

Ethiopia: Building on Progress: A Plan for Accelerated and Sustained Development to End Poverty (PASDEP)

Annual Progress Report 2005/06

Ministry of Finance and Economic Development (MoFED)

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Introduction

Following the successful implementation of Ethiopia's First Generation PRSP-the SDPRP- the Government has prepared a successor development Plan entitled '**A Plan for Accelerated and Sustained Development to End Poverty (PASDEP)**'. The PASDEP adopted by the Government in 2005/06 exploits the progress made during the implementation of SDPRP. It is in effect the continuation of the SDPRP by way of deepening its fundamentals, and serves as Ethiopia's guiding strategic framework for the five-year period, 2005/06-2009/10. Box 1.1 below presents the **eight** pillar strategies of the PASDEP.

Box 1.1: Pillar Strategies of the PASDEP

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

The broad thrust of the Government's strategy within the PASDEP remains rural growth, accelerating private sector growth in the modern economy to create employment and incomes, and strengthening of public institutions to deliver services. It also embodies some bold new directions. Foremost among them is a major focus on growth -with particular emphasis on greater commercialization of agriculture and private sector development- and a scaling up of efforts to achieve the MDGs.

The Government has embarked on an aggressive program to accelerate progress as rapidly as possible -including a big push on education to create human capacity, expanding infrastructure as rapidly as financing and capacity will allow, opening the economy, building institutions, and decentralizing government. At the same time it is trying to manage this in the context of continuing food security pressures, and a volatile external and regional environment.

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

Because of the country's deep-rooted poverty and the complexity of economic and social problems, concerted and sustained efforts are necessary to deepen the gains so far achieved and fundamentally transform the Ethiopian economy. The challenge, therefore, is one of accelerating growth and development in a sustainable manner, which is still at the core of the country's agenda in fighting poverty. Achieving and sustaining broad based growth through transforming the agriculture sector and encouraging private initiatives founded on small enterprise development and job creation is considered central in the Government's poverty eradication effort.

As indicated above, the poverty reduction effort of the Government of Ethiopia has taken a longer-term view with the MDGs in perspective. Accordingly, the PASDEP was conceived as the medium term plan to attain the MDGs. In other words, it is an MDGs-based plan. It establishes concrete basis for human rights ‘the right of every person in the country to health, education, shelter and security-’ as pledged in the Universal Declaration of Human Rights and the UN Millennium Declaration. For the millions of Ethiopians still living in extreme poverty, Ethiopia’s MDG-Based Plan carries the hopes and aspiration of the next decade. Hence, this Five Year Development Plan (PASDEP) has been synchronized and aligned with the MDGs time frame. Current status of selected MDGs targets along with projected achievements at the end of the PASDEP period (2009/10) are presented in Annex Matrix Table 1.

The Role and Purpose of the APR

This is the first Annual Progress Report (APR) on the implementation of the PASDEP covering the period 2005/06 to 2009/10. Government views the APR as an important opportunity to articulate and provide leadership on its development program to both internal and external constituents. Hence, this Report presents achievements and outcomes during the first year of implementation of the PASDEP (2005/06). The Report is not meant to be a comprehensive policy document, but rather to report on implementation of the major policy directions laid out in the PASDEP. It thus concentrates mostly on outcomes and progress against actions planned for 2005/06 in the PASDEP. Inevitably, however, policies do evolve, and the report does highlight any major new initiatives, as well as reflecting on lessons learned as a result of the experience of the past year.

The audiences for this Report are both internal and external stakeholders. Many donors view it as a step on the road to greater interaction on the broad development framework, and a new context for aid relations. Civil Society Organizations (CSOs) and the private sector see it as an additional opportunity to interact with the Government on public policy.

These expectations are not necessarily in conflict. However, the APR cannot be expected to fully satisfy the expectations of all the different constituencies. The interplay, however, is productive and part of a movement forward in an evolving process of openness and consultation. More widespread public consultations are not feasible on an annual basis, but major public consultations are planned to assess in depth implementation of the Plan in the remaining years of the PASDEP period.

Chapter I

Highlights of Major Achievements and Challenges

Highlights of major achievements (outcomes) and outstanding issues observed during implementation are summarized in the Matrix Table 1.1 below. Some of the impediments to implementation could even recur in the course of implementing the PASDEP and even beyond. The details are articulated in the corresponding chapters and sections of this review Report.

Table 1.1: Highlights of Major Achievements and Challenges

No.	Sector/Theme	Major Achievements	Outstanding Issues
I	The Macro Economy		
1.1	Real Sector and Prices	The economy has successively registered encouraging results. Real GDP growth rate during 2005/06 stood at about 10%.	Maintaining inflation in single digits given the recent inflationary pressure. Studies are currently under way to identify and understand the factors that underlie inflationary pressure witnessed during the last three years
1.2	Public Finance	Prudent fiscal management and stable macro economy	Although revenue base still narrow, tax revenue has been increasing fast
1.3	External Sector	Exports registered substantial growth in recent years, owing to both increase in volume and revival in the prices of major exports in the international market	A widening trade and current account deficit of the balance of payments
1.4	Monetary and Financial Sector	Deepening of financial sector reform	Commercial banks continue to face the problem of excess liquidity. The Government continued to take the necessary measures to strengthen competitiveness in the sector and promote healthy formal/micro financial institutions
II	Sectors		
2.1	Agriculture and Food Security	<ul style="list-style-type: none"> ➤ Improved production and productivity through expansion of agricultural extension package services, increased number and education level of agricultural agents to support farmers, improved fertilizer supply, improved tenure security among farmers, improved equity in access to agricultural inputs and technologies and improved agricultural research ➤ Agricultural exports being promoted ➤ Expanded off-farm employment and income generating opportunities, improved credit services for food insecure areas, and supported voluntary resettlement 	<ul style="list-style-type: none"> ➤ In a situation where many farmers are illiterate, acquiring competence in production, adding value, and marketing presents challenges. To address this, the Government provides extensive TVET in agriculture and establishes farmers training centers ➤ [Delay] in the preparatory works on the newly identified resettlement sites created low performance.
2.2	Education	Expanded access at all levels	Maintaining regional equity (to further expand access in emerging regions such as Afar and Somali) and improve quality at all levels of education across the country.

2.3	Health	Expansion of health services particularly through the HEWP, expansion of health facilities at the grass root level, improved malaria control program, improved provision of Maternal & Child Health (MCH), improved family planning services, improved Health Management Information System, implementation of the Harmonization Action Plan	Continued chronic shortage of health professionals coupled with a high rate of staff turnover and inadequate health service management that would require increased need for capacity building, particularly managerial at district and operational level
2.4	Water Supply and Sanitation	Improved access both in rural and urban areas	The challenges in the water sector include keeping rural systems operational and maintained, and financing the large up-front investment costs of city and town schemes. To address this, the Government is moving towards a system of organizing communities to take responsibility for village water supplies, and for commercialization of urban water supply systems
2.5	Irrigation Development	Pre-feasibility, feasibility, design studies, and construction of irrigation sites have been carried out	<ul style="list-style-type: none"> ➤ Low implementation capacity including shortage of heavy machineries and equipment, lack of capable and efficient contractors and their poor managerial experiences ➤ Poor geological formations, shortage of cement, early rain are the major challenges
2.6	Roads	<ul style="list-style-type: none"> ➤ Total road network of the country has increased ➤ Proportion of roads in good conditions has increased ➤ Road network density has increased 	<ul style="list-style-type: none"> ➤ With regard to contract projects, coordinating and managing contractors ➤ Lack of skilled labor; delay in resources mobilization, serious financial and managerial limitation of local contractors ➤ With regard to own force projects, the main challenges to government effort are lack of adequate financing for the major investments
2.7	Telecommunication	<ul style="list-style-type: none"> ➤ Telephone coverage has increased ➤ Old networks have expanded and new ones such as <i>woreda</i>-net, cable-net and agri-net have been expanded ➤ Total telecommunication density has increased 	<ul style="list-style-type: none"> ➤ Disparity of distribution between Addis and other regions.
2.8	Power	Four major hydropower projects with varying capacities and new transmission grids are under construction	Regional imbalances, especially in the less-developed regions. In some cases, provision of this infrastructure is not cost-effective, because of low population concentrations, or the high costs of reaching remote areas

2.9	Trade and Industry Development	<ul style="list-style-type: none"> ➤ Production of leather and leather products has increased ➤ Semi-processed hides and skins are widely produced for export ➤ Production of cement has increased through local production and importing from abroad ➤ Development of floriculture at different places has increased; ➤ Expansion work is under going on the 3 Sugar factories and on one new Sugar Project is under implementation ➤ Privatization process of public enterprises has increased; ➤ Export commodities had shown improvement in volume and revenue 	<ul style="list-style-type: none"> ➤ Constraints in the production of suitable types of raw materials ➤ Poor interrelation and interdependence between different types of production stages (such as in spinning, weaving finishing, sewing and accessories) ➤ The structural set up of tanneries is for lower end products ➤ Foreign buyers mostly encourage the tanneries to produce on pickled and wet blue stages; ➤ Industries presume risk producing higher products for fear of getting buyers
2.10	Mining	<ul style="list-style-type: none"> ➤ Regional geosciences data quality and coverage has increased ➤ Different minerals have been exported, and significant amount of foreign currency was gained ➤ promotional activities conducted 	<ul style="list-style-type: none"> ➤ Lack of adequate logistics for field works ➤ Scattered location of the organizations and departments

Chapter II

Trends in Growth, Poverty, and Well-Being: Current Status & Prospects to Meet the MDGs

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

The WMSs, conducted every three years, helps measure the non-income dimension of welfare and living conditions in Ethiopia while the HICES, conducted every five years, measure the income dimension of poverty. To date, the Central Statistical Agency (CSA) has conducted three HICES in 1995/96, 1999/00, and 2004/05. The WMSs were conducted in those years when the HICESs are conducted as well. The HICES data sets enable conduct analysis of the link between growth and its impact on poverty reduction (income poverty) while the WMS data sets enable to undertake assessments of the interface between the income and non-income dimensions of poverty at any point in time to assess the status of households in both the income and non-income dimensions of poverty.

2.1. Current Status and Prospects on Income Dimensions of Poverty

According to the 2004/05 (the third and the latest in the series) HICES, the proportion of people below the poverty line at national level measured by the poverty head count index declined from 44.2% in 1999/00 to 38.7% in 2004/05 (5.5 percentage point decline or about 12% decline between the two periods). Much of the decline in national poverty is attributed to a decline in poverty in rural areas. The decline in rural poverty has been substantial. The head count, poverty gap, and poverty severity indices in 2004/05 for rural areas is lower by 13%, 31%, and 41%, respectively than the levels in 1999/00. The analysis indicates that there was a decline in the proportion of rural people who are below the poverty line and the average gap of the poor from the poverty line and improvement in the distribution of income among the rural poor. In general, the significant decline in rural poverty is clearly attributed to the wide-ranging and multi-faceted pro-poor programs that have been implemented in rural areas such as menu based extension program to support commercialization of smallholder agriculture, the Food Security Program, and the recent Productive Safety Net Program among others.

The decline in urban poverty between 1999/00 and 2004/05 was only limited to the depth and severity of poverty with only a marginal decline in the proportion of the poor from 37% in 1999/2000 to 35% in 2004/05. The fact that urban poverty has not declined by as much as rural poverty is largely a reflection of the narrow base of the modern sector of the economy particularly industry (manufacturing) in accommodating the increasing number of economically active population in urban areas. The relative increase in income inequality in urban Ethiopia as measured by the increase in the Gini Coefficient from 0.38 in 1999/2000 to 0.44 in 2004/05 may have also contributed for the marginal decline in income poverty. The decline in poverty severity and depth is a reflection of employment expansion through small and medium enterprise

development and job creation through the construction of low cost houses in Addis Ababa and which was subsequently replicated to other regional towns. This scheme is primarily aimed at the ultra-poor in urban areas with limited training and medium level technical skills.

In this assessment 'current status' refers to the situation in income poverty during the first year of PASDEP implementation (during 2005/06), one year after the survey year (base line). Taking 2004/05 as a baseline and on the basis of the growth elasticity of poverty reduction set on average at 1.3 (rate of decline in the head count index brought about as a result of a 1% increase in per capita consumption/income), the head count index has been projected all the way down to 2014/15. The minimum required annual average real GDP growth rate to meet the MDGs (in this case Goal 1 of the MDGs) has been 7%. In per capita terms, this is equivalent to an annual average real per capita consumption/ income growth rate of 4.4% (given population growth rate of about 2.6% as set in the PASDEP).

This translates in to a 5.7% annual average rate of decline in the poverty head count index (proportion of people below the poverty line from its level in 1999/00 by half by the MDGs time line of 2014/15. This would bring down the head count index from 44.2% in 1999/00 to 22.2% by the end of 2014/15. On the basis of this rate of decline (5.7% per annum), and taking as an anchor the 2004/05 poverty head count index of 38.7% (the baseline) total poverty head count index is estimated at 36.6% in 2005/06.

With regard to food poverty head count index, the required rate of decline is slightly higher than the required rate of decline for total poverty (6.2% per annum). Once again, taking the food poverty head count index in 2004/05 (37.9%) as a baseline, it is estimated to decline to 35.6% by the end of 2005/06. On the basis of this rate of decline total and food poverty head count ratios are projected to decline to 29.2 and 27.6%, respectively by the end of the PASDEP period (2009/10).

At this juncture, it is worth noting that the trend rate of decline during the last ten years ending in 2004/05 has been 1.7% and 2.6% for total and food poverty, respectively. One factor that may have contributed to the limited impact of growth on poverty reduction could be the volatility of growth itself witnessed during this period (uneven growth). A one time shock may have eroded the asset base of individual households and render them vulnerable. The major drought in 2002/03, the effect of the Ethio-Eritrea border conflict from 1998/99 to 1999/00, and the decline in coffee prices on the international market during the period may have neutralized the poverty reduction impact of growth. As indicated above, the gap between the required rate of decline and the trend rate of decline is a reflection of the need for sustaining growth over a fairly long period of time for enhanced impact of growth on poverty reduction.

The economy has even shifted to a higher growth path during the last four years (2003/04 to 2005/06) in which it has registered an annual average real GDP growth rate of over 10%. This has translated in to per capita real GDP growth rate of over 7%. Other things equal if this is to be sustained, it would help accelerate the poverty reduction impact of growth and there by enable to meet the MDGs (in this context Goal 1 of the MDGs).

2.2. Current Status and Prospects in Non-Income Dimensions of Poverty

Poverty in all its dimensions could be adequately tackled if the income and non-income dimensions of poverty are addressed concurrently. As indicated above, the income dimensions of poverty relates to Goal 1 of the MDGs while the non-income dimension encompasses Goal 2 to 7 of the MDGs. These are separately reviewed in detail in the various sectoral sections of **Chapter V below**.

Education: The Government launched a very big push to increase primary school enrolments, including the promotion of universal free primary education. Accordingly, in Education, the number of children in primary school increased from 8.1 million in 2001/02 to 12.6 million in 2005/06 taking the gross enrolment ratio (GER) from 61.6% in 2001/02 to 91.3% in 2005/06. GER for females has increased from 52.2% in 2001/02 to 83.9% in 2005/06. Net primary enrolment (for children aged 7-14) has increased from 51.2% in 2001/02 to 74% in 2005/06. As shown in Chapter V below, the achievement in gross enrolment for 2005/06 surpassed the PASDEP target by 3 percentage points. As access increases, the challenge in education is to further expand access in emerging regions such as Afar and Somalie and improve quality at all levels of education across the country. Both past trends and on-going programs in the education sector to further expand access (maintaining regional equity) and improve quality indicate that Ethiopia would be on track in achieving Goal 2 of the MDGs ahead of the MDGs time line of 2014/15 (Annex Matrix Table 1).

Health & HIV/AIDS: Access to health services has reached 72% in 2005/06 from 52% in 2001/02. Under-five mortality rate has gone down to 123/1,000 in 2005/06 from 167/1,000 in 2001/02 and infant mortality rate has declined to 77/1,000 in 2005/06 from 97/1,000 in 2001/02. Maternal mortality rate has also declined to 673/100,000 in 2005/06 from about 871/100,000 in 2001/02. Contraceptive prevalence rate has reached 36 % in 2005/06 as well. Child stunting (indicator of child health and wellbeing) declined significantly from about 57% in 2000 to 47% in 2004 (10 percentage point decline) while child wasting declined from 10% in 2000 to 8% in 2004 (2 percentage point decline). The percentage of underweight children has also declined from 45% in 2000 to 37% in 2004 (8 percentage point decline). This also has implication on trends in income poverty. These outcomes have been achieved, among others, through training over 10,500 new nurses, technicians, and front line health workers, through the construction of over 1,900 new health posts and centers. The proportion of the population living within less than 10 km away from a health post has increased from 51% to 64 %. So far, 3,000 women health extension workers have been trained to deliver basic sanitation, immunization, and other health services. In addition, in 2005/06, over 7,505 additional health workers were trained and deployed to expand the service of the program nationwide.

With regard to HIV/AIDS, against the SDPRP target of keeping the prevalence rate at 7.3% (2001/02), the rate has decreased to 3.5% in 2005/06. The encouraging results achieved with respect to stemming and reversing the spread of HIV/AIDS are due to Voluntary Counselling and Testing (VCT) before marriage, reducing early marriage, avoiding harmful traditional practices, provision of support to HIV/AIDS orphans and vulnerable children and community mobilization for HIV/AIDS prevention and support for people with the disease. Additional factors for the success include: new programs to control mother-to-child transmission, improve blood safety, and control and treat sexually transmitted diseases as well as rules to protect those who are infected or living with AIDS and stamp out stigma.

Full-fledged implementation of the on-going Health Extension Workers Program would help improve service delivery at community and household level particularly in regard to child and maternal health in rural areas. This is going to be an important vehicle towards achieving particularly Goals 3 and 6 of the MDGs which have been usually cited as areas of challenge for Ethiopia in achieving the MDGs. The base line, current status and future trends are depicted in Annex Matrix Table 1.

Water Supply and Sanitation: one of the MDG targets within the environmental sustainability goal (Goal 7 of the MDGs) calls for halving the proportion of people without sustainable access to safe drinking water and basic sanitation. Visible achievements have been recorded in this regard. Access to clean water supply has increased from 23% to 41.2% in rural areas and from 74% to 80.3% in urban areas during the period 2001/02 to 2005/06. At national level, access to potable water reached 47.3% by the end of 2005/06. The on-going Universal Access Program aimed at ensuring access to clean potable water to all by 2015/16 is one important vehicle towards achieving the stated objectives. The base line, current status and future trends are depicted in Annex Matrix Table 1.

