by both domestic and foreign players. Investment in the energy sector is also likely to further exploit Ethiopia's hydroelectric power potential as well as develop much needed irrigation.

Consistent with regional economic objectives, the government of Ethiopia has liberalized its trade policy and greatly improved the investment environment for attracting both foreign and domestic investors. Investment incentives include:(i) Exemption of customs import duty on capital goods, (ii) Exemptions/reductions of customs import duties on raw materials, (iii) Adoption of competition policy and trade practice law, (iv) Duty incentive schemes (duty draw back scheme, the Voucher Scheme and the Bonded Manufacturing Warehouse Scheme), (v) Exemption of Ethiopian produced export commodities from payment of export tax and additional

export taxes; and, (vi) Income Tax Holiday for new investments, expansion and upgrading of projects in the manufacturing and agro-industry.

Investment opportunities in the agricultural sector include: the commercial production of food crops, production and processing of coffee and tea, as well as cotton, horticulture, livestock and fisheries.

Investment opportunities in the mining sector include: the production of gold, tantalum, platinum, nickel, potash, natural gas and soda ash. Ethiopia's gold reserves present a particularly attractive investment opportunity in the mining sector. Investment opportunities in the telecommunication sector by foreign investors must be a joint venture with Government. Only domestic investors can undertake investment in the financial sector.

Growth in the manufacturing sector is currently being promoted by the Industrialization Development Strategy (IDS), which aims to identify and implement strategies aimed at developing priority sub sectors. Investment opportunities have been identified in the textiles and garments, food and beverages; leather products and electronics; building materials, non-metallic minerals and metallic sub-sectors. The Ethiopian Investment Agency (EIA) is a one-stop-shop responsible for promoting, coordinating, and facilitating foreign direct investment (FDI) in Ethiopia. Facilities offered by EIA include: approving investment applications and work permits; company registration; issue of trade and operating licenses and advice and after care services among others. The Ministry of Trade and Industry addresses issues related to private sector development and trade. The enhancement of trade opportunities have been facilitated by the Export Promotion Agency (EPA), and the country's trade policy has been liberalized as a prerequisite for membership to the WTO.

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. Based on the Foreign Trade Regime of Ethiopia, a document was sent to the WTO Secretariat, and also 1st round questions that are forwarded to the Ministry of Trade and Industry have been reviewed and responses have been prepared and sent to WTO secretariat. In the process of acceding to WTO implication of the accession should be assessed based on additional documents (Acc4, Acc5, Acc8, and Acc9). These are prepared by comparing the template obtained from UNCTAD. Furthermore, with support from the World Bank and IF, a study has been carried out on subsidy and counter-veiling measures, and also anti-dumping and safeguards studies are also in progress.

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 to implement the findings of the Diagnostic Trade Integration Study (DTIS), which include recommendations in the areas of diversification, removal of trade constraints, and strengthening the capacity of trade support organizations.

Ethiopia's achievements that support regional economic integration include the following, among others:

- Implementation of prudent trade policies and reforms continues progressively with the aim to join the WTO. A Memorandum on Foreign Trade was submitted to the WTO Secretariat in December 2006 and was circulated in January 2007;
- Enhancement of Intellectual Property Rights of Ethiopian coffee in the regional and global market. Ethiopia has undertaken the task of trade marking its coffee brands namely *Sidamo*, *Harar* and *Yirgacheffee* in 40 countries in an effort to gain leverage in the global market;
- Ethiopia is becoming a regional hydroelectric energy power and has undertaken bilateral agreements to foster interconnectivity with Djibouti and Kenya;
- Ethiopia is a potential regional air transit hub and is expanding its cooperation with regional airline companies.

On Commitment 6: Reducing Vulnerability and Protecting the Environment

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. Land is the critical resource and the basis of survival of all Ethiopians. Land degradation is a serious problem that may hamper Ethiopia's development effort if it continues unabated. Addressing land degradation in its various forms is one important dimension of Goal of the MDGs.

