



# Millennium Development Goals Report: Challenges and Prospects for Ethiopia

Volume 1: Main Text



The Ministry of Finance and Economic Development (MOFED)  
of the Federal Democratic Republic of Ethiopia  
and  
The United Nations Country Team

March 2004  
Addis Ababa



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## Foreword

The Millennium Development Goals (MDGs) are a culmination of several consultations that have been made since the mid-1990s on several international forums regarding global poverty and human deprivation. At the occasion of the Millennium Summit, in September 2000, 147 heads of State and Government and 191 nations adopted the Millennium Declaration. The Declaration has mainstreamed a set of inter-connected and mutually reinforcing development goals and targets into a global agenda. Most of the targets set by the Millennium Declaration were not new. They have been derived from the global conferences of the 1990s and from the body of international conventions that have been codified over the past half-century.

The Millennium Declaration centres on democracy, peace, human rights and poverty reduction, among other primary development challenges and eight major goals referred to as the MDGs). There are eighteen specific targets set across the eight goals, and more than 45 indicators to monitor these targets. The MDGs are generally believed to be minimum benchmarks, rather than the ultimate development goals.

The momentum achieved with the adoption of the Millennium Declaration was reinforced at the International Conference on Financing for Development (FfD), held in Monterrey, Mexico, in March 2002. It was the first attempt to examine comprehensively the means of mobilising resources for development, focusing on the goals and targets of the Declaration, especially the MDGs. Just as the FfD Conference enabled a global effort to address financing issues, the World Summit on Sustainable Development (WSSD), held in Johannesburg, South Africa, from the 26th of August to the 4th of September 2002, has created the opportunity to focus on the strategies needed to achieve the MDGs.

The MDGs monitoring and campaign are taking place at the global and country levels: firstly, at the global level, the UN Secretary General is to report annually to the General Assembly on progress towards a sub-set of the MDGs and to make a comprehensive report

every five years. These reports will support a dynamic campaign to help maintain poverty issues upfront and at the centre of the national and global development agenda. Such reports are needed to keep the eyes of the world on the poor. Secondly, at the country level, national authorities are expected to prepare MDG reports (MDGRs), which will help in engaging political leaders and high level decision-makers, as well as mobilising civil society, communities, the general public and the media. They will help provide a systematic and identifiable follow-up to the global conferences and world summits of the 1990s. Furthermore, assistance for periodic reporting on progress towards the MDGs at the country level will be an important contribution of the UN system to the implementation of the Millennium Declaration with a renewed vigour and commitment.

In keeping with the monitoring and campaigning on the MDGs at the country level, the Government of Ethiopia (GoE) and the UN Country Team in Ethiopia have embarked on a process of translating the Goals into the local context (Ethiopian context). In this regard, an MDG Task Force, comprised of representatives from the Ministry of Finance and Economic Development (MoFED), UNDP, UNICEF, WHO and the World Bank has been established. The Task Force is primarily meant to follow up and oversee the preparation of the MDGR for Ethiopia. The Task Force is chaired and coordinated by the Economic Policy and Planning Department of MoFED, with the UNDP Country Office serving as the secretariat. The preparation and monitoring structure for Ethiopia's PRSP (called the Sustainable Development and Poverty Reduction Program - SDPRP) has been used to facilitate the collection of data and information from sectoral ministries and regional bureaux for the preparation of the Report and to ensure the integration of both. As Ethiopia is now at a very advanced stage in the implementation of the SDPRP, this first attempt at placing the MDGs in to the local context would help provide a longer-term perspective for the SDPRP implementation.



The preparation of the Report has taken more than one year and has passed through a number of important stages to be able to accommodate the views and opinions of non-state actors in the final Report. Accordingly, a one-day workshop was held on October 9, 2003 to solicit ideas and feedbacks on the Draft MDGR. Constructive comments and feedback have been forwarded and have helped improve the quality of this Report.

Ethiopia's first MDGR examines the implications of the MDGs for the country from the perspective of context, past trends, prospects and resource requirements for their realization. In terms of context, the Report finds that the MDGs are timely and of utmost urgency to the realities prevailing in Ethiopia. While setting priorities is crucial in any serious development program, the interconnections that exist among the MDGs and urgency of each in the Ethiopian context support the view that each goal is equally important and relevant for Ethiopia.

The contextual analysis has also addressed the issue of MDGs harmonization with the existing government policies strategies and programs and past performances. The Report identifies MDG targets that are consistent with the Ethiopia's SDPRP and other national development policies and strategies. In terms of targets in SDPRP, targets related to poverty, hunger, education and health are well articulated and nearly consistent with the MDGs (Annex 1 of this Report). There are, however, some gaps that need to be addressed in the future.

The second component of this report is the analysis of the baseline where an attempt is made to project into the future. In this exercise, the report tries to establish interaction among the targets to underscore the fact that addressing some of them involves addressing all the goals. That is, each goal, though desirable and a stand-alone by its own right, is also related to the others as a matter of consequence. For example, the report shows that addressing education, health and gender issues has a direct bearing on income poverty.

The other important dimension of this work is the costing of the MDGs in the Ethiopian context. The costing exercise was mainly based on two aspects of the MDG targets. The first aspect is the target of reducing poverty by half by 2015 as understood from the perspective of the overall performance of the economy. The other targets are closely related with public expenditure and provision of basic social services by the government and other stakeholders. Based on this, the Report estimates a financing gap of around US\$1.1 billion per year in order to achieve the goal. Significant debt relief, increased development assistance and access to external markets can easily address the gaps. The other approach to costing the MDGs involves the direct cost of poverty-focused programs such as health, education, water development, agriculture and natural resources. For the entire MDGs period (coming 11 years), the SDPRP estimate is around 314.5 billion Birr (around 37 billion US dollars at the current exchange rate).

With regard to foreign aid, a very important issue that this Report identifies is the need for a shift in the paradigm of aid provision by donors for MDGs to have any chance of success in Ethiopia. A look at the composition of ODA in Ethiopia in recent years has indicated that about 31 percent went for humanitarian assistance *while* such core sectors as agriculture, education and health each received a mere 7 percent of total ODA allocation. In addition, the level of ODA is low compared to other African Countries.

The Report also identifies several areas for further reform that could facilitate the path towards achieving the MDGs. These include highly focused reform in the area of institutions, increased attention to the resource mobilization, particularly domestic revenue and savings, and significant flow \*of external resources through debt relief increased ODA and efficient disbursement of development assistance.

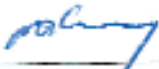
The recent drive by the Government to enhance the efficiency of the civil service by introducing a set of reforms and enacting of tax

policies and introduction of new tax administration and the on-going decentralization and empowerment effort could help set the stage in the areas of rationalization of government budget, accountability and most of all efficient delivery of basic services that are vital for the smooth functioning of the Ethiopian economy.

With regard to the private sector, it is very well known that in Ethiopia this sector is at its formative stage, albeit with great promise and potential. Enabling environment is improving continuously to realize the private sector's potential. A dynamic, vibrant private sector, with increased value added is crucial for socio-economic transformation of Ethiopia. A private sector that thrives on distressed markets and unfair manipulation of government regulations could be a danger to the development of the country.

The analysis placing MDGs in the local context conveys two important messages: the first message relates to the fact that all the targets have equal weight and urgency in the Ethiopian context. It is impossible to separate and make emphasis on one or the other as there is so much interdependence that the total is greater than the sum of the individual goals. The war on poverty is multi-pronged and needs to be carried out whenever possible.

In summary, Ethiopia's challenge to meet all the targets set in the MDGs is understandably not easy. Yet, several reforms on the home front and increased commitment by the international community will make the grip that poverty has had on Ethiopia a tale of the past.



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Mckonnen Manyazewal  
Mckonnen Manyazewal  
State Minister, MoFED



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Bjorn Ljungqvist  
UN Resident Coordinator a.i.

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*Helpful hands have been extended throughout the whole process and need to be recognised and duly acknowledged. The Ministry would like to acknowledge the efforts put into overseeing the preparation of this Report by*

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## List of Acronyms

ADI	African Development Indicators
ADLI	Agricultural Development Led Industrialization
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
CMR	Child Mortality Rate
CPI	Consumer Price Inflation
CSA	Central Statistical Authority
CSOs	Civil Society Organizations
DHS	Demographic Health Survey
DSA	Data Sustainability Analysis
EEA	Ethiopian Economic Association
EEPRI	Ethiopian Economic Policy Research Institute
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
GDS	Gross Domestic Saving
GER	Gross Enrollment Ratio
GPER	Gross Primary Enrollment Ratio
HIPC	Highly Indebted Poor Countries
HIV	Human Immunodeficiency Virus
AIDS	Acquired Immune Deficiency Syndrome
ICOR	Incremental Capital Output Ratio
ICT	Information Communication Technology
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MEDaC	Ministry of Economic Development and Cooperation
MIDROC	Mohammed Investment Development Research Organization Center
MMR	Maternal Mortality Rate
MoFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
NDPF	National Development Policy Framework
NEPAD	New Partnership for Africa's Development
NER	Net Enrollment Ratio
NGOs	Non-Governmental Organizations
NPV	Net Present Value
ODA	Official Development Assistance
PC	Paris Club
PPP	Purchasing Power Parity
PTR	Pupil Teacher Ratio
RFMGPE	Ratio of Female -Male Gross Primary Enrollment
SAPs	Structural Adjustment Program
SDPRP	Sustainable Development Poverty Reduction Program

SSA	Sub-Saharan Africa
SSR	Student Section Ratio
UNAIDS	United Nations Program for HIV/AIDS
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
USA	United States of America
USD	United States Dollars
USSR	United Soviet Socialist Republic
VAR	Vector Auto Regressive
VAT	Value Added Tax
WDI	World Development Indicators
WHO	World Health Organization
WTO	World Trade Organization

## Executive Summary

This Report examines the implications of the Millennium Development Goals (MDGs) for Ethiopia from the perspective of context, past trends, prospects and resource requirements for their realization. The MDGs are a culmination of several consultations that have been made since the mid-1990s on several international forums regarding global poverty and human deprivation. The MDGs have set quantitative targets for the reduction of poverty: fast and sustained growth in real income of the poor, improvements in health, education, gender equality, the environment and other dimensions of human well-being.

September 2000 saw the United Nations General Assembly adopt the Millennium Declaration, from which the MDGs emerged. With the Millennium Declaration, 147 heads of State and Government and 191 nations became signatories to their adoption and implementation. The Millennium Declaration is a call for all nations to come together in the

reflected in its Sustainable Development and Poverty Reduction Program (SDPRP), the main Poverty Reduction Strategy document that resonates the goals and targets enshrined in the MDGs and NEPAD. The MDGs constitute eight broad developmental goals.

Eighteen specific targets have been set across the eight goals, and forty-five indicators to monitor these targets. The comprehensive nature of the MDGs, targets and indicators pose several problems as well as opportunities for the countries that embraced them. Some of the serious concerns include the context into which these goals, targets and indicators are cast in view of the uniqueness of each country. The other issue is that of baseline analysis and harmonization of the MDGs in the context of development goals and strategies that the Ethiopian Government has drawn in its lead policy documents. Finally, the question of financial resources to achieve the MDGs is an important component that requires serious consideration.

### **MDGs at A Glance**

- Eradicate extreme poverty and hunger by 2015
- Achieve universal primary education by 2015
- Promote gender equality and empower women.
- Reduce Child Mortality
- Improve maternal health
- Combat HIV/AIDs, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development.

name of unity and for addressing the current major challenges.

This global consensus on poverty reduction and human well-being is expected to enhance the commitment and resolve of nations to fight poverty, hunger and human misery. In sub-Saharan Africa (SSA) where approximately 25 percent of the world's poor live, the momentum was further accentuated by the ushering in of the New Partnership for Africa's Development (NEPAD), which, inter alia, is an expression of regional consensus on what the MDGs mean.

Ethiopia is one of the countries that embraced the principles of the MDGs and NEPAD as

The MDGs are generally believed to be minimum benchmarks, rather than the ultimate development goals. Exploring the financial resources required for achieving the MDGs and the economic performance that is needed to sustain the targets form an integral part of the MDGs assessment exercise. This Report, therefore, looks at each of the components of the MDGs and provides an assessment of the prospects and challenges of realizing these goals in the context of Ethiopia.

In terms of context, it is the view of this Report that the goals indicated in the MDGs are timely and of utmost urgency to the realities

prevailing in Ethiopia. While setting priorities is crucial in any serious development program, the interconnections that exist among the goals in MDGS and urgency of each of the goals in the Ethiopian context support the view that each goal is equally important and relevant for Ethiopia.

The discussions in this Report show that there are several areas in which the translation of the MDGs in the context of Ethiopia can be monitored using data that are less expensive, could easily be generated, and are helpful in tracking development and remain comparable over time. This Report attempts to place the MDGs in the local context and track most of the targets embedded in them.

As an example, the targets within Goal 1 state that Ethiopia should be able to reduce by half, the proportion of people living below an income level of one dollar a day per person by 2015. In addition, the proportion of people who suffer from hunger has to be reduced by half by 2015. A closer look at these targets show that the one-dollar a day per person income level is less appropriate to define absolute poverty in Ethiopia. By that measure, the proportion of people who fall below that income level would rise to 89 percent of the total population, making the task of poverty reduction an uphill struggle. Therefore, using local poverty lines that define absolute deprivation in local terms is essential.

Thus, according to the 1999/2000 Household Income Consumption Expenditure (HICE) and the Welfare Monitoring Survey (WMS) results, the proportion of people unable to meet this irreducible minimum level of basic needs stood at around 44 percent. This figure is proof of how wide spread and deep poverty is in Ethiopia as it looks forward to the fulfillment of the MDGs.

Indicators available to measure hunger and deprivation may not necessarily be the same with what the MDGs suggest. The cost of collecting this type of data and other indicators of MDGs for periodic monitoring should be

addressed seriously. Similar issues are raised for the other goals. Thus, this report provides, where possible, alternative indicators for MDG targets and ways to use them to make projections for 2015.

The contextual analysis also addresses the issue of MDGs harmonization with the existing government policies, strategies and programs and past performances. The Report identifies MDGs targets that are consistent with the national development strategy of the Ethiopian Government and some of the gaps that need to be addressed in the future. Targets related to poverty, hunger, education and health are well articulated and nearly consistent with the MDGs (Annex 1 of this Report). But, with respect to other goals, such as gender equality, environment, and global partnership, the SDPRP, except for making specific measures to be taken, has not provided specific and time bounded targets. These will be looked into in subsequent updates of the SDPRP.

The second component of this Report is the analysis of the baseline where an attempt is made to project into the future. In this exercise, the report tries to establish interaction among the targets to underscore the fact that addressing some of them involves addressing all the goals. That is, each goal, though desirable and a stand-alone by its own right, is also related to the others as a matter of consequence. For example, the report shows that addressing education, health and gender issues has a direct bearing on income poverty.

Among the targets in the MDGs, Ethiopia's chance of achieving most of them is predicated on several factors, including strengthening implementation of programs to reverse the pervading effects of poverty and hunger. After analyzing the macroeconomic context as an enabling environment, available data was used to compare goals with targets and their implications in terms of current trend and targets set in the MDGs.

Given the paucity of data for several of the MDGs targets, it is to be acknowledged that for some of the targets, reasonable projection

into the future is a challenging task on its own. With these caveats such key targets as reducing poverty by half by 2015 might be feasible for Ethiopia based on its recent record. Targets related to education, health, and gender disparity remain major challenges for Ethiopia.

The discussion on placing MDGs in the local context has conveyed two main messages: The first message relates to the fact that all the targets have equal weight and urgency in the Ethiopian context: it is impossible to separate and make emphasis on one or the other as there is so much interdependence that the total is greater than the sum of the individual goals. The war on poverty is multi-thronged and needs to be carried out whenever possible.

The second message is that, investigation of the policy stance of the Ethiopian Government has shown evidence of consistency with the tenets of the MDGs in the last decade. However, several constraints, such as institutional bottlenecks, inefficient civil service, structural rigidities within the economy, severe fiscal strains and major shocks such as war and drought, undermine the progress towards registering meaningful reductions in the incidence of poverty. This is further aggravated by a macroeconomic environment vulnerable to vagaries of nature and external shocks.

The external account is currently not healthy and might remain this way in the near future. A preliminary analysis of the external debt and aid profile shows that the future is not as bright as one would wish it to be. But the direction of the Government as specified in several of its policy documents and the ongoing all round effort towards fighting off corruption, inefficiency within the civil service and in promoting good governance will have a huge pay off in terms of achieving the goal of halving poverty and hunger by 2015. In fact, one can simply state that coordination between policy-making, planning and budgeting is crucial in raising the efficiency of public expenditure on poverty-oriented sectors. The recent restructuring of government line ministries raises the hope of realizing such goals.

With regard to the link between policy and poverty reduction, an example was given using a case in which Ethiopia made considerable progress in reducing poverty when its macroeconomic stance was in good shape. While this association is not definitive, it is suggestive of the association between good policy and progress in reducing poverty. The Report also notes that the reduction in the rate of poverty during this period (1994-1997) could have been much higher if the poor population benefited more from the pattern of growth.

An increase in the incidence of income inequality, which, in the case of Ethiopia, is less surprising given the significant shift in policy orientation in the past, is noted. Since 1991, Ethiopia has made a complete turn around in its policy orientation, from a strictly command economy to a market-based economy, which for several reasons spurred changes in the fortunes of people. This is further noted in the figures that the report provides for poverty trends, where poverty did not decrease much, though per capita expenditure increased between 1995/96 and 1999/2000.

The message coming out of the little experience Ethiopia has had in tracking changes in poverty is that addressing the incomes of the poor over the next years is as crucial as raising overall income. In this regard, the poverty-oriented sectors, such as agriculture education, health, and natural resources, play a crucial role in fighting hunger, poverty and deprivation. The interdependence among the MDGs has also produced encouraging relationships for Ethiopia. It is computed that, on average, if primary enrollment in the country expands by 1 percent per year, the economy would register 0.1 percent increase in per capita income. This is encouraging given the fact that long-term growth in Ethiopia in the past hovered around 3-4 percent, and reinforces the realization of growth potential as technology, institutions and other deep parameters of the economy show significant changes in the foreseeable future.

Related to this, an interesting finding is that reducing social inequity such as gender disparity contributes positively to the growth



of the Ethiopian economy. Based on inferences from cross-country studies, it is possible for Ethiopia to register an increase to the tune of 0.4 percentage points in the growth of per capita GDP if gender disparity in primary enrollment was reduced by more than 0.5 percentage points every year. These results are indications of the natural interrelationships that one can expect with the MDGs. Thus, focusing on social service sectors in, reducing gender disparity, greatly helps the fight against poverty.

One chapter of this Report deals with issues of costing the MDGs and the total resources needed to meet some of the targets. The costing exercise is mainly based on two aspects of the MDGs targets. The target of reducing poverty by half by 2015 can only be understood from the perspective of the overall performance of the economy. The Government and other stakeholders closely relate the other targets to public expenditure and provision of basic social services. As such, it is therefore possible to directly evaluate the cost of delivering these services on a per capita basis.