Chapter III

Developments in the Macro Economy

3.1. Real Sector and Prices

Ethiopia's social and economic activities showed encouraging results since the early 1990s. The Government has done well in terms of achieving economic stability and keeping inflation low. In recent years, the Ethiopian economy has registered encouraging results and growth in 2005/06 averaged about 10 %. Excluding the drought year (2002/03), average real GDP growth rate of 10.7% was registered between 2003/04-2005/06. In 2006/07, the economy is projected to register a growth rate of 10.1%. During the years 2000/01 to 2006/07, the economy registered average growth rate of 6.7%, which is above the average of 5.8% realized in SSA countries.

Even though the agricultural sector continued to be the major driver of the economy, the recent expansion has been broad based with significant contribution from manufacturing, construction and service sectors. The agricultural sector registered a growth rate of 11.2% during 2005/06 while it is expected to settle at 10.9% in 2006/07. In regard to industrial and service sectors, during 2005/06, growth rate of 7.4% and 9.2% has been registered respectively. In 2006/07, the industrial and service sectors have been estimated to register a growth rate of 10.9% 9.6%, respectively, which is higher than what was registered in 2005/06. Macroeconomic performance as measured by overall GDP growth rate exceeds that of the PASDEP target for the year under consideration (2005/06). The PASDEP target under the base case which underlines the PASDEP being 7%, the outturn for 2005/06 was 9.6%. As shown in Table 3.1 & 3.2 below, in 2005/06, the growth contribution of the non-agricultural sectors has been stronger than it used to be in the past.

Inflation, which was on average in single digits for most of 2003/04 & 2004/05, accelerated by the end of 2005/06 and remained high at 12.3%. General inflation for the year 2006/07 averaged 17.8%. The source of this increase in average price levels in recent years (particularly since 2005/06) is still under study. However, the likely potential factors are demand pressures caused by higher disposable income of small farmers, which improves their purchasing power. The on-going improvements in marketing system (crops) through cooperatives coupled with the expansion of telephone infrastructure in rural areas, which improve information communication, has helped reduce desperate sales by small farmers. An improvement in the road network has also increased the producers' price margin for crops. The suspension of in-kind food aid and the introduction of local purchases for emergency aid may also have contributed to demand pressure on food price inflation. The agro-processing activities taking place (e.g., farmers' sale of wheat, barely, etc to local processors) as the economy transforms may also be contributing to the overall demand pressure.

All this may have pushed prices of grains up to their international parity level. In addition, there is a boom in the construction industry, which increased employment opportunities and which in turn increased income and purchasing power. Other potential factors include the construction and opening up of universities across almost all regions of the country; the increase in income of farmers as they have become able to sell their produce at a market price which resulted in increase of own consumption among grain-producing households, and the increasing trends in Diaspora return who are now engaged in different socio-economic investment activities. Finally, the recent

increase in international oil price has also both direct and indirect impact on the general price inflation. The above-mentioned causes are still under investigation and various studies and research works are being conducted towards clearly identifying the major source factors for the recent pressure on prices.

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

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

Table 3.1 and Figure 3.1 below further illustrate the growth trend in key socio-economic sectors between 2001/02 and 2005/06.

Table 3.1: Trends in Macroeconomic Performance, Growth Rates (%)

Sector/Indicator	2000/01	2002/03	2003/04	2004/05	2005/06	2006/07 (Pre. Estimate)
GDP in 1999/00 prices	7.2	-3.3	11.9	10.5	9.6	10.1
Agriculture	10.4	-11.4	17.3	13.4	11.2	10.9
Industry	5.1	3.0	10.0	8.1	7.4	10.9
O/w: Manufacturing	3.6	0.8	6.5	8	8.1	12.5
Construction	8.1	4.8	15.3	8.2	5.2	11.0
Services	3.8	4.5	7.3	8.4	9.2	9.6
O/w: Banking and insurance	10.6	30.4	16.8	13.4	29	2.7
Distributive services	5.6	2.9	8.2	7.6	7.4	8.7
Other services	2.3	6.1	6.4	9.1	10.9	10.4
Inflation	-7.2	15.1	8.6	6.8	12.3	17.8
Real GDP per capita GDP	4.2	-6.2	9.1	7.7	6.8	7.3

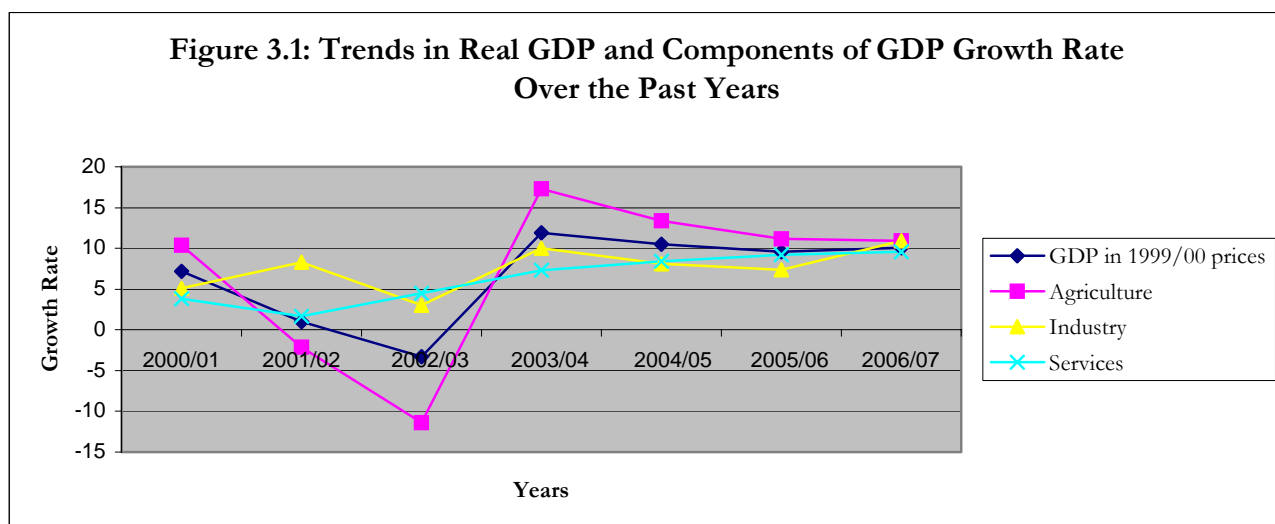


Table 3.2: Growth in Real GDP by Industrial Origin at 1999/00 Constant Basic Prices During 2005/06 (%)

Item	Base Line (2004/05)	Plan (2005/06)	Achievement (2005/06)	Performance Versus Target (%)
Agriculture & allied activities	13.4	6.4	9.6	150
Industry	8.1	12.3	7.4	60.2
Services	8.4	6.9	9.2	133.3
GDP	10.5	7.4	9.6	130.0
General inflation	6.8	8.6	12.3	143.0

On the demand side, as shown in Table 3.3 below, gross domestic investment slowed down slightly from the previous years and reached 20% of GDP in 2005/06 (owing mainly to the decline in external finance in 2005/06), and is projected to increase to 22% of GDP in 2006/07. This positive development is promoted by a favorable investment climate and acceleration of privatization as well as improved land lease management, and a series of investments in physical infrastructure and human development that contributed to a higher private investment growth.

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

Table 3.3: Demand Side GDP, As a Ratio to GDP @ CMP (%)

Item	Base Line (2004/05)	Plan for (2005/06)	Achievement (2005/06)	Performance Versus Target (%)
Gross domestic capital formation	21.6	22.0	20.0	91
Consumption expenditure	96.3	93.8	94.8	101
Export of goods & non-factor services	15.8	16.2	15.0	93
Import of goods & non-factor services	33.7	32.1	33.0	103
Resource gap	-17.9	-15.9	-18.0	113
Domestic saving	3.7	6.2	5.2	84

3.2. Fiscal Performance

During 2005/06, government revenue reached 19.5 billion Birr while total revenue including grants reached 24.3 billion Birr. Tax revenue amounted to 12.2% of GDP in 2005/06. Following from the registered trend, in subsequent years, revenue from income taxes is expected to increase. This is testimony that fiscal development in the past years supported overall macroeconomic stability. Appropriate policy measures have been introduced to encourage taxpayers through facilitating the tax collection system and its revenue generation. Measures taken so far include: income tax streamlining and closing of loopholes, improving the incentive system, strengthening tax administration, overhauling the income tax law and regulations, introducing a broad-based Value Added Tax (VAT) and tax identification numbers, and rationalizing tariff rates. Recently, the Government also introduced a sur-tax, in order to stabilize the recent price increase in grain market. It is to be noted that this system is a short-term measure to tackle the rise in food prices and to support the urban community until the situation is stabilized.

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

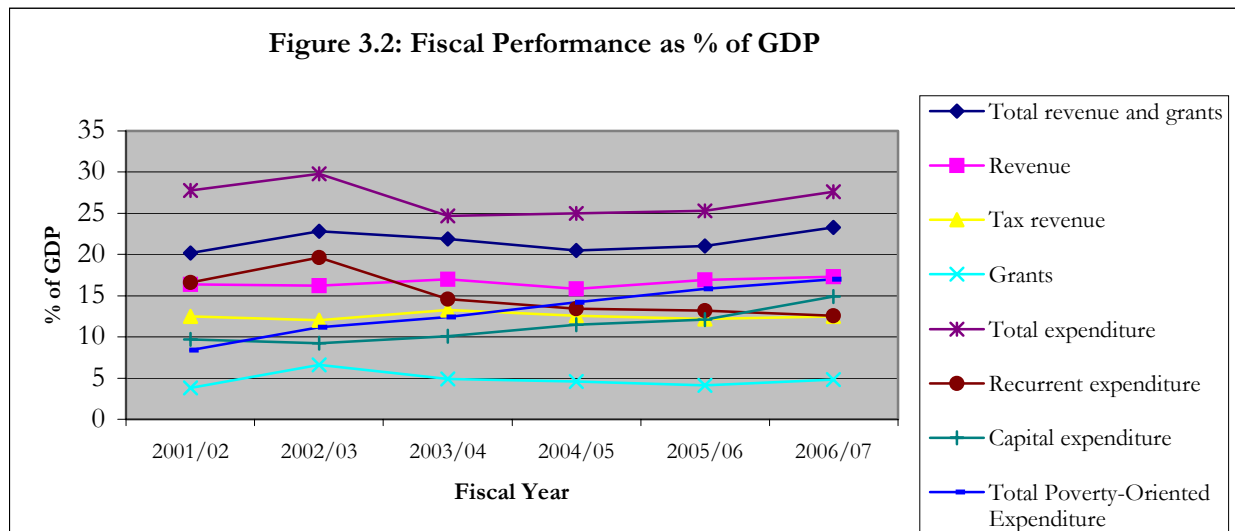
There has also been a substantial increase in government expenditure. Total government expenditure reached at 29.3 billion Birr in 2005/06 (25.3% of GDP). During 2005/06, 52% of the expenditure was allocated for recurrent cost while capital expenditure accounted for 48%. The main beneficiaries of this were infrastructure development and pro-poor sectors-education and health. The Government will continue to pursue prudent expenditure policy by continuing to restrain public expenditure on defense and non-priority sectors and protect poverty-targeted outlays and capital expenditure, while containing total spending within affordable limits.

Performance on both the revenue and expenditure front has been sustained during the second year of the Plan period (2006/07). Accordingly, the budget for domestic revenue has been estimated to increase to over 17% during 2006/07 while total expenditure budget was projected to reach over 27%. Most of the increase in the expenditure budget is attributed to the increase in the capital component of the budget (see the next Chapter for the details on the 2006/07 budget).

Table 3.4 and Figure 3.2 below illustrate the trends in fiscal performance from 2001/02 to 2005/06.

**Table 3.4: Trends in Fiscal Performance (2003/04-2005/06)
(% of GDP at CMP)**

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



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

3.3. External Sector Performance

With regard to the external sector, exports registered substantial growth in recent years, owing to both increase in volume and revival in the prices of major exports in the international market. Imports also surged, reflecting a general rise in private sector investment and consumption demand, and government spending on capacity building and poverty-reduction projects, in addition to escalating prices of basic imports such as fuel and construction materials. The unparalleled increase in imports of goods was reflected in a widening trade and current account deficit of the balance of payments. The external current account deficit (excluding official transfers) widened to 13.4% and 16.9% of GDP in 2004/05 and 2005/06, respectively from 11.3% of GDP in 2003/04. In 2006/07, external current account deficit is projected to decline to 13.1% of GDP.

Exports of goods and non-factor services reached 15% of GDP while imports of goods and non-factor services have stabilized at about 33% of GDP by the end of 2005/06. However, trade deficit widened and reached 18% of GDP during the same period from 15% in 2001/02. In 2006/07, exports of goods and non-factor services are projected to reach 17% of GDP while imports of goods and non-factor services are expected to amount to 35% of GDP. Trade deficit is expected to remain at 18% of GDP in 2006/07. Table 3.5 below illustrates external sector performance as% of GDP.

Table 3.5: External Sector Performance (% of GDP)

Item	Base Line (2004/05)	Plan for (2005/06)	Achievement (2005/06)	Performance Versus Target (%)
Merchandise export	7.2	7.9	8.0	101.3
Merchandise imports	31.9	30.1	34.0	113.0
Trade balance	-24.8	-22.2	-26.0	117.1
Growth Rates (% change over previous year)				
Item	2003/04	2004/05	2005/06	Average
Merchandise export (value in \$US)	24.4	41.1	18.1	28.0
Merchandise imports (value in \$US)	39.3	40.4	26.4	35.0

3.4. Financial Sector Performance

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

Total capital of the banking system reached 3,486 million Birr by the end of June 2005; of which 1,979 million Birr (56.8%) was held by the three government-owned¹ banks. The market share of private banks has been steadily increasing in terms of all banking operations as well. Accordingly, the total capital of the seven private banks stood at 1,507 million Birr (43.2%). By the close of 2004/05, the share of private banks in total banking system deposits has reached 25.3%, and they accounted for 49.4% of new loan disbursements.

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

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

3.5. Macroeconomic Policies and Reform Measures

3.5.1. Monetary Policy

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

In an effort to make indirect monetary policy instruments effective, the NBE's strategy in the next five years is to encourage banks to reduce excess reserves as well as creating a sound financial system and performing such other activities which are conducive for economic growth and poverty reduction. The Bank targets broad money growth to be consistent with growth of nominal GDP and single digit core inflation. To achieve these objectives, the Bank uses a mix of both direct and indirect monetary policy instruments. These include, control on the minimum bank deposit interest rate, auctioning of Treasury bills on behalf of the government, monitoring ceiling on government borrowing from the banking system, reserve requirement ratio, etc.

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

¹ The three government-owned banks are the Commercial Bank of Ethiopia, Development Bank, and Construction and Business Bank.

3.5.2. Fiscal Policy

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

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

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

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

Chapter IV

Performance in Financing the Plan (PASDEP)

4.1. Revenue, Expenditure and Financing

4.1.1. Domestic Revenue and Grants

Domestic revenue has been on average increasing faster than recurrent expenditure during the last three years ending in 2005/06 (21% per annum versus 5% per annum, respectively). Annual average growth rate in tax revenue has been faster than that of nominal GDP over the last three years ending in 2005/06 (20% versus 19%, respectively).

Non-tax revenue has been declining at the rate of 5% during the three years ending in 2005/06. Non-tax revenue stood at 85% of the PASDEP target while exceeding the level during the previous year by about 69%. The relative decline in non-tax revenue and the fast growth in tax revenue is a positive sign which shows that the productive sector is increasingly becoming the revenue base of the economy.

Total revenue and grants has been budgeted at about 29.1 billion Birr (25.2% of GDP) of which domestic revenue amounted to 21.8 billion Birr (19% of GDP). External grants have been budgeted at 7.3 billion Birr (6.2% of GDP).

As shown in Table 4.1 below, total resource (domestic revenue and grants) realized stood at 78% of the PASDEP target. It was 15% higher than the level attained during the previous fiscal year (2004/05). At 24.3 Billion ETB, domestic revenue performance against PASDEP target stood at 87%. Domestic revenue collection during 2005/06 was higher than the level in the previous year (2004/05) by about 25%. For 2005/06, external grants fell short of the PASDEP Target and even the 2004/05 outturn by a wider margin (52% of the PASDEP Target and 82% of the 2004/05 level).

Table 4.1: The Outturn in the 2005/06 Resource Envelope

Items	Average Growth Rate (2003/04- 2005/06)	Performance Against PASDEP Targets (%)	Performance Against 2004/05 Outturn (%)
Domestic revenue	21	87	125
Tax revenue	20	88	114
Non tax revenue	26	85	169
External grants	-5	52	82
Domestic revenue and grants	14	78	115

4.1.2. Expenditure & Financing

Total spending for 2005/06 was budgeted at 35.1 billion Birr (32% of GDP) while the outturn was estimated at 29.3 billion Birr (25.4% of GDP). The shortfall in spending compared to the PASDEP target is largely attributed to the decline in external grants. The outturn for spending fell short of the plan by 20.6 percentage points. External Grant was budgeted at 7221 Million ETB & Financing below the line (external, net) budgeted at 2,083 Million ETB. Altogether, 9,304 million Birr or an equivalent of 8% of GDP in ODA was budgeted. However, what has been realized was only 4.5% of GDP (56.3% of the plan). Fiscal Deficit including grants was budgeted at about 6 % of GDP and what has been realized was 5.2% of GDP. Domestic borrowing was budgeted at 4,782 million Birr (4.1% of GDP) and the outturn was 3.9% of GDP (95.1% of the plan). These parameters are reflections of the prudence in fiscal management under resource constraint. Table 4.2 below summarizes the financing of the PASDEP during its first year implementation.

**Table 4.2: Performance in Financing the First Year of Implementing the PASDEP
As % of GDP at CMP (%), Unless Otherwise Specified**

Item	Base Line (2004/05) (%)	Plan (2005/06) (%)	Performance (2005/06)(%)	Performance Against Plan (%)
Domestic revenue	15.8	19.0	17.2	90.5
o/w- Tax revenue	12.5	14.0	12.2	87.1
o/w- Non tax revenue	3.3	5.0	5.0	100.0
Grants	4.2	6.2	3.2	51.6
Domestic revenue and grants	20.0	25.2	20.2	80.2
Total expenditure	25.2	32.0	25.4	79.4
o/w- Recurrent	13.4	14.3	13.2	92.3
o/w- Capital	11.8	17.3	12.2	70.5
Poverty-oriented expenditure	14.2	20.0	15.8	79.0
Fiscal deficit including grants	-5.0	-6.0	-5.2	86.7
External financing (net)		1.8	1.3	72.2
Domestic borrowing (net)		4.1	3.9	95.1
Gap financed	5.0	6.0	5.2	86.7
Gap to be financed	0.0	0.0	0.0	-
External finance flows (ODA)		8.0	4.5	56.3

4.1.3. Sectoral Performance in Poverty-Oriented Spending

The share of out-turn on poverty-targeted spending (both recurrent and capital from all sources) increased from about 43% of total expenditure in 2002/03 to over 60% by the end of 2005/06. Increases have been witnessed in spending on all of the poverty-oriented sectors in the past year, with recurrent poverty-targeted spending increasing by 21%, over the previous year, and capital by 39%, largely due to the steady increase in spending on most poverty-oriented sectors in particular the new food security program.