With regard to Goal 7 of the MDGs, environmental sustainability has become a particularly critical issue for Ethiopia, especially since the majority of the poor depend directly on the natural environment for their livelihoods. There exist three key elements under Goal 7 that are more relevant to the case of Ethiopia: (i) access to safe drinking water; (ii) reversing soil and forest degradation; and (iii) improving the conditions of urban slum-dwellers. With regard to access to safe drinking water, it is particularly encouraging to note that the proportion of the population in rural areas with access to clean water has nearly tripled since the early 2000 (from 23 percent in the early 2000 to 66 percent by the end of 2008/09). Given the on-going universal access program, and given current trends, Ethiopia seems to be on track to reach the MDG target of halving the numbers of population without access to clean water by 2015.

When it comes to forest/soil degradation and biodiversity, some encouraging progress has been made but there remain major challenges such as: the fragile initial conditions, combined with major population pressure, mean that the government and communities need to fight a continuous battle to halt and reverse the degradation of soil and forests.

In this regard, Ethiopia's strategy, as laid out in the PASDEP, revolves around: (i) ensuring community led environmental protection and sustainable use of environmental resources as well as paying attention to gender equity and improved livelihoods; (ii) rehabilitating affected ecosystems and enhancing the capacity of ecosystems to deliver goods and services, particularly biomass, for food, feed, and household energy; (iii) Preventing environmental pollution; integrating environmental objectives, including mainstreaming gender equity aspects in all development activities. Programs to implement this strategy include water harvesting, reforestation, composting, improved use of fertilizers, and diversification of fuels away from

reliance on firewood and charcoal. A particularly successful campaign during the past year has been the launch of a program to plant two trees for every Ethiopian during the Ethiopian Millennium year of 2007/08, which is now being extended and scaled up.

The first part of the goal, which is defined as “**integrate the principles of sustainable development into country policies and programs to reverse the loss of environmental resources**” will be met, and has in a sense already been met, with the implementation of Ethiopia’s cross-cutting nation-wide environmental strategy. Measuring specific progress on the second part of the Goal, (“**reduce biodiversity loss, achieving by 2010 a significant reduction in the rate of loss**”) however seems to be difficult, because of the early stage of development of systems to measure, for example, forest cover and biodiversity on a consistent basis.

With regard to tackling urban poverty, Ethiopia has already begun to face the challenges of increasing urban poverty and squalor prevalent in many other parts of the developing world owing to the changing steady movement of people into towns, resulting in the beginnings of over-crowding, the growth of slums, and youth unemployment. The objective during the PASDEP period and beyond has been and is to achieve the goals of the National Urban Development Policy, which include:

- Reducing urban unemployment to below 20 percent in those towns with a population of at least 50,000 through support for small and micro enterprises and acceleration of the creation of urban-based employment, including vocational and technical training programs; a community-based and labor-intensive urban works program; expanding micro-finance institutions; and providing market support and serviced premises for small and micro-enterprises;
- Creating jobs and access to serviced land and urban infrastructure and services by designing urban infrastructure program and experimenting with alternative standards and management approaches; improving urban land management; and implementation of solid waste disposal and water-borne sewage disposal systems in the 6 major cities; and,
- Improving rural-urban linkages, to better integrate the flow of people and resources between cities and the rural economy, and take advantage of the opportunities created by developing small towns and rural growth poles.

Given that these interventions have been introduced recently, it is too early to assess what impact they will have on the conditions of the urban poor. But judged by what is already in the pipe line in the areas of urban development and housing and Small and Medium enterprise development across towns in Ethiopia, conditions for urban slum dwellers is expected to improve significantly in the remaining 6 years of the MDGs. Thus, there is a reason for optimism regarding the target of improving conditions for urban slum-dwellers.

On Commitment 7: Mobilizing Financial Resources

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.