Based on assumed relationships between GDP growth and investment, this Report found that the overall investment needed to achieve the required growth rate in per capita GDP so as to reduce poverty by half by 2015 comes to around 17 percent of GDP, which is mainly due to the responsiveness of poverty to economic growth. This responsiveness can be explained by the fact that in Ethiopia a substantial percentage of households hover around the poverty line. In particular, if one includes people who could be vulnerable to being poor due to a minor shock, such as illness, vulnerability adds around 30 percent to the population of the poor. Thus, the poor and vulnerable in Ethiopia encompass 55 percent of the total population. In a situation where more than half of the population is either poor or vulnerable to poverty, the impact of a 1 percent growth on poverty can be significant.

Accordingly, Ethiopia is required to grow at the rate of about 6 percent per annum over the next years to be able to achieve the goals set

in the MDGs. Based on this finding a financing gap of around \$ US 1.1 billion per year in order to achieve the goal is estimated. Significant debt relief, increased development assistance and access to external markets can easily cover the gap. Ethiopia already receives 56 percent of the required finance through Official Development Assistance (ODA), on average. Thus, renewed emphasis by donors can address the shortfalls in the future.

The other component of costing the MDGs involves the direct cost of poverty-focused sectors, such as health, education, water supply and sanitation, agriculture and natural resources. For the entire MDGs period, the estimate is around 314.5 billion Birr<sup>1</sup> (around US\$37 billion at the current exchange rate).

This staggering figure is beyond the means of the treasury of the Ethiopian Government. It may be important to assign priorities based on how strongly each of the sectors affects poverty in Ethiopia. Some preliminary estimates have shown that expenditure on education, water and sanitation development and natural resources tend to be associated strongly with the state of poverty. Perhaps such an approach might be useful to reduce the total cost of addressing all MDGs goals. A related but crucial fact in the cost of MDGs is the existing debt burden that Ethiopia is carrying. Already the current debt burden is taking toll on the country's scarce resources. Significant debt relief and other development assistance is called for if Ethiopia is to achieve the MDGs targets.

The Report also identifies several areas for further reform that could facilitate the path towards achieving the MDGs. These include highly focused reform in the area of institutions, increased attention to the mobilization of resources, particularly savings and taxes, and significant flow of external resources through debt relief and development assistance. The recent drive by the Government to enhance the efficiency of the civil service by introducing sets of reforms and enacting fiscal and administrative decentralization that could set new trends in the area of government budget

<sup>1</sup> The Ethiopian currency is the Birr, which roughly amounts to Birr 1 = US\$0.12.

rationalization, accountability and most of all efficient delivery of basic services that are vital for the smooth functioning of the Ethiopian economy.

In this regard, there must be a resolve and concerted effort to eradicate poverty, hunger and diseases from Ethiopia, mainly by Ethiopians. Empirical research so far has shown a good connection between good policy, governance, and efficiency of development assistance. Once the domestic environment is set in a clear landscape, development in the external sector will follow and its impact will be robust. The international community, development partners and donors, as set out in the Millennium Declaration, have a shared responsibility in assisting Ethiopia to achieve the cherished goals. These are in the areas of development assistance, debt relief, access to market and capacity building. It is the view of this Report that development assistance should not compete with humanitarian aid, as the latter may save life, but greatly reduce the capacity to develop.

The fact that the AIDS pandemic is ravaging the country, coupled with the challenges of tuberculosis and malaria, the human capital, a crucial ingredient of development, is rendered difficult. The Report deals in great detail with the human suffering caused by these diseases and the urgency they pose to the very functioning of the economy and the viability of the Ethiopian society at large. An issue such as being landlocked adds to the odyssey of Ethiopia's suffering. Transaction costs to reach the nearest ports add enormous burden to international trade, admittedly one of the engines of growth for the Ethiopian economy. Thus, Ethiopia needs to exploit global initiatives directed towards assisting land-locked countries effectively. It also needs to continue to increase investment in the development of infrastructure to generate an efficiently working domestic market to assist international transactions. Reform in the areas of banking and finance are a matter of great urgency to meet the needs of a growing economy.

In addition to active government engagement in the task of development to achieve the MDGs, and the need for renewed commitment by the donor community, the Report also outlines the role of other stakeholders, such as the civil society and the private sector, but in a coordinated manner.

In summary, Ethiopia's challenge to meet all the targets set in the MDGs is understandably not easy. Yet, the deepening of the several reforms on the home front and increased commitment by the international community will make the grip that poverty has on Ethiopia a tale of the past.

## Introduction

This Report explores the MDGs for Ethiopia from the perspective of context, past trends, prospects and resource implications for their realization. The MDGs are a culmination of several consultations that have been made since the mid-1990s in several international forums regarding global poverty and human deprivation. The MDGs have set quantitative targets for the reduction of poverty, and improvements in health, education, gender equality, the environment and other dimensions of human well-being.

September 2000 was historic; then the member States of the United Nations demonstrated their commitment and resolve to fight poverty, hunger and human misery and to promote human well being by signing on to the extraordinary Millennium Declaration. In Sub-Saharan Africa (SSA), where approximately 25 percent of the world's poor live, the momentum was further accentuated by the ushering in of the New Partnership for Africa's Development (NEPAD), which, inter alia, is an expression of regional consensus on what the MDGs mean.

Ethiopia embraced the principles of the MDGs as well as NEPAD as reflected in its Sustainable Development and Poverty Reduction Program (SDPRP). The latter is the main policy document that makes it abundantly clear that the main goals and targets are those enshrined in the MDGs and NEPAD.

For the purpose of this Report, attention is given to the dimensions of the MDGs that were given due importance in these and other policy documents of the Ethiopian Government as a stepping-stone towards adopting MDGs in the local context, baseline analysis and costing. However, this does not imply that the other goals and targets in the MDGs are less important. In fact there is so much interconnection among the targets that one cannot help but address them all.

Therefore, this Report looks at the following specific issues regarding the prospects and challenges of achieving the MDGs in Ethiopia:

- context in which the MDGs fit into the socio-economic conditions prevailing in Ethiopia;
- baseline analysis of the MDGs by focusing mainly on recent trends in key goals stipulated in the generic MDGs; and
- preliminary costing of the MDGs, using a model-based total resource requirement approach and direct costing for basic anti-poverty development programmes. In dealing with the issues outlined above, the report focuses on the challenges in terms of institutional capacity and resource constraints. It should be acknowledged that looking into the future is fraught with speculation and substantial 'educated' guess. This is much more challenging in a country such as Ethiopia which suffers frequently from shocks such as drought, terms of trade deterioration or instability, conflict and major epidemics.

Admittedly, one or more of these shocks tend to erode grounds gained through intense policy implementation. With these caveats, the Report looks into the next decade with optimism for Ethiopia and its successful achievement of the goals in MDGs.

The rest of the Report is organized as follows: Chapter I places the MDGs in the Ethiopian context. Chapter II follows with a baseline analysis of the MDGs in Ethiopia, beginning with a review of the status of statistical data and, concluding with the review of macroeconomic context that could inform the baseline analysis of the goals. Chapter III deals with the issue of costing the MDGs. Two alternative approaches are used and the results are presented within a range that allows for deviation from the assumed framework for computing the costs. Chapter IV summarizes the major findings and recommendations and charts out the way forward.

## I. Placing MDGs in the Local Context

### 1.1. Context for Localizing MDGs

Adopting MDGs to the local context is important because the global MDGs are too general to fit the specific context of a particular country. In this report, adopting MDGs to the local context is understood as an exercise that helps to:

- (a) Examine MDG indicators based on data availability;
- (b) Ensure the consistency of the goals and the policy context and time line;
- (c) Examine the governance structure which will be instrumental for design and implementation of policies and strategies; and
- (d) Determine the feasibility of targets in light of observed trends and required finance.

These principles will inform the substance of this report.

Based on the above principles, this chapter translates the major quantitative targets and indicators stipulated in the MDGs for Ethiopia using baseline figures available for the recent period. There are eight key development goals in the MDGs accompanied by 18 quantifiable targets and 48 indicators. The effort to place the MDGs in the Ethiopian context focuses on targets and corresponding indicators proposed to monitor progress under each target by studying their relevance to the Ethiopian reality.

### 1.2. Local Context of MDGs Targets and Indicators: An Overview

#### *Goal 1: Eradicate Extreme Poverty and Hunger*

The objective of Goal 1 is to eradicate extreme poverty and hunger. The targets in relation to this aim to reduce the proportion of people whose income is less than one dollar a day and the proportion of people who suffer from hunger between 1990 and 2015. In the context of Ethiopia, to quantify the proportion of people whose income is below one dollar a day is an expensive exercise. It requires the launching

of periodic household budget surveys in order to monitor and track annual changes in the level and depth of poverty.

The first reliable and nationally representative survey was launched in 1995/96 and repeated in 1999/2000. The analysis in this report regarding poverty and hunger is mainly based on these surveys, and where necessary, a panel data that covers 3,000 households between 1994 and 1997 has been used so that the trend in poverty with respect to policy changes is made clear.

It may be important to note that income, as a core indicator of well-being in the Ethiopian context, is not that effective in tracking changes. The household economy, in both rural and urban areas, on which the vast majorities survive, involves substantial non-monetary transfers and non-marketable assets that are difficult to account for through ordinary household surveys. Typically also, poverty conditions are understood in a much broader sense than just income, which makes the target sensitive to slight changes in living styles.

In the future, it may be necessary to rely on robust indicators that can effectively track realized changes in welfare levels, such as household durables, farm assets, human capital, and so on. This is an area that needs to be addressed in subsequent years.

With regard to hunger, its incidence is approximated by the percentage of children who are stunted and have wasted over the last decade. Adult malnutrition is also an appropriate indicator, but, given the reliability of such information, this report relies mainly on the nutrition status of children. In fact, hunger constitutes the major development challenges of Ethiopia, since it is a manifestation of chronic poverty. Noting the fact that the country has been repeatedly experiencing severe famines, fighting famine and hunger is a top priority.

The task of poverty analysis and monitoring welfare changes is under the jurisdiction of the Welfare Monitoring Unit in the Ministry of

Finance and Economic Development (MOFED). The Unit has produced two key reports on the poverty situation in Ethiopia: "Poverty Situation in Ethiopia" (March 1999) based on the 1995/96 HICE and WMS and the "Development and Poverty Profile of Ethiopia" (March 2002) based on the 1999/2000 HICE and WMS results. Nevertheless, detailed studies on the determinants of poverty, dynamics of poverty, profiles of other welfare indicators, the link between economic policy and poverty are yet to come. The attempt to do so in preparation of the SDPRP is a good beginning.

### ***Goal 2: Achieve Universal Primary Education in Ethiopia***

Goal 2 is a component of human development and vital to the all-rounded effort of eradicating poverty and hunger in Ethiopia. For its entire history, Ethiopia adopted a free education policy up to the tertiary level. This in itself is an acknowledgement by successive governments and society that education is an opportunity that should be made equally available to all citizens. Despite this fact, Ethiopia substantially lags behind most countries in sub-Saharan Africa in terms of coverage and distribution. Thus, education is a key development goal central to the anti-poverty struggle being waged in Ethiopia.

In this regard, the challenge is not just that of building schools in all parts of the country, but also to ensure that local communities use the schools to full capacity. Given the extreme poverty, and the reliance on child labor for survival, efforts by the Government could be easily frustrated. Thus, the dimension of achieving universal primary education in Ethiopia is challenged from the perspective of coverage, efficiency of government budget and quality of the school systems. Thus, in visualizing the costing and monitoring progress, it is essential to focus on several indicators, not just enrollment rates.

The generic MDGs suggest the following indicators to track progress in achieving this target:

- Net enrollment ratio in primary education;

- Proportion of pupils starting grade 1 who reach grade 5; and
- Literacy rate of 15-24 year olds.

Of the three indicators, only one is readily extractable from school records. This is the proportion of pupils starting grade 1 who reach grade 5. The other two are normally computed from census data or household surveys. A country as large and as poor as Ethiopia finds it difficult and expensive to generate the required data. The Medium Term Statistical Program, current improvement in telecommunication infrastructure and the soon to be realized Woreda (district) connectivity through the Woreda Net Project might dramatically reduce the cost of periodically monitoring progress in this area.

### ***Goal 3: Promote Gender Equality and Empower Women***

Several studies and available data have shown that women in Ethiopia are disadvantaged due to their sex, most notably in rural areas. Promoting gender equality for Ethiopia is not only in the best interest of the society at large, but also fundamentally that of ensuring the human and democratic rights of women. The Ethiopian constitution sets clear foundation for this. Because women are less literate, discriminated against in productive activities, engaged in invisible labor services that are not taken into account in the national gross domestic product (GDP) statistics, and are paid less for the same work in the informal market, the cost to the economy is substantial. This cost takes the form of lost economic growth and equitable income distribution.

To address gender issues in Ethiopia is therefore not only about equity and social justice; it is also about development and poverty reduction. In this regard, the MDGs propose a target of eliminating gender disparity at primary and secondary school levels by 2005 and at all levels of schooling by 2015. This Goal is based on the notion that equality can be attained through equal opportunities, a view consistent with the prevailing thought on equity.

There are four indicators chosen to monitor gender equality in MDGs:

- Ratio of girls to boys in primary, secondary and tertiary education;
- Ratio of literate females to males of 15-24 ages;
- Share of women in wage employment in the non-agricultural sector; and
- Proportion of seats held by women in national Parliament.

If the extent to which these indicators captures the reality of gender disparity in Ethiopia is to be considered, only the first two can be sensible alternatives in terms of data availability and reflective of the essence of the target. The last two, however, need to be modified. To begin with, the non-agricultural sector in Ethiopia is negligible in terms of its share in the total population and is largely dominated by the informal sector, in which women are equally active. The gender disparity could be reduced if it focuses on women in rural areas, particularly equal access to basic assets such as land and livestock. Data collection and monitoring in this area is very important, but is currently unavailable.

In addition, the proportion of seats held by women in national Parliament is a good indicator, but less robust as far as gender disparity is concerned. What is most pressing (perhaps as a complementary indicator) is the proportion of women in local administration units, law enforcement agencies, law-making bodies and other institutions, where real authority makes a difference.

#### ***Goal 4: Reduce Child Mortality***

Child mortality is one of the core indicators of human well-being, as measured by life expectancy, and taken as one of the dimensions in the Human Development Index of the United Nations Development Programme (UNDP). A reduction in child mortality significantly increases life expectancy and thus human capital, which is needed for development. Ethiopia has one of the highest child mortality rates in the world. Reducing

child-mortality by two-thirds between 1990 and 2015 is specified in the MDGs. In the context of Ethiopia, the year 2000 should be taken as a base year to harmonize it with PRSPs. The indicators for this goal are:

- Under-five mortality rate, infant mortality rate; and
- Proportion of 1-year old children immunized against measles.

Information on these indicators is drawn from a census, Welfare Monitoring and Demographic Health Survey (DHS) data sets. Though with different levels of accuracy, the data is usually available and easy to track progress.

#### ***Goal 5: Improve Maternal Health***

Maternal health is closely related to Goal 4. Healthy mothers are likely to look after the health of infants and children, thus promoting the health of mothers is imperative to promoting child-care and reducing child mortality. The indicators for this goal are maternal mortality rate and proportion of births attended by skilled health personnel. Reducing maternal mortality ratio by two-thirds, between 1990 and 2015, is proposed in the MDGs.

In the Ethiopian context, generating data and ensuring accurate measurements are perennial problems. However, there have been several methods developed and refined to estimate and project maternal mortality rates over the years. Similarly, data on the proportion of births attended by skilled health personnel is difficult to obtain at this stage. The number of new births in Ethiopia itself is an estimate. The vast majority of people in Ethiopia give birth at home assisted by traditional midwives. Any effort to approximate this information will start by first finding the number of registered births in health services and assuming that the rest take place at home. So, the accuracy of this figure critically depends on how we estimate new births throughout the country.

### ***Goal 6: Combat HIV/AIDS, Malaria and Other Diseases***

The spread of HIV/AIDS, malaria and other diseases have debilitated the human capital in Ethiopia. This is because these diseases, especially HIV/AIDS, generally attacked people in their most productive ages. The estimate that is available today indicates that Ethiopia is one of the countries most heavily affected by HIV/AIDS. If this trend is not reversed, its effect could be even more catastrophic.

The targets for Goal 6 are:

- Halt and reverse the spread of HIV/AIDS; and
- Halt and reverse the spread of malaria and tuberculosis.

The proposed indicators to track progress towards these targets are:

- The HIV prevalence among 15-24 year old pregnant women;
- The contraceptive Prevalence Rate; and
- The number of children orphaned by HIV/AIDS.

Similar to other social indicators, the information on these indicators is not fully available, particularly data on the incidence of HIV/AIDS. This will continue to be a problem until considerable progress is made towards voluntary testing and effective use of contraceptives.

Regarding malaria, for many years Ethiopia had an independent agency dealing with the spread and control of malaria. The agency is no longer functional and its activities are now managed by the Ministry of Health, which is already stretched from dealing with other infectious diseases, including HIV/AIDS. Perhaps it may be useful to reinstate the malaria control agency as has been done with HIV/AIDS.

### ***Goal 7: Ensure Environmental Sustainability***

Environmental degradation in Ethiopia is closely related to the recurrence of droughts, food insecurity, and declining farm productivity. Currently, the country reports about 15 million people affected by drought. It is now widely accepted that much of the hunger in Ethiopia has to do with the human factor exploiting the environment in an unsustainable manner. Soil depletion, deforestation and absence of irrigation contributed to an alarming decline in the fertility of land, making farming a difficult and risky enterprise.

The MDGs identify three main targets in relation to this goal:

- Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources;
- Halve the proportion of people without sustainable access to safe drinking water by 2015; and
- Achieve a significant improvement in the lives of at least 100 million slum dwellers by 2020.

The issue of slum dwellers needs to be addressed in more detail. It will take the cooperation of all involved in the fight and the less fortunate people themselves, to overcome this situation. According to the UN-HABITAT "Guide to Monitoring Target 11: Improving the lives of 100 million slum dwellers", more than 70 percent of the least developed countries (LDCs) and of sub-Saharan Africa's urban population lived in slums in 2001, and this is set to increase unless there is substantial intervention. The improvement in the lives of slum dwellers cannot be fully achieved without the success of the MDGs.

To monitor progress of these targets, the MDGs specify six indicators including the following:

- Proportion of land area covered by forest;
- Land area protected to maintain biological diversity;
- GDP per unit of energy use (as proxy for energy efficiency);
- Carbon-dioxide emissions (per capita);

- Proportion of people with access to improved sanitation; and
- Proportion of people with access to secure tenure.

Data on these indicators, except for that of access to clean water, is scanty. Regarding tenure security on land, there is an ongoing debate concerning the land-tenure system in Ethiopia, where currently all land belongs to the state, and farmers have user rights over the land. Preparations are currently underway to issue certificates to ensure user rights on land and thereby enhance investment on land and natural resources development. Besides, the four largest regional states of the country (Oromiya, Amhara, Tigray, and SNNPR) have already issued Rural Land Proclamations to enhance land tenure security and a directive to establish appropriate and administrations. The federal urban land lease law is also to be revised and a new urban land lease proclamation is to be adopted in Addis Ababa City Administration. In regard to sustainable environmental development, a comprehensive Environment Policy was issued in 1997. Parliament has also recently approved three proclamations: Environmental protection organs, environmental impact assessment, and environmental pollution control. However, whether or not the existing tenure system is compatible with sustainable environmental development is an empirical question.