As noted earlier, during the SDPRP and PASDEP period, government resource allocation and implementation has been geared towards investments on growth enhancing (infrastructure) and pro-poor social sectors. As indicated in Table 4.3 below, from the total government expenditure, spending on poverty-oriented sectors has increased to 60.1% in 2005/06 from 43% in 2001/02.

Table 4.3: Trends in Pro-Poor Sectors Allocated Budget out of Total Government Expenditure (%)

Sector	2001/02	2002/03	2003/04	2004/05	2005/06
Education	14.2	16.1	20.4	19.7	21.8
Health	5.9	4.9	4.3	4.8	4.6
Agriculture and food security	9.2	8.1	13.4	16.3	16.8
Road	10.7	9.9	9.6	11.3	12.5
Water and sanitation	2.8	2.9	2.0	4.5	4.4
Total	43	42	50	57	60.1

4.2. Developments in External Finance Flows and its Management

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

Source of External Assistance to Ethiopia: Ethiopia receives ODA from two major sources: bilateral and multilateral donors². The assistance is provided through development financing, technical assistance and debt relief while the modalities used within the medium-term development cooperation framework are Protection of Basic Services (PBS), program support, project support as well as pool fund arrangement.

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

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

² Multilateral institutions include International Financial institutions (IDA, AfDB, EIB, IFAD, etc.), European Union and UN organizations (UNICEF, UNDP, UNFPA, WFP, etc.)

Table 4.4: Trends ODA Disbursement (In Million US\$)

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

Notable improvement has not been observed in disbursement during the last five years. Besides, there has been tremendous volatility in aid flows. The level of funding needed if Ethiopia is to have any hope of approaching the MDGs implies a significant push over the coming ten years, with a sizeable increase in support from the international community. Furthermore, the level of official development assistance that Ethiopia currently receives in terms of per capita assistance (US\$14.8) is considerably lower than that of other low-income countries in the SSA, including many with higher average per capita incomes and with better indicators of human development³. Despite the debt relief and debt cancellation that Ethiopia has benefited, additional ODA has not been forthcoming in the spirit of the global call for scaling up to meet the MDGs such as the Millennium Declaration, the Monterrey Consensus, the Paris Declaration on Aid Effectiveness, Blair's Commission Report as well as the Gleneagles agreement.

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

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

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

Aid Flows Information: The Government expects donors to provide full information on aid flows regularly, disbursement plans with in a medium-term time frame (3 years), on a timely manner, and based on classifications/categories (federal vs. regional). This will ensure that aid

³ For example ODA per capita for Ethiopia has been on average a quarter of that of Mozambique and half of that of Uganda (Country Economic Memorandum (CEM), World Bank 2005).

flows are properly captured in the budget as well as enable the Government to publish details of aid received from the development partners on a regular basis.

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

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

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

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

4.3. The 2006/07 Budget

The 2006/07 fiscal year is the second year in to the implementation of Ethiopia's Five Year Development Plan (the PASDEP). The budget has been progressively realigned with PASDEP priorities through the macroeconomic and fiscal framework (MEFF). Poverty-oriented sectors have been given due emphasis during the formulation of the Macroeconomic and Fiscal Framework (MEFF) and the preparation of the 2006/07 budget in line with PASDEP's indicative Financing Plan. The basis for 2006/07 budgets was the 2006/07-2008/09 MEFF. During fiscal year 2006/07, total general government expenditure excluding special programs was budgeted at 41.8 billion Birr, of which about 47% is recurrent expenditure and 53 % capital expenditure. It is worth noting that the share of capital expenditure stood at 46% and 40% during fiscal years 2003/04 and 2004/05, respectively.

In 2006/07, domestic revenue was budgeted at 25.7 Billion ETB. This is equivalent to 17.3% of GDP. The PASDEP target was set at 18% of GDP for the same fiscal year. Given that total spending budgeted at 27.6% of GDP, fiscal deficit including grants as percentage GDP was budgeted at 5% of GDP. The PASDEP target for spending as percentage of GDP set at 34% of GDP while fiscal deficit including grants was set at 5.4% of GDP. This is what is termed as gap to be financed under the Base Case Scenario in the PASDEP. The amount budgeted for domestic revenue including grants fell short of the PASDEP target owing to a larger extent to the significant decline in external grants than short fall in domestic revenue generation. The expenditure budget fell short of the PASDEP target by 6.4 percentage points.

Of the total expenditure budget (from all sources) of 41,836 million Birr, about 24,977 million Birr (59.7%) was budgeted for all poverty-oriented sectors: Agriculture & Food Security, Education, Health, Roads, Water and Sanitation. The expenditure budgeted for poverty-oriented sectors was higher than the budget for the preceding fiscal year (2005/06) by 9% (of which recurrent increased by 5% while capital increased by 10.8%). The expenditure budget for 2006/07 for all poverty-oriented sectors stood at 77% of the PASDEP target. Total expenditure budget for 2006/07 stood at 93% of the PASDEP target.

In accordance with the PASDEP objectives, the Government has budgeted continued increases in funding for agriculture and food security (up by 15.2% compared to 2005/06), education (up by about 22.0% compared to 2005/06), health (up by 123.7% compared 2005/06), and water supply and sanitation (almost on the same level compared to 2005/06), roads (up by 29.7% compared to 2005/06). Note that the increase in health spending is still somewhat an understatement as there are very large and increasing amounts of financing being provided by donors outside of the budget framework – for example by the Global Fund.

The significant increase in spending across all poverty-oriented sectors is a reflection of the renewed emphasis on food security as witnessed by the steady allocation of 2 billion Birr for food security budget by the Federal Government (specific purpose grants to regions). Such increases in budget allocation to poverty-oriented sectors such as agriculture and food security, roads, health and water is a reflection of the continued pronounced focus by the Government on those sectors. Table 4.5 below depicts the details on budget allocation to poverty-targeted sectors.

Table 4.5: Comparison of Performance in Poverty Targeted Spending in 2005/06 and the 2006/07 Budget⁴ (Values in Million Birr)

Item	2005/06 Budget	2005/06 Pre Actual	2006/07 Budget	2006/07 Budget Against 2005/06 Budget (%) ¹	PASDEP Target for 2006/07	2006/07 Budget Against PASDEP Target (%)
Education	6,691	6,385	8,163	22.0	6,888	118.5
Health	1,276	1,342	2,855	123.7	2,555	111.7
Agriculture and food security	5,048	4,925	5,813	15.2	3,343	173.9
Road	4,548	3,644	5,897	29.7	5,317	110.9
Water and sanitation	2,268	1,296	2,249	-0.8	2,923	76.9
Total poverty-oriented expenditures	19,831	17,593.0	24,977.0	25.9	32,532.0 ⁵	76.8
Total expenditure	35,098	29,275	41,836	19.2	45,066.0	92.8
Recurrent	16,182	15,234.0	19,269	19.1	18,873.0	102.1
Capital	18,916	14,041.0	22,567.0	19.3	26,193.0	86.2
Poverty-oriented spending as % of total	56.5 ⁶	60.1	59.7		72.2	

During fiscal year 2006/07, the total regional transfer (from treasury) has been budgeted at about 9.6 billion Birr, representing an increase of **28.2** compared to what has been budgeted in fiscal year 2005/06. In addition, it should be noted that although food security is a federal government program, the implementers are regional states. In effect the food security budget is a regional resource.

⁴ From all sources (treasury, loan and assistance).

⁵ Including irrigation, rural electrification, urban housing and others the target was 62.7%.

⁶ Includes irrigation, rural electrification, urban housing and others.

Chapter V

Efforts to Eradicate Poverty and Hunger: Sectoral Performance During 2005/06

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

5.1. Agriculture

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

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

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

An overview of the sector's performance against what was planned for 2005/06 and the related policy measures taken with a major emphasis on the Agricultural Development Strategy as the forefront of the country's development strategic pillars are discussed in the sections below.

5.1.1. Overview of Ethiopia's Agricultural Development Policy/Strategy

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

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

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

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

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

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

In all regions, the emphasis will be on ensuring everything possible is in place to facilitate the take-off of commercial opportunities. The transformation of the smallholder farmer is to be achieved through area based specialization as well as diversification of agricultural commodities. In line with

this, commercialization of smallholder agriculture will be the engine for rural growth in the coming decade or so.

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

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

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

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

5.1.2. Performance in Crop Production and Productivity

As can be seen from Table 5.1 below, total cultivated area has been increasing from 8.79 million hectares in 2001/02 to 11.9 million hectares in 2005/06. In general, total production and productivity have been improving over the years. This has to do to a larger extent to the adoption of various new policy and strategy innovations as well as introduction of new extension packages

that helped increase the use of fertilizer and improved seeds. Moreover, the deployment of over 45,000 extension agents who specialized in Crop Development, Livestock and Animal Husbandry, and Natural Protection and Management (three extension workers in each rural *kebele*) to live with the smallholder farmers has contributed to awareness creation in raising productivity among farmers. The trend in cultivated area under major crops, the yield, and volume of production over the period 2000/01 to 2005/06 is presented in Table 5.1 below.

Table 5.1: Area Cultivated, Total Production, and Productivity under Major Crops by Private Peasant Holdings

Year	Total Cultivated Land (Million Hectare)	Total Production (Million Quintal)	Productivity (Quintal/Hectare)
2000/01	10.37	110.4	11.0
2001/02	8.79	103.5	12.9
2002/03	9.27	77.2	8.55
2003/04	9.54	106.2	11.1
2004/05	11.2	141.7	12.65
2005/06	11.9	187.1	15.7

Table 5.2: Trends in Cultivated Area, Volume of Production and Yield of Major Crops for the Main Season, (% Change over Previous Year)

Item	Area cultivated Under Crops (1,000/Hectare)			Productivity (Quintal/Hectare)			Total Production (Million Ton)		
	2004/05	2005/06	Percentage (%)change	2004/05	2005/06	Percentage (%) change	2004/05	2005/06	Percentage (%)change
Total	11,183.87	11,936.29	6.7	12.67	15.68	23.76	14.17	18.71	32.0
Cereals	8,434.01	9,003.46	6.8	12.63	13.92	10.2	10.65	12.53	17.65
Pulses	1,525.76	1,488.66	-2.4	9.12	9.35	2.5	1.39	1.39	0.0
Oil seeds	834.10	904.17	8.4	6.38	6.10	-4.4	0.53	0.49	-7.6
Fruits and vegetables (under irrigation)	367	463.0	26.2	42.23	73.04	72.96	1.55	3.4	122.2
Cotton	23	77.0	234.8	21.1	12.8	-39.2	0.1	0.9	1,700

Source: Central Statistical Authority

As shown in Table 5.2, total cultivated area under crop production increased by 6.7% and volume of production by 32.0% in 2005/06 from previous year. There has been an increase in the volume of out put driven more so by increase in productivity. Over the period, productivity (yield per hectare) for cereals and pulses on average increased by 10.2% and 2.5% per annum respectively; however, oil seeds declined by 4.4 % during the same period

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

Moreover, as shown in Table 5.3 below, fertilizer application has added to the increase in productivity since fertilizer used per hectare has increased by 17% in 2005/06 compared to 2003/04 although there was a modest decline in 2004/05 by 3.3%.

Table 5.3: Trend in Fertilizer Application

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

What has been observed above with regard to crop production, cultivated area, and productivity is in terms of trends over time (inter-temporal comparisons). It is also important to look at performance for the year under consideration against what has been planned for 2005/06. According to the CSA, area cultivated in 2005/06 showed a 3.8% decline compared to the plan for the same year and production of major crops by private holdings declined by 20.3% of the PASDEP target. Table 5.4 below summarizes the outcomes for 2005/06 by comparing against PASDEP target for the year under consideration (2005/06).

Table 5.4: Performance Against PASDEP Targets for Major Crop Area and Production (2005/06)

Item	Base Line(2004/05)	Plan (2005/06)	Achievement (2005/06)	Performance Against Base Year	Performance Against Target (%)
Total area cultivated (1000 hectares)	11,183.87	12,405	11,936.39	6.7	-3.8
Cereals	8434.01	9,022	9,003.46	6.8	-0.2
Pulses	1525.76	1,702	1,488.66	-2.4	-12.5
Oil seeds	834.10	1,272	904.17	8.4	-28.9
Fruits and vegetables (under irrigation)	367	382	463.0	26.2	21.2
Cotton	23	27	77.0	234.8	185.2
Total production (million quintals)	14.17	23.48	18.71	32.0	-20.3
Cereals	10.65	18.07	12.53	17.65	-30.7
Pulses	1.39	1.69	1.39	0.0	-17.8
Oil seeds	0.53	0.85	0.49	-7.6	-42.4
Fruits and vegetables (under irrigation)	1.55	2.81	3.4	122.22	21.0
Cotton	0.05	0.06	0.9	1700	1400

By way of ensuring tenure security a new program of issuing over 4 million certificates in four regions (Amhara, Oromia, SNNPR, and Tigray) of the country has been put in place with the purpose of improving tenure security among farmers. This is likely to contribute to the increase in productivity. Related to this is the issue of promoting proper land use and soil conservation. A national environmental program has been initiated and is now under implementation. Regional environmental agencies and institutions have been established to complement on going efforts and the necessary guidelines and laws have been enacted. There are also efforts to improve equity in

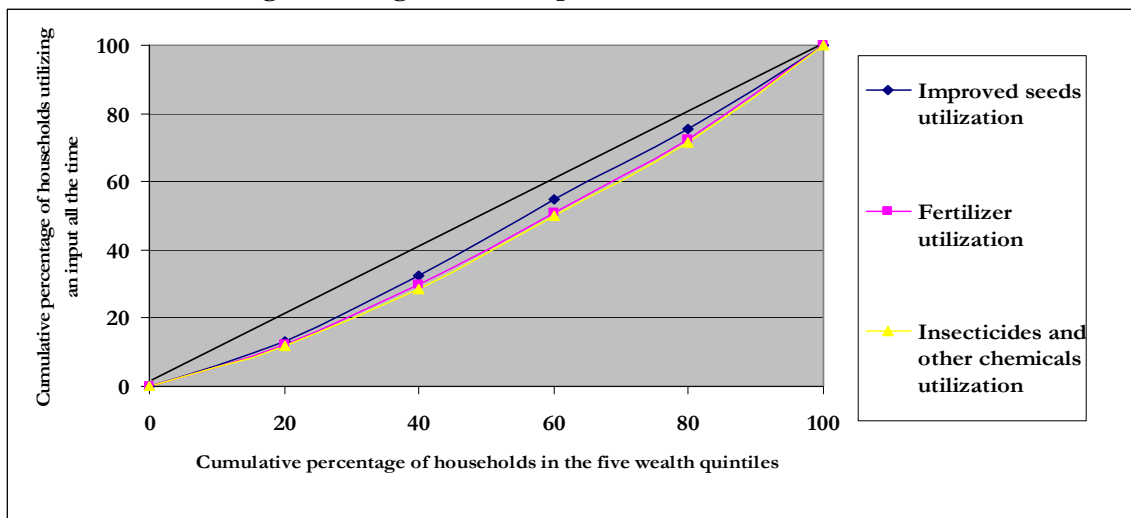
access to agricultural inputs, an essential component of efforts to increase agricultural productivity. Box 5.1 below illustrates how equity in access relates with provision of basic agricultural inputs.

Box 5.1: Equity in Access – Does it really Matter for Agricultural Inputs?

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

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

Figure 5.1: Agricultural Input Utilization Lorenz Curve



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

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

inputs than female-headed households. The dummy for the remote region of Benishangul Gumuz appeared with a negative coefficient for all the inputs indicating a certain degree of regional inequity.

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

5.1.3 Agricultural Extension Services and Research

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

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

In terms of household training package which is a type of agricultural activity carried out by farmers that earlier acquired experience by participating in various extension (minimum) packages, in 2005/06, 233,108 farmers were trained. This is 170% of what has been planned in the PASDEP. In addition, in minimum package training, where farmers were trained on packages they have chosen from technology menus made available to them, and where the training duration ranges from 5 to 15 days, 3,065,927 farmers were trained during the year 2005/06. This again stands at 294% of what has been planned in the PASDEP. The results are mainly attributed to extra efforts made by the regional states. Extension and training programs are also designed to pay particular attention to enhancing farmers' capacity to use water resources efficiently, and help build community-level institutional structures necessary for effective irrigation and water resource management.

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

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

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

5.1.4. Promotion of Agricultural Exports

In 2005/06, US\$709.21 million was obtained from exporting 624.74 thousand tons of different agricultural products and 163.4 thousand live animals. The achievement was 102% and 91% of the plan respectively. When compared to 2004/05 performance, it exceeds by 23% in volume and 30% in value. In 2005/06 the under lined mentioned major activities were performed. These include the following:

- Capacity building:
 - Training was given for 42 pulses, oilseeds and spices processor exporters for three days; and for five days to 20 federal and regional marketing experts on agricultural product qualities and standards;
 - Awareness raising workshops on proclamation No. 457/2005 (i.e. raw hide and skin marketing system improvement) was conducted for 50 pertinent stakeholders; and,
 - Training was given to the pertinent actors on livestock packing, designing and development.
- Agricultural export day was celebrated in 2006 budget year and awarded agricultural product exporters showing better performance during 2004/05;
- Export business plan was prepared for 80 exporters and the performance of each exporter was monitored accordingly. Thus, the main problems identified and the measures undertaken are presented as follows:

- Continuous discussions were made with Egyptian government officials on live animals and meat exports; and agreement was reached to export deboned meat;
 - 9 livestock and meat-marketing stakeholders made experience-sharing tour to Botswana;
 - A study group of meat exporters visited Dubai, Shargia and Abudabi to assess market for livestock product and experience sharing on packaging; and,
 - Pulses, oilseeds and spices exporters made business visit to China, South Korea and Japan. This resulted to have better market with China and some with South Korea.
- Quarterly discussion forums were conducted with grain, coffee, tea, spices, cotton, horticulture, meat, live animal and forest and forest product exporters. The forums enabled to identify export bottlenecks and to prepare action plan for implementation. Major issues addressed were:
- Study was conducted on sesame value chain problems and action was taken on sesame over stock;
 - Horticulture exports market problems were identified and strategy was developed to mitigate the problems;
 - 16 Borena and Guji Zone livestock marketing co-operatives were linked to supply live animals to Luna Export Abattoir; and,
 - Forest product marketing master plan and natural gum and incense marketing draft proclamation was prepared. Besides forest market development studies were made.
- Coffee promotion brochures, posters and CDs were prepared and distributed for more than 1,000 producers and importers in different countries; and,
- 6 officials have participated in 3rd EAFCA Conference and Exhibition held in Arusha, Tanzania.