On the domestic front, the Government has been determined and still is to lay the foundation for strong revenue performance via rendering the domestic productive sectors of the economy (agriculture & industry) the revenue base of the country. Although domestic revenue, particularly tax revenue, has increased significantly in recent years, the available resource has not matched the rising level of financing requirements. Accordingly, as shown in Table 3.3 below, tax revenue has increased more than three-fold from 6.9 Billion Ethiopian Birr in 2000/01 to nearly 24 Billion Ethiopian Birr by the end of 2007/08. This is tantamount to an annual average increase of about 31 percent per annum during the period. Total expenditure requirement increase from nearly 17 Billion Ethiopian Birr to nearly 47 Billion Ethiopian Birr during the same period. This shows that expenditure requirement has increased at average rate of 22 percent per annum during the same period.

Table 3.3: Recent Developments in Public Finance (In Millions Ethiopian Birr)

Items	2000/01 Actual	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Pre. Actual
Domestic Revenue	10349.3	10409	11149	13917	15582	19530	21797	29794
O/w: Tax Revenue	6905.7	7926	8243	10906	12398	14159	17354	23801
External Grants	2890.5	2424	4554	4002	4565	3732	7583	9911
Domestic Revenue & Grants	13239.8	12832	15703	17918	20147	23262	29381	39705
Recurrent Expenditure including SP	11013.2	11526	14191	12238	13452	15284	17209	22794
O/w: Defense	3642.3	2610	2341	2452	2920	3009	3005	3453
Capital Expenditure	5759	6129	6313	8271	11343	14042	18398	24121
Total Expenditure	16772.2	17655	20504	20509	24795	29325	35607	46915

Public spending has been aligned to government's development priorities. There has been fast increase in capital expenditure relative to the recurrent component with a focus on pro-poor social and growth enhancing sectors. Pro-poor spending has increased driven by the sharp increase in capital expenditure. This can sustain the high level growth momentum witnessed during the last five years ending in 2007/08. Capital expenditure has nearly quadrupled and reached 24.1 Billion Birr in 2007/08 from 5.4 Billion in 2001/02. On average, over 90 percent of capital budget has been allocated to pro-poor growth enhancing social sectors.

Table 3.4: Trends the Ratio of Pro-Poor Sector spending in total public spending (%)

Sector	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Education	14.2	16.1	20.4	19.8	21.8	23.7	21.3

Health	5.9	4.9	4.3	4.9	4.6	6.6	7.3
Agriculture, rural development and food security	9.2	8.1	13.4	15.0	15.2	12.9	11.7
Road	10.7	9.9	9.6	11.3	12.4	14.1	17.7
Water and sanitation	2.8	2.9	2.0	6.0	6.1	5.7	6.1
Total	43	42	50	57.0	60.1	62.9	64.1

Spending on pro-poor sectors increased from 43 percent of total public spending in 2001/02 to over 64 percent by the end of 2007/08. As a share of GDP, it has increased from a little over 6 percent to over 13 percent by the end of 2007/08. It is also worth noting that currently an increasing proportion of capital spending is being financed from treasury sources. For the years prior to the 1994/95 fiscal year, the bulk of capital expenditure had been financed from external sources.

On the external front, 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.

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 six years. Moreover, stable macroeconomic situation, low inflation and prudent exchange rate management, the Government's commitment to spending on poverty-reducing programs, 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.

Table 3.5: Trends in Official Development Assistance (ODA) Disbursement (Million US\$)

Source	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Multilateral	454.18	734.5	552.4	652.5	736.0	632.5	970.95	1095.84
Bilateral	140.40	133.8	141.1	285.0	320.1	474.5	579.8	573.00
Total	594.58	868.3	693.5	937.5	1,056.0	1,107.4	1550.75	1668.8
Grants	238.24	259.59	274.86	601.34	705.79	768.68	1256.51	1280.71
Loans	356.34	608.73	418.73	336.12	350.17	338.68	292.83	388.13
Grant to total ODA%	40.07	29.9	39.63	64.15	66.84	69.42	81.1	76.7
Loan to total ODA%	59.93	70.1	60.37	35.85	33.16	30.58	18.9	23.3
Mid-Year Population(Million)	61.6	63.2	64.8	66.5	68.3	70.0	72.4	74.9
ODA Per Capita (USD)	9.7	13.7	10.7	14.1	15.5	15.8	21.4	22.3

Although Ethiopia has benefited from the debt cancellation, scaling up (in terms of additional aid) has not gone beyond rhetoric except only for very few donors. Although per capita ODA has increased in recent years, it is still far lower than the SSA average of around USD\$40 in 2008⁸. The current level of ODA is low by all measures given the fact that poverty is deep and wide in Ethiopia and it is the second populous country in Africa with nearly 76 Million people in 2008. It is also being distorted by two factors in the context of Ethiopia. The ODA figure being cited (such as by OECD DAC) includes external resources allocated to emergency aid and technical assistance.