In general, Goal 7 is the key to the reduction of hunger, starvation, and thus poverty in Ethiopia. Lack of water and crop failure are significant contributors to household food insecurity in rural areas. The targets that express the goal of environmental sustainability focus heavily on the protection and acclamation of forests, soil erosion, water resources, and so on. But, it is difficult at this stage, to quantify these targets for Ethiopia.

Access to safe water and proportion of land covered by forest as well as soil and water conservation works, water shed management can be used as proxies to environmental sustainability. Poverty in Ethiopia, as in the rest of SSA, is highly correlated with

vulnerability to environmental shocks. A significant amount of effort should be directed towards minimizing common and idiosyncratic shocks that households face.

### ***Goal 8: Develop A Global Partnership for Development***

Goal 8 deals with developing a global partnership for development. This includes addressing the needs of specially disadvantaged countries, like Ethiopia, which is landlocked and also an Least Developing Country (LDC). This goal comprises seven targets that outline the responsibilities of the international community and the country itself. It encompasses bilateral and multilateral cooperation in areas of market access, development aid and special interventions to enhance the health and productivity of people living in poor countries. Also included are youth employment, foreign direct investment (FDI), access to pharmaceuticals, introduction of new technologies and information and communication technologies (ICTs). Data are currently not fully available for these factors.

Ethiopia depends on markets in the North for its imports and exports, which are sources of much needed foreign exchange. Compared to similar countries and in per capita terms, the size of development aid that the country has been receiving over the last decade is very low. There is, therefore, a scope for Ethiopia to receive support from the international community to further the objectives stated in the MDGs.

Last, but not least, is the issue of governance and related aspects that concern Ethiopia. The last decade has been spent mainly in laying the foundation for a new political system and ensure good governance.

The Government acknowledged the damage that has been made so far on the economy as a result of corruption, misrule and administrative inefficiency. There is some sign of seriousness to address these issues by the Government where anti-corruption agencies and capacity building efforts are introduced in the civil service. This effort is encouraging.



To monitor progress in the area of Goal 8, there are a number of indicators suggested that can be adopted to the Ethiopian reality. To capture global partnership, indicators such as per capita Official Development Assistance (ODA) flow, share of ODA to GDP, size of foreign trade, and FDI flow are suggested.

From the perspective of Ethiopia, share of ODA to GDP, share of exports to GDP, and bilateral and multilateral flows as a share of GDP can be used to monitor progress with respect to increased economic integration and international cooperation. Improvements to ameliorate the adverse effects of landlockedness can be monitored by observing the cost of transport with respect to international trade.

### **1.3 Implications of the Targets to the Ethiopian Reality: An Overview**

Having looked at the implications of the targets to the Ethiopian reality, Table 1.1 provides a snap shot of the current levels and their time bounded targets. Where possible, references are made to situations in sub-Saharan Africa.

In Table 1.1, there are targets that more or less reflect the essence of the MDG targets and indicators. Regarding Goal 1, the implication is that Ethiopia would have to reduce poverty by a factor of about 4.5 percent per annum over the next thirteen years, taking year 2000 as a reference year.<sup>2</sup> This translates into a decline of poverty from its current level of 44 percent

to 22 percent by 2015. The level of poverty in SSA around this period was 46.7 percent (see Deverajan et al, 2002). However, comparing the two figures may not be that straightforward.

The MDGs clearly state that the poverty line for which the headcount ratio is computed is one dollar a day per person. This kind of global poverty line makes sense in cross-country comparisons and monitoring of progress towards achieving the Goals. Regarding Ethiopia, poverty rates such as the headcount ratio were computed on the basis of a local poverty line, which is approximately Birr 1,095 per person per year (Poverty Situation in Ethiopia, 1997). This is approximately Birr 3 per person per day. If the Purchasing Power Parity (PPP) is used to compute the dollar equivalent of Birr 3, a closer figure to one dollar a day is attained, particularly in rural areas.

For the purpose of this report, the poverty line is held constant to address the prospects of achieving this goal. Nevertheless, in comparing poverty rates with those available for sub-Saharan Africa, it is necessary to take into account the fact that Ethiopia's poverty line is sufficiently smaller than the one used for sub-Saharan Africa to warrant comparability.

This Report uses child wasting as a key indicator of hunger for Ethiopia. It can be seen that in this respect the incidence of malnutrition is quite severe.<sup>3</sup>

**Table 1.1 Quantitative Implications of Selected MDG Targets for Ethiopia**

Target variable	1990	1999/2000	2015
Head count ratio	48percent	44percent	22percent
Extreme hunger (proportion of stunted children)	67percent <sup>4</sup>	57percent	34percent
Gross Enrollment Rate (primary education) (percent)	32percent	61.1percent	100percent
Ratio of literate female adults to male adults (percent)	48 percent <sup>5</sup>	48percent	100percent
Ratio of girls to boys in primary school (percent)	65 percent <sup>6</sup>	75percent	100percent
Ratio of girls to boys in secondary school (percent)	89percent	80percent	100percent
Percentage of female in total labor force activity rate (percent)	36.8percent	35.4percent	..
Under-five mortality rate (per 1000 population)	190 per 1000	180 per 1000	120 per 1000
Maternal mortality rate	358 per 1000	523 per 1000	392 per 1000
Percentage of land under forest cover (percent)	3.5percent	2.8percent	..
Access to safe water (percent)	19percent	30percent	60percent
ODA flows per capita (in current US \$)	\$ 19.80	\$ 10.00	..
Exports (percent of GDP)	7.8percent	15percent	..
External debt to GDP ratio	126percent	86percent	..

**Source: MOFED and WDI, 2000**

<sup>2</sup> A formula with geometric progression was used to approximate the growth rate. Alternatively, an average rate of growth of 3.8percent is required to reduce poverty by half by 2015. But, which formula to use to compute the growth rate is basically definitional, instead of analytical.

<sup>3</sup> Recent studies (see Dercon, 2000) show that the percentage of severely malnourished adults in Ethiopia could be as much as 25percent, which is still lower than what is reported for SSA (see Deverajan, et al, 2002).

<sup>4</sup> The figure refers to 1995

<sup>5</sup> The figure refers to 1995

<sup>6</sup> The figure refers to 1995

The objective of achieving gender equality is expressed by the ratio of male to female enrollment at different levels of schooling. While this information is indicative of equal opportunities between the sexes, it is not at all conclusive for various reasons. There are cultural, religious and traditional barriers that prevent women from exercising their rights in the Ethiopian context. Lack of data does not allow for such an important issue to be dealt with in greater depth.

Similarly, gross enrollment at the primary level should increase annually at a rate of 3.4 percent to achieve the goal of universal primary education in Ethiopia. When one compares the levels with sub-Saharan Africa, it is easy to see that Ethiopia needs a lot of catching up to do with the average for sub-Saharan Africa, which stood at about 70 percent in 2000.

On the health front, a 3.1 percent reduction in under-five mortality and a 10 percent reduction in maternal mortality rates per annum are required to achieve the benchmarks as outlined in Table 1.1. The last three items in Table 1.1 are figures that may substitute Goal 8. Since there are no specific targets for this Goal, the study used these figures to show the current state in regard to this Goal.

The implications of all these and other quantitative targets from the perspective of the socio-economic conditions existing in Ethiopia are dealt with fairly extensively. Some of the interesting issues that will follow include the extent to which the required trends deviate from the long-term trend that could be afforded by the Ethiopian economy and what resources are required to assist current trends to either reach or exceed the marks set by the MDGs.

The sections on baseline analysis and costing will discuss in detail the viability of the changes required to achieve the MDGs. Here, it is important to draw attention to the experience of the Ethiopian Government in addressing issues of poverty and deprivation in Ethiopia over the last ten years. The section below briefly looks at the centrality of the targets in MDGs in previous policy discourses of the Ethiopian Government.

## **1.4. National Development Policy Framework and MDGs**

### ***1.4.1 Synchronization of MDGs with the National Development Policy Framework (NDPF)***

Key policy documents that the Government issued since the early 1990s were primarily concerned with poverty and well being in Ethiopia. The Economic Reform Programme, which was implemented between 1992 and 1997, through four Policy Framework Papers, adhered to the objective of sound macroeconomic stance, structural transformation that rewards both labor and capital, increased expenditure on education and health services, enhancing food-security, and deepening of market integration with the overarching objective of reducing poverty.

Several sectoral policy documents (the sector development programs-SDPs) that encompass a planning period of up to 20 years were drafted and adopted by the Government. These included education, health and food-security strategies with details of their financing as well as clear annual and decadal targets. It is worth mentioning that some of the targets, particularly the ones relating to education and health, were informed by the International Development Goals, which were introduced in the mid-90s.

Currently, one of the important policy documents is the SDPRP. The Government has set its three main objectives in this document:

- Rapid development of the economy;
- Extracting the country from dependence on food aid; and
- Making the poor the main beneficiaries from economic growth.

The document clearly states that the overarching objective is reducing poverty. This strategy is believed to work through four building blocks: the Agricultural Development Led Industrialization (ADLI), justice system and civil service reform, decentralization and empowerment, and capacity building in the public and private sector (SDPRP, 2002).

The SDPRP uses many of the MDGs targets as benchmarks and utilizes the indicators to monitor progress towards the Goals (see Annex 1 in this Report). Therefore, the MDGs are embraced fully in the policy documents of the Ethiopian Government and there are commitment to achieve them. From this perspective, the MDGs are timely and relevant for Ethiopia given the massive poverty that is entrenched in the society and the appalling human misery that accompanies this level of poverty. Table

Similar to harmonizing MDGs with the Government goals, there is also an attempt to harmonize the follow-up and monitoring of targets set in the SDPRP with the MDGs. This is partly facilitated by harmonization of the MDGs with SDPRP targets as shown in Annex 1 and Table 1.2. There is also an ongoing discussion and a working arrangement about monitoring of MDGs and SDPRP targets between the MoFED and the Development Assistance Group (DAG), co chaired by UNDP and the World Bank.

**Table 1.2 Selected Targets in the SDPRP (2002/00-2004/05)**

Indicators	Baseline	SDPRP Targets
Poverty (headcount ratio)	<b>Po=44.2percent in 1999/2000</b>	Reduce by 10percent by end of 2004/05
Gross primary enrollment	<b>57percent in 2000/01</b>	Increase to 65percent by end of 2004/05
Access to health services	<b>52percent in 2000/01</b>	Increase to 65 percentage points by 2005
HIV transmission	<b>7.3percent in 2000/01</b>	Reduce transmission by 25percent by end of 2004/05
Road Density (proxy for market integration)	<b>29km per 1000 sqkm</b>	Increase road density to 47 km per 1000 sqkm by end of 2004/05
Water and sanitation	<b>Access to Clean Water 30percent in 2000/01</b>	Increase national coverage to 39.4percent by end of 2004/05 from its current level

**Source: SDPRP, MoFED, 2002**

1.2 demonstrates that major Goals (with specific quantitative targets) are embraced in the SDPRP (See Annex 1 of this Report for details).

Examination of the components of the targets in the SDPRP reveals that there is a great deal of harmony with the MDGs (Annex 1). The objectives of reducing poverty and hunger fully tally with the MDGs. Similarly, the target for primary education is a rise by 4 percentage points in the coming three years, which is computed on the basis of targeting to attain universal primary education by 2015.

The 25 percent reduction in the transmission rate of HIV/AIDs is consistent with the MDGs, which state complete (i.e., 100 percent) reduction in new infections. This is accompanied by a fiscal and monetary policy stance consistent with attaining the targets in the SDPRP. As far as intentions go, the Ethiopian Government has been tuning its development goals (and policy stance) to international consensus on several of the issues.

#### ***1.4.2 Possible Gaps Between the Current NDPF and the MDGs***

Although the MDGs and the current NDPF, (the SDPRP), are very much synchronized, as noted in the previous section, it is worth pointing out some gaps so as to help plan future action.

Although most crosscutting issues are supposed to be mainstreamed in sectoral policies and programs, the first area where there seems to be a minor gap between MDGs and the SDPRP relates to the issue of gender equality. Although the SDPRP provides detailed policy actions with regard to gender equality, this discussion is not substantiated by specific targets in the policy matrix. Such specificity is important, especially to monitor progress. Like that of gender, environmental issues are also discussed in the main document of the SDPRP,

although specific targets and time-bound actions are not outlined in the document. This is, thus another area where gaps between MDGs and NDPF could be further harmonized. Finally, both the MDGs and NDPF are not specific about the targets and indicators that could be used to concretize and gauge progress towards Goal 8, However, the SDPRP has sets a ODA per capita target. It also discusses issues of market access and FDI. This is an area worth examining since the realization of almost all goals hinges upon the support that may come from Ethiopia's development partners.

Overall, the MDGs have been sufficiently harmonized in the main policy documents of the Government (SDPRP), but there still is an area where further work needs to be undertaken.

Similarly, previous policy documents also managed to grasp the core objectives of the MDGs. In the sphere of education, the MDGs focus mainly on primary education as part of the inalienable rights of children to have access to basic education. However, the current adult literacy rate, partly a result of insufficient coverage at the primary level, is very low. As will be discussed in the next section, the current literacy rate in Ethiopia stands at barely 29 percent, which could be a significant barrier to enhance productivity and reduce poverty. Such low levels of social development are indicators of how limiting the overall social, and economic context could be to achieve the MDGs. Before venturing on the detailed analysis of policies on social targets (such as MDGs), it is important to set out their formulation in the overall macroeconomic environment.

## II. Baseline Analysis of the Status of the MDGs

This Chapter looks at the issues of past and current trends regarding the MDGs in Ethiopia. Current trends are then compared with the required trend necessary to achieve the MDGs. There is also an analysis of the prospects for Ethiopia to achieve the MDGs by the deadline agreed by the international community.

Section 2.1 of the Chapter provides a glimpse of Ethiopia's agenda in terms of generating data/information for monitoring implementation its various reform programs with focus on the Medium-term National Statistical Program. Section 2.2 looks in detail at the macroeconomic environment in Ethiopia over the last decade to give perspective on the overall economy. Section 2.3 provides a brief overview of potential challenges for macroeconomic stability. Section 2.4 provides baseline analysis with focus on the eight major goals and throws light on their current trends in view of the targets set for 2015.

### **2.1 The Status of Statistical Data in the Context of Monitoring MDGs Targets**

All available data from official sources have been used to make the analysis in this report. In particular, special effort was made to collect health and education related data from the line Ministries (Ministry of Health and Ministry of Education) by going as far back as 1957/58. However, the data required for the analysis of MDG targets are not only limited in their coverage but also characterized by missing values for many years. This has greatly limited the use of modern forecasting econometric tools that would have rendered robust results.

Since analysis and monitoring of targets is as good as the quality of data, there is a need to invest in generation of relevant data. The Government recently produced a document entitled "The Medium Term National Statistical Program for Ethiopia, 2003/04-2007/8". This document not only takes stock of the existing data in the country, but also and perhaps more importantly, draws plans (with dates and costing) for generating relevant and reliable data for monitoring the SDPRP and

hence the MDGs. It has identified about 87 programs as priority. Generations of socio-economic data relevant for monitoring ongoing reform programs are in this list of priorities (MOFED & CSA, 2002). It will be quite productive if development partners concerned with MDGs help in the implementation of such programs with the aim of ensuring the generation of data required for monitoring MDGs.

### **2.2 The Macroeconomic Environment: Overview of Recent Policies and Performance**

The early 1990s witnessed a marked departure from the previous 'Socialist'/controlled regime (1974-1991). The difference lies in openly adopting a market-oriented economic policy in 1992. This reform relates to the liberalization of the financial sector; the foreign exchange market, the export and import trade; deregulating the various marketing boards (including the Agricultural Marketing Corporation); and de-emphasizing the state farms; focus on strengthening the role of the private sector; and minimizing the government's direct participation in production activities are few among many. Land is state owned. Farmers have use rights. The only limitation is that they cannot sell land. Measures have been taken to ensure flexibility of the use of land both in rural and urban areas to enhance its contribution to the development of the country.

These liberalization measures have been implemented since 1992. Recently, such policy commitments have been further strengthened and sharpened through the launching and implementation of second-generation reforms (institutional reforms) in the context of the Sustainable Development and Poverty Reduction Program (SDPRP). The SDPRP is built on the four building blocks: Agricultural Development Led Industrialization (ADLI) Strategy, Decentralization and Empowerment, Justice System and Civil Service Reform, and Capacity Building for Public and Private Sector. The Government has formulated policies and strategies to guide overall development with a focus on rural and agricultural

development. Its objective is to build a free-market economic system, which will enable:

- The economy to develop rapidly;
- The country to extricate itself from dependence on food aid; and
- Poor people to be the main beneficiaries from economic growth (FDRE 2002).

Towards this end, the fiscal and monetary policies will be deployed with the aim of bringing macroeconomic stability consistent with the requirements of rapid economic growth. The challenge in this new policy arena will be to translate these broad strategies and programs into concrete actions with implementation and monitoring of these efforts being at the centre of the Government's tasks.

In regard to macroeconomic performance, the Ethiopian economy is fundamentally rural and agricultural (agriculture employs more than 85 percent of the population and contributes nearly half to GDP). Performance in the sector determines the evolution of major macro variables. From 1992-2001 real GDP grew by an average of 6 percent (if the abnormal year of 1991 is included, the figure drops to 4.2 percent).

The trend of major macro variables shows not only the rhythmic co-movement of GDP and agricultural growth, but also the erratic nature of the two. This is the direct result of the extreme dependence of the Ethiopian economy on rain-fed agriculture. This is aggravated by environment degradation and a general decline in yield per resource. The erratic growth is the result of a lack of structural changes in the economy, too.

Bringing about positive and sustainable economic performance depends on investment and its source of financing. However, the level of investment, which did not exceed 20 percent in the 1990s is still low even by SSA standards. On the other hand, total saving is far below the level of investment.

The Government's fiscal policy has registered modest achievements mainly through raising revenue and rationalizing expenditures through

focusing on social and economic infrastructure sectors. What seems to be important is to be able to sustain such a fiscal policy stance given the vulnerability of the economy to both domestic (drought and related shocks) and external shocks (through international prices of primary export commodities such as coffee) that often have had far reaching impact on the performance of the macro economy. The magnitude of fiscal deficit also points to the country's dependence on external resources.

In terms of monetary policy, as can be inferred from the money supply, the post-reform performance is commendable, in particular in maintaining fairly stable M2/GDP ratio (pursuing gradual magnetization of the economy). Other monetary policy instruments, such as interest and exchange rates, are wisely used and have shown remarkable stability.

In the area of unemployment, although unemployment is a serious problem in the country, it is hard to read that from existing data. Unemployment is considered largely as an urban phenomenon. The Central Statistical Authority (CSA) data shows that the unemployment rate in rural areas has increased from 0.4 to 0.69 percent between 1984 and 1994 (the two periods of census). The comparable figures for urban area are 7.9 and 22 percent, respectively. The latter figure is based on the 1994 censuses and it is more than six years old. The recent national labour force survey (1999) puts the total unemployment rate at 8 percent, with the urban and rural unemployment rate being 26.4 and 5.14 percent, respectively.