5.1.5. Food Security Program

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

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

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

Furthermore, the National Food Security Program-launched during SDPRP- is designed to manage the shift away from the cycle of dependence on emergency relief. The National Food Security Program seeks to ensure food security for five million chronically food insecure people and another 10 million who are badly affected by shortages in drought years. The Program rests on three pillars: increasing the availability of food through domestic (own) production; ensuring access to food for food deficit households; and, strengthening emergency response capabilities.

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

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

5.1.6. Productive Safety Net Program

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

The program started in 2005 and covers 287 *woredas*. It has two components - labor-intensive public works and direct support for labor-poor households. The able-bodied are engaged in public works for which they are paid a minimum amount, while the labor-poor are provided the same amount free. A program implementation manual has been prepared, and training and awareness creation activities have been undertaken at different levels. The communities supported have

identified target groups for public works and direct support. Programs to build the capacity of those identified have been implemented and it is envisaged that training and capacity building efforts will continue where required.

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

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

5.1.7. Voluntary Resettlement Program

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

Resettlement is on a purely voluntary basis, and each settler household is guaranteed a package of assistance that includes provision of up to 2 hectares of fertile land, seed, oxen, hand tools, utensils, and food rations for the first eight months. Settlers are also provided access to essential social infrastructure (clean water, health post, feeder road), and logistics support. To ensure the efficient and effective implementation of the program, an implementation manual has been prepared, and extensive training and awareness creation works have been carried out at federal, regional, *woreda* and *kebele* levels.

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

5.1.8. Environmental and Natural Resource Management

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

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

Major achievements in this area so far include:

- All regional states have established environmental agencies or have assigned environmental responsibilities to existing agencies;
- Different proclamations, strategies, standards and guidelines have been prepared;
- Various environmental awareness activities have been undertaken at the federal and regional levels;

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

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

5.2. Education

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

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

- The Government launched a very big push to increase primary school enrolments, including the promotion of universal free primary education. The number of children in primary school increased from 8.1 million in 2001/02 to 12.6 million in 2005/06 taking the gross primary enrolment ratio (GPER⁷) from 61.6% in 2001/02 to 90.7% in 2005/06, the GPER target set for 2005/06 was 87.7%. GPER for females has increased from 52.2% in 2001/02 to 83.6% in 2005/06, against the planned figure of 81.9%;
- As to net enrolment for primary school, Net Primary Enrolment (for children aged 7-14), the rate has increased from 51.2% in 2001/02 to 77.5% in 2005/06. Performance against plan during 2005/06 in 1st cycle net primary enrolment stood at 73% of the target 70%.

⁷ Both the gross and net (age-based) enrolment ratios do not include those attending informal education.

These over performance is achieved because more than 80% of the primary schools have been constructed in rural areas where the demand for education is very high;

- The Government increased spending on education, in construction of schools, and of textbooks. Percentage share of total government spending on education increased from 16.7% in 2004/05 to 17.8% in 2005/06;
- A greater shift to community control over schools and resources have resulted in parents to have more say in education and school management;
- Programs to improve the quality of education, including upgrading teacher training, revising the curriculum and textbooks, and improving English language have been launched;
- Special programs to use information technology, computers, and television in teaching across the country are well underway; and,
- Six regions have met the basic target of 1 textbook for each student by the end of 2005/06.

Among the factors that contributed to the accelerated progress achieved in this period is the significant increase in the number of primary schools from 16,513 in 2004/05 to 19,412 in 2005/06. The progress is supplemented by the fact that 80% of the constructed schools are located in rural areas and by the increased awareness of the community towards girls' education.

With the considerable success in raising enrolment rates, however, it is becoming apparent that enrolling to school is not the end of the story. The dropout rate becomes a major challenge to secure success of the sector. Primary school completion rate for grade 5 stood at 62.7 against the plan 78.4 for the year 2005/06, whereas in the same year grade 8-completion rate recorded promising result of 41.2% against the plan target of 38.7%.

Box 5.2 below provides further analysis on the possible factors determining primary school drop out in Ethiopia.

Box 5.2: The Challenge of Primary School Completion-Determinants of Primary School Dropout in Ethiopia

Following the theoretical propositions in the literature that children's educational attainment is determined by social, family and personal factors, the probability of dropping out in Ethiopia is estimated as a function of various socioeconomic factors⁸. The results in this empirical analysis confirm the theoretical expectation.

Social Factors: The WMS 2004 data which was used for this analysis provides information on physical access to school by every household. Accordingly, distance to primary school as well as distance to secondary school was included as explanatory variables. The effect of distance to primary school is found to be statistically insignificant. The possible explanation behind this result is the fact that distance is more important for enrolment rather than for dropping out. More interestingly, the physical access to secondary school is strong in influencing dropping out negatively. This is in line with the theoretical argument in Heckman et al. (2003)⁹ claiming that children would have incentive to complete one level of education if

⁸ For further theoretical review, see Haveman and Wolfe, 1995. (Haveman, Robert and Barbara Wolfe, 1995, "The Determinants of Children's Attainment: A Review of Methods and Findings", Journal of Economic Literature, Vol. XXXIII, pp. 1829 – 1878)

⁹ Heckman, J., L. Lochner, P. Todd (2003), "Fifty Years of Mincer Earnings Regressions", Institute for the Study of Labor (IZA), Discussion Paper No. 775.

they foresee that they can easily continue to the next level. Culture is proxied by region and a dummy for the southern region was incorporated to capture any influence from the huge diversity of traditions in that particular region. The result confirmed that dropouts rates are indeed high in the Southern region, relative to other regions.

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

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

Source:

With more children completing primary school, there is also increased pressure for more secondary schools. Thus, Government has simultaneously launched a program to expand the number of placements in secondary education. Accordingly, preparatory secondary school acceptance/enrolment capacity has increased from 45,671 in 2004/05 to 74,717 in year 2005/06 against the plan of 72,658 in the same period. Table 5.5 below presents PASDEP education targets and progress to date.

Table 5.5: PASDEP Education Targets and Progress to Date

Indicators	2004/05 Base Year	Plan (2005/06)	Achievement (2005/06)	Performance Rate Against Target (%)	Performance Rate Against Base Year (%)
Gross enrolment rate for grade 1-4 (total)	102.70%	111.60%	107.10%	96%	104%
➤ Girls gross enrolment rate	95.50%	106.20%	101.10%	95%	106%
➤ Boys gross enrolment rate	109.80%	116.90%	113.00%	97%	103%
Gross enrolment rate of under served regions					
➤ Afar	30.70%	44.80%	21.90%	49%	71%
➤ Soma lie	23.30%	40.80%	23.10%	57%	99%
Net enrolment rate grade 1-4 (total)	67.60%	70.60%	74.00%	105%	109%
➤ Girls gross enrolment rate	65.10%	68.30%	70.50%	103%	108%
➤ Boys gross enrolment rate	69.90%	72.90%	74.90%	103%	107%
Gross enrolment rate for grade 5-8 (total)	52.50%	58.20%	58.50%	101%	111%
➤ Girls gross enrolment rate	42.60%	51.80%	49.60%	96%	116%
➤ Boys gross enrolment rate	62.00%	64.40%	67.10%	104%	108%

Indicators	2004/05 Base Year	Plan (2005/06)	Achievement (2005/06)	Performance Rate Against Target (%)	Performance Rate Against Base Year (%)
Net enrolment rate for grade 5-8 (total)	33.90%	39.90%	37.40%	94%	110%
➤ Girls gross enrolment rate	29.40%	35.30%	33.80%	96%	115%
➤ Boys gross enrolment rate	38.30%	44.00%	40.90%	93%	107%
Gross enrolment rate for grade 1-8 (total)	79.80%	87.70%	90.70%	103%	114%
➤ Girls gross enrolment rate	71.50%	81.90%	83.60%	102%	117%
➤ Boys gross enrolment rate	88.00%	93.40%	97.70%	105%	111%
Gross enrolment rate for grad 9-10 (total)	27.30%	30.00%	33.20%	111%	122%
➤ Girls gross enrolment rate	19.80%	21.70%	24.50%	113%	124%
➤ Boys gross enrolment rate	34.60%	35.30%	41.60%	118%	120%
Dropout, repetition and completion Rates					
➤ Grade 1 dropout rate (total)	22.40%	19.10%	22.10%	116%	99%
➤ Average primary school dropout rates for girls	13.60%	11.20%	11.90%	106%	88%
➤ Average grad 4-8 repetition rate (total)	5.30%	4.70%	5.30%	113%	100%
➤ Average grad 4-8 repetition rate for girls	6.20%	5.40%	5.50%	102%	89%
➤ Primary school completion rate: for grade 5	57%	78%	62%	79%	109%
➤ Primary school completion rate for grade 8	34%	39%	42%	108%	124%
Student section ratio in primary and secondary schools					
Primary (1-8) student section Ratio	69	66	69	105%	100%
➤ Primary (1-4) student section ratio	71	67	70	104%	99%
➤ Primary (5-8) student section ratio	68	65	67	103%	99%
Secondary (9-12) student section ratio	78	74	78	105%	100%
Ratio for pupil/textbook available in primary school for core subjects	2 to 1	1.5 to 1	1.5 to 1	100%	125%
➤ Pupil/teacher ratio for grade (1-4)	71	69	64	93%	90%
➤ Pupil/Teacher ratio for grade (5-8)	55	55	58	105%	105%
Pupil/teacher ratio for grade (1-8)	66	64	62	97%	94%
➤ Pupil/teacher ratio for grade (9-10)	56	50	57	114%	102%
Gender disparity at all levels					
➤ Primary school girls/boys ratio (grade 1-4)	0.87	0.91	0.91	100%	105%
➤ Primary school girls/boys ratio (grade 5-8)	0.69	0.8	0.74	93%	107%
➤ Secondary school girls/boys ratio(grade 9-10)	0.58	0.59	0.59	100%	102%
Qualified teachers at all level of education					
➤ Share of lower primary school (1-4) qualified teacher	97%	98%	97.60%	100%	101%
➤ Share of upper primary school (5-8) qualified teacher	55%	63%	59.40%	94%	108%
➤ Share of secondary school (9-12) qualified teacher	41%	51%	49.60%	97%	121%
Government spending on education					
➤ Percentage share of total national budget on education	16.70%	18.30%	17.80%	97%	107%

In regard to higher education, the Government has given accreditation to 10 new private institutions and established 13 new university colleges as well as upgraded existing ones which increased the number of universities to eight. Accordingly, annual intake capacity of higher education reached 38,166 in 2005/06 from 36,405 in 2004/05. This increased the total number of students in the universities from about 172,000 in 2004/05 to 173,901 in 2005/06. At the beginning of SDPRP the total number of students in universities was 87,000 with the annual intake of 16,600. Cost-sharing arrangement under which students repay some of the costs of their education once they are employed has been continued in year 2005/06.

With these successes new challenges emerged. It has been difficult to keep up with the very rapid increases in the number of students, so quality might have been compromised in some instances because:

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

Government keeps on its effort on these drawbacks, including trying to find ways on mobilizing more teachers and provision of capacity building programs to upgrade their skill through on job training and summer courses along with reducing construction costs to attract and keep children in school. Special programs were initiated to respond to the needs of rural and pastoral areas where it is more difficult for children to go to school. Accordingly, Alternative Basic Education Centers (ABECs) are being built to reach out-of-school children and children from pastoral areas. There are now 1.3 million children in ABECs. Moreover, efforts will be made to strengthen further community and NGOs participation in the provision of primary education as well as to increase the participation of women. Emphasis will also be placed to support children with special needs.

5.3. Health

Ethiopia experiences a heavy burden of disease with a growing prevalence of communicable infections. Many Ethiopians face high disease morbidity and mortality largely attributable to potentially preventable infectious diseases and nutritional deficiencies. In response to such prevailing and newly emerging health problems, the Ethiopian Government has developed a 20-year rolling Health Sector Development Program that proposes long-term goals for the sector, and the means to attain them by way of series of phases.

Currently, HSDP III spanning the period of 2005/06 to 2009/10 is in its first year of implementation. HSDP III is designed in line with the wider national development policy frameworks of the Ethiopia (SDPRP and PASDEP pillars). The phases of all HSDP have clear strategies for making targeted interventions against poverty related diseases that are in the main HIV/AIDS, Malaria and Tuberculosis. Other focus areas of interventions are child survival, reproductive health and maternal health care.

The implementation of HSDP III, despite many challenges, has recorded encouraging achievements in terms of health service expansion, and in training and deployment of Health Extension Workers in rural Ethiopia. This has helped to improve the health service delivery. It is also worth mentioning that childhood vaccination services measured by DPT3 and measles coverage showed significant improvements, recording 79% and 68% respectively for the year 2005/06. As part of the disease control measure, malaria program implementation has also shown very encouraging signs of improvement. With improved introduction of ITN since 1998, it is now available in most regions on free distribution.

5.3.1. Overview of Health Policy Measures, Actions Taken and Progress during 2005/06

The major priority area for the health sector has been and still are the training and Deployment of health extension workers. To this end, it has been planned to train 7500 Health Extension Workers (HEWs) each year for the period 2005/06-2007/08. Accordingly, in 2005/06, 7,505 HEWs are being trained in 32 Technical and Vocational Education and Training schools making the achievement rate 100%. Accordingly, a total of 7100 HEWs were deployed in 2005/06 fiscal year. The total number of HEWs required for the country has been estimated at 30,000. The total number of HEWs deployed so far is 9900, which is 33% of the requirement. The FMOH has provided support to initiate the training of HEWs for pastoralist areas in Afar, Soma lie, and Gambella regions. This support included the purchase of health post equipment, translation and preparation of training materials, and technical support in preparing integrated development plans. One of the indicators for HEP Coverage is the proportion of rural kebeles implementing HEP. There is wide regional variation in the proportion of rural *kebeles* implementing HEP. For example, Tigray has reached 100% coverage while Amhara, Oromia, and SNNPR have attained coverage rates of 74%, 16%, 63% respectively. There were no *kebeles* implementing HEP in Afar, Soma lie, and Gambella regions by the year 2005/06.

There were a total of 4,148 community health posts in years preceding 2005/06. On the basis of this projection, it was planned to construct 2,330 health posts in 2005/06. In terms of performance, by the end of 2005/06, 2,027 community health posts were constructed. This shows that the achievement is just 87% of the planned target. Medical equipment and supplies are being purchased for 2,532 health posts and this includes purchase of equipments for health posts that were constructed earlier as well.

Maternal & Child Health (MCH): As compared to the base year (2004/05), by the end of 2005/06, contraceptive prevalence rate increased from 15% to 36%, Antenatal care coverage from 46% to 53%, proportion of deliveries attended by skilled health personnel from 13% to 16%, Postnatal Care Coverage from 15% to 16%, DPT3 coverage from 70% to 79%, measles vaccination coverage from 61% to 68%, proportion of fully immunized children from 44% to 49%, TT2 coverage for pregnant women from 43% to 53%, respectively. In general, improvement

has been observed in MCH indicators. Compared to the PASDEP plan target, the target for DPT3 coverage has almost been achieved. If the current performance trend is maintained, it is very likely that HSDP III targets will be achieved for contraceptive acceptance rate, for measles coverage rates and for the rate of fully immunized children.

Out of a target of 180 health centers selected to provide basic essential obstetric services, medical supplies and equipment was procured for 60 health centers and allocated for the regions. Out of the 40 health centers to be provided with medical equipment necessary for performing basic essential obstetric surgery, medical equipment worth 2.5 million Birr has been procured for 10 health centers. To strengthen referral services, three ambulance vehicles and 48 radio communication units worth 951,000 Birr have been allocated to the regions. A number of guidelines and mechanisms have been developed and studies have been conducted in connection with maternal health.

Prevention & Control of Malaria: it is estimated that 10 million families live in malaria prone areas of Ethiopia. This means that with 2 ITNs per family, 20 million nets are required. Based on this projection, the plan was to procure and distribute 6.2 million ITNs in 2005/06. However, the actual amount of ITNs procured and distributed during the year was 10.4 million. Thus, the total amount of ITNs purchased and distributed in 2004/05 and 2005/06 was 16.2 million exceeding the planned target of 50%. This means that with the procurement and distribution of the remaining 4 million ITNs in 2006/07, 100% coverage will be attained by the end of the year. Table 5.6 below depicts achievements against targets during the first year of the PASDEP.

Table 5.6: PASDEP Health Targets and Progress to Date

Indicators	Base Line (2004/05)	Plan for (2005/06)	Achievement (2005/06)	Performance Gap (%)
Infant mortality rate per 1,000	77	69	77	-11.5
Under five mortality rate per 1,000	123	114	123	-7.9
Maternal mortality rate per 100,000	871	808	673	16.7
CPR (%)	15	20	36	80
DPT 3 vaccination coverage (%)	70	72	79	9.7
TB treatment success rate (%)	76	76	78	2.6
Proportion of births attended by skilled health personnel	9%	12%	16%	33.3
OPD(out -patient) visit per capita	0.3	0.3	0.32	6.7
Households in malaria-prone areas with two ITNs	1%	3%	43%	1333.3
Doctor to population ratio	1:26,527	1:26,527	1:42,783	-38
Nurses to population ratio	1:4,572	1:4,572	1:4,100	10.3
Health extension workers to population ratio	1:25,000	1:25,000	1:7,800	220.5

Training: In order to reduce the high maternal mortality rate in Ethiopia the plan envisages the training of health workers who are able to provide emergency surgery and essential obstetric care in rural areas. Accordingly, the training of 2,000 health officers has commenced in 20 hospitals and this is expected to meet the human resource requirements to staff more than 3,000 health centres to be opened during the plan period. In other words, 1,366 nurses and 800 new entrants are participating in this training program. Thus, the total number of trainees during 2005/06 was 2,166, which registered 108.3% performance against the planned target of training 2000 health officers in 2005/06.

Provision of Medical Equipment: The expansion and strengthening of health centers has called for the provision of additional medical equipment to the health stations selected for upgrading to health centers (ie nucleus health centers). To meet the target of equipping 523 health centers and nucleus health centers in 2005/06, the procurement of medical equipment for 319 health centers is underway. Of these, the delivery of equipment for 285 health centers has already been affected; while the consignment for the remaining 34 health centers is on the way.

Expansion of Health Centre: The target of health centre expansion is to establish 1 health centre for 25,000 people by the end of 2007/08. Achievements against this target requires the construction of 560 new health centres and the upgrading of 2,100 health stations to health centres. The target for 2005/06 was to build 89 new health centres and to upgrade 434 health stations to health centres. During 2005/06, the upgrading work of 523 nucleus health centres has commenced. The completion of this work will bring the performance above the planned target.