Hence, there is an urgent need to scale up ODA towards full-scale implementation during the remaining years of MDGs and beyond consistent with the Monterrey, Millennium Summit, Gleneagles, and Blair's Commission Reports. Owing to the debt cancellation that the country has benefited from through the MDRI of 2006, debt sustainability may not be an issue as long as the government maintains its prudence in managing its debt.

If the fiscal policy of the Government is to be judged by what it has produced during the recent past, the achievements so far could be reasonably rated as commendable. However, such domestic effort has not been matched by increased flow of external finance in the spirit of the MDGs and other international and global initiatives such as the Blair's Commission and the pledges made at the Gleneagles Summit. Given the factors that are at work and the structure of the Ethiopian economy (the agriculture sector not being taxed currently and in the face of high food inflation), the recent declining tendency in the tax to GDP ratio needs to be interpreted cautiously before jumping in to conclusions that puts a question mark on the existing tax policy. Tax holidays and exemptions are also factors that need to be factored in before drawing unbalanced conclusions regarding tax policy.

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.

IV. Impact of the Financial and Economic Crisis on LDCs and Policy Responses

On the eve of the global financial crisis and even when it has been taking root in the developed world, Ethiopia had been grappling with challenges of global dimensions such as the food crisis and the oil price shock. Thus, the on-going growth efforts have been threatened by twin challenges of global dimension: inflation driven by food inflation and the pressure on the balance

⁸ Sub-Saharan Africa's Integration in the Global Financial Markets: by Deléchat, Corinne | Ramirez, Gustavo | Wagh, Smita | Wakeman-Linn, John May 1, 2009

of payments (BOP) has driven by the increase in oil prices (until July 2008). The unprecedented oil price increase had depleted the country's foreign reserves. The recent drop in oil prices has been a huge relief and has helped build international reserves. Thus, the impact of the global financial crisis was an additional dimension to the challenges already faced by Ethiopia. Thus, the policy responses to the pre-crisis challenges and post-crisis challenges need to be properly tailored.

The channels through which the crisis impacted on the economies of SSA countries in general and the Ethiopian economy in particular was believed to have been indirect. These indirect effects include: decline in demand for exports, possible decline in ODA flows, possible decline in FDI flows and remittances. But these indirect effects have not been felt even to the extent that other low income countries (LICs) in the SSA and elsewhere might have been impacted by the crisis and its aftermath.

The fact that domestic rather than export-driven agriculture accounts for a large share of the economy might somehow help insulate the Ethiopian economy from the impact of the global financial and economic crisis. By all measures, Ethiopia's financial system is the least integrated to the global economic system. There are no foreign banks in the country. However, still domestic banks are expected to have correspondent banks that may be affected by the crisis. This shows that the impact of the global financial and economic crisis on the Ethiopian economy was not immediate and direct but was likely to be felt as the recession deepens. The huge proportion of the impact was likely to be felt with lags depending on how long the recession lasts. It is also to be noted that the Ethiopian economy is vulnerable to two dimensions of shock: domestic (rain failure) and external (decline in the price of exports). The effects are compounded if both types of shocks take place simultaneously.