Based on household survey data Krishna et al (1998) estimated the urban unemployment rate in 1997 to be about 29.9 percent. This shows the seriousness of the unemployment problem in urban areas. Thus, this is one of the areas where the 1990s registered no success and needs closer attention. Central to this is the progress Ethiopia makes in rapidly effecting rural transformation complemented by industrial development especially SME.

Regarding developments in the general price level (inflation), prices in general are very stable in Ethiopia. In the pre-reform period, this

was partly attributed to the regulated nature of market prices. The post-reform period price stability, which has been remarkable, can be attributed chiefly to conservative monetary and fiscal policy and the performance of the agricultural sector, the latter is particularly important, as 'the food item' weight in the CPI averaged about 60 percent.

Within the external sector, exports are characterized by over-dependence on few commodities such as coffee, which constitutes nearly 65 percent of export earning. This is generally followed by hides and skins. On average, the combined shares of six major export items constitute more than 85 percent of total exports. Recently the contribution of chat came to be very important. It is now the second highest export item next to coffee.

In view of the high demand for foreign exchange in the country, one sustainable source of financing is growth of the export sector. However, exports as percentage of GDP were in the vicinity of 15 percent in the 1990s, which is a good performance, compared to nearly 8 percent in the immediate past before the reform. However, imports jumped from an average of 16 percent in the five years immediately before the reform to about 30 percent by 2000-2001. Thus, exports cover only half of the imports. This has an obvious implication for financing requirements and hence indebtedness. This is aggravated by the deterioration of Ethiopia's terms of trade.

In sum, the deterioration of terms of trade (especially for coffee), the rising level of imports combined with the instability in the volume of exportable is making the external market an extremely binding constraint for positive development of macro aggregates in Ethiopia.

### **2.3 Overview of Potential Challenges for Macroeconomic Stability**

Analysis of the macroeconomic conditions revealed that although the macroeconomic performance in the last decade is very good, when judged in the context of the structural problems of the country, its sustainability is uncertain.

This is because Ethiopia's macro performance is highly dependent on vagaries of nature and the external sector. In the face of dependence on rain-fed agriculture, and hence macroeconomic performance, addressing this issue is an important challenge for policy-makers. The issuance of Ethiopia's Water Resource Management Policy, Water Sector Development programs, current emphasis on a water harvesting scheme in the extension system as well as the efforts at export diversification through high value agricultural crops and manufacturing exports are meant to create a strong domestic foundation for sustaining macroeconomic stability.

Another concern, which is central for explaining sustainable macroeconomic performance, is structural change in the economy. The evolution of sectoral value-added in the last four decades, in particular in the post 1974 period, is not encouraging. Development requires structural change. However, this is conspicuously absent in Ethiopia. This is a priority area where effort is being made to address it through ADLI and industrial development strategy. On the social front there is the encouraging sign of declining absolute poverty. This is, however, accompanied by a worsening distribution of income that could adversely affect the possibility of reducing the absolute level of poverty.

Yet the enormity of the task to address the structural problems, the growing number of vulnerable groups (drought victims), pervasive poverty and inequality need not be underestimated. Addressing these issues will continue to be the policy challenge in the coming years. These structural problems, unless appropriately addressed, could be a stumbling block in the effort to achieving the MDGs.

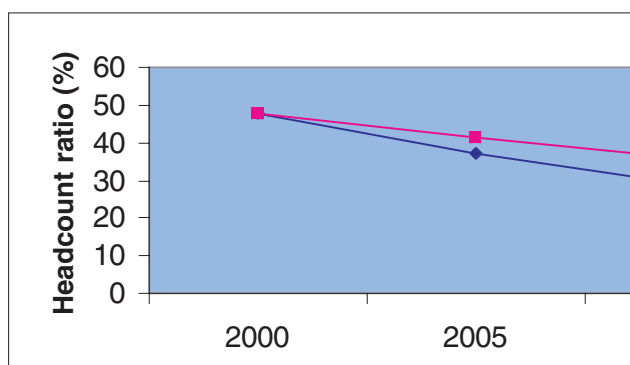
### **2.4 Baseline Analysis of MDGs and Targets**

#### ***2.4.1 Goal 1: Eradicate Extreme Poverty and Hunger by 2015***

The MDGs specify that by 2015, in every country, poverty and hunger should decline by at least half. Given the considerable effort that

is needed to bring about such huge reduction in poverty, one is tempted to ask whether that is possible in the Ethiopian context. Figure 2.1 illustrates the current trend and required paths for both targets. As can be seen, the trend based on elasticity of poverty with respect to growth comes short of achieving the target stated in the MDGs. This is mainly because the decadal growth in per capita income in Ethiopia has been quite erratic and as a result the long-term trend in GDP growth is quite small. If current growth persists, it will be possible to see poverty declining up to a level of 30 percent by 2015. But, the figure shows that there is sufficient scope for Ethiopia to attain the goal of halving poverty by 2015 if it commits to a growth path that is broad-based and pro-poor in line with its current development strategy.

**Figure 2.1: Required and Current Trends on the Path of Poverty in Ethiopia**



To further illustrate this point, Table 2.1 shows recent trends in poverty using available data. The national headcount did not show any significant decline between 1995/96 and 1999/2000, though as Table 2.2 clearly shows, per capita adult equivalent expenditure increased at a rate of 1.14 percent during the last five years.

**Table 2.1: Poverty Estimates for Ethiopia (1995/96 and 1999/00)**

Index	Region	1995/1996 index	1999/2000 index	Percent Change in index	Z-statistics of change in poverty indices
Head count index (P0)	Rural	0.475	0.454	-4.42	-1.187
	Urban	0.332	0.369	11.14	1.313
	National	0.455	0.442	-2.86	-0.799
Poverty gap index (P1)	Rural	0.134	0.122	-8.96	-1.697
	Urban	0.099	0.101	2.02	0.194
	National	0.129	0.119	-7.75	-1.768
Squared poverty gap (P2)	Rural	0.053	0.046	-13.21	-1.650
	Urban	0.041	0.039	-4.88	-0.371
	National	0.051	0.045	-11.76	-2.121

**Source: Development and Poverty Profile of Ethiopia, Welfare Monitoring Unit, Ministry of Finance and Economic Development (MOFED, March 2002)**



There are some legitimate explanations for this. One major factor is that during the period in question, the macroeconomic environment was severely compromised by the border conflict. As a result, resources were diverted from poverty reduction areas, thereby affecting poverty decline. Thus, the change in overall welfare or growth has not been sufficient to lead to a significant decline in poverty.

The other major factor is that the reduction in poverty was undermined due to a rise in income inequality during this period. Otherwise, the per capita growth rate would have been sufficient to lead to a significant reduction in poverty.

poverty rates become a function of income per capita and measure of income inequality. Poverty declines when per capita income increases, for a given level of income inequality. Similarly, it increases when income inequality increases for a given level of per capita income.

If one looks at the trend in the recent past, poverty has shown signs of declining partly due to the strength of policy stance. For instance, according to a panel survey of households conducted by the Addis Ababa University the analysis showed a significant decline in poverty between 1994-1997. In the first period, Ethiopia enjoyed the best recovery

**Table 2.2 Selected Welfare Indicators for Ethiopia**

Item	1995/96			1999/2000			Percent Change		
	Rural	Urban	National	Rural	Urban	National	Rural	Urban	National
Real food expenditure per capita	577	790	607	609	631	612	5.55	-20.13	0.82
Real non-food expends. Per capita	466	625	488	392	830	451	-15.88	32.80	-7.58
Real total expend. Per capita	1035	1411	1088	995	1453	1057	-3.86	2.98	-2.85
Real food expends. Per adult	697	947	732	774	767	773	11.05	-19.01	5.60
Real non-food expends. Per adult	561	750	588	495	993	562	-11.76	32.40	-4.42
Real total expend. Per adult	1250	1693	1312	1261	1751	1327	0.88	3.43	1.14
Kcal consumed per day per adult	1938	2050	1954	2723	1861	2606	40.51	-9.22	33.37
Share of food in total expend.	0.60	0.56	0.60	0.67	0.53	0.65	11.67	-5.36	8.33
Household size	5.1	4.7	5.0	4.9	4.6	4.9	-3.92	-2.13	-2.00
Adult equivalent household size	4.2	3.9	4.2	3.9	3.8	3.9	-7.14	-2.56	-7.14
Gini Coefficient of consumption expenditure	0.27	0.34	0.29	0.26	0.38	0.28	-3.70	11.76	-3.45
Gini Coefficient of income	0.35	0.55	0.39	0.34	0.57	0.38	-2.86	3.64	-2.56

Source: Development and Poverty Profile of Ethiopia, Welfare Monitoring Unit, Ministry of Finance and Economic Development (MOFED, March 2002)

Thus, there are two main problems that can affect the pace of poverty reduction in Ethiopia: low economic growth and pattern of economic growth (i.e., whether growth is pro-poor or not). To deal with these issues, the link between economic policies, economic growth, inequality, and poverty reduction in Ethiopia need to be looked at. While the nexus across these factors is evidently a complex one, it is possible to draw conclusions based on past experience in Ethiopia. Based on data (Technical Annex 2-Volume 2 of the Report), the income-based measure of poverty is defined as a function of mean per capita income, income inequality and the level of the poverty line. It is assumed that the latter will be constant over the coming years; therefore

and hence strong expansion in the economy. As a result, according to household survey data, per capita expenditure increased on the average by 8 percent during the period. This led to a reduction of poverty by 14 percent, with average annual decline of about 5 percent. This strong response of poverty to growth would have been more pronounced had it not been for a rise in inequality by about 3 percent per annum.

Thus, for the period 1994-1997, there was good policy stance (Table 2.3) and this is accompanied by a reduction in poverty. As depicted in the Table, the Government managed to reduce the fiscal deficit, raised fiscal revenue, adjusted the real exchange rate to

competitive level, and reduced inflation and undertaken other significant measures in the realm of macroeconomic policy. Given the Ethiopian Government's prudential record in monetary and fiscal policy in the last four decades, it is reasonable to foresee its continuation. What is unpredictable, and could negatively affect macroeconomic stability is the macro instability that may arise from external shocks such as war, drought and terms of trade.

Notwithstanding such possible external shocks, this good policy stance in the last decade has been associated with higher growth rates and declining poverty. This experience shows that there is great potential in Ethiopia that could be used to make headway in reducing poverty at the required rate of the MDGs. Thus, underscoring the need to deepen government policy stance and secure a higher rate of growth. As indicated earlier, growth alone is not sufficient for a faster reduction of poverty. The benefit of that growth should be shared equally by the poor population. In the experience of Ethiopia, inequality has been increasing with per capita income (Table 2.4 and Figure 2.2).

**Table 2.3: Macroeconomic Policy Stance of Ethiopia**

Policy Variable	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/000	00/01	01/02	02/03
<b>Real Sector</b>												
Real GDP Growth Rate (percent)	-3.7	12.0	1.7	5.4	10.6	5.2	-1.2	6.3	5.3	7.7	-11.6	-4.1
<b>Fiscal Policy</b>												
Domestic Revenue (percent of GDP)	10.6	12.0	13.9	17.4	18.4	19.0	18.8	19.4	18.4	18.8	20.1	19.6
<b>@ CMP</b>												
O/W: Tax Revenue	7.8	8.3	10.9	11.4	12.5	13.0	11.8	11.3	11.5	13.7	15.3	14.5
O/W: Expenditure (percent of GDP @ CMP)	20.2	19.6	25.0	24.7	26.9	24.2	24.3	30.1	33.0	29.1	34.1	36.0
O/W: Targeted (percent of GDP @ CMP) <sup>7</sup>	6.6	7.7	10.0	10.5	10.2	10.5	9.8	10.4	8.8	11.8	14.6	15.1
O/W: Deficit, excl. Grants (percent f GDP)	-7.0	-5.9	-7.7	-3.9	-5.6	-1.5	-3.0	-7.1	-11.7	-5.5	-9.3	-8.4
<b>Monetary Policy</b>												
Inflation	21	10	1.2	13.4	0.9	-6.4	3.3	5.7	4.2	-7.2	-8.5	15.1
M2 (broad) growth	13.2	16.8	10.2	24.2	8.6	5.5	12.8	5.8	15.0	10.5	11.4	10.4
Seignior age <sup>8</sup>	16.9	4.8	8.5	18.8	-2.0	0.3	13.9	-0.5	9.7	2.8	23.0	14.5
<b>Exchange Rate Policy</b>												
Average (nominal) marginal rate	5.01	5.77	6.25	6.32	6.32	6.50	6.88	7.51	8.14	8.33	8.54	8.60
Debt Service to Export Ratio (percent)	112	65	75	47	47	34	35	43	48	46	50	38

**Sources: Computation based on MOFED and National Bank of Ethiopia (NBE) data**

<sup>7</sup> Total spending on Education, Health, Roads, Water Supply and Sanitation, Agriculture and Food Security as percent of total expenditure up until 2001/02. Spending on core poverty sectors as articulated in Ethiopia's Poverty Reduction Strategy Paper entitled "Sustainable Development and Poverty Reduction Program (SDPRP) since 2002/03.

<sup>8</sup> Growth in Broad Money (M2) less growth in Real GDP

It is important therefore to address distributional issues in the course of the next decade to make the goal of halving poverty by 2015 fast and less costly. To get an idea of how poverty is linked to inequality and growth, elasticity values using cross-sectional regression are reported below:

$$\text{LnPo} = 15.18 - 2.316 \text{Ln } \mu + 1.188 \text{Ln } G + 0.358 D_1$$

(13.6) (-15.6) (8.3) (.528)

Adjusted R<sup>2</sup> = 0.94

Where LnPo is the logarithm of the head count ratio, Lnμ is log of mean per capita income, and LnG is log of the Gini coefficient and D<sub>1</sub> is a dummy used to account for rural and urban areas.

**Table 2.4: Inequality in Ethiopia (Gini coefficient)**

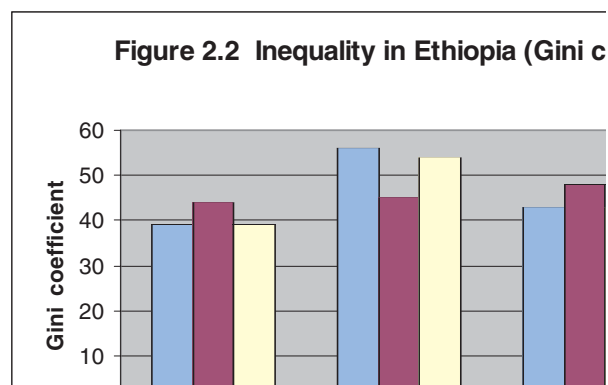
Region	1994	1995	1997
Rural	39	56	43
Urban	44	45	48
National	39	54	43

Source: Mekonen, Kebede and Shimeles (1999)

The result is suggestive of the fact that the head count ratio is highly responsive to growth, as can be seen by an elasticity value of about -2.3. Similarly, the elasticity with respect to inequality is around 1.2. Using these elasticities, the growth rate in real GDP required to meet the MDGs is a per capita growth rate of about 3.1 percent for the next 13 years.<sup>9</sup> If one uses the current trend in population growth rate, which is 2.6 percent, then it is easy to see that Ethiopia's real GDP needs to grow at 6 percent per annum until 2015.

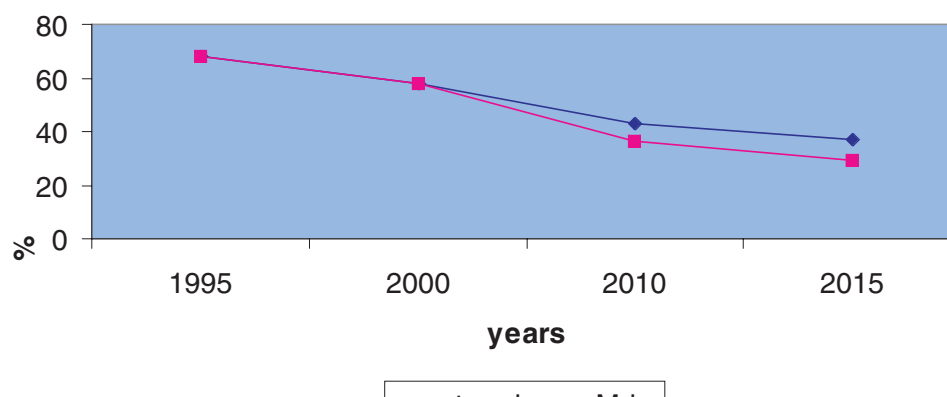
Is this growth rate feasible? Past experience has clearly shown that Ethiopia could achieve a 5.7 percent rate of growth in real GDP if its macroeconomic management and sectoral programs are implemented very well and external shocks contained.

Goal 1 also has the closely related target of reducing the percentage of people who suffer from hunger. As is well known, poverty and hunger are two different, but closely related concepts. In fact, a person may be poor, but not hungry. But, a hungry household is evidently a very poor one. This report used child wasting as a proxy for hunger in Ethiopia for several reasons. First, available data on adult malnourishment are not so reliable. Second, when hunger strikes, the immediate victims are children. A household that sufficiently protects its children from malnourishment is expected not to be hungry.



<sup>9</sup> Account has also been taken of the interactions between inequality and income in arriving at this figure

Figure 2.3: Trends and MDG Targets for Hunger in Ethiopia



As shown in Figure 2.3, the percentage of children who are chronically hungry has declined in the recent past. If this trend continues, there will be substantial progress by 2015. But, one needs to make a remark in the Ethiopian context where the effect of chronic hunger leaves a long-term mark on people. Thus, timely intervention and prevention of mass hunger is important in order to make a difference by 2015. The recent initiative "*The New Coalition for Food Security*" is aimed at addressing this problem in a comprehensive manner.

#### 2.4.2 Goal 2: Achieve Universal Primary Education

This Report deals with Goal 1 of the MDGs in great detail as a consequence of the complexities involved in quantifying the target and in not knowing precisely how it could evolve in the next decade. Most other goals, while less

largely dependent on the fiscal aspect of the government, which is significantly related with the state of the economy. Thus, the achievement of most of the goals ultimately rests on how the economy behaves in the next decade.

As has been already indicated it may not be that problematic for Ethiopia to achieve universal primary education by 2015. The figures below show that there has been considerable progress in the last five years regarding the enrollment rate at primary level. In fact, the average of the last five years show that enrollment rate has been increasing at about 13 percent per annum.

Comparing existing trends with the 3.8 percent that is required to achieve universal primary education, the country has great prospects of reaching this Goal even before 2015.