Health Management Information System (HMIS): A national HMIS and M&E reform is under way in order to ensure standardization of procedures in data collection, analysis and reporting, to support decision-making at all levels, and to provide a reliable resource and platform for evidence-based planning, implementation and monitoring. Consultation meetings were held and consensus was reached at both national and regional level in building the national HMIS. Furthermore, following the government's decision to use the Business Process Reengineering (BPR) as the methodology to improve the design, implementation and management of services, the FMOH has identified the HMIS as one of its core processes for system design through the application of BPR principles.

The design stage of the national HMIS and M&E system is under way, and the following activities were implemented during the year.

- **HMIS Assessment:** The situation analysis survey was conducted in April-May 2006 in all regions and in sample health institutions at all levels, with BPR methodology and tools being incorporated for the analysis of data and for the preparation of the BPR Assessment Report: HMIS core process”;
- **Indicator Selection:** A core set of cascaded indicators was prepared, discussed and agreed upon in a national consultative workshop held in Awassa and during the ARM; and,
- **HMIS Strategy:** The national HMIS Strategy was outlined.

Monitoring and Evaluation: In order to enhance and strengthen the partnership and coordination between the FMOH and RHBs, a consultative forum has been established. Heads of RHBs are members of this forum which meets once every two months to discuss key implementation issues such as HEP, HIV/AIDS, TB and malaria programs as well as logistics management system. This forum also serves as an important additional mechanism for monitoring the implementation of HSDP III on a regular basis. In addition to that, in collaboration with Jimma University and the US Government, a diploma and masters degree level training on health monitoring and evaluation has commenced in 2005/06. This new program is expected to fill a critical capacity gap in health management and will have a significant impact on the process of institutionalizing and strengthening of the HMIS. 31 trainees drawn from regional and federal level

are currently attending this training program. HSDP II evaluation was conducted in February-April 2006 by a team of national and international experts and the final evaluation report was produced and disseminated.

Logistics Management Information System (LMIS): A country wide assessment of the health commodity supply system (HCSS) was undertaken to document the challenges faced in the procurement, storage and distribution of drugs and health commodities in Ethiopia. The assessment was made by a team of consultants together with a team of experts from FMOH. The study team made extensive consultations at federal and regional levels and with the Health Population and Nutrition (HPN) donor group. As substantiated by the assessment study, logistics management is one of the important problems faced by the health sector. Various options were presented towards the design of a master plan to overhaul the health commodities supply system in Ethiopia. Among alternative designs presented by the consultants, the “Drug Revolving Fund” to be managed by PHARMID was selected as the best option. A consultant has been commissioned to work out with FMOH experts to put in place working modalities suitable for a Logistics Management Information System (LMIS) for the sector. The management committee of the FMOH and RHBs has selected a design in consultation with development partners, and the details are being worked out.

Implementation of the Harmonization Action Plan: Based on the National Action Plan, HSDP III has launched its own Harmonization Action Plan in July 2005. In accordance with this Action Plan, FMOH and donors have signed a Code of Conduct to promote harmonization. Based on the agreement between some donors and FMOH, a Health Pooled Fund has been established to support the implementation process of HSDP. The revision of the Program Implementation Manual of HSDP (PIM) is one of the activities undertaken on the basis of the Action Plan. Additional work conducted during the year include the development of TORs to conduct the recommended studies on *Woreda* Resource Flow and Health and HIV/AIDS resource mapping and the development of a new aid instrument called Protection of Basic Services (PBS) which is multi- donor pooled fund for procurement of commodities, equipment and technical assistance.

Utilization of Financial Resources: An upward trend in per capita public expenditure on health sector was observed over time¹⁰. It increased from 11.3 Birr in 1994 to about 16 Birr in 2004/05-2005/06 (16.8 Birr 2004/05 and 16.0 Birr in 2005/06). Per capita public expenditure on health is an important indicator reflecting both governments’ commitment to finance the health sector and resource availability for the provision of health services. The percentage of the total regional budget allocated to the health sector ranged between 3.1% in Addis Ababa to 26.2% in Harari, with a national average of 9.1%. It is worth noting that, with the exception of the two outliers (Addis Ababa and Harari), the allocation of the other regions are close to the national average.

¹⁰ From treasury data provided by MoFED.

Box 5.3 below presents a success story in the health sector.

Box 5.3: Success Story in Health

Bezunesh Zewde, Health Extension Worker

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

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

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

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

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

Source: Ministry of Health

5.3.2. Overview of Major Challenges and Suggested Remedies

Major constraints that hampered the performance of the health sector include among others:

- Continued chronic shortage of health professionals coupled with a high rate of staff turnover; and,
- Inadequate health service management that would require increased need for capacity building, particularly managerial at district and operational level.

5.4. HIV/AIDS

Like many countries in Africa, HIV/AIDS – the objective of MDG 6 - is a major health and development challenge for Ethiopia. According to the 6th "AIDS in Ethiopia" report published by Ministry of Health (MoH), currently 1.3 million PLWHAs are found in the country. Out of these 765,803 are women and 155,371 are children below 15 years old (about 8.2 million are orphans that lost their parents due to HIV and AIDS).

The Government of Ethiopia is committed to confronting and overcoming HIV/AIDS challenges through prevention, treatment, care and support. Pursuant to this objective, during 2005/06, it has put into effect a multi-sectoral HIV/AIDS plan, introduction of prevention programs along with a social mobilization strategy against HIV/AIDS, and a clear policy for supplying Anti Retroviral Treatment (ART) to AIDS cases.

To expand health service coverage, 670 community health posts, 5 blood banks and 11 health centers were being constructed in 2005/06. Voluntary Counseling and Testing (VCT) service centers reached to 658 in 2005/06 from 170 in 2002/03. 56,451 people received VCT service in 2005/06 against the plan target of 3.7 million people. Moreover, in 2005/06 community mobilization campaigns were implemented in 124 schools, 30 workplaces, and 100 out-of school youth anti-AIDS clubs.

Trend analysis of HIV/AIDS prevalence rate shows that the urban epidemic appears to have leveled off at high prevalence in the past years while the rural epidemic gradually increased, with a reduced rate of progression, resulting in a slowly growing overall prevalence. Against the SDPRP target of keeping the prevalence rate at 7.3% (2001/02), the rate has decreased to 3.5% in 2005/06. The prevalence rate between the ages of 15-24 declined to 8.6% in 2004/05 from 12% at the beginning of the SDPRP period. Owing to expansion in the number of health centers, the rate of HIV-positive pregnant women from Antenatal Care (ANC) receiving complete course of ART has reached 42% from its targeted rate of 15% by the end of the SDPRP period. About 35,000 orphans and vulnerable children (OVC) have received support by the end of 2004/05. With respect to the provision of ART, 45,595 patients received treatment in 2005/06. Successes in this area have been attributed to the provision of treatment at no cost to 94% of patients.

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

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

5.5. Infrastructure

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

5.5.1 Roads

The predominance of smallholder agriculture in Ethiopia underscores the importance of good access to markets and transshipment centres for their produce and input supply. As Ethiopia faces food security problems, access to markets and road infrastructure and transport services in order to reduce isolation of communities and creating a link to regional and national markets is essential. Recognizing the importance of road transport for national economic and social development, the Government of Ethiopia is devoting high priority to improving road infrastructure. It has developed and is implementing a 10-year Road Sector Development Program (RSDP) launched in 1997, the aim of which is to tackle the constraints of economic and social development arising from the inadequacy of infrastructure. The Government is pursuing this by creating adequate capacity in the road sector by constructing and rehabilitating the essential road network. Box 5.4 below presents a case of 15 rural villages, which demonstrates evidence on the impact of roads on crop income, consumption and poverty in Ethiopia.

Box 5.4: Empirical Evidence on the Impact of Roads on Crop Income, Consumption and Poverty in Ethiopia: The Case of Fifteen Rural Villages

Evidence suggests that the expansion of road infrastructure has had a positive impact on agricultural productivity in Ethiopia. A study using the Ethiopian Rural Household Survey data (a unique longitudinal survey of approximately 1,400 households found in 15 villages from all major farming systems of rural Ethiopia interviewed six times between 1994 and 2004), examined whether public investments that led to improvements in road quality and increased access to agricultural extension services led to faster agricultural growth, higher consumption growth and lower rates of poverty.

The evidence from Generalized Methods of Moments-Instrumental Variables-Household Fixed Effects estimator shows positive impacts with meaningful magnitudes. It shows that access to all-weather roads increases consumption growth by 16% and, reduces the incidence of poverty by 6.7%. In line with this, since improved infrastructure is believed to have facilitated agricultural extension services, the study also investigated the impact of extension services. Hence, the finding is that receiving at least one visit from an extension agent also increases crop income and consumption growth by 15% and 7%, respectively and reduces poverty incidence by nearly 10%. These results are found to be robust to changes in model specification and estimation methods.

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

Source:

5.5.1.1. Overview of Performance during 2005/06

During 2005/06, ERA planned to execute a total of 1,861 km of road rehabilitation, upgrading, construction and heavy/periodic maintenance, while the actual accomplishment turned out to be 1,742.9 km, indicating an achievement of 94%. Besides, ERA planned to carry out 13,265 km of routine maintenance on various federal roads, whereas the actual length of roads that have received maintenance intervention surpassed the plan by 2,304.4 km (i.e., 117% of the plan). In the reporting period, the authority managed to register an overall 17,312.3 km of various kinds of road works, including routine maintenance, which is well above the planned target of 15,126 km, which is 114% of the plan. Apart from the above mentioned physical works, various activities were undertaken with regard to policy support, design study and review, feasibility and environmental impact assessment studies, and policy support & capacity building. During the same period, a total sum of 2,879.2 million Birr has been disbursed out of the total allocated budget of 3,565.5 million Birr, indicating that 81% of the allotted budget has been utilized (Table 5.7 below).

Table 5.7: Summary of the 2005/06 Physical and Financial Performance

Main activities	Physical Accomplishment (in km)			Financial Accomplishment (in million Birr)		
	Plan	Performance	% Achieved	Plan	Performance	% Achieved
1	2	3	4=(3/2)*100	5	6	7=(6/5)*100
A. Federal roads						
Capital budget	1861	1,742.9	94	33,98.24	2,680.01	79
Trunk roads rehabilitation	202	149.1	74	560.67	383.76	68
Trunk roads upgrading	328	246.4	75	1,075.86	818.19	76
Link roads upgrading	55	34.0	62	386.55	211.10	55
Construction of link roads	231	187.7	81	905.92	863.46	95
Heavy roads maintenance	82	211.9	258	39.65	62.56	158
Periodic road maintenance	963	913.8	95	186.19	256.47	
Rehabilitation & replacement of bridges				29.87	16.25	54
Policy support and capacity building				99.94	44.29	44
Design, feasibility, and EIA study				113.56	23.91	21
Recurrent budget	13,265	15,569.4	117	167.30	199.16	119
Routine maintenance	13,265	15,569.4	117	127.75	166.20	130
Adm. & general services				39.54	32.95	83
Sub total	15,126	17,312.3	114	3,565.54	2,879.18	81
B. Regional roads						
Construction of new rural roads	500	1,758	352	352.8	290.35	82
Reconstruction of rural roads	100	-		76.6	-	
Sub total	600	1,758	293	429.4	290.35	68
C. Community roads						
Construction of low level rural roads	15,182	33,302* ¹¹		1,005.9	666.04	66
Grand total (A+B+C)	30,908	52,372.3	169	5,000.844	3,835.57	77

During the period under review, out of the 159 projects that were planned to be executed, 113 met their annual target while the rest registered accomplishment below the planned target. It is worth mentioning that projects that are identified as 'under performing' are those which failed to perform 100% of the plan set for the period. Generally, the overall performance of the authority has shown a 15% increment as compared with the accomplishments registered in the previous budget year.

Regarding local contractors, though they managed to meet their annual target (110%), their overall physical accomplishments in the major road construction projects were not satisfactory (78%). It is observed that the performance of maintenance projects took the highest share in this case. The overall performance of projects executed by international contractors has been

¹¹ Total length of community roads constructed up to the end of the reporting period (end of 2005/06 fiscal year).

below the planned target; the registered accomplishments are 70%. ERA Maintenance District Offices and Own Force Account registered an annual physical accomplishment rate of 116% and 120%, respectively in this reporting period. Though ERA force account brigades have been engaged in few road construction projects (four in number) a satisfactory improvement has been observed with respect to physical works accomplishment.

With regard to routine maintenance activities, all the districts managed to perform more than the yearly plan set for this reporting period. The District Engineering Divisions (DEDs), which have been established in all the districts, are contributing their share towards ensuring the quality of works executed by District Road Maintenance Contractors through strengthening the monitoring system. The arrival of additional equipments which are procured with finance from the Road Fund and the World Bank have also contributed to the districts' performance.

Realizing the importance of a monitoring system which allows decision makers to react timely on problems encountered during the course of projects implementation, the MoWUD and ERA have strived to put in place close relationship with contractors. As part of this effort, a series of project evaluation has been undertaken and this has brought about improvements especially in maintenance projects. In respect of contract projects other than maintenance, as there are huge works to be implemented in the remaining program period and afterwards, ERA is taking measures continuously in all aspects.

The participation of local contractors and consultants in the road sector development activities has been showing increasing trend over the years. During the reporting period, 12 contractors and 16 consultants of Ethiopian nationals have been engaged directly in different projects. Since the launch of RSDP in 1997 the Government has been taking different measures to enhance the domestic construction industry. Though, considerable supports have already been given by the Government and the authority to augment the capacity of the existing local contractors, it becomes apparent that there still remains much to be done in view of the huge road construction plan of the government in the years ahead.

As shown in Table 5.7 above, a total of 1,758 km of new rural roads have been constructed by the Regional Road Authorities with a total outlay of 290.35 million Birr. In addition to this, up to end of this reporting period 33,302 km of low-level rural roads are constructed with some financial contribution from the community.

In summary, the major achievements during the period include:

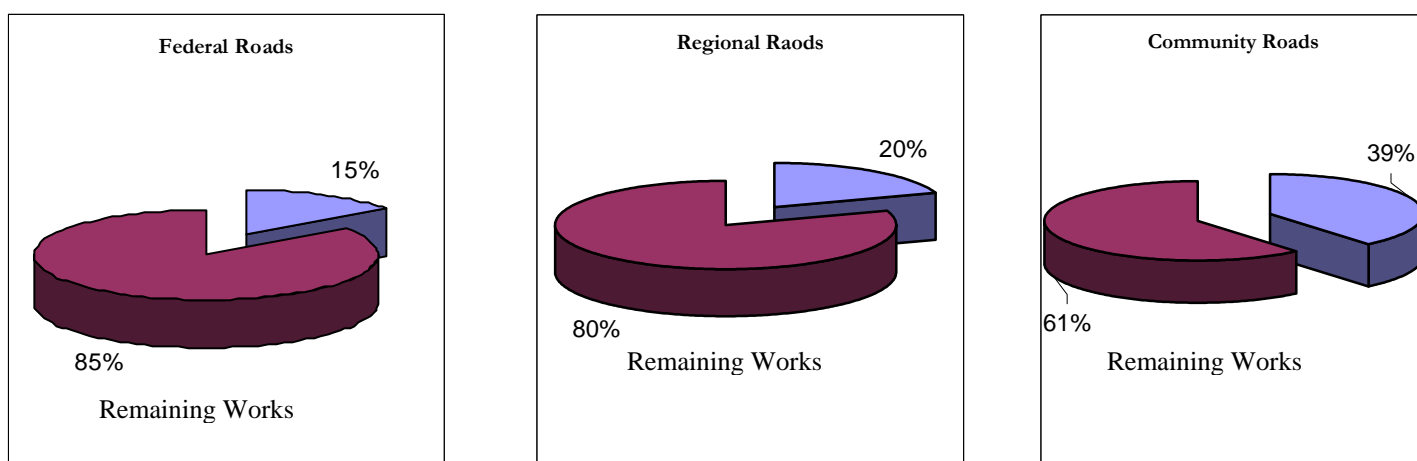
- Total road network of the country reached to 39,477 km (excluding community roads) as of June 2006;
- During 2005/06, 429.5 km of rehabilitation and upgrading of primary roads, construction of 1945.7 km of primary and rural roads, and 33,302 km of community roads construction have been completed;
-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

Attempt has also been made to indicate the amount of work accomplished in fiscal year 2005/06 as compared to the overall 5-years road sector development plan (2005/06-2009/10). As can be seen from Table 5.8 and Figure 5.2 below, there will be much work to be carried out in the forthcoming years to fully achieve the program objectives. Thus, all parties need to exert their maximum effort in a coordinated manner for the realization of the program.

Table 5.8: Comparison of First Year Accomplishments (2005/06) Against the 5-Years Plan (km)

Activities	5 Years Plan	Accomplished up to the end of 2005/06	Remaining Works	First Year Accomplishment as a Proportion of 5 Year Plan (%)
Federal roads				
Trunk roads rehabilitation	852	149	703	17.5
Trunk roads upgrading	1,952	246	1,706	12.6
Link roads upgrading	2,092	34	2,058	1.6
Construction of link roads	2,775	188	2,587	6.8
Heavy roads maintenance	3,660	1,126	2,534	30.8
Sub total	11,331	1,743	9,588	15.4
Regional roads				
Construction of new rural roads	8,226	1,758	6,468	21.4
Rehabilitation of regional roads	637	-	637	-
Sub total	8,863	1,758	7,105	20
Community roads				
Construction of low level rural roads	85,912	33,302*	71,562	39
Grand total	106,106	36,803	69,303	35.0

Figure 5.2: First Year Road Sector Accomplishments in %



During the reporting period there were different projects under execution by contractors and ERA force account brigade. A total of 429.5 km of road were rehabilitated and upgraded, 187.7 km were constructed as new gravel road, and heavy/periodic maintenance was carried out on 1125.7 km of asphalt and gravel roads. At regional level, about 1,758 km of new rural roads added up to the network. With community contribution, up to end of this reporting period, 33,302 km of low-level rural roads is constructed in the different regions of the country. In addition to these, several design/design review, feasibility and Environmental Impact Assessment (EIA) study projects have been carried out.

During 2005/06, it was planned to rehabilitate 202 km of roads, upgrade 383 km gravel roads to asphalt standard, and construct 231 km new gravel roads with an allocated budget of 2,929.012 million Birr. It was also planned to undertake heavy/periodic maintenance on 1,045 km asphalt and gravel roads as well as maintain and reconstruct bridges with a budget of 225.851 million Birr and 29.877 million Birr, respectively. Routine maintenance works on all types of roads, road design & feasibility/EIA studies, policy support and capacity building projects were planned to be accomplished.