Given the low level of integration of the Ethiopian economy to the rest of the world, the impact of the global slow down on the industrial and service sectors is believed to be very much limited. Although the economic slowdown caused by the global financial crisis and its consequences have had a huge impact on employment and decent work globally, the impact in the context of Ethiopia is limited at least in the short-run. Indirect impacts on the economy through the various channels of transmission such as export earnings, ODA flows, remittances and FDI is not yet felt as shown by the assessment so far made. But the impact in the medium-term should not be understated as the recession in the developed countries deepens. The IMF in its recent Study⁹ ranked Ethiopia as

Medium Vulnerability Country

The assessment indicates that the macroeconomic and labor market policies being pursued by the Government are resilient to the possible impacts of the crisis. The impact on the labor market is limited because public spending programs are to a larger extent domestic resources-intensive (labor and local inputs). The likely impact of possible decline in demand for export on the labor market is also limited as export processing firms in Ethiopia are currently small in number(those benefiting from AGOA & EBA) given that the export sector is dominated by primary(agricultural) products.

⁹ ibid

Creating the requisite fiscal space and ensuring the required interface with other macro policies such as monetary policy and balance of payment (exchange rate) policy is of paramount importance in this uncertain global environment. This would help strengthen the resilience of macroeconomic policies to the global financial and economic crisis. The extent of prudence the Government exhibits in implementing its fiscal policy in such an uncertain situation is very critical. Given the current immediate challenges with which the Government is grappling with (inflationary pressure and balance of payment pressure), there is need for a cautious move to strike an appropriate balance between the objective of sustaining long-term growth and maintaining macroeconomic stability.

In the medium-term, a tailor-made approach with focus on the supply side seems to be the best course of action to be pursued in the context of Ethiopia where accelerating growth while maintaining macroeconomic balances is of the essence.

V: Conclusion and the Way Forward

The Government's commitment towards poverty reduction and its ultimate eradication via pursuing broad-based pro-poor growth has been and still is very strong and well grounded. The base that has been laid over the past decade has yielded tremendous results. Subsequently, this has now set the stage for a more rapid take-off in both human and economic development. As noted in the various sections of this report, the policy and strategy framework across sectors has taken poverty reduction as their central objective. The assessment shows that the Government has put in place credible and functioning policies, strategies, and programs that led to a developmental approach which is holistic and all rounded.

The Agricultural Development Led Industrialization (ADLI) strategy and the wide-ranging set of agricultural and food security reforms that have created the basis for better income for small farmers, household food security, and improved nutrition has begun to bear fruit as reflected in the shift in the growth trajectory of the Ethiopian economy during the last six years ending in 2008/09. The country seems to see a sign of hope to transform subsistence farmers into producers of high value crops.

Economic management reforms adopted by the Government have also increased the capacity for sustainable financing of pro-poor investments. The expansion of infrastructure – earlier investment in roads, power supply and telecommunication resulted in better access to social services. Massive investment in all levels of education and training created a generation of Ethiopians equipped for both higher productivity and provision of effective public services. Regulatory reforms have laid the basis for opening up of the financial sector expansion of business activities as well as increased employment. Institutional capacity-building, the decentralization and empowerment process, and the reform programs have laid the basis for effective service delivery.

The good performance to date as a result of the ambitious and well tailored programs being implemented in the areas of food security and rural development, Health Extension Package (HEP), Urban Housing Programs, Universal Access Program for Water Supply, rural roads,

electricity, telecommunication, women and youth packages, and MSE development put Ethiopia on track towards meeting the MDGs. Annex Table 1 below provides summary of goal by goal progress towards each of the MDGs.

While putting in to perceptible the above commendable achievements and the strong macroeconomic policy implementation, there remain some risks. There is very little margin for policy slippages if economic stability is to be maintained, adverse weather may recur and structural bottlenecks and constraints persist. A critical challenge for Ethiopia is to strike a judicious balance between demand dampening measures and growth-enhancing structural reforms.

Although encouraging trend in reducing poverty has been registered on the aggregate, there is a need to ensure that the benefits of increased economic growth are widely distributed in both urban and rural Ethiopia. In this regard, policies laid out are addressing the increased inequality particularly in urban areas, among others, through strengthening rural urban linkages, diversified exports, expanding the modern sector, MSE development as well as increasing job opportunities.