Table 2.5: Profile of Education by Sex and Region of Residence

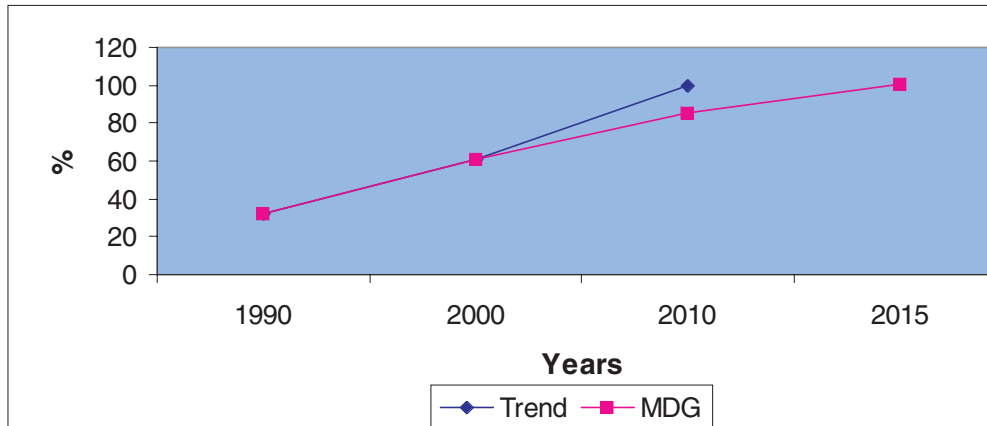
Region	Literacy Rate			Gross Primary Enrollment			Gross Secondary Enrollment		
	1996	1998	2000	1996	1998	2000	1996	1998	2000
National									
M	34.8	36.4	39.7	44.9	63.2	69.8	13.7	17.4	19.0
F	16.9	17.2	19.4	29.4	40.7	52.0	12.3	13.8	15.2
M+F	25.8	26.6	29.2	37.4	52.3	61.1	13.0	15.6	17.1
Rural									
M	27.9	28.8	32.8	37.0	56.8	64.5	4.2	7.2	8.9
F	8.4	8.8	11.0	17.5	31.0	42.8	1.6	2.4	3.8
M+F	18.8	18.8	21.7	27.6	44.3	54.0	3.0	4.8	6.4
Urban									
M	77.5	81.0	81.8	97.4	114.6	109.0	68.3	70.8	74.7
F	56.7	59.0	60.6	107.1	105.4	113.7	53.1	61.7	62.9
M+F	65.7	69.060	669.9	102.1	109.7	111.5	59.6	61.765.9	68.2

Source: CSA (1998, 1999, 2000)

This is clearly shown by referring to Figures 2.4 and 2.5. Figure 2.5 shows a forecast based on recent trend and perhaps an optimistic scenario. Figure 2.4 shows a conservative estimation based on data for the last four decades. Using the optimistic scenario, if

which is related to the incentive structure in place, the environment of the teaching-learning process, quality and availability of text books, as well as the capacity to realize these goals, with acceptable quality, at local levels are also areas worth focusing on.

**Figure 2.4: Trends and Targets Under MDGs for Primary Education in Ethiopia**



the current trend continues, by 2010, gross enrollment at primary level of education in Ethiopia will be 100 percent.

The use of longer time series and conservative estimates also show that this particular Goal is achievable. Given the trend of the Gross Enrollment Rate (GER) in the last four decades, it is highly probable that Ethiopia could achieve universal primary education by 2010. Forecast based on this trend shows that the country may achieve a GER of 72, 95 and 124 by year 2005, 2010 and 2015, respectively. Moreover, if the last ten years average ratio of net to gross enrollment (an average ratio of about 80 percent) is assumed to remain constant, this can be translated into a net enrollment ratio (NER) of 68, 76 and 99.5 for the years 2005, 2010 and 2015, respectively. A mere drive towards achieving universal primary education may sometimes come at the expense of quality of education.

Table 2.6 and Figure 2.5 below show the trends in some indicators of quality in the primary education sector in Ethiopia. Both the pupil teacher ratio (PTR) and the Student Section Ration (SSR) show rising trends over the last decade. Although the rate at which these indicators are worsening is not that alarming; it is an area worth focusing on. Moreover, other quality indicators such as teachers' morale,

To minimize the goal of universal primary education coverage being compromised by deterioration of the quality of education, the Government will work to reverse the upward trends in these quality indicators and address other quality related issues.

The Government's policy and strategy is broad and wide ranging (see SDPRP, 2002:88-97). An education and training policy was implemented in 1994 to improve the current education system, thereby giving educational opportunities to those who could not afford it, and to specifically address the education of women. The Education Sector Development Program (ESDP) was established in 1997-1998.

However, a focus on the MDG under discussion reveals that the Government has a medium-term target of achieving a GER of 65 percent by the end of its current plan year (2004-2005). This seems a realistic target given the trend analysis discussed above. The Government has also outlined construction of facilities, training of teachers, development of syllabi and textbooks, improvement in the assessment mechanism and quality of education.

The priority accorded to primary education can also be read from the share of the fund allotted to the primary sector which is 46 percent of the three years planned expenditure of 15 billion

allotted for the education sector as a whole. If these planned tasks are implemented, it will not be difficult to reverse the deteriorating trend of quality indicators shown here. Thus, one important task in ensuring a meaningful realization of this Goal is closer monitoring of

**Table 2.6: Trends in Primary Education Indicators <sup>10</sup>**

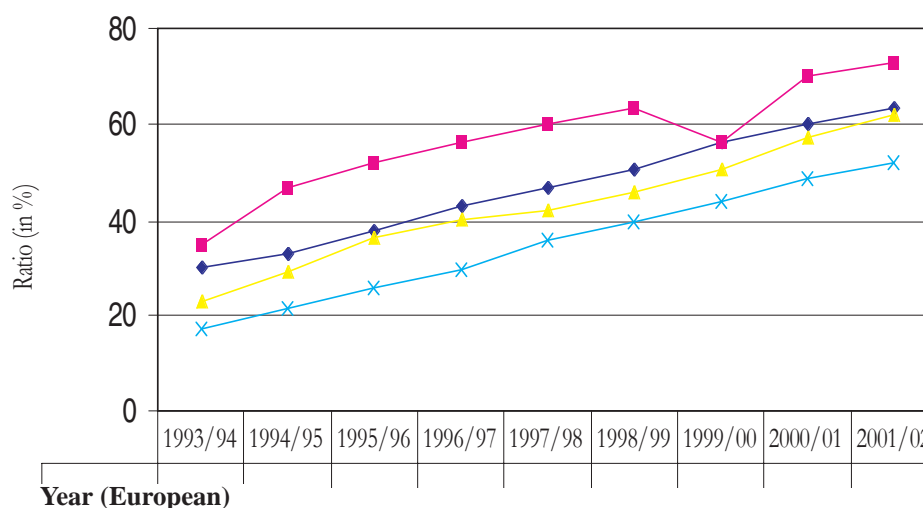
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	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	
PTR	30	33	38	43	47	51	56	60	63	
SSR	35	47	52	56	60	63	56	70	73	
GER	22.8	29	36.6	40.1	42	45.8	51	57	61.6	
NER	17.2	21.5	25.8	29.9	35.8	39.6	44	48.8	52.2	

**Source: Ministry of Education (Various documents, various years)**

the implementation of the above activities, which are listed in the SDPRP.

It is interesting to note that the GER has a positive impact on the economy. A one percent improvement in GER contributes about 0.1 percent to per capita GDP growth (see

**Figure 2.5: Trends in Primary Education Indicators<sup>10</sup>**



Technical Annex for details). Thus an expansion in primary education not only improves the quality of people's lives, but also contributes positively to the growth of the economy. The implication is that promoting primary enrollment in Ethiopia has a direct impact on Goal 1. Quantifying this link would certainly reduce the growth rate required to achieve the MDGs.

<sup>10</sup> PTR=Pupil Teacher Ratio; SSR=Student Section Ratio; GER=Gross Enrollment Ratio; NER=Net Enrollment Ratio. Due to lack of disaggregated data, primary education here refers to grades 1 to 8.

### 2.4.3 Goal 3: Promote Gender Equality and Empower Women

Gender inequality is one of the features of Ethiopian society. In almost all aspects of life, women are at a disadvantage. Particularly, in

1999/2000. If this trend continues, the gender gap could be closed before the end of this decade.

A review of the long-term trend shows a caveat that needs to be mentioned concerning the rate at which gender inequality in education has been

**Table 2.7: Gender Disparity in Ethiopia: Selected Indicators (2001)**

Indicator	Female	Male
Life expectancy at birth (# of years)	46.7	44.6
Adult literacy rate (percent )	32.4	48.1
Combined Primary, Secondary and tertiary gross enrollment rate (2000/01)	27	41
Seats in parliament held by women (percent )	7.8	91.2
Estimated earned income (PPP US\$, 2001)	550	1074

Source: UNDP, Human Development Index, 2003

rural areas, cultural, economic and physiological factors place huge barriers across sexes. Studies conducted so far show that (Bigsten et al, 2002) poverty within women-headed households is quite substantial. Similar sources also indicate that household heads whose wives completed primary level education have a low probability of facing poverty. In many respects therefore, gender inequality, other things constant, implies more poverty. Further more, the labor force activity rate of females in Ethiopia is quite low and has seen little change over the last decade. From Table 1.1 above, one can see that in 1990 the percentage of female into the labor force was around 36 percent and

little has changed in the course of the decade while in 1999 it was a mere 35 percent . Other indicators also point to the gender disparity that exists in Ethiopia (Table 2.6).

This disparity seems to arise from the structure of the economy that has seen no change over the last three decades. If there are some changes, they are in the area of the informal labor market, particularly in urban settings where an increasing number of women are becoming active in small trade and income generating activities. Other than that, there has been little progress in the opening up of opportunities for women to participate in productive activities.

Table 2.7 also shows that women are less literate, and have smaller enrollment rates at every level of education in Ethiopia. However, the gap has closed significantly between 1995/96 and

changing. According to Figure 2.6, Gross Primary Enrollment (GPER) and gender inequality in primary enrollment as captured by the ratio of Female-Male Gross Primary Enrollment (RFMGPE), have not been moving in similar direction. In fact, the simple correlation coefficient was 0.25, indicating some other factors that affected the movement of

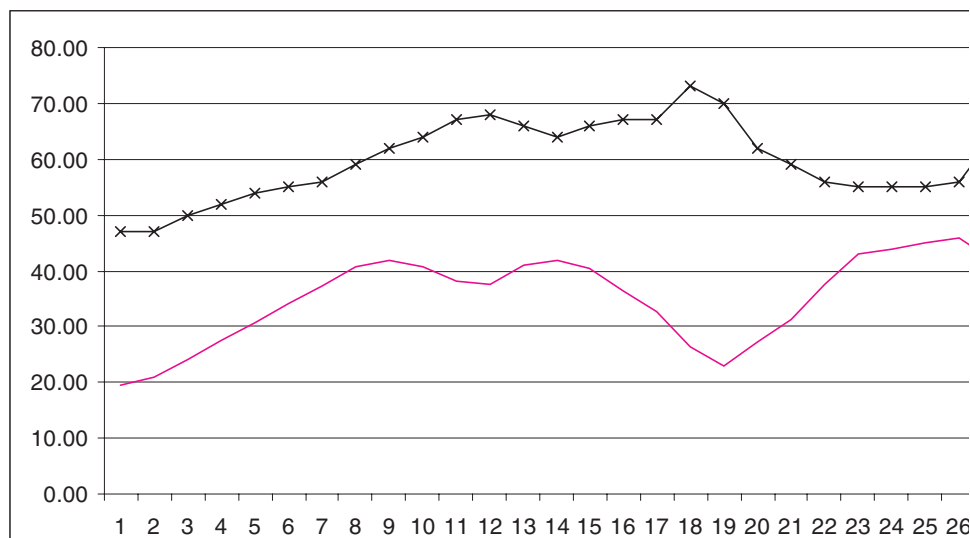
female or male enrollment. One hypothesis that may explain such disparity may relate to the civil war and its aftermath. During the height of the civil war female/male ratio rose mainly due to a fall in the male enrollment, rather than the female enrollment rising faster than male enrollment. In fact, gross primary enrollment was at its lowest in 1990 and 1991, a period in which the civil war had reached its climax.

As one looks into the future using the most recent trends, however, the gender gap between male and female may be closed at primary and secondary levels. However, as Figure 2.7 clarifies, the trend in the gender gap regarding literacy is worrisome, for it has changed little over the last decade.

The interesting aspect of reducing gender inequality in Ethiopia is its implication for economic growth. As an illustration, if Ethiopia undertakes a reduction in the rate of gender inequality at the level of primary education, then there is a positive impact on the economy. Specifically, if current trends in gender disparity decline by 0.5 percentage points, the economy could grow as a result by 0.4 percentage points (see Technical Annex, Volume 1 for details).



**Figure 2.6: Trends in Gross Primary Enrollment and Gender Inequality in Gross Primary Enrollment: 1975-2000**

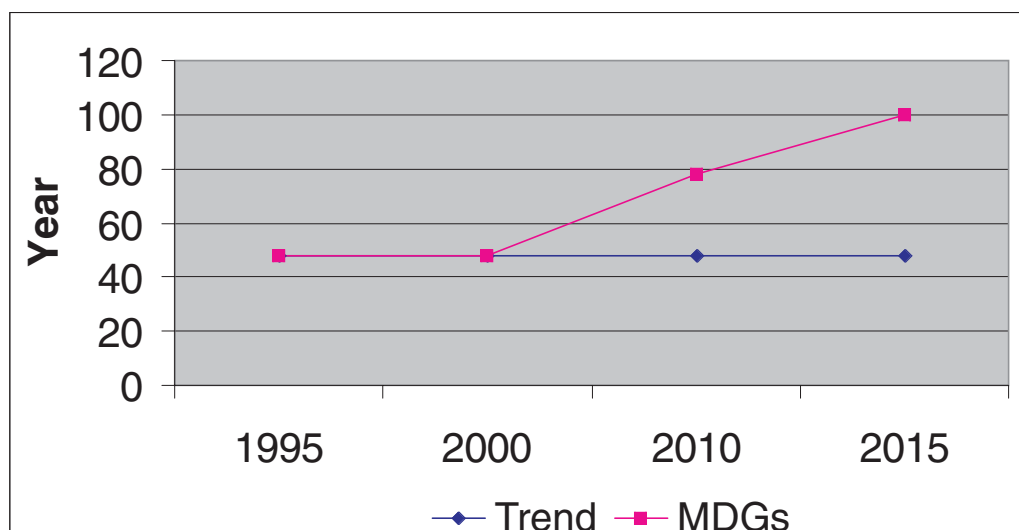


This result is mainly linked to the assertion that gender inequality poses a threat to the human capital formation of a country that works through several channels. One is the direct effect of raising labor productivity. The other is the indirect effect of the role of women in the household as principal actors in the determination of fertility rates, health of children and other

**2.4.4 Goals 4 and 5: Improve Under-Five and Maternal Mortality Rates**

As shown in Table 1.1, the under-five mortality rates in Ethiopia declined between 1990 and 1999/2000. As shown in Table 2.9 below the rate was constant for a long period of time. On the other hand, the maternal mortality rate increased in the intervening period, reaching

**Figure 2.7: Gender Disparity and MDGs for Literacy Rates in Ethiopia**



aspects of household well-being. Time spent in education also lowers the chance of early marriage. In addition, educated women take care of the health of children much better than uneducated ones.

871 by 2001-2002. Although there is problem of information on maternal mortality and related issues, the existing data on birth attended by trained personnel, which can be taken as a replacement for access to health service and maternal mortality, is fairly constant at a very low level - indicating no positive trend in reducing maternal mortality. This may relate to the HIV/AIDS pandemic that heavily affected the country in the 1990s. The realization of these

goals presupposes increased income at the household level, expansion of health care services, and intensive primary health care education at village levels.

Empirical research has shown that there is significant correlation between economic growth and mortality rates (see Anand and Ravallion, 1993 and Shimeles, 2000) where faster and sustained growth in per capita GDP has the spillover effect of improving mortality rates. In the Ethiopian context, the Government has indicated its resolve to address health issues in earnest in the coming decade. In light of the ever-increasing health problems, the Health Sector Development Program (HSDP) was established in 1998. The first phase of the program, HSDP-I, for the years 1997-2000, saw major contributions in the health sector. It brought forth issues aimed at achieving improvement, and encouraging the participation of various stakeholders, including donor agencies and NGOs. The Government fully adopted

In its medium-term plan (2001-2004/05) the Government has, inter alia, a target of raising the health care coverage from 52 to 62 percent, reduce maternal mortality from 500-700 to 400-450, and infant mortality rate from 97 to 85. The strategy it envisaged is to develop and implement a 'health package' aimed at preventing and controlling major diseases with community participation. This will be augmented by training of health personnel, coordination of development partners, and establishing sustainable financing mechanisms. The program is estimated to cost 6.8 billion birr, with a financing gap of about 1.8 billion birr that is expected to come from external sources.

Good economic policy, coupled with intensive budgetary support for health services will help reduce the increasing threat of higher mortality rates in Ethiopia. Tables 2.8a and 2.8b show that there has been little progress in providing health care services in Ethiopia. The average number of facilities per 100,000 populations is fairly constant with a slight improvement in the recent

**Table 2.8a: Health Facilities**

Health facilities		1996/97	1997.98	1998/99	1999/00	2000/01	2001/02
Number of functioning hospitals	Government	46	59	55	64	68	68
	NGO	17	17	17	17	17	18
Number of functioning health centers	Government	241	262	294	344	369	384
	NGO	5	5	6	23	17	26
Number of functioning health stations	Government	2202	2173	2118	2031	2019	2019
	NGO	13	14	15	268	374	312
Number of functioning health posts		76	164	373	893	1063	1193
Number of health facilities per 100,000 population		4.5	4.5	4.5	5.7	6.	6.

Source: Ministry of Health, Health Sector Development Program (HSDP 2002/03-2004/05)

the program and began HSDPII, for the years 2002-2006. This program aims to give health services to all aspects of the population by providing better and more efficient health care services.

past. Similarly, the average distance to the nearest health service is more than five kilometers, and this figure has shown little improvement over the years. It is imperative to change this picture so as to tackle the problems of mortality rates and general premature deaths.

**Table 2.8b: Percentage Distribution of Households by Distance to the Nearest Health Center**

Areas of Residence	Distance in KM to the nearest Health Service											
	0-4			5-9			10-14			15 and over		
	1996	1998	2000	1996	1998	2000	1996	1998	2000	1996	1998	2000
<b>National</b>	36.2	37.5	40.1	30.3	29.4	31.0	13.5	15.3	15.0	20.0	17.8	13.9
<b>Rural</b>	25.7	27.5	31.0	34.9	33.9	35.3	15.9	17.8	17.6	23.5	20.8	16.2
<b>Urban</b>	95.0	98.1	94.2	4.8	1.7	5.2	0	0.1	0.1	0.2	0.1	0.5

Source: CSA (2000)

When dealing with individual targets the picture is slightly different for under-five and maternal mortality rates. Regarding the target of reducing child mortality by 2015, the trend and the target show slight deviations as shown in Figure 2.8. If the current trend persists, under-five child mortality in Ethiopia will be around 162 per 1000 by 2015, though the MDGs state that to decline to 120 per 1000. A more precise projection of what would be the trend in light of future developments regarding institutions, economic growth, and increased public expenditure in basic health services comes up with a much better picture of the future.