During this period, 429.5 km of roads were rehabilitated and upgraded, 187.7 km were constructed and heavy/periodic maintenance was carried out on 1,125.7 km of asphalt and gravel roads. As compared to planned target rehabilitation, upgrading, and construction works, 74%, 73% and 81% accomplishment rates were registered, respectively. Moreover, Regional Road Authorities planned to construct 600 km of rural roads and they managed to construct about 1,758 km of rural roads, which is 293% of the planned target. In addition to these, detailed design/design review studies, feasibility and EIA studies and a number of policy and support giving projects have been accomplished. The total financial requirement planned for the execution of the above mentioned activities amounted to 5.001 billion Birr. At the end of PASDEP's first year (2005/06) the total amount of expenditure stood at 3.166 billion Birr. This is equivalent to 63% compared with the projected cost of 5.126 billion Birr.

5.5.1.2. Challenges Faced During 2005/06

Some of the major problems encountered during this reporting period are discussed as follows:

a) Contract Projects:

Problems Encountered:

- Problems in coordinating and managing the overall activity of the projects on the part of the contractors;
- Lack of skilled manpower;
- Delays in mobilizing all the necessary resources that essentially entails delay in commencement of permanent works and subsequent progress;
- Delays in clearance of the ROW, the problem is caused by various agents (governmental services providers, local administration, and local people); and,
- Concerning local contractors, they do have serious financial and managerial limitation. In particular, their problems are lack of construction plant/equipment, lack of skilled personnel, shortage of spare parts, lack of coordination and management of the site, etc.

Measures Taken:

- ERA has been exerting utmost effort to create close relationship with the implementing parties (contractor and consultant) and get involved in seeking solutions for any problems encountered by contractors during the course of implementation. Moreover, ERA has established a line of communication with embassies and contractor's headquarters to make aware of issues that need their intervention in good time;
- ERA is putting pressure on contractors who are found to be poor in project management and site coordination in order to outsource those particular tasks to other experienced company. A new management team has been assigned in those projects where there was a problem of site management;
- In almost all contractor implemented projects, a tripartite site meeting on monthly basis has been arranged to discuss on the critical issues of the respective projects. Besides, site visit by ERA's higher officials is started and this will continue on regular basis; and,
- The Government has been undertaking various capacity building measures to improve the participation of the local contractors in the road sector development program.

b) Own Force Projects

Problems Encountered:

- Shortage of material supply (asphalt) was the major problem encountered specific to this reporting period.

The main challenges to government effort are lack of adequate financing for the major investments required; ensuring continued maintenance as well as limited domestic construction capacity. A major effort is now being undertaken to develop the domestic construction industry. External finance could help bridge the financing gap.

5.5.2. Water Resources Development

5.5.2.1. Water Supply and Sanitation

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

Visible achievements have been recorded in the sector. Access to clean water supply has increased from 23% to 41.2% in rural areas and from 74% to 80.3% in urban areas during the period 2001/02 to 2005/06. At national level, access to potable water reached 47.3% by the end of 2005/06. There has also been expansion in rural drinking water supply schemes. 758, deep wells and 2,405 shallow wells have been constructed. Similarly during the period under review, 50,267 new hand-dug wells, and 4,424 spring developments were completed. Finally, water supply systems were built or rehabilitated in 83 towns, benefiting some estimated 1.6 million people, studies or design work are underway for another 47 towns during PASDEP.

All stakeholders including the Government have been undertaking their maximum efforts to improve access to safe drinking water and sanitation so as to increase the number of healthy and productive citizens. To reduce poverty and to insure sustainable socio-economic development, the Government of Ethiopia, NGOs, the public, and the private sector have engaged in water supply and sanitation projects i.e., study and design, construction, rehabilitation and maintenance, as well as capacity building activities at various levels.

During the 2005/06 budget year, the following water supply activities have been carried out in different rural and urban areas in different regions throughout the country:

a) Rural Areas

Construction of Rural Water Supply Schemes:

- 205 deep wells;
- 824 medium wells;
- 363 hands dug wells constructed against the planned target of 15,474 (2.3%);
- 10 soil dams;
- 447 springs developed (16.1% of the target for 2005/06, i.e. 2,780); and,
- 3 multi-village water utilities.

Rehabilitation

- In addition, 6,950 existing non-functional or semi-functional water utilities were maintained and rehabilitated during the budget year. This significantly has reduced the percentage of non-functional water utilities by 5% (from 30% in 2004/05 to 25% in 2005/06).

b) Urban Water Supply and Sanitation

Rehabilitation of 50 small towns water supply facilities have been carried out in 2005/06. However, information on the annual production of the urban water supply Systems has not yet been received from the respective regional offices. Hence, the information will be sent as soon as the data is available.

Overall water supply and sanitation services performance during 2005/06 show that the national access to safe drinking water (i.e. both urban and rural) has increased from the previous 41.2 % to 47.3%, which has exhibited an increment for water supply services by 6.1 percentage points in 2005/06. The planned target for 2005/06 being an access rate of 51.5%, performance fell short of target by 4.2 percentage points. Table 5.9 below depicts achievements rates by region and rural-urban dimensions during 2005/06.

Table 5.9: Access to Water Supply by Regions (2005/06)

Regions	Rural	Urban	Total
Amhara	36.6	80* ¹²	41.5
Oromia	40.2	87.6	46.5
SNNPR	53.0	64.5	54.0
Tigray	42.8	50.9	44.3
Afar	41.1	73.0	44.0
Somalie	21.5	60.0	28.0
Benishangul-Gumuz	46.0	66.2	48.0
Gambella	41.4	37.0	40.6
Harari	29.0	21.0*	24.0
Diredawa	57.0	72.0	68.2
Addis Ababa	-	90.1*	90.1
National	41.2	78.8	47.3

¹² Owing to the low level of investments in urban water supply system, the corresponding access figures of 2005/06 for Amhara, Harari, and Addis Ababa City Administration show lower achievement rates compared to the previous year.

5.5.2.2. Irrigation Development

To ensure agricultural productivity and attain food security so as to reduce the level of poverty and enhance national economic development, different irrigation projects have been implemented during the budget year. They have been carried out at pre-feasibility, feasibility, design and construction levels, which include:

- By the end of 2004/05, the total land area developed through irrigation reached 62,057 hectares;
- Pre-design studies were initiated for small-scale irrigation of 8,293 hectares and medium/large scale irrigation of an additional 9,220 hectares;
- The completion of the 177,998 hectares of identification or pre-feasibility study;
- The detail feasibility and design studies of 95,413 hectares (which have 45% average accomplishment). These detail feasibility and design activities have been undertaken in Gumera, Arjo-Dedesa, Humera, Lake Abaya, Erer and Gololcha, and Tana irrigation development areas; and,
- The completion of 5,945 (about 18.2%) hectares of irrigation construction (out of the planned 32,684 hectares). The construction of irrigation projects have been carried out in Kesem-Tendaho in Afar regional state (1,650 hectares), at different regional small scale projects (3,905 hectares), and in Gode (390 hectares).

In general, the main reasons related to the low level of performances are low implementation capacity including shortage of heavy machineries and equipment, lack of capable and efficient contractors and their poor managerial experiences, as well as shortage of skilled manpower. Besides poor geological formations, shortage of cement, early rain, etc have contributed to the low level of performance of irrigation development in 2005/06.

5.5.2.3. Major Challenges

During 2005/06 budget year implementation, the following problems were encountered in water supply and sanitation services.

a) Rural Water Supply and Sanitation Services

- Shortage of skilled manpower, frequent turnover, and frequent structural changes particularly at lower administrative hierarchy;
- The longer time required for undertaking capacity building activities necessary to implement the World Bank investment resource; and,
- Delay of external financial assistance particularly from the Netherlands Government.

b) Urban Water Supply and Sanitation Services

- Depletion or exhaustion of ground water potentials;
- Longer time period required for construction of urban water supply and sanitation;
- Currently majority of the existing urban water supply and sanitation systems designs have phased out, however, on the other hand the rate of rehabilitation and expansion has been lagging behind; and,

- Most urban water utilities do not fulfill the requirement or the principle of cost recovery and self-reliance, which has undermined the interests of the external borrower. On the other hand, contrary to its huge urban water supply investment requirement, the flow has remained very low.

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

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

5.5.3. Telecommunications

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

As a result of these measures:

- Telephone coverage has increased, from about 400,000 lines at the beginning of SDPRP to over 1 million or around 13% by the end of 2004/05;
- The target coverage for 2005/06 was to reach 47%, but achievement is around 44% coverage;
- Old networks have expanded and new ones such as *woreda-net*, cable-net and agri-net created. By the end of 2005/06, the number of users reached 740,257 for regular fixed telephone lines, 866,700 for mobile phones, and 25,724 for Internet lines; and,
- Total telecommunication density has increased from 0.5 lines per 100 habitants in 2002 to 2.14 in 2005/06.

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

In pursuant of its strategic plan, the ETC has been exerting its force to meet the targets set in infrastructure development network operation and service delivery, capacity building and reform for fiscal year 2005/06.

Achievements of the PASDEP period in this regard are presented in the following manner:

- The status of each major activity using plan-performance model;
- The progress made on projected activities for fiscal year 2005/06;
- The strengths and weaknesses of project management during the period;
- Casual analysis projects that are postponed for fiscal year 2006/07;
- Challenges encountered and possible solutions provided; and,
- Issues that require closer attention during 2006/07 fiscal year.

5.5.3.1. Plan for 2005/06

The plan for fiscal year 2005/06 was designed to address the following major strategic issues and achieve the following objectives:

a) Enhancing Execution Capacity:

- Enhancing the intellectual resource of the Corporation;
- Enhancing the implementation capacity and launching educational and research programs through post graduate programs in the areas of telecommunication engineering and ICT management;
- Working towards the enhancement of the skill and competence of productive manpower;
- Developing investment plans as well as putting in place an effective management system; and,
- Establishment of strong management team with efficient leadership capability.

b) Telecommunication Infrastructural Expansion

- Expanding the existing back bone transport network and ensure that it is utilized effectively;
- Prepare a road map for the transition towards the next generation network;
- Expanding and rehabilitating telecommunication networks in the urban areas; and,
- Carrying out rural connectivity projects to provide telecommunication services in rural areas.

c) Providing First Class Services

- Introducing new telecommunication services which are to the international standards;
- Ensuring that the services provided are as per the international standards; and,
- Ensuring maximum customers' satisfaction.

d) Finance and Business Development

- Creating strong financial capacity;
- Looking for financial resources to be injected on the increasing investment needs in the telecommunication sector;

- Increasing the Corporation's revenues;
- Control cost and minimizes expenses; and,
- Implementing new revenue generating services and schemes as well as business models.

e) Providing ICT services

- Increase the utilization level of ICT services.

5.5.3.2. Overall Performance

Table 5.10 below provides general overview of the performance of the ETC in terms of network capacity and utilization by the end of 2005/06

Table 5.10: Network Capacity and Utilization

Item	Base Line (2004/05)	Plan for 2005/06	Achievements (2005/06)	Performance Against Base line and Target	
				2004/05	Plan for 2005/06
Network capacity					
➤ Fixed line	857,347	1,100,000	974,193	13.6%	88.6
➤ Mobile	1,360,000	1,950,000	1,500,000	10.3%	76.9
➤ Internet	100,000	-	100,000	0%	-
No. of Subscribers					
➤ Fixed line	610,347	830,000	740,257	21.3%	89.2
➤ Mobile	410,000	1,461,000	866,700	111.4%	59.3
➤ Internet	17,710	48,970	25,724	45.3%	52.5
Network utilization					
➤ Fixed line	71%		76%		
➤ Mobile	30%		58%		
➤ Internet	18%		26%		
Financial indicators Revenues (in billion Birr)	1.6		2.13	33%	

The above statistics was based on the assumption that Ethiopia's population would reach 75 million by the end of the 2005/06 fiscal year. The following conclusions could be deduced from the table:

- Ethiopia's fixed line subscription rate has not reached the levels of that of South Africa and North Africa but is approaching to the level of SSA;
- With regard to mobile telephone subscription the index shows that Ethiopia needs to work harder towards reaching even the level of sub Saharan African countries; and,
- Though the ITU index does not show the number of Ethiopia's Internet users it does indicate that a lot of work is required to promote Internet usage.

a) Telecommunication Infrastructure Projects Performance

Expansion of Exchanges: The Corporation had planned to install 201 rural switching stations for 2005/06 fiscal year. As of the end of June 2006, 176 rural towns have been beneficiaries of automatic digital telephone services. As can be seen 86.06% of the planned project has been accomplished.

Radio Transmission: Of the work planned to be carried out by the transmission division for the 2005/06 fiscal year, the completion of six high capacity microwave routes and 112 small capacity radio systems are among the major accomplishments in this sector. High capacity microwave routes have been installed and put in operation with SDH high microwave systems in Shashemeen-Arbaminch, Gondar-Shire, Assebe Teferi-Bedessa-Gelemso, Gondar-Humera, and Korem-Sekota.

Fiber Highway Project: The projects undertaken during 2005/06 fiscal year included the completion of projects that had not been concluded during the 2004/05 fiscal year and the SDH fiber line work which include:

- Installation and testing for the Gondar-Metemma fiber highway has been completed; and,
- The feasibility study and pre-site study of 10 routes and capacity studies have been finalized and the first chapter after the purchase of five routes has been started.

b) School-net and Woreda-net

School-net: The following school-net and *woreda-net* projects have been carried out during the 2005/06 fiscal year.

- The upgrading of the school-net broadcast system from 8 channels to 12 channels has been started with the purchase of equipments and pre-expansion work has already been launched;
- The procurement of 220 antennas for newly opened schools has been completed and the antennas are to be installed side by side with the *woreda-net* installations; and,
- For 47 newly opened schools antenna equipment has been installed.

Woreda-Net:

- 273 of the 444 *woreda-net* sites are provided with internet, data, and voice and videoconferencing services. The rest of the sites have encountered problems with regard to video falcon, router, and switch equipment faults;
- A new hub has been installed for the *woreda-net* upgrading project and the installation of five stations has been finalized together with the testing activities; and,
- The execution for 28 agri-net sites project has been completed while the implementation of the remaining six sites is on progress.

c) Access Network

Of the 464,700 lines planned during the reported period only 336,520 has been completed by the end of the fiscal year. Of the remaining 128,186 lines 110,000 are awaiting the completion of multi access. 90% of the secondary cable works has been completed.

d) Rural Connectivity Project

The following work has been performed with respect to rural connectivity project:

- The installation and testing of a radio stations that would connect 5,000 *kebeles* has been completed;
- 4,706 rural *kebeles* have been connected;
- Feasibility studies have been conducted on 10,000 *kebeles* and preparations are currently well underway for the installation of the network; and,
- A bid for the procurement for the supply of 10,000 *kebele* network and solar power supply system has been floated and Suppliers have presented their proposals.

Table 5.11 below shows the distribution of *kebeles* in different regions.

Table 5.11: Distribution Rural *Kebeles* with Access to Telecommunication Services

Region	Planned	Performance	Performance Against Planned Target (%)
North	413	405	98.1
North west	1087	883	81.2
Northeast	172	258	150.0
West	441	445	100.9
Southwest	376	321	85.4
Southeast	708	822	116.1
South	556	603	108.5
East	825	602	73.0
North Addis Ababa zone	90	69	76.7
West Addis Ababa zone	83	85	102.4
Southwest Addis Ababa zone	65	131	201.5
South Addis Ababa zone	18	11	61.1
East Addis Ababa zone	52	71	136.5
Private companies and for ETC pay stations	No Plan	163	-

e) Mobile Expansion Projects

The mobile network implementation for 2005/06 has manly focused on the completion of 350,000 and 625,000 mobile network expansion projects and preparatory work for a 1.5 million new mobile network expansion.

On finalizing the remaining works on the 350,000 network capacity expansion project that was started in 2004/05, it has been completed with expansion work undertaken in 84 towns. The upgrading of the ZTE network has been completed in Awassa, Shashemen, Dessie, Kombolcha, Jimma and Nekemte. The result is summarized in Table 5.12 below.

Table 5.12: Description of the Upgrading Status ZTE Network

Town	Existing Capacity	Upgraded Capacity
Awassa	9,075	10,302
Shashemen	3,735	9,237
Dessie& Kombolcha	7,020	11,664
Jimma	6,108	11,272
Nekemte	446	11,360

On finalizing the remaining tasks on the 625,000 network capacity expansion project:

- Out of the 220,000 planned NOKIA network expansion in Addis Ababa 155,000 lines have been put in place in 2004/05 fiscal year and the remaining 45,000 lines were installed during 2005/06 fiscal year in 20 sites;
- Out of the 250,000 planned lines to be executed by Ericsson in Addis Ababa, 200,000 lines were completed in 2004/05 and the remaining 50,000 is installed during the 2005/06 fiscal year;
- Out of the planned 175,000 Ericsson lines to be installed in the budget year, 1000 lines expansion has been completed in Goba and Robe towns and equipment installations have been completed in other towns:
 - Civil and tower erection work in 140 sites will be ready by the 3rd quarter of 2006/07; and
 - 30,000 lines are expected to be installed in 43 sites in the 3rd quarter.
- The installation of 5,000 lines in Awash Mille-Dessie Mille -Djibouti routes in 32 stations was planned and 3,000 lines in 16 stations have been completed and another 13 stations have had their towers installed and are in the process of preparing solar foundation.

f) Results of the Infrastructure Development Projects

In general, effort is exerted to make about 200 zonal and *woreda* towns beneficiary of automatic telephone service, and this service has enabled them to access telephone and fax services even outside of Ethiopia with no need of help from operators. This goes in line with the ICT policy of the country that aims at narrowing down the digital divide. On top of enhancing good governance, automatic services promote investment. In addition, making people beneficiaries of dial up Internet will have enormous contributions to create a well informed society. Through the Rural Connectivity Project, 4,706 rural *kebeles* have been beneficiaries of basic telephone service. And this has:

- Significantly reduced the gap between rural communities and their relatives living in towns;
- Helped farmers get up-to-date information about market prices of various commodities;
- Residents of these rural *kebeles* previously had to travel 10-30 km, but this project has enabled them to get service within a range of 5 km;
- Created job opportunities for 550 technical and vocational school graduates;
- 4,700 people are getting job opportunity as commission operators as a result of this project;

- The fiber optic back bone from Addis Ababa to various directions has reduced the congestion of the trunk line. In addition, this will serve as a back bone for fixed telephone, mobile telephone, rural communication infrastructure, Internet and broadband services. It will also increase the quality of the services by reducing the transmission congestion;
- The optical fiber which is deployed from Gondar to Metema, when functional, will help the country get communication link via sub marine cable via Sudan port. This in turn will make the country get better service, in terms of quality and price, than the satellite communication currently in use;
- About 312,200 farmers were paid 60 million Birr for the trench work when the fiber optic back bone was deployed; and,
- During the period under review (2005/06), the Corporation has scored 2.1 billion Birr share out of the country's total service industry.

g) Service Delivery

Regarding service delivery, the Corporation set the following objectives and launched various projects towards their successful achievement:

- Expanding telecommunications services;
- Ensuring quality of service; and,
- Ensuring customers satisfaction.