Most importantly, raising agricultural productivity and promoting agribusiness will have tremendous impact on lowering the poverty level as well as on its contribution to the overall enhancement of the economy although the share of agriculture and allied activities is expected to decline modestly to 43.9 percent of GDP by the end of the PASDEP period. The industrial base of the country which is supposed to be the exclusive domain of the private sector has also remained narrow, with 13.4 percent of GDP and some 8 percent of employment in 2006/07. The linkage between agriculture and industry has also remained weak as reflected by the limited structural shift between the two productive sectors. In this regard, there is a great need for innovative approaches such as pursuance of economic growth corridors to enhance agricultural productivity thereby strengthening the link with the industrial sector to reach the envisioned structural transformation.



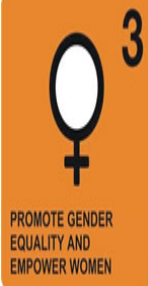
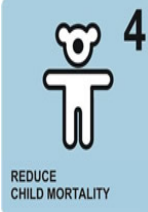
Challenge also remains in maintaining the growth momentum in the face of high inflationary situation. As indicated earlier, inflation has risen virtually with a huge jump in 2005/06 reaching its peak in 2008/09. The impact mostly felt by the urban poor, has been very heavy and efforts have since been made to bring it down. Overall, the Government's main objective is to consolidate macroeconomic stability while maintaining the growth momentum over the medium term and to reduce inflation to single digit. This is already happening and needs to be consolidated and maintained. The non-food component of inflation needs to be addressed to ensure that the terms of trade does not turn against the farming sector.




The Government recognizes that financing is a critical challenge. Ethiopia has continued to face increased unpredictability of foreign aid and lack of commitment in harmonization. As the country has already entered in to the final year of implementing the PASDEP (2009/10), there is an urgent need to scale up ODA towards full-scale implementation of the development efforts and hence achievement of the MDGs. However, the external environment seems to be bleak as the MDGs are currently overshadowed by the financial crisis that hit the developed world.

To conclude, it is the main trust of the Government that the well integrated, home grown, and forward looking systems designed to achieve development results will further continue in the next generation of the development plan (PASDEP II). It is clearly understood that economic growth is not an end by itself. Rather, it is the means for human development and is central to poverty reduction. Hence, human development and infrastructure expansion will continue to be seen as a top priority given that the country's human and physical capital has not yet reached its critical minimum.

Annexes

Annex Table 1: Summary of Goal by Goal Progress towards the MDGs

MDGs Goals	Indicators	Base year (1990)	Target by the end of 2015	Progress to Date				
				2004/05	2005/06	2006/07	2007/08	2008/09 Pre. Estimate
	GDP growth rate			12.6	11.5	11.8	11.2	9.9
	Percent of population below poverty line (%)	45.5 (1996)	22	38.6	36.6 (Trend Estimate)	34.6 (Trend Estimate)	32.6 (Trend Estimate)	30.6 (Trend Estimate)
	Percent of population below food poverty line	49.5 (1996)	25	38	35.6 (Trend Estimate)	33.5 (Trend Estimate)	31.4 (Trend Estimate)	29.3 (Trend Estimate)
	Gross Primary enrollment rate	32	100	79.8	91.3	91.6	95.6	105.4
	Gender disparity							
	Primary Education (1-8)	0.66	1	0.81	0.84	0.87	0.90	NA
	Child death per 1000 live births	190	85	123/1000	123/1000	106/1000	NA	NA

MDGs Goals	Indicators	Base year (1990)	Target by the end of 2015	Progress to Date				
				2004/05	2005/06	2006/07	2007/08	2008/09 Pre. Estimate
 <p>5 IMPROVE MATERNAL HEALTH</p>	Maternal mortality per 100,000 death	871	290	871/100,000 (2003/04)	673/100,000	NA	NA	NA
 <p>6 COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES</p>	HIV/AIDS Prevalence Rate (%)	7.3 (2000)	7.3	4.4	3.5	2.1	NA	NA
 <p>7 ENSURE ENVIRONMENTAL SUSTAINABILITY</p>	National Potable water coverage	19	60	42	47.3	52.4	59.5	66.2