Although target specific budgeting is not done in relation to Goals 4 and 5 in the SDPRP, there is a total planned budget of 6.81 billion Birr for the health sector programme between 2002-2003 to 2004-2005 (2.3 billion each year). This budget is planned to be used, among other things, for health service delivery, rehabilitation and expansion of health facilities, human resource development as well as for developing health management, information, monitoring and evaluation systems (SDPRP, 2002: 106).

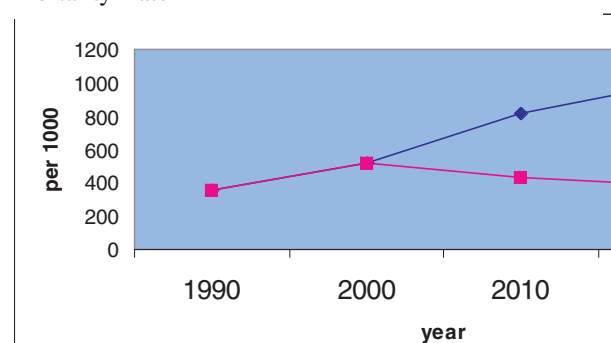
**Table 2.9: MDGs-related Health Indicators <sup>11</sup>**

Year European	Year Ethiopian	Under5 Mortality Rate	Maternal Mortality rate	Birth attended by Trained personnel(In percent )
1992/93	1985			8
1993/94	1986	159	1400	6
1995/96	1988	161		
1996/97	1989	161		10.0
1997/98	1990	161		8.4
1998/99	1991	161		7.8
1999/00	1992	161		8.7
2000/01	1993	140		9.9
2001/02	1994	187	871	9.7

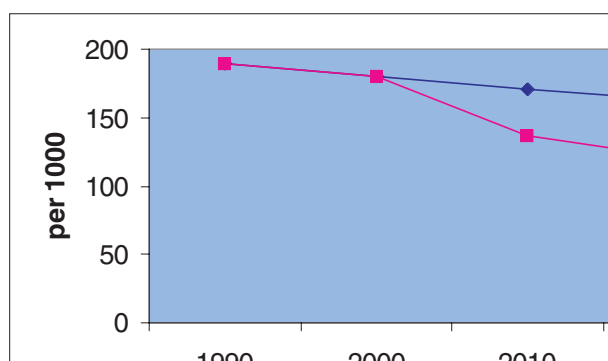
**Source: Ministry of Health (Various Documents)**

The picture of maternal mortality is not encouraging. This is because it has been steadily rising over the last decade. However, like most indicators of hazard, the maternal mortality rate is non-linear around the critical value, unless tremendous catastrophic events take place - this may offer some room for optimism.

**Figure 2.9: Trend and MDGs Target for Maternal Mortality Rate**



**Figure 2.8: Trend and MDGs Target for Under-five Mortality Rate**



<sup>11</sup>Maternal mortality for 1995/96 from African Development Indicators (ADI) 2001 Birth attended by trend personnel for 1992/93 ADI 2001, and 1996/97-2001/02 from Health Sector Development Program, Ministry of Health.

### 2.4.5 Goal 6: Combat HIV/AIDS, Malaria and Other Diseases

The period between 1984 and 1994 witnessed a sharp rise in the HIV/AIDS prevalence rate, followed by moderation at a rate of about 7 percent. The impact of HIV/AIDS is wide ranging. It, among others, increases general mortality, adversely affects life expectancy at birth (the Ministry of Health estimates life expectancy at birth in Ethiopia was 53 years for 2001 and declined to 46 years, when the effects of HIV/AIDS is taken into account), and raises the number of orphans and tuberculosis cases.

The economic cost of the pandemic is also another major burden (Ministry of Health, 2002). Although there is no complete study on the macro and micro economic impact of the pandemic, recent simulation of a possible decline in the labour force by 10 percent since 1980-1981, using a macro model for Ethiopia shows a decline in agricultural and non-agricultural output by an average of around 2 and 1.8 percent, respectively, during the forecast

(see Daniel and Alemayehu 2003 for details).

Based on data collected from 34 sites, the national adult prevalence rate of HIV/AIDS stood at 6.6 percent in 2001, the estimate for the capital city (Addis Ababa) being 15.6 percent (the prevalence rate for all urban and rural areas are 13.2 and 3.7 percent respectively). About 91 percent of infections occur among adults between the age of 15 and 49 years. Since the beginning of the AIDS epidemic, the Ministry of Health has received reports of 107, 575 cases of AIDS. It is estimated that about 2.2 million (2 million adults and 0.2 million children) people in Ethiopian are currently (2001) infected with HIV/AIDS. The condition of HIV/AIDS in the year 2001 and the trend of reported AIDS cases are given in Table 2.10 and Figure 2.10 (Ministry of Health, 2002).

Reversing the spread of the disease has been the preoccupation of the Ethiopian Government in recent years. In fact, it believes that it will try to reduce new infections of the virus by 25 percent by 2005. Accordingly, it has developed a strategic framework for

**Table 2.10: The Status of HIV/AIDS in 2001**

Item	People (Million)	Urban	Rural
Prevalence Rate (Average)			
Estimated Death	0.16	13.7	3.7 <sup>12</sup>
Living with HIV/AIDS			
Adults & Children	2.2		
Adults (15-49)	1.9		
Women (15-49)	1.1		
Children	0.23		
Living Orphans	0.99		

Source: UNAIDS, UNICEF and WHO, Ethiopia, 2002; NBE, Research Dept, 2003

period. The fall in output will lower private consumption, investment, exports and government tax revenue by 1.9 percent, 2.4 percent, 3 percent and 8 percent, respectively. The decline in government revenue would in turn put downward pressure on government expenditure, lowering it by 6.7 percent on average

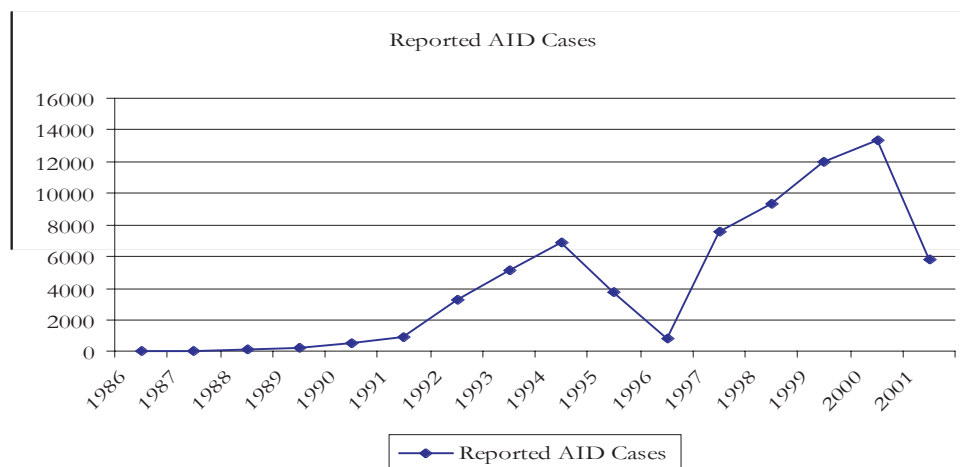
national HIV/AIDS response. The strategy planned to work through intensifying efforts aimed at risk reduction (such as distribution of condoms), care and support for those already infected, gender sensitive interventions, mainstreaming HIV/AIDS into all forms of government intervention, establishing a

<sup>12</sup>Data based only on six sites, which are not representative but extrapolated to all rural areas

functional institutional framework from top to bottom, enhancing community level response, and tracking on going activities (such as trends of the disease and actions aimed at tackling it).

Malaria and tuberculosis also affect a significant proportion of the Ethiopian population. This is further accentuated by the close relationship between HIV/AIDS and tuberculosis. These diseases are highly correlated with

**Figure 2.10: Reported AIDS Cases**



The Government has also vowed to ensure the participation of all (both state and non-state actors) in fighting the pandemic. This medium-term plan is estimated at about Birr 1 billion (between 2002-2003 and 2004-2005, prevention of the pandemic taking 44 percent of the total). It is hoped that the program will halt prevalence rate to about 7 percent by year 2005 (SDPRP, 2002). Although this target rate might be attainable given recent trends and model forecasts by the Ministry of Health, the absolute number of the pandemic's casualties will increase due to rising population.

the state of malnutrition, which has been exacerbated with frequent bouts of drought and hunger. In fact, the long-term effect of hunger and malnutrition compromise the overall immune system and expose patients to several deadly infectious diseases. Recent estimates (see Table 2.11a) indicate that illnesses have been increasing significantly over the last five years. Between 1996 and 2000, the overall illness episode in Ethiopia has increased for all income groups (Table 2.11b & Figure 2.11). Naturally, the highest episodes are reported among the poor, indicating the link between poverty reduction and health outcomes.

**Table 2.11a: Malaria and Tuberculosis Indicators**

Type of Illness	1999/00	2000/01	2001/02
Case notification rate, all forms of TB per 100,000 population	131	139	162
TB treatment success rates in DOTS (short course)	78percent	79percent	81percent

Source: Ministry of Health (Health Sector Development Project)

Table 2.11b: Illness Episodes by Expenditure Quintile (percent )

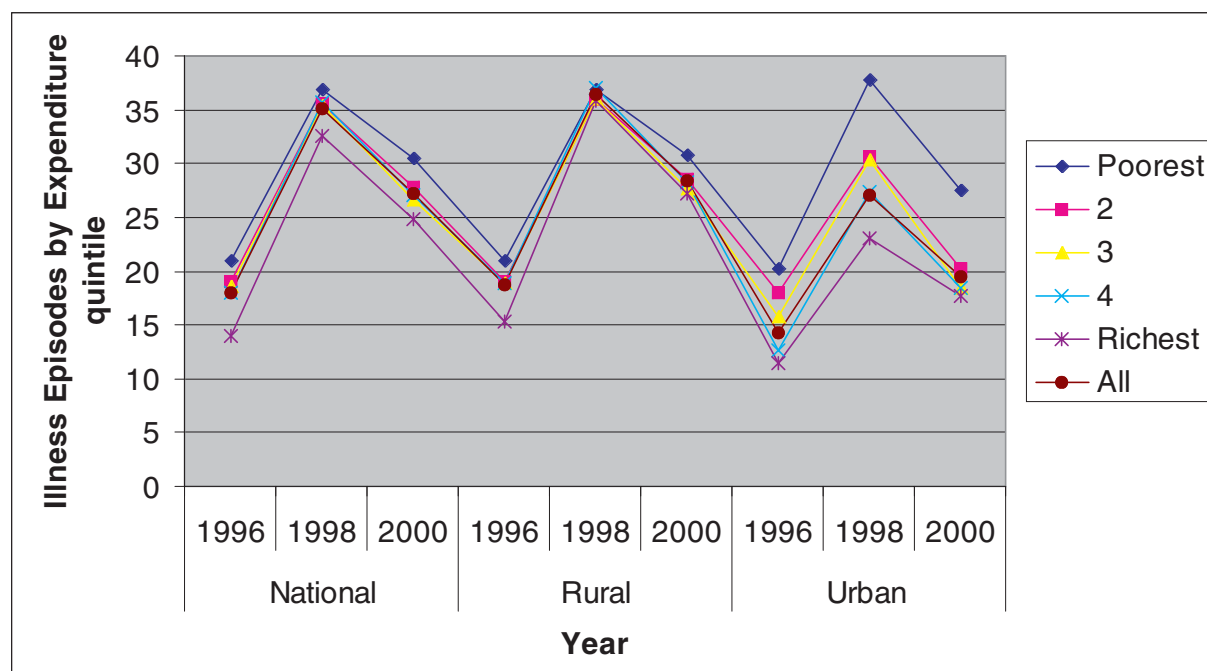
Expenditure Quintile	National			Rural			Urban		
	1996	1998	2000	1996	1998	2000	1996	1998	2000
Poorest	20.9	36.9	30.5	21.0	36.9	30.8	20.2	37.7	27.5
2	19.0	35.5	27.8	19.1	36.0	28.6	18.0	30.6	20.2
3	18.6	35.4	26.6	18.9	36.0	27.6	15.8	30.3	18.5
4	18.0	35.7	27.0	18.9	37.1	28.3	12.6	27.3	18.5
Richest	14.1	32.5	24.9	15.3	35.9	27.2	11.5	23.1	17.7
All	18.1	35.1	27.2	18.8	36.4	28.4	14.3	27.1	19.5

Source: CSA (2000)

In short, there is a huge task of fighting health hazards awaiting the Government, as acknowledged in its policy documents. For instance, the Government has plans to reduce the

such as soil and forests, among other things. Years of mismanagement and poverty have deepened the environment crisis in Ethiopia. The whole issue of rural development cannot

Figure 2.11: Illness Episodes by Expenditure Quintile (percent)



malaria prevalence from the current level of 7.7 per 1000 population (2001-2002) to 6.2 per 1000 population by the end of its medium-term planning period (2004-2005).

Similarly, tuberculosis prevention and control services are planned to be raised from the current level of 60 percent to 75 percent by 2004-2005. This is going to be taken in the context of the health sector development program.

#### 2.4.6 Goal 7: Ensure Environmental Sustainability

Environment plays a major role in the Ethiopian economy. The recurrent droughts that the country faces on a regular basis is due to the depletion of environmental resources

be realized without serious and concerted action to reverse the growing damage inflicted on the environment by several factors, mainly human intervention. Based on anecdotal evidence, the rate of deforestation, soil depletion and land degradation in Ethiopia has become very critical.

Very little research has been done on the nexus between environment and poverty. But, from available studies, it is very well established that there is a high degree of correlation between environmental degradation and poverty in Ethiopia (see ECA, 2002). Regional poverty profiles distinctly show that the distribution of poverty follow a pattern of getting worse in highly degraded areas of the country.

A related issue here is to improve the access people have to safe water, a drive that the Government is earnestly seeking to address in coming years. It is recognized that access to safe water substantially reduces child and maternal mortality. From Table 2.12, it is clear that very few people in Ethiopia have access to safe water, particularly in rural areas. The situation has improved significantly over the last five years, however. There is an increase in the

of humanitarian aid. In terms of per capita aid, Ethiopia is one of the least aid recipients in SSA. The current ODA (2003) averaged US\$13 per capita, which is about half the average ODA level for SSA.

Suffice to say that if attaining MDGs is to become a reality in Ethiopia, there is so much that the international community can do in terms of development finance, access to

**Table 2.12: Percentage Distribution of Households by Source of Drinking Water**

Area of Residence	Source of Drinking Water					
	Safe Water			Unsafe water		
	1996	1998	2000	1996	1998	2000
<b>National</b>	19.1	23.7	27.9	80.9	76.3	72.1
<b>Rural</b>	9.6	13.7	17.1	90.4	86.3	82.9
<b>Urban</b>	72.1	83.5	91.7	27.9	16.5	8.3

**Source: CSA (2000)**

percentage of people who have access to safe water, from 19 to 28 percent between 1996 and 2000. The MDGs state that the proportion of people with access to safe or potable water should rise by 50 percent by 2015; this is equivalent to an increase by 64 percent in the Ethiopian case.

Given the current rate of expansion, which is an average increase of about 12 percent per year, the target of raising the percentage of people with access to safe water to 64 percent by 2015 does not seem unrealistic. The only question is what contributed to such substantial expansion and whether the trend could be sustained.

Data and information on the extent of slums in Ethiopia, and especially the capital, Addis Ababa, is not readily available. Anecdotal evidence suggests that this is an area for major improvement and Government, together with donor partners, are placing increasing emphasis on this.

#### **2.4.7 Goal 8: Develop Global Partnership for Development**<sup>13</sup>

The share of ODA for Ethiopia has been hovering around 10 percent of GDP, most in terms

global markets and dealing with the burden of external debt.

As a least developing, landlocked country, Ethiopia could also benefit from enhanced partnerships. Ethiopia has one of the lowest road densities in the world, with only 20 percent of its land area being within 10km of an all-weather road and 70 percent of its farms being more than a half day walk from an all-weather road. Target 14 of the MDGs call for the international community to 'address the special needs of landlocked countries'. Ethiopia's development partners are thus expected to do their level best to counter the possible negative repercussions of Ethiopia's landlocked status in its effort to attaining the MDGs.

In terms of market access, Ethiopia has the opportunity to exploit the US's offer of preferential access for poor countries, under the African Growth and Opportunity Act (AGOA) and the European Union's recent initiative termed 'Everything but Arms'. Notwithstanding such an attractive offers, Ethiopia has not benefited as much as possible from it, owing to structural weakness in its economy. There seems to be a need for

<sup>13</sup> The discussion in this section is based on Alemayehu (2003).

Ethiopia and its development partners to work together to help Ethiopia exploit these opportunities. A related area where Ethiopia's performance leaves much to be desired is in attracting FDI. Despite attractive incentive schemes, the level of FDI flows to Ethiopia is negligible. This is partly attributed to weak infrastructure and inefficient bureaucracy as well as investor's lack of confidence, among others.

Similarly, the issues of debt and new inflows will have an enormous impact on the capacity of the country to realize the MDGs. This is despite the fact that on November 12th, 2001, the World Bank announced that Ethiopia had become the twenty-fourth Highly Indebted Poor Country (HIPC) to reach decision point under the enhanced HIPC Initiative.

This was followed by the preparation of Ethiopia's full PRSP entitled the Sustainable Development and Poverty Reduction Program (SDPRP). The SDPRP was submitted to the World Bank and IMF in July 2002 and was accepted by both as a framework for development partnership. The SDPRP formulation benefited from wider and transparent consultation held at different levels with stakeholders including development partners. Annual Progress Review (APR) Report of the first year of implementation (2002/03) was prepared and discussed at a high level forum, jointly organized by donors and Government on December 2, 2003. The APR had benefited from feedback during this meeting and discussions held with NGOs and private business representatives. The APR was officially submitted to the World Bank and IMF on December 5, 2003. Accordingly, Ethiopia has already met all the triggers set for HIPC Completion Point and the Government is waiting an official response from the Bank and the Fund.

When the country reaches completion point, Ethiopia will receive total debt relief of

US\$1.3 billion, or 47 percent of her total external debt of US\$2.7 billion in net present value (NPV) terms. This reduction will, according to the World Bank, be sufficient to reduce her debt to export ratio from 284 percent to 150 percent (Decision Point for Ethiopia, 2001).

The country has accumulated a huge amount of debt over the years. Ethiopia's public and publicly guaranteed external debt amounted, at end 1999/2000, to about US\$5.5 billion in nominal terms (this is due to the debt forgiveness from the former Soviet Union which is nearly equal to the current level of debt). Of this debt, 33 percent went to International Development Association (IDA) of the World Bank, 3 percent to IMF, 24 percent to other multilateral institutions, and 30 percent to Paris Club creditors, of which Russia accounts for almost two-thirds (or 19 percent of the total outstanding external debt)<sup>14</sup>. Non-Paris Club creditors represent 7 percent. Commercial external debt is relatively small, accounting for the remaining 3 percent of public and publicly guaranteed external debt (World Bank, 1999).