Table 5.13 below presents the target and accomplishment of the sales in fixed line, mobile, value added, and Internet services.

Table 5.13: Fixed Line and Mobile Telephone Sales and Value Added Services

Sales /in numbers	Target for 2005/06	Achievement 2005/06	Achievement as % of plan (%)
Fixed telephone	250,000	174,400	69.8
Mobile telephone	1,050,000	460,000	44
Value added services	100,000	10,151	10
Internet	60,000	8,014	13.06
Multimedia	1,000	489	48.9

h) Distribution of Telecommunication Services

In line with expanding the provision of balanced services to all parts of the country, exploring the activities of infrastructure development and expansion of universal service and universal access based on the work done in the regions, helps to clearly see the current level of performances in the implementation of the government's policy of justified service delivery and points out what needs to be done in the future. In the following section, attempts are made to describe fixed line telephone, mobile as well as rural communication services. Figure 5.3 and Figure 5.4 below present automatic telephone exchange distribution as well as its capacity, respectively.

Figure 5.3: Automatic Telephone Exchange Distribution

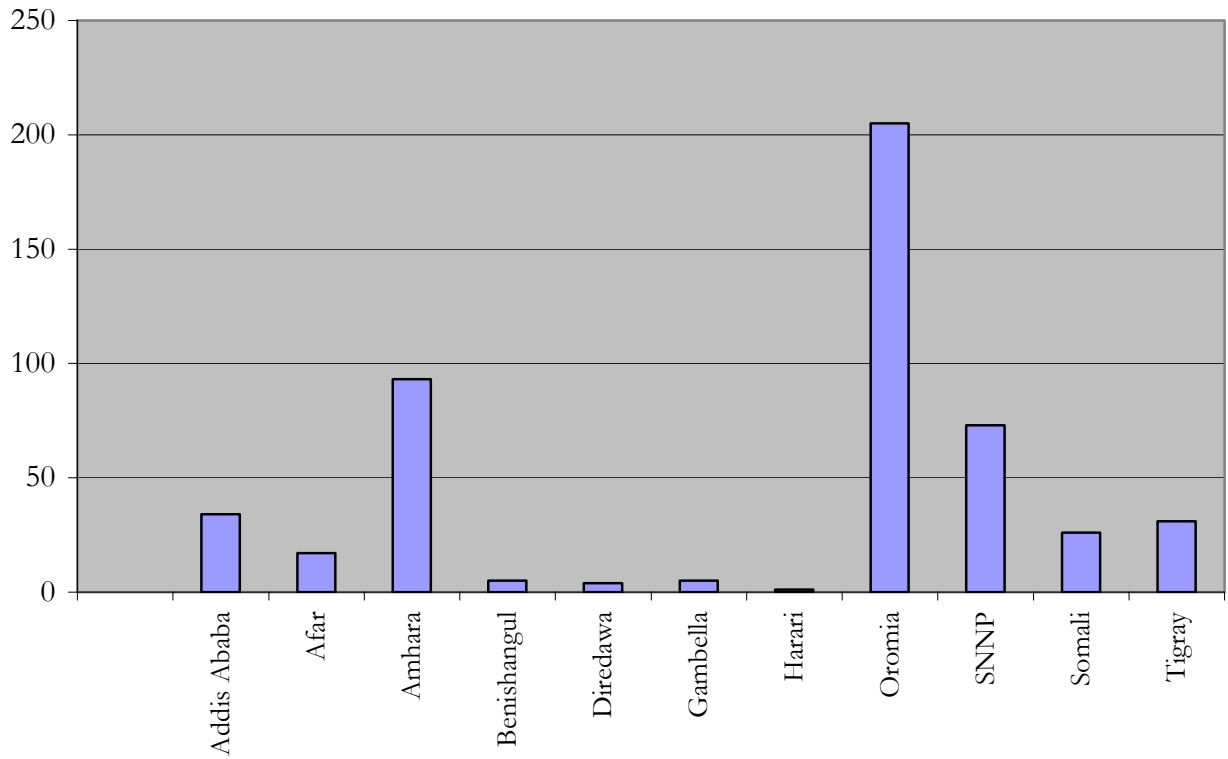
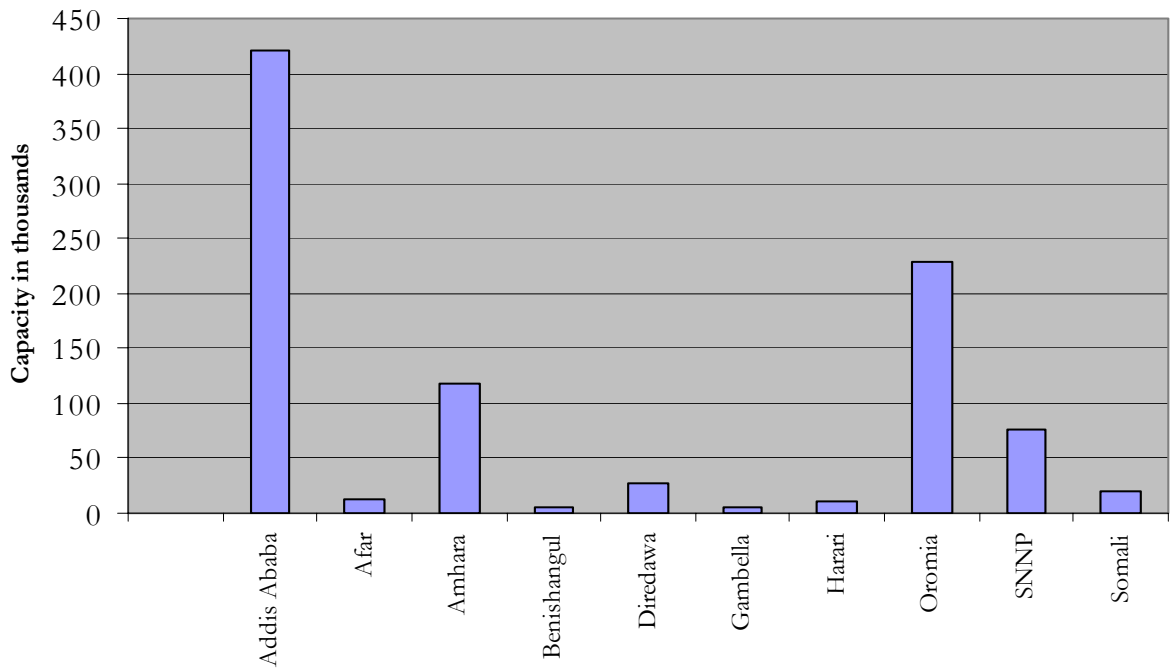


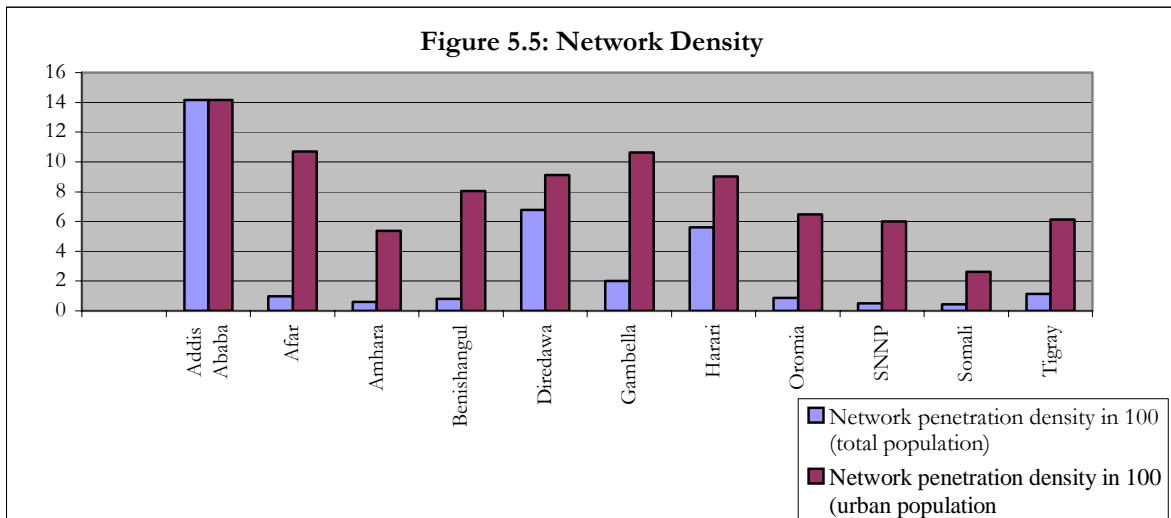
Figure Exchange Capacity in Thousands



As can be seen from the above chart:

- Oromia ranks first in distribution of automatic exchange stations (205 exchange stations), and Amhara follows second (93 exchange stations). The Harari region holds the last rank in the distribution and this more or less is fair compared to its total area;
- With regard to automatic telephone network capacity, Addis Ababa, Oromia and Amhara regions rank the first three in that order, whereas Gambella and Benishangul rank last. This is expected when the number of towns and the urban population is taken into consideration;
- To depict the justified distribution of service in the regions, it is not enough to see only the number of exchange stations and network capacity. Hence, it is also important to see the following indicators of service distribution:
 - The density of network capacity vis-à-vis the total urban population of the region; and,
 - In connection with universal service, since the sweeping majority of automatic telephone service is rendered to the urban areas, it is important to consider network density in relation to the total urban population.

Figure 5.5 below shows the distribution when these two indicators are taken into account.



In terms of distribution against population (urban network penetration), Gambella and Benishangul regions which ranked last in exchange number and network capacity, ranked higher.

The distribution of services all over the regions including Addis Ababa is justified, but the disparity of distribution between Addis Ababa and other regions is so wide that more work and concerted efforts are as yet needed to narrow down the gap

Table 5.14 below illustrates regional distribution of rural communication services during 2005/06.

Table 5.14: Regional Distribution of Rural Communication Services during 2005/06

Region	Planned	Implemented	Percentage (%)	Remarks
Oromia	2,392	2,263	98.7	-
Amhara	1,300	4,493	91.7	-
SNNP	600	603	100.5	-
Tigray	413	405	98	-
Somalie	120	98	81.6	-
Benishangul	131	87	66.4	-
Harari	17	15	88.2	-
Addis Ababa	18	11	61.1	-
Gambella	46	-	-	No BTS coverage for the time being
Diredawa Administration	-	31	-	-
Afar	-	-	-	No BTS coverage for the time being
Total	4,937	4,706	95.3	

It has to be known that there is a need to balance the rural connectivity distribution when the next 10,000 expansion work is finalized.

5.5.3.3. Major Problems Encountered and Measures Taken

- Annual plan preparation based on strategic plans has encountered problems. On top of that, the problems lend themselves to the duplication of work and wastage of resources;
- The major problem observed in the implementation of the projects is amount of time it took in the preparation of the project plan, purchasing procedure, follow-up, and the transport of goods till storage and checking. In order to solve the problems mentioned above, modern project management procedures should be used and with regard to civil work, evaluation should be made against future demand. Organized procedures and other alternative ways should be sought and applied as well;
- Sales performance fell short of target during 2005/06 for the following reasons:
 - Projects necessary for sales not completed in time;
 - Limited study of the market and to increase the sales volume;
 - Limited awareness of customers about the services;
 - Quality issues in the delivery of existing services; and,
 - The network capacity has not been utilized exhaustively.

The strategy that ETC is pursuing in the market and sales business should be changed to market oriented approach in order to fully utilize existing capacity.

5.5.4. Power

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

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

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

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

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

5.5.5. Information and Communications Technology (ICT)

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

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

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

5.6. Mining

Being one of the economic sectors, the development of the mining and energy sector is important for the nation's development. Accordingly, the sector's development is expected to contribute for sustainable poverty reduction program of the country.

The Ministry of Mines and Energy has put its own vision which enables it to develop the mineral and energy resources and support for the rapid economic growth plan of the country. Hence the Ministry is working towards realizing its vision.

The mining and energy sector activities are known to be incorporated in the second nation wide Plan for Accelerated and Sustained Development to End Poverty (PASDEP) of 2005/2006 - 2009/2010 and performance evaluation report of the first year (2005/2006) activities is prepared.

In the mining sector, emphasis was given to activities of capacity building; collect, generate, compile, and disseminate basic geosciences data to users; undertake mineral exploration; follow up and administer the status of private investment in mining and petroleum operations; and collect revenue from the operations appropriately.

5.6.1. Planned Programs and Major Activities for 2005/06

a) Capacity Building Program

- Up grade geosciences data center, laboratory and others service giving sections in light of attracting private investment to the mining sector; and,
- Create conducive legal and institutional reform for the sector.

b) Upgrading Regional Geosciences Data Quality and Coverage Program

- Undertake regional geological mapping which is basic data for mineral exploration and various infrastructure development;
- Carry out hydro-geological mapping to evaluate the quality and quantity of available ground and surface water in drought affected areas;
- Conduct engineering, geology, and geophysics studies which are basic data for construction of dams, buildings and other infrastructures;
- Conduct geological and geochemistry studies as well as delineate mineral potential areas and avail the data for private investment;
- Carry out petroleum, geothermal, and coal exploration which helps to support the country to be self sufficient in its energy resources and provide alternative energy source; and,
- Carry out exploration for agro-industry minerals and improve agricultural productivity so as to support the effort in becoming food self sufficient.

c) Mineral Development Expansion Program

- Prepare competitive and promotional document, promote minerals and petroleum operations, and create conducive environment for local and foreign investors to participate in the sector's development;
- Increase private investment participation in mineral and petroleum exploration and in development and collection of revenue from royalty, etc. appropriately;
- Provide license for artisan miners engaged in production of economic gold and gem minerals as well as establish legalized market system in order to enhance the foreign currency earning and to create employment opportunities; and,
- In cooperation with concerned institutions, support and strengthen the activities of artisan miners' cooperatives by providing training and various incentives. This would help avoid illegal activities of mineral production and trade.

5.6.2. Planned Major Goals for 2005/2006

- The regional geological mapping data coverage which is basic for mineral exploration and various infrastructure developments will be increased from 38% to 39.5% at 1:250,000 scale;
- The hydro-geological mapping data coverage which is basic for underground and surface water exploration will be increased from 27% to 30% at 1:250,000 scale;
- Engineering geology studies data coverage which is basic for construction of dams, buildings and other infrastructures will be increased from 7% to 8.6%;
- Geophysics studies data coverage which is basic for minerals and petroleum exploration will be increased from 68% to 71 at 1:500,000 scale;
- 16% of the illegal precious and gem minerals production and marketing activities will be legalized;
- Total revenue of 34.2 million Birr will be collected from issuance and renewal of licenses, royalty payment etc;
- The capacity of the ministry will be enhanced in order to manage and administer the development of the sector in a better way; and,

- Conducive environment will be created to attract local and foreign investors by revising the laws and bringing institutional transformation. In addition:
 - Geoscience's data quality will be upgraded;
 - Petroleum exploration in Gambella and Ogaden basins will be conducted; and,
 - Geothermal & coal exploration activities will be carried out to assist the expansion of the power generation.

5.6.3. Major Accomplishments of the Plan (2005/06)

Major accomplishments during the last one year (2005/2006) under PASDEP include, among others, the following:

a) Regional Geological Mapping & Geophysics Studies

- 16,500 km² regional geological mapping has been covered at 1:250,000 scale;
- 3052 line km were covered using GPS coordinate and elevation reading; and,
- 265 magnetic observation points and 50 second order gravity base stations were established.

As a result:

- Regional geological mapping coverage of the country has been increased from 38% to 39.5% at 1:250,000 scale; and,
- Gravity study coverage of the country has been increased from 68% to 71% at 1:500,000 scale.

b) Hydro Geological Studies

- 20,300 km² hydro-geological mapping was conducted mainly in the drought affected areas at 1:250,000 scale;
- During the study, 34 water samples were collected. The chemical and isotopic data will help to better determine recharge areas and rates of recharge as well as the water quality; and,
- As a result, hydro geological mapping coverage of the country has been increased from 27% to 28.8 at 1:250,000 scale.

c) Economic Minerals Exploration

The main activities performed during the year were detailed geological mapping, geochemistry, and geophysics studies and sampling of pits to assess industrial, construction, and fertilizer raw materials.

The following activities were carried out during the year:

- Follow up geological mapping has been done on an area covering 155 km² at 1:25,000 scale;
- Detailed geological mapping has been done on an area covering 2 km² at 1:2,000 scale;
- Reconnaissance geology and geochemistry studies have been done on an area covering 1,722 km² at 1:100,000 scale;

- 850 meters trench and 378 meters pitting has been conducted; and,
- 4,380 different geochemistry samples were collected.

d) Energy Minerals Exploration

As an alternative energy source, geothermal resources exploration was conducted and the following activities were carried out during the year:

- 40 line km detailed gravity and magnetic survey were conducted;
- 49 samples were collected for the purpose of detailed hydrothermal alteration studies; and,
- Well testing and reservoir engineering study were conducted on geothermal well.

e) Capacity Building Activities

To provide quality geosciences data and to create conducive investment environment for local and foreign private companies, capacity building activities have been carried out.

The following activities were conducted during the year:

- Different geosciences data have been computerized;
- Contract agreement has been signed with a consulting firm to undertake mineral policy, legal and institutional framework studies and hence draft mineral policy has been prepared; and,
- Contract agreement has been signed with a consulting firm to undertake Cadastre Data Management System study and design. Accordingly, IT capacity and need of the regional mines bureaus and the Ministry has been identified.

f) Minerals and Petroleum Investment Expansion Activities

Major activities conducted during the year were:

- More than 100 promotional documents and brochures have been prepared and disseminated;
- 18 mineral exploration and development licenses have been issued to 10 companies with a capital of more than 94.7 million Birr; 6 petroleum exploration and development licenses have been issued to 4 companies with a capital of more than 231.9 million Birr. One of the companies Petronas has carried out 1,768 km seismic survey and drilled a well of 3,500 meters depth in Gambella area;
- More than 79 million Birr has been collected from consultancy service, royalty fee, land rent and other services rendered;
- 3,596 kg gold, 994.54 kg gem minerals and over 122 ton tantalum have been exported and supplied to National Bank through legal producers and traders. Accordingly, 467,750,681 Birr was gained in foreign currency; and,
- In order to legalize artisan gold and gem minerals production and marketing activities, base line data has been collected from six regions. One project is undergoing which enables to identify additional gold reserve for artisan miners.

g) Main Achievements of the Year

Besides collecting, compiling, generating and distributing basic geosciences data (which are useful for potential investors and development of infrastructure and various other services), the Ministry as a regulatory body promotes the mineral and petroleum potential of the country. Hence,, the number of companies in the sector has been increasing.

In the 2005/2006 fiscal year only, 10 companies with a capital of 94,757,425 Birr have got 18 licenses to participate in mineral operations. Four companies with a capital of 231,942,000 Birr have got 6 licenses to be engaged in petroleum operations.

These companies will create employment opportunities for more than 1,000 people when they come to operation. In addition to this big number of people, many people are engaged in production of artisan gold and gem minerals and construction minerals.

Different minerals such as gold, other gem minerals and tantalum have been exported and significant amount of foreign currency was gained during the year. Apart from foreign currency earnings, promising activities are ongoing towards substituting import of mineral raw materials which are useful for local industries, agriculture and construction.

Thus, the contribution of the mining sector in realization of the PASDEP in Ethiopia is being enhanced recently. Table 5.15 below provides highlights of PASDEP targets and performance along with base line indicators for 2004/05:

Table 5.15: Planned Targets and Performance for Selected Mineral Sector Indicators

Item	2004/05	2005/06	
		Plan	Performance
Revenue (million Birr)	20	29	22.5
Geological survey coverage (%)	27	30	28.8
Geophysics study coverage (%)	68	71	71
Geological engineering study coverage (%)	7	8.6	-
Mining sector investment (million Birr)	62	97	95
Mineral production for export			
Gold (kg)	3881	4367	3596
Tantalum (ton)	63	71	122
Gem Stones (kg)	2760	2830	995

In general, the following achievements were obtained during the first year of PASDEP implementation (2005/06):

- The regional geological mapping which is basic data for mineral exploration, water resources development, environmental protection, construction of dams, and building of other infrastructures has been carried out. The existing regional geological mapping coverage of the country is increased as well;

- From exploration activities conducted so far, different minerals such as gold, aquamarine, emerald, rubi, garnet and other minerals useful for industry and construction (limestone, dolomite, marble, dimension stone, opal, graphite, talc) have been identified and some of these are delineated for detail study;
- As a result of promotional activities conducted, many local and foreign private investors have shown interest to participate in mineral and petroleum exploration and development. During the past fiscal year, 24 licenses have been issued and the companies have allocated significantly high investment. The employment opportunity has also become very high;
- More than 79 million Birr was collected from different mineral and petroleum operation activities and consultancy services;
- From the export of gold, tantalum and gemstones more than 467 million Birr was collected through legal producers and traders during the year; and,
- From efforts made so far to legalize artisan gold and gem mineral production and marketing activities, artisan miners have already started to supply their product to the National Bank of Ethiopia and foreign markets legally.

h) Main Problems Faced During Implementation

- Limited capacity of executing organizations and departments;
- Frequent failure of field vehicles due to their long year of service; and,
- Scattered location of the organizations and departments which are structured under them.

5.7. Industry and Trade Development

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

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

Ethiopia's Industrial Development Strategy is agriculture-led and its Industrial Development Strategy is in turn export-led. Ending poverty by setting accelerated industrial growth can only be achieved through expansion of exports via accumulation of capital investment from revenue generated through export. This will in turn create employment opportunities by expanding labor intensive industries. Unless the proceeds from export are ascertained by utilizing agricultural and industrial products, the goal of industrial expansion and employment generation will not be

attained. Agricultural products should be agro-processed before they are exported so that value addition will lead to wider market access and accelerated industrial expansion. Industrial growth will be sustained when the sector itself generates exportable products without solely relying on agricultural products.

The Industrial Development Strategy enables to create conducive environment for the bona fide investors by blocking rent-seeking activities, creating suitable macro-economic and financial environment, supply of infrastructure, and capacity building. It is believed that by supporting and directing those sectors with strategic importance such as textile and apparel, meat, and leather and leather products industries could bring about structural change. The industrial development strategy also gives due emphasis to strengthening the construction industry.

The outputs and outcomes obtained in recent years have become a basis for the goals of the Industrial Development Strategy. This section summarizes outcomes during the first year of implementation of the PASDEP with focus on textile and apparel, leather and leather products, cement, floriculture development and export, sugar industry development, privatization and joint venture, and trade related issues.

5.7.1. Textile and Apparel Sub-Sector

Support programs have been designed and implemented in order to enhance the textile and apparel sub-sector. Most of the textile and apparel industries have been transferred to private ownership through the on-going privatization program. The process has encouraged quite a number of domestic and foreign investors to participate in the sector.

In order to strengthen sectoral linkages some selected public enterprises have acquired new machineries. To support the overall investment activity, funds and working capitals have been made available through coordinating the banking system. To enhance the competitiveness of firms, incentive mechanisms have been implemented through different modalities to enable them import inputs for export production. Moreover, during 2005/06 effort has been exerted through short term training to raise manpower efficiency of the sector.

To direct the textile and apparel sub-sector according to plan, based on the sector's master plan, a business plan has been prepared which will last until end of 2001 Ethiopian fiscal year. The business plan envisages investment expansion. Accordingly, by end of the indicated period, new investments are planned to setup 48 yarn, 31 grey fabric, 22 knitted fabric and 6 dyed and finished woven fabric factories which will go operational.

During the past two years 1 weaving, 3 knitted fabrics, and 1 spinning industries have been set up. On the other hand, on the apparel side, the business plan envisages 84 new investments. During the past two years 22 investment projects have started production and other 21 investments are on project level.

To raise the capacity of manpower middle-level training institutions have been set up and trainings directly related to the sub-sector were provided. To make the training sustainable a Textile and Apparel Industry Institute is being set up. Other support areas on market access, finance, transport and others are streamlined in line with the investor's objectives.

The sub-sector is run in accordance with governments policies and development programs. Those engaged in the sector have given utmost attention and geared their mode of operation towards export.

One of the measures to evaluate the textile and apparel sub-sector is its performance in export. Even though annual targets of export revenue for the sector could not be reached due to inherent problems in and around the sector, improvements have been witnessed from time to time. During 2005/06, US\$11.1 million was secured (which was a slight improvement over the previous fiscal year). By the end of the PASDEP period, it is expected that export earning will reach US\$500 million.) Some of the problems which hinder the performance of this sub-sector include:

- Constraints in the production of suitable types of cotton; and,
- Poor interrelation and interdependence between different types of production stages (such as in spinning, weaving finishing, sewing and accessories).

To understand the above mentioned problems more deeply an assessment has been carried out which led to the designing of an action plan to help the industries concerned fulfill export targets starting 2006/07 fiscal year.

5.7.2. Leather and Leather Products

The existing 21 tanneries in the country currently generate employment opportunities for over 6,000 people. Among these tanneries, 9 of them produce fully semi processed hides and skins for export and the rest produce semi-processed as well as finished leather products for domestic and foreign markets. Other 4 new industries are expected to go operational in the near future and 18 investors have been issued with new investment licenses in the sub-sector during 2005/06.

The leather industry is a promising sector in export earning for the country. Nevertheless, value addition along the chain of production is very limited except recently a few of them have shown a promising start. Export revenue during the 2004/05 fiscal year from the leather sector was US\$66.1 million; out of which leather products revenue was only US\$807 thousand. Similar figures for 2005/06 show total export from leather sector as US\$74.8 million; out of which 1.9 million was from leather products, showing a greater proportion of semi-processed hides and skins were exported. On the other hand, production of finished leather for export has shown improvement from US\$3.6 million in 2004/05 to US\$7.6 million in 2005/06.

To enhance the development of leather and leather products industry and to enable it to compete in international markets, export-oriented development strategy framework has been drafted. Based on this master plan, a business plan has been prepared. The master plan paid due attention to support the development of leather shoe, apparel and leather products to enable prospective investors in these sectors to be successful. Based on the master plan five-year targets of leather industry are included in the Industry and Trade Development Plan. According to these targets, by the end of 2009/10, 20 million pairs of shoes, 405,000 of apparel, and 275,000 of leather products will be produced for export and US\$43 million will be secured. During 2005/06, the plan for export of shoes was 6 million pairs and the performance was

220,000 pairs. This is just 3.7% of the planned target. This is due to the fact that only one shoe manufacturing industry produces at full capacity for export, and others are on trial stages.

In order to succeed with the five-year target, 70 million square feet finished leather is required for leather shoe, leather apparel and other leather products. For this to materialize, currently 6 tanneries have been identified to upgrade their capacity to go from lower end to finished leather production. Currently these tanneries produce pickle, wet blue, crust and finished leather from hides and skins to local and foreign markets. The assessment on their production capacity showed a high proportion on the lower end products (pickled and wet blue).

The reasons why semi processed hides and skins are widely produced for export include, among others:

- The structural set up of tanneries is for lower end products (pickled and wet blue);
- Support and incentive given is the same at all levels of production;
- Foreign buyers mostly encourage the tanneries to produce hides and skins on pickled and wet blue stages; and
- Industries presume risk producing higher end products for fear of getting no buyer.

Hence the following measures will be taken by way of addressing the above mentioned problems:

- Since there is shortage of manpower for post tanning and finished leather technology, Leather and Leather Products Training Institute (LLPTI) will take the necessary steps to give appropriate training;
- To alleviate shortage of high skilled manpower, industries will be encouraged to out source foreign professionals on relevant fields and the professionals will be exempt from income tax until local counterparts fill the gap;
- Support and incentive schemes will be given across the board to leather exporting industries and this will be conducted differentially giving more emphasis to those which go for higher level produce. Side by side to this measure, those industries which would not have the capacity to go for higher level produce but continue with lower levels would be encouraged to contract out their products to those which can produce finished leather; and,
- More investments in leather shoe, leather garments, and leather goods is one means which would encourage tanneries to go from lower to higher level production. Accordingly, an Action Plan has been designed for 7 leather shoe factories to produce 28,000 pairs/day and special attention will be given to domestic and foreign investors to participate in these sub sectors.

5.7.3. Cement Industries and New Investments

The surge of the construction industry has resulted in the widening of the gap between supply and demand for cement products, which in turn raised retail prices of cement. Retail price of cement has gone up from about 60 Birr per quintal in recent years to 2 or 3 times as much during 2005/06 and even the subsequent fiscal year.

Mugher Cement Enterprise and others had been busy to cope up with the shortage of cement and in distributing according to real needs of customers. Accordingly, Mugher Enterprise has introduced a reform in customer handling, and conducted current market demand to gear its distribution mechanism.

During 2005/06, cement production by Mugher Enterprise reached 855,815 tons, 97.7% of the plan. Production of cement at the former Dire Dawa Cement and Mesobo Cement factories was 28,283 tons and 847 thousands tons, respectively. Total production amounted to around 1.7 million tons, which was only a third of the total demand forwarded to Mugher Enterprise by customers. In order to rectify this bottleneck, the Government has taken short and long term measures.

In the short term importers are permitted to import cement by Franco Valuta. As a long term measure, public cement industries are envisaged to produce at full capacity where Mugher Enterprise and Dire Dawa Cement will reach annual production of 1.6 million tons of cement. Apart from the expansion works at these two factories more than 10 new cement investment projects have received licenses. Some of these new investment ventures are in design, tender and pre-construction stages. By the beginning of 2008/09 fiscal year, these projects are expected to commence production and by then total production will be raised by three fold amounting to 4.7 million tons. Moreover, small and medium sized cement projects are under study, which are envisaged to start production before 2009/10.

5.7.4. Floriculture Development

Closer follow-up continued in the past fiscal year to strengthen development of floriculture at different places from 1,600-2,600 meters above sea level. Favorable temperature and availability of water resources and labor, and the on-going economic policy of the Government created suitable environment for the development of floriculture. Using these favorable conditions, the development and marketing of this sub-sector is supported by a five-year development strategy which is currently under implementation.

The strategy gives due emphasis to improved use of land, to facilitate availability of finance to investors, improved supply of inputs, and coordinating infrastructure and transport. These had been closely followed up during implementation.

Encouraging measures have been witnessed in speeding up supply of land from regional governments to domestic as well as foreign investors in floriculture those who wanted to expand their farms also secured additional land with minimum delay. On the other hand, a few investors who did not use the land they received have been revoked of their right to use them.

Investors in the sector have been able to secure loan service from the Development Bank of Ethiopia. Supply of infrastructure was another area of concern. Ethiopian Electric Power Corporation (EETPCO), however, has taken effective measures to improve energy supply. Wireless telephone services were installed in the floriculture areas although the service is not adequate and additional efforts need to be exerted. The other area of concern was road infrastructure as new sites for floriculture are further away from main roads. Pertinent executive organs should pay more attention to alleviate access problem. Relatively no

bottleneck was encountered in transport of cut flowers ready for export. They have been handled by the Ethiopian Horticulture Producers and Exporters Association in cooperation with the Ethiopian Air Lines (EAL).

Tangible growth was registered in floriculture during 2005/06. At the beginning of the fiscal year, 54 investors were in the sector growing the stems in 322 hectares of land. At the end of the fiscal year, area covered by rose under Green House reached 519 hectares, which is 100% of the planed target, in addition to the open-air fields which reached 77 hectares. In the first month of the fiscal year 4.2 million stems were exported. During 2005/06, the amount of stems exported amounted to 30.6 million. Compared to the revenue generated in 2004/05, 83 million stems fetched US\$12.64 million, while during 2005/06, the amount of stems increased more than twice as much, and the foreign exchange generated reached US\$21.9 million.

5.7.5. Sugar Industry Development

According to sugar development program, expansion work is under going on the 3 sugar factories. One new Sugar project is under implementation, and when it starts operation by end of 2009/10, total sugar production in the country will reach 1.5 million tons, which will be 5 times the current level of production.

The 3 existing sugar factories (Wonji-Shoa, Metehara, and Finchaa) in 2005/06 had total production of sugar amounting to 292,011 tons, a little higher than the planned target (286,674 tons) *showing* 102% achievement of the target. Total production has also shown an increase of 3.7% from 2004/05 production level. Ethanol production at Finchaa Sugar Factory stood at 6.84 million liters, 15% less than the plan. However, it has grown 4 fold as compared to the 2004/05 production level. This was due to the fact that there was an opportunity for export, and some industries like Tabor Ceramics factory showed demand of the product to use it as an input.

a) Wonji-Shoa Sugar Factory Expansion Project

The major activity planned was concentrated on the bidding process for procurement of the new factory machinery and components, installing the machineries and commissioning. The actual work was performed according to plan. To rehabilitate 7,022 hectares of existing cane plantation bidding process to procure farm tractors, implements and civil construction equipment has resumed after securing finance loan from CBE.

New land development on 3,223 hectares has started. Construction of 13.3 km haulage and access road was executed. The overall accomplishment of road construction and land leveling is 92.6 km and 1,113 hectares, respectively.

b) Metehara Sugar Factory (MSF) Expansion Project

In 2005/06 MSF has already attained production capacity of 125 thousand tons per year (from the design capacity of 120 thousand tons), which is 96% of the planed target, as a result of small-scale project carried out to improve performance of factory and productivity of agricultural cane fields.

The factory has a plan to develop 10,000 ha of neighboring community land based on out-growers scheme and another 10,000 ha at Kesem in order to boost its sugar production to 375,000 tons per annum by expanding the present 5,000 TCD sugar factory to 15,000 TCD.

It was planned to complete the feasibility study of 4,500 ha of irrigated sugar cane development at Fentale *woreda*. New directives were given on how to carry out the project for a complete or independent out growers' scheme. The project management and conducting feasibility and detail design study decided to be supervised by the Oromya Irrigation Development Authority.

c) Fincha Sugar Factory Expansion Project

The plan of sugar cane plantation expansion was to cultivate 350 ha in 2005/06. However, a total of 456 ha of land has been cultivated and planted with cane. This is 130% of the planned target.

Factory expansion to 12,000 TCD has been completed through the major expansion program feasibility study, engineering design and bid document of the East Bank development (700 ha).

Project management and construction supervision consultant has been selected. Urgently required agricultural machinery has been identified and the purchase process is under-way. Redesigning detailed irrigation network was conducted by own-experts and now the entire network design has been finalized on 7,535 hectares.

At the Neshe Expansion Project (2nd phase 5,000 ha of land expansion) the overall progress of feasibility study and detail engineering design work has been concluded. Some 19.4 million Birr has been approved and arranged from the Sugar Development Fund. It will be utilized for opening Letter of Credit for the purchase of agricultural machinery and for mobilization costs of the project management.

d) Tendaho Sugar Project

Bankable feasibility document, which was submitted by Ministry of Water Resources, has been revised and accomplished by Ethiopian Sugar Industry SC in the third quarter.

Meeting between those engaged in the sugar sector, Commercial Bank of Ethiopia (CBE) and Development Bank of Ethiopia (DBE) officials has been held in March 2006 under the chairmanship of His Excellency Minister of Trade and Industry to discuss on issues to speeding up the finance loan for the sugar projects. The lengthy procedures required by the Banks to some extent improved as a result of the agreements reached at this meeting.

Following requests of immediate finance requirement for the sugar factories expansion and Tendaho Sugar Project, the MOTI has released finance from Sugar Development Fund amounting to 140.3 million Birr. Of this, the share of Tendaho Sugar Project is 85 million Birr.

Separate bidding documents for the purchase of wheel tractors, agricultural implements, trailers and tankers have been prepared. Construction of residential and non-residential buildings, water and power supply is supposed to start as soon as the design of the building is finalized.

Land preparation activities had been carried out on 22 ha to initial seed cane planting which started in 2006. On the other hand, for the Sugar Factory Project draft engineering and bid documents have been completed.

5.7.6. Privatization and Joint Ventures

During the recent past privatization process had been very slow due to structural imbalance, the modality use to transfer Public Enterprises (PEs) to private ownership was mostly bid sale. No alternative methods were employed to assess assets and business valuations according to the characteristics of the PEs to be privatized.

These constraints were further assessed and measures were taken to speed up the privatization process. Accordingly, besides the main mode of transfer which is the bid sale joint venture, negotiation sale, lease or management contract were applied in 2005/06 to transfer PEs to private ownership.

The plan in 2005/06 was to do current asset valuation of 20 PEs, to fix their bid value and float tender, to prepare asset valuation of 20 PEs which will be transferred by joint venture, to return 4 PEs to their former owners.

The performance was satisfactory. Current data on 34 PEs had been assessed and asset valuation of 29 PEs was ready for bid process, which is 145% of the planned target. Accordingly 25 of them were ready for competitive bidding and the rest for negotiation bid.

It was also planned to transfer 10 PEs to private ownership from among those selected for bid. Decisions were passed to fully privatize 14 PEs which is well above the target, which is 140% of the planned target. Moreover, 4 PEs were also returned by restitution to their former owners. Due to various reasons the cases of 2 privatized and 2 returned PEs have not been finalized yet.

On the other hand, one textile factory was floated for negotiation sale and after lengthy negotiation it awaits decision on the first quarter of the new fiscal year. Privatization process in the fiscal year has shown improvement over the past 4 or 5 years.

5.7.7. Trade Related Issues

The Government of Ethiopia has recently initiated the process of Ethiopia's accession to the World Trade Organization (WTO), which facilitates the integration of the Ethiopian economy with the international trading system through developing skills in