This is further enhanced by the acceptance of the SDPRP by the Bank and the IMF. Furthermore, Ethiopia is not in arrears to the IMF or World Bank. On the basis of the macroeconomic assumptions for the Debt Sustainability Analysis (DSA) the IMF and World Bank have decided that Ethiopia's debt would remain unsustainable even after the application of traditional debt relief mechanism. According to the IMF-World Bank, the NPV of debt-to-export ratio is estimated at 284 percent in 2000-2001 and would remain above 150 percent until 2014-2015.

Therefore, it was calculated that the total amount of HIPC Initiative assistance needed to bring the ratio of the NPV of debt-to-export to 150 percent would be US\$1,275 million. The total nominal debt relief is estimated to amount to US\$1,930 million. The assistance under the

<sup>14</sup> Ethiopia has had two rescheduling operations with the Paris Club. The first agreement (PC I) was signed in December 1992 and restructured maturities falling due in 1992-95 on London terms (50 % NPV reduction) for debt contracted before the cutoff date of December 31, 1989. In January 1997, a second agreement (PC II) was concluded, providing for a flow rescheduling on Naples terms (67 % NPV reduction) and covering arrears at end-1996 and maturities falling due between January 1997 and October 1999. Ethiopia signed all bilateral agreements with participating creditors by February 1998, thus implementing fully the first two tranches of this agreement. The third tranche, covering maturities falling due between January and October 1999, was contingent on the IMF Executive Board's completing the midterm review under the second annual program of the ESAF arrangement. Since this annual arrangement expired without the midterm review, the third tranche has not come into effect. In November 1999, Ethiopia concluded a bilateral agreement with Russia providing for a discount of 80 % of debt outstanding as of end-1996. The agreement also provided for rescheduling of the remainder in line with the PC II agreement.



enhanced HIPC Initiative would reduce the debt stock by 47.2 percent, based on the estimated NPV of debt outstanding on July 7, 2001.

Based on proportional burden sharing, multi-lateral assistance would amount to US\$763 million, while bilateral creditors would provide US\$482 million and commercial lenders US\$30 million. IDA's HIPC Initiative assistance would total US\$463 million in NPV terms, equivalent to a total debt-service saving of US\$857 million over the next 20 years. The African Development Bank (ADB) and the IMF would contribute US\$216 million and US\$34.4 million in NPV terms, respectively (Decision Point for Ethiopia, 2001).

The SDPRP also reveals that the expected contribution of the debt relief towards the planned reduction of poverty is not significant. This is

The other Goal 8 related issues cover FDI as well as technology transfer, including ICT, and access to the markets of developed countries. Ethiopian membership of the WTO is a central component to the realization of such targets. The flow of FDI to Ethiopia is extremely limited. This poor performance has been registered despite attractive policy packages that the Government put in place.

The fundamental bottlenecks for investment are structural: lack of attractive infrastructure, inefficient bureaucracy and periodic regional conflicts. Much benefit should not be expected from the USA and EU's recent market access offer either, nor from joining the WTO, which Ethiopia asked for accession and got the go ahead. This is owing to structural problems noted above and weak domestic production and marketing capacity<sup>16</sup>.

**Table 2.13: The Relative Contribution of HIPC Debt Relief to Poverty Related Spending (Value in million Birr or percent otherwise)**

Fiscal Years	Consolidated Budget			HIPC Relief as percent of Total Exp.	HIPC Relief as percent of Poverty Targeted Exp.
	Total Expenditure	Total Poverty Targeted Exp.	HIPC Debt Relief		
2001/02	19095	8110	429 <sup>15</sup>	2.2	5.3
2002/03	21448	10340	779	3.6	7.5
2003/04	22122	12097	819	3.7	6.8
<b>Total for the Three Years</b>	62665	30547	2027	3.2	6.6

Source: SDPRP: Annual Progress Report (APR), 2002/03, Economic Policy and Planning Department, MoFED, December 2003

shown in Table 2.13, where the share of the resources that would be obtained from the HIPC debt relief in the total (planned) spending of the government in poverty-oriented sectors averaged less than 7 percent for the three years period (2001/02 to 2003/04) (Table 2.13).

The implication of realizing Goal 8 should be obvious. A strong commitment on the part of development partners is not only important for realizing Goal 8 but also crucial for realizing the other MDGs as well.

<sup>15</sup> For 2001/02 not originally budgeted but reported as it was disbursed. Budgeting HIPC relief resources commenced in the 2002/03 Fiscal Year.

<sup>16</sup> See Alemayehu (2003) for the problems and potential of joining WTO for Ethiopia.

### III. Costing and Major Financial Requirements to Meet the MDGs in Ethiopia

One of the purposes of this Report is to make informed judgments on the resource requirements of achieving the MDGs in the Ethiopian context. There are two components to this exercise. One is the cost associated with the growth requirement that is needed to reduce poverty by half by 2015. The other component is the direct cost of targets related to education, health, agriculture & food security and water. However, more work needs to be done in terms of costing cross-cutting activities such as gender and the environment as well as target specific costing.

#### **3.1. Financial Resources Requirement to Achieve the Real GDP Growth Required to Halve Poverty by 2015**

The method used to compute the financial resources required to achieving the stipulated growth rate for the reduction of poverty by half by 2015 is outlined in the Technical Annex (Volume II). With this method poverty disaggregation generated the growth requirement and a simple growth model identified the resource requirement to achieve the stated goal. As indicated in Chapter II above, the minimum growth rate required to reduce poverty as defined by the headcount ratio in Ethiopia is about 6 percent. The first question that arises is whether this growth rate is feasible given the historical trends in the growth of GDP in Ethiopia. The second issue is the question of additional resources needed to secure such a growth rate on a sustained basis for the next fifteen years or so<sup>17</sup>.

Regarding the feasibility of the growth rate, one may need to model the growth performance of the Ethiopian economy, hopefully making a distinction between components of long-term growth, short-term growth (a kind of growth that one may expect during a transition) and a component to correct for errors. The observed growth rate in GDP is the sum of these components. It is important to know the

long-term trends given the resources that may prevail in the next fifteen years. In the absence of such clear decompositions of growth in GDP, one may resort to the variability in the growth of GDP over time to determine the stability of growth and its long-term trend.

As reported in Table 3.1b, the growth rate in real GDP between 1990-2000 was about 5.6 percent with a standard deviation of 4.3 percent. The high variability in the real growth rate of GDP in Ethiopia as evidenced by annual rate of growth of 4.3 percent is an indication that the shock component might dominate the long-term trend, suggesting instability in the growth performance of the economy. But, taking the average growth rate in real GDP, one notices the closeness with the required growth rate to reduce poverty by half by 2015. Thus, if Ethiopia can sustain its historical record of average growth rate in real GDP, reducing poverty by half may be a real possibility. To take into account the risk involved in this scenario, the standard deviation can be used as a measure of high and low expectations of growth, which is 9.6 percent and 1.3 percent, respectively. Thus, the target of growing at nearly 6 percent per annum to reduce poverty by half is subject to the effects of shocks on overall growth in Ethiopia.

The second issue of concern is that in order to achieve, on a sustainable basis, the 6 percent growth rate in real GDP, what would it take in terms of additional resources for purposes of investment. A simple growth model has been used to link investment rates with economic growth as shown in the Technical Annex (Volume II). The key parameter linking investment requirement with real GDP growth rate is the Incremental Capital-Output Ratio (ICOR). Accordingly, real GDP growth rate is investment multiplied by the reciprocal of ICOR. The ICOR for Ethiopia is estimated using an average value between 1990-2000, which is

<sup>17</sup> The base year for the MDGs is 1990, but due to the availability of more comprehensive data, the base year used in the Ethiopian context is 2000.

approximately 3. Thus, the ratio of investment to GDP implied by an ICOR of 3 for a 6 percent growth rate in real GDP equals 18 percent of GDP ( $= 3 \times 6$ )<sup>18</sup>.

If one takes the trend in the ratio of investment to GDP for Ethiopia, for much of the 1990s it hovered around an average of 15 percent of GDP (Table 3.1a), with a substantial portion of it financed by external loans, grants and domestic borrowing. Savings also remained at about an average of 5 percent of GDP in the last decade (being negative in the recent past). Given the low level of per capita income it is quite unrealistic to expect much from domestic resource mobilization. However, there is a need to study<sup>19</sup> and design a strategy for enhancing domestic resource mobilization since that is the most reliable source of financing.

In the last decade, the overall resource gap for Ethiopia averaged around 11 percent of GDP, which is substantial. The issue, therefore, is who is going to finance an approximate additional gap of 3-4 percent of GDP. Table 3.1a shows that the ratio of ODA to GDP has been declining substantially since the mid-1990s.

This drop in the share of ODA and perhaps also its composition might severely constrain the Ethiopian economy from achieving the goal of halving poverty by 2015. A back-of-the-envelope estimate of the annual flow of ODA that is needed for the next fifteen years to halve poverty in Ethiopia was made to see the implications. It is assumed that if the ICOR remains unchanged<sup>20</sup> over the next decade, Ethiopia would need a flow of around US\$2 billion dollar (current prices) per year to assist the realization of a 6 percent growth rate in real GDP. If one looks at the average ODA flow in the past (1990-1999), it was around US\$900 million. Thus, donors need to raise their commitment in promoting development activities in Ethiopia substantially over the next decade. In fact, as Table 3.1a illustrates, if Ethiopia manages to have the ODA rate that

prevailed before Ethio-Eritrean war in subsequent years, there is room for optimism in terms of combating extreme poverty and hunger.

It is also interesting to take note of the composition of ODA, which is as important as the overall flow. In recent years, the component of ODA that goes into development has been declining being diverted to humanitarian aid. The two components of international aid need not be competing in a country such as Ethiopia.

To make further sense of the resources required to achieve the MDG rate of growth in real GDP, some scenarios are reported here based on the variability in the trend of ICOR over time. Table 3.1b presents optimistic and pessimistic scenarios by taking a one-standard deviation from the mean value of the ICOR that was observed between 1990-2000. Noting that an ICOR of 3 was computed as an average over ten years, a one-standard deviation difference on the plus and minus sides brings the ICOR to 4.97 and 1.07, respectively. Using these values, the resources required to achieve the 6 percent growth rate can be computed by multiplying this value with the respective ICORs.

In the pessimistic scenario, the resources required to achieve the goal of reducing poverty by half come around an investment level, which is 28 percent of GDP. Given the fact that current investment is about 15 percent of GDP, the resource gap is estimated to average around 13 percent of GDP. Noting the fact that domestic savings so far financed only 5 percent of GDP, the overall resource gap of the country comes to the tune of 23 percent of GDP, which is not sustainable by any measure.

In the optimistic scenario, the resources needed to achieve the MDGs come to around 5.9 percent of GDP, which could easily be covered by the domestic savings.

<sup>18</sup> These are preliminary estimates and work is continuing to refine the method employed here.

<sup>19</sup> MOFED is in the process of conducting such a study.

<sup>20</sup> In a growing economy such as Ethiopia, the efficiency of capital and its returns in terms of output is expected to be non-linear with respect to capital utilization. In fact, if such a scenario is incorporated, the investment requirement declines over time.

This illustration has to be treated with great caution. To begin with, the role of investment in economic growth, and the implied concept of ICOR is a subject of great skepticism in the empirical literature. The idea being that the relationship between growth and investment is

may not be hard to imagine. A country such as Ethiopia gets more aid than usual in times of economic distress, suggesting a negative relationship by construction.

**Table 3.1a: Selected Indicators of Performance and Financing for Economic Growth**

Items	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Average
GDP growth (Annual percent)	2.5	-4.7	-5.1	13.4	3.5	6.1	10.6	5.2	-1.4	6.2	3.6
ODA (percent of GDP)	14.8	20.6	21.1	17.4	21.9	15.3	13.6	9.0	9.9	9.8	15.3
Gross domestic savings (percent of GDP)	7.2	2.7	3.0	5.6	5.4	8.0	2.5	6.5	5.4	2.7	4.9
Gross Fixed capital formation	11.8	9.9	9.2	14.2	15.2	16.4	16.9	17.0	17.2	18.1	14.6
Resource Gap (percent)	9.4	14.6	14.3	0.9	11.7	10.3	6.3	11.8	18.6	11.9	11.0
Debt-Service ratio (percent of exports)	35.0	25.0	24.0	19.0	20.0	19.0	42.0	10.0	11.0	17.0	22.0

Source: World Bank, WDI, 2002

a complex one. In fact, there is no statistically significant relationship between externally financed investment and growth in Ethiopia.

Secondly, even if this relationship is assumed to be a reasonable approximation of reality, the implication that aid is as effective as domestic savings to generate the same output is questionable. It could even play negatively with savings, mainly public savings.

The caveats suggested in the preceding paragraphs point towards an important point in the concept of growth and poverty reduction. The first is that the size and composition of investment matters for accelerated growth. Attempts to encourage private investment by acting on a variety of barriers and creating the right incentive structures are crucial. The second is that effective use of aid must come from a change

**Table 3.1b: Optimistic and Pessimistic Costs Scenarios**

Total Cost of MDGs	Average ICOR (1990-2002)=3	Optimistic Scenarios (Ave.-1SD)	Pessimistic Scenario (Ave.+1SD)
Total Cost for a given growth <sup>21</sup> , Required growth=5.7percent	I/GDP=3X5.7=17.1percent	I/GDP=1.03x5.7=5.9percent	I/GDP=4.97x5.7=28.33percent
Required cost for assumed 5percent saving rate			
	Average Growth (1992-2000=5.6percent) SD=4.3	Optimistic Scenarios (Ave.+1SD=9.9percent)	Pessimistic Scenario (Ave.-1SD=1.3percent)
Total Cost for a given ICOR=3 <sup>22</sup>		I/GDP=3X9.9=1.73percent	I/GDP=(5.7/1.3)*17.1=75percent

Thirdly, the empirical findings on the relationship between aid and economic growth are not encouraging. Most researchers found a negative relationship between the two. This

in aid delivery mechanism. Finally, in all of these endeavors feature the issue of good governance, property rights, rule of law in the conduct of business, and most of all predictability of government behavior to economic agents.

<sup>21</sup> Average ICOR for the last 10 years is between 1.6 (using nominal level computation = D (GDP)/I) and 3.9 (using growth computation = g/(I/GDP). This averages to 3.0. The average standard deviation using the two approaches is 1.97

<sup>22</sup> Average growth for this period (1992/93-1999/00) is 5.6 and its standard deviation is 4.3

Using WB, ADI, data (1992-2001, excluding 1998) gives 2.5 using the first approach (but in real terms) and 3.0 using the second (growth based) approach

**Table 3.2: Per Capita Government Expenditure by Sector in Ethiopia (Birr in current prices)**

Sectors	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03
<b>Agricultural development</b>	10.4	9.8	11.2	11.3	10.2	17.4	14.7	14.6	22.8	22.6
<b>Natural resource</b>	8.1	10.6	9.2	12.2	10.4	9.7	7.7	10.4	9.6	10.7
<b>Road construction</b>	10.0	16.80	14.5	17.2	17.5	18.2	17.4	24.4	29.3	30.4
<b>Education</b>	19.1	21.0	24.9	25.4	25.7	28.0	26.0	33.8	37.1	48.1
<b>Health</b>	6.7	8.0	8.7	10.2	10.9	10.5	9.1	15.3	15.1	14.6
<b>Total Capital &amp; Recurrent Expenditure</b>	135.7	155.5	164.7	175.0	183.0	241.5	280.1	245.1	266.3	301.4

Source: MOFED, Various Issues

### 3.2 Direct Costing of Anti-Poverty Programs

In this section an attempt is made to throw light on the financial requirements that go directly into the implementation of the components of MDGs in the spheres of education, health, roads, water and natural resources, and agriculture and food security. As Table 3.2 shows, there has been significant change in the expenditure pattern of the government, not least in health and education services.

The trend observed in Table 3.2, is driven by several factors, including the time changing preferences of the Government. But, one thing is quite clear: there has been, on average, important improvements over the years, with relatively higher emphasis on education, agriculture, health, water and sanitation and preservation of natural resources, which are key sectors that significantly affect human capabilities in Ethiopia. Due attention has also been given to road construction. It would be interesting to work out a poverty-efficient budgetary allocation on these sectors by estimating the relative potency of each of these sectors in bringing faster reduction in poverty.

Table 3.2 also shows that Ethiopia's poverty is deeply structural. Given the magnitude of per capita expenditure on vital sectors such as health, education, and environment reported in

the Table, there is no wonder that poverty is pervasive in the country. This level is absolutely insufficient to tackle the menacing threats of underdevelopment and rapidly deteriorating resource base. It is here that the global partnership features prominently. There is a strong case for budgetary support to enhance the effectiveness of anti-poverty programmes in Ethiopia. An attempt is also made to see the association between per capita government expenditure on several components of anti-poverty programmes, such as agricultural development, natural resources, road construction, education and health at regional level. 22 data points covering two years were used to construct the correlation coefficient. It is found that per capita government spending had a correlation coefficient of 0.42 and 0.25, respectively, between 1995 and 2000. Given the scale of resources involved and the indirect effect public spending may have on poverty, the result is encouraging. When spending by sectors is examined, those on natural resources, education and health have had a better impact on poverty than other spending. This is an interesting finding that may be investigated further.

Table 3.3a shows the estimated total resource cost between 2004 and 2015 that is needed for the core development sectors that are vital to achieving the MDG targets set. This figure is about Birr 314.5 billion (or about US\$40 billion at the current exchange rate). It is important to make several qualifications on the components of the cost involved to fight poverty in Ethiopia. One is that some of the cost, like

**Table 3.3 a: Program Costs of Poverty Oriented Sectors (2002/03-2004/05) as Required by Poverty-oriented Sectors (Million Birr)**

Sectors	2002/03	2003/04	2004/05	Total for the 3 Years	2002-2015 <sup>23</sup>
Agriculture & Food Security	3,190.1	3,618.4	3,120.2	9928.7	55,531
Water (including natural resources)	1,634.2	2,423.3	2,757.5	16815.0	47,111
Road	3,530.2	4,654.9	5,599.0	13784.1	48,771
Education	5,144.8	5,016.0	4,946.2	15107.0	87,398
Health	2,268.6	2,265.7	2,275.7	6810.0	40,060
Total	15,767.9	17,978.3	18,698.6	52444.8	314,496

**Source: SDPRP, 2002**

that for education are computed on the basis of a target, which are slightly different from what is stated in the MDGs. That is, Ethiopia wishes to achieve universal primary education by 2010, instead of 2015.

<sup>23</sup> Projections based on trends for the SDPRP period (2002/03 -2004/05)

**Table: 3.3 b: Comparison of SDPRP Provisions with Annual Consolidated Budget for 2002/03 & 2003/04 Fiscal Years**

Poverty-oriented Sectors	Total SDPRP Provision For 2002/03	2002/03 Budget	2002/03 Budget As percent of SDPRP Provision (percent )	Original SDPRP Provision for 2003/04	Total 2003/04 Consolidated Budget	2003/04 Consolidated Budget as percent of original SDPRP Provision (percent )
<b>Agriculture</b>	3190.1	1748.1	54.8	3618.4	2490.4	68.8
<b>Water (including natural resources)</b>	1634.2	887.7	54.3	2423.3	965.9	40.0
<b>Road</b>	3530.2	2449.7	69.4	4654.9	3105.5	66.7
<b>Education</b>	5144.8	3863.5	75.1	5016.0	3952.2	78.8
<b>Health</b>	2268.6	1390.9	61.3	2265.7	1537.9	67.9
<b>Total</b>	15767.9	10339.9	65.6	17978.3	12096.9	67.3

**Source: Consolidated Budget for 2002/03 and 2003/04 (MOFED) & SDPRP (2002)**

When other targets such as employment opportunity, gender disparity, poverty and related goals are looked at, it is not difficult to see the centrality of education in impacting these targets. Thus, it is assumed that the budget requirement for education and other sectors may continue to grow at the rate indicated in Table 3.3a.

Be that as it may, with these assumptions, the total requirement for direct anti-poverty programs comes to around \$ US 3 billion per year for the next thirteen years. If at least 40 percent of this sum, comes from domestic resources, the ODA flow that was estimated in the previous section would just cover the resource requirement to develop the core sectors. In fact, the financing gap estimated in the SDPRP is much lower than what is reported.

Nevertheless, an issue of great importance that needs to be raised here is the magnitude of the debt burden and its implications for the achievements of the MDGs. As Table 3.1b clarifies, the debt-burden for Ethiopia, using the ratio of total debt service to exports as a proxy, has been on the average around 22 percent during the period 1990-1999. Significant debt reduction and cancellation can make a huge difference in supporting the budgetary requirements for anti-poverty programs, such

as health and education, which, as shown above, have interestingly negative correlation with the incidence of poverty in Ethiopia.

In summary, most of the targets are within the reach of the Ethiopian economy based on its past performance. Thus, the MDGs are not so much of pipe dreams for Ethiopia. Given that Ethiopia vigorously implements the agriculture and rural development programs, follows the ongoing institutional reforms and good governance, faces less severe external and internal shocks, pursues sound macroeconomic management, and its development partners are keen to help, it can easily achieve the targets in the MDGs.

## **IV. Conclusions and The Way Forward**

This Report provides the context, baseline situation and costing of the MDGs in Ethiopia. The whole purpose of putting the MDGs in the local context is to investigate the relevance of each of the components of the MDGs to Ethiopia, to ensure appropriateness of the indicators set at global level to monitor progress towards the targets in the local context and to assess consistency of MDGs with government policies and strategies.

The baseline study provides an idea of where Ethiopia currently is with respect to each of the components of the MDGs. An attempt is also made to examine the status of MDGs in posterity using historical trends for each of the goals. The costing part is an exercise in exploring the resource implications of achieving each goal and identifying the course that development partners, the Ethiopian Government, civil society, as well as the private sector and other stakeholders should take to realize the MDGs.

### **4.1 The MDGs are Closely Interlinked**

This Report conclusively shows the timeliness and urgency of the MDGs for Ethiopia. The analysis shows that there are several areas where the translation of the MDGs in the context of Ethiopia can be monitored using data sources that are less expensive. It is also possible to generate indicators that are easy to track and remain comparable over time. The case of counting the poor was taken as an illustrative point. Similarly, incidence of hunger and many other aspects of human well-being need indicators that address the complexities discussed in section 1.2 of Chapter I.

This Report uses available data to compare goals with targets and their implications in terms of current trends and targets set in the MDGs. Adapting MDGs to the local context conveys mainly two important messages. The first message is the fact that all targets in the MDGs have equal weight and urgency in the Ethiopian context. It is impossible to separate

and make emphasis on one or the other. In fact, there is so much interdependence that the total is greater than the individual parts. The war on poverty is multi-thronged and needs to be carried out on all possible fronts.

Secondly, investigation of the policy stance of the Government in the past shows consistency with the tenets of the MDGs during the course of the last decade. But, several constraints, such as institutional bottlenecks, inefficient civil service, structural rigidities within the economy, severe fiscal strains and major shocks such as war and drought undermined the progress of the economy towards registering meaningful reductions in the incidence of poverty. This is aggravated by a macroeconomic condition, which is vulnerable to vagaries of nature and external shocks.

### **4.2 The Importance of Growth and the External Environment**

Thus, growth in Ethiopia, to a large extent, depends on structural factors such as initial conditions (initial income, investment level, educational achievements), vagaries of nature, external shocks (such as terms of trade deterioration), and peace and stability in the region. Each of these problems needs appropriate policies to address them. This list includes, *inter alia*:

- a) Commercialization of smallholder agriculture and in particular addressing the dependence on rain-fed agriculture. This may require strengthening expansion of small-scale irrigation scheme, water harvesting, etc;
- b) Developing a short-to-medium strategy to cope with periodic terms of trade shocks. The long-term solution is diversification of exports and full exploitation of existing market opportunities in the United States and the European Union and elsewhere in Asia and Africa. This requires creating a public-private sector partnership aimed at creating such local capacity;



- c) Enhancing the productivity of factors of production, in particular labor and land. This would have direct implications for raising the productivity of labor (through education) and land (through supply of fertilizer, infrastructures and rural credit provision) with positive contribution towards reducing poverty;
- d) Redistribution at the margin. Although distributional neutral growth may reduce poverty (if inequality does not rise to negate it), poverty reduction will significantly increase if a strategy of growth with distribution is adopted;
- e) Capacity building, decentralization, empowerment and sustainable peace (both within the country and in the region);
- f) Structure of the economy. A detailed analysis and policy aimed at changing the structure of the economy to a high productivity one is also imperative.

For pro-poor growth, macro policies are important for two reasons. First, the contribution of factor productivity for growth performance is extremely important. Conducive macroeconomic environment aimed at enhancing the accumulation and efficient use of resources (both capital and labour, through skills acquisition) is a pre-requisite for enhancing growth. Second, macroeconomic discipline, although to a large extent dependent on the structural factors and external shocks, is critical to creating the necessary conditions for growth. Such an effort is worth making since achieving MDGs greatly rely on achieving sustained growth. These are policy challenges both for the Government and its development partners.

Another challenge to meet MDGs relates to the external sector, which is invariably unhealthy and not expected to improve in the near future. A preliminary analysis of the external debt and aid profile shows that the future is not as bright as one would hope.

With regard to the link between policy and poverty reduction, a case was presented where Ethiopia achieved considerable progress in reducing poverty at a time when its

macroeconomic stance was in good shape. While this association is not definitive, it is suggestive of the association between good policy and progress in reducing poverty. It is also noted that the reduction in the rate of poverty during this period (1994-1997) could have been much higher if the poor population benefited more from the pattern of growth. One notices an increase in the incidence of income inequality, which in the case of Ethiopia is less surprising given the significant shift in policy orientation during the 1990s.

The index of pro-poor growth, which could be calculated from the information in Chapter II shows a figure less than 50 percent, which indicates substantial gain going to the non-poor population in a growth episode. This is further noted in the figures for poverty trend, where poverty has not declined much, though per capita expenditure increased during the period 1995-2000. The message coming out of the little experience Ethiopia has had in tracking changes in poverty is that addressing the incomes of the poor over the next years is as important as raising overall income. In this regard, the poverty-oriented sectors, such as education, health, natural resources, water, play a key role in fighting hunger, poverty and deprivation.

#### **4.3 Other Necessary Conditions to Meet the MDGs**

The baseline analysis is confined to a discussion of targets and current trends, which is evidently less rigorous in charting out the path for the future and computation of the resource implications. But, even by the standards of current trends, Ethiopia has a better chance of meeting most targets if the conditions set out mainly in Chapter II are met.

This brings the issue of what the Government, civil society (including NGOs), the private sector, and Ethiopia's development partners should do to meet the challenge of realizing the MDGs. The Government has long recognized that the utmost responsibility lies with it. These include highly focused reform in the area of institutions (capacity building), increased

attention to the mobilization of domestic resources, particularly tax revenues, and efforts to bring about significant flow of external resources through debt relief and official development assistance. It has called upon non-state actors to have a resolve and concerted effort to eradicate poverty, hunger and diseases from Ethiopia.

The international community, as identified in the MDGs, have the shared responsibility of assisting Ethiopia achieve these cherished goals by increasing development assistance, capacity building, debt relief, access to markets and FDI, tackling the problem that may arise from landlockedness, and so on. Development assistance should not compete with humanitarian aid, as the latter may save life, but greatly displace the capacity to develop.

The overall investment requirement to achieve the required growth rate in per capita GDP needs to meet the MDGs poverty target, which is about 17 percent of GDP, mainly due to the responsiveness of poverty to economic growth. This can be explained by the fact that in Ethiopia, a substantial portion of households hover around the poverty line. If people who could be vulnerable to being poor due to minor shocks as illness are included, according to some estimates, they add around 30 percent to the poor population. Thus, the poor and vulnerable in Ethiopia would come to around 55 percent.

In a situation where more than half the population is either poor or vulnerable to poverty, the impact of a 1 percent growth (in income) on poverty could be significant. Thus, Ethiopia is required to grow at the rate of 5.7 percent per annum over the next few years to be able to achieve the goals set in the MDGs. To achieve this, a financing gap of around US\$1.6 billion per year is estimated. But, this estimate is based on a simple assumption about the link between investment and growth. Accordingly, significant debt relief, increased development assistance and access to external markets can easily cover this gap. On average,

Ethiopia receives 56 percent of the required finance through ODA. Thus, renewed emphasis by development partners can address the shortfalls in future. However, one has to take note of these factors with regard to the above statements. One is that increased aid has to be accompanied by improved effectiveness to bring about economic growth. Second, mobilization of domestic resources (savings) and promotion of policies that ensure the effectiveness of investment are important considerations for sustained growth.

A coordinated and concerted effort at national level is critical towards achieving the goals set in the SDPRP and hence MDGs. The Government has already made it clear that the desired accelerated development and poverty reduction cannot be achieved only through the efforts of the government. Given the magnitude and complexity of poverty in Ethiopia, its resolution requires the concerted and coordinated action of all concerned parties. In this regard, the communities, the private sector, NGOs and CSOs have to play their part in a coordinated manner.

The Report indicates the difficulty to match indicators for all targets set in the MDGs in the local context to measure progress/track changes. These include, among others, easily extractable and robust indicators for incidence of Hunger (Goal 1), gender disparity, HIV/AIDS, and environmental sustainability. Further research and analytical work needs to be carried out to generate robust indicators in those areas in order to be able monitor progress towards MDGs. This effort needs to be strengthened through research in problem areas that may challenge the success of realizing the MDGs.

Ethiopia's challenge to meet all the targets set in the MDGs is understandably not easy. However, the rural transformation agenda, the second generation/institutional reforms (such as the Civil Service Reform and the Judiciary), the further devolution to woredas as centers of socio-economic development aimed at improving delivery of social services, and the

on-going comprehensive capacity building efforts are believed to have pay-offs in terms of addressing the overriding development agenda: reducing poverty through broad-based growth. The on-going domestic resource mobilization effort through improving tax policy and its administration would also help mitigate dependence on external finance through time and thereby enhance implementation capacity of poverty-oriented programs. These efforts waged on the home front complemented by increased commitment of the international community will help the dream come true.

## Annexes

### Annex 1: List of SDPRP Indicators and Targets Also Found in the MDGs

Welfare Component	Intermediate/Outcome Indicators	National SDPRP Targets & Indicators		MDG Targets
		Current Level	Target by the end of 2004/05	
<b>Poverty and Inequality</b>	Poverty headcount (P <sub>o</sub> )	P <sub>o</sub> =44.2 by 1999/2000	P <sub>o</sub> = 40 by 2004/05	Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
<b>Food Security</b>	Percentage of people who are below the poverty line	Food poverty = 41.9 in 1999/00	Food poverty head count Index = 38 percent by 2004/05	Halve, between 1990 and 2015, the proportion of people who suffer from hunger
<b>Health</b>	Under-five child mortality rate	CMR=167/000	CMR = 160/1000 by 2005	Reduce by two thirds, between 1990 and 2015, the under-five mortality rate
	Maternal mortality rate	MMR= 500-700/100,000 by 2000/01	400-450 by 2004/05 and = 300/100,000 by 2017	Reduce by three quarters, between 1990 and 2015, the material mortality ratio
<b>Education</b>	Gross enrollment ratio	GER (primary) =57.4 percent by 2000/01	GER (primary) 65 percent by 2004/05	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
	Girls/boys ratio	Ratio of girls to boys students 40.6 percent by 2000/01	Ratio of girls to boys students 45 percent by 2004/05	Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015
<b>Water</b>	Access to clean water	Access to clean water by 2000 = 30.0 percent national = 72 percent urban =24 percent rural	Access to clean water =39.4 percent national =82.5 percent urban =31.4 percent rural by 2004/05	Halve by 2015 the proportion of people without sustainable access to safe drinking water
<b>HIV/AIDS</b>	Transmission			Halve halted by 2015 and begun to reverse the spread of HIV/AIDS
	Prevalence	7.3 percent by 2000/01	Contain prevalence at 7.3 percent by 2004/05	Halve halted by 2015 and begun to reverse, the spread of HIV/AIDS

## Annex 2. Full set of Millennium Development Goals (MDGs), Targets and Indicators

Millennium Development Goals (MDG)	
Goals and Targets	Indicators for monitoring progress
<b>Goal 1: Eradicate extreme poverty and hunger</b>	
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day	<ol style="list-style-type: none"> <li>1. Proportion of population below \$1 (PPP) per day</li> <li>2. Poverty gap ratio (incidence x depth of poverty)</li> <li>3. Share of poorest quintile in national consumption</li> </ol>
Target 2 Halve between 1990 and 2015, the proportion of people who suffer from hunger	<ol style="list-style-type: none"> <li>4. Prevalence of underweight children under-five years of age</li> <li>5. Proportion of population below minimum level of dietary energy consumption</li> </ol>
<b>Goal 2: Achieve universal primary education</b>	
Target 3: Ensure that by 2015, children every where, boys and girls alike will be able to complete a full of primary schooling	<ol style="list-style-type: none"> <li>6. Net enrolment ratio in primary education</li> <li>7. Proportion of pupils starting grade 1 who reach grade 5</li> <li>8. Literacy rate of 15-24 year-olds</li> </ol>
<b>Goal 3: Promote gender equality and empower women</b>	
Target 4.: Eliminate gender disparity in primary and Secondary education preferably by 2005 and to all levels of education no later than 2015	<ol style="list-style-type: none"> <li>9. Ratios of girls to boys in primary, secondary and tertiary education</li> <li>10. Ratio of literate women to men 15-24 years old</li> <li>11. Share of women in wage employment in the non agricultural sector</li> <li>12. Proportion of seats held by women in national parliament</li> </ol>
<b>Goal 4: Reduce child mortality</b>	
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.	<ol style="list-style-type: none"> <li>13. Under-five mortality rate</li> <li>14. Infant mortality rate</li> <li>15. Proportion of 1 year-old children immunized against measles</li> </ol>
<b>Goal 5: Improve maternal health</b>	
Target 6: Reduce by three-quarters, between 1990 and 2015 the maternal mortality ratio	<ol style="list-style-type: none"> <li>16. Maternal mortality ratio</li> <li>17. Proportion of births attended by skilled health personnel</li> </ol>
<b>Goal 6: Combat HIV/AIDS malaria and other diseases</b>	
Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	<ol style="list-style-type: none"> <li>18. HIV prevalence among 15-24 year old pregnant women</li> <li>19. condom use rate of the contraceptive prevalence rate</li> <li>19a. Condom use at last high-risk sex</li> <li>19b. Percentage of population aged 15-24 with comprehensive connect knowledge of HIV/AIDS</li> <li>20. Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14</li> </ol>

Target 8 : Have Halted by 2015 and begun to reverse the incidence of malaria and other major diseases	<ul style="list-style-type: none"> <li>21. Prevalence and death rates associated with malaria</li> <li>22. Proportion of population in malaria risk areas using effective malaria prevention and treatment measures</li> <li>23. Prevalence and death rates associated with tuberculosis</li> <li>24. Proportion of tuberculosis cases detected and cured under directly observed short course (DOTS)</li> </ul>
<b>Goal 7: Ensure environmental sustainability</b>	
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources	<ul style="list-style-type: none"> <li>25. Proportion of land area covered by forest</li> <li>26. Ratio of area protected to maintain biological diversity to surface area</li> <li>27. Energy use (kg oil equivalent) per \$ 1 GDP (PPP)</li> <li>28. Carbon dioxide emission (per capita) and consumption of ozone-depleting CFCS (ODP tons)</li> <li>29. Proportion of population using solid fuels</li> </ul>
Target 10.: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation	<ul style="list-style-type: none"> <li>30. Proportion of population with sustainable access to an improved water source, urban and rural</li> <li>31. Proportion of urban and rural population with access to improved sanitation</li> </ul>
Target 11: By 2020, to have achieved a significant in the lives of at least 100 million slum dwellers	<ul style="list-style-type: none"> <li>32. proportion of households with access to secure tenure</li> </ul>
<b>Goal 8: Develop a global partnership for development</b>	
Target 12. Develop further an open, rule-based predictable, non-discriminatory trading and financial system	Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked countries and small island developing States.
Includes a commitment to good governance, development, and poverty reduction - both nationally and internationally	<u>Official development assistance</u> <ul style="list-style-type: none"> <li>33. Net ODA, total and to LDCs, as percentage of OECD/DAC donors' gross national income</li> </ul>
Target 13: Address the special needs of the least developed countries includes: tariff and quota free access for least developed countries' exports; enhanced program of debt relief for HIPC and cancellation of official bilateral debt, and more generous ODA for countries committed to poverty.	<ul style="list-style-type: none"> <li>34. Proportion of total bilateral sector-allocable ODA of OECD/DAC donors to basic social services (basic social services (basic education, primary health care, nutrition, safe water and sanitation)</li> <li>35. Proportion of bilateral ODA of OECD/DAC donors that is untied</li> <li>36. ODA received in landlocked countries as proportion of their GNLS</li> <li>37. ODA received in small island developing states as proportion of their GNIS</li> </ul>

<p>Target 14: Address the special needs of landlocked countries small island developing States (through the Action for the Sustainable Development special session of the General Assembly)</p>	<p><u>Market access</u></p> <p>38. Proportion of total developed country imports (by value and excluding arms) from developing countries and LDCs, admitted free of duties.</p> <p>39. Average tariffs imposed by developed countries on agricultural products and textiles</p> <p>40. Agricultural support estimate for OECD countries as percentage of their GDP</p> <p>41. Proportion of ODA provided to help build trade capacity.</p>
<p>Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</p>	<p><u>Debt Sustainability</u></p> <p>42. Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)</p> <p>43. Debt relief committed under HIPC initiative, US\$</p> <p>44. Debt service as a percentage of exports of goods and services</p>
<p>Target 16: In co-operation with developing countries, develop and implement strategies for decent and productive work for youth</p>	<p>45. Unemployment rate of 15-24 year-olds, each sex and total</p>
<p>Target 17: In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries</p>	<p>46. Proportion of population with access to affordable essential drugs on a sustainable basis</p>
<p>Target 18 : In co-operation with the private sector make available the benefits of new technologies especially information and communications</p>	<p>47. Telephone lines and cellular subscribers per 100 population.</p> <p>48. Personal computers in use per 100 population and internal users per 100 population</p>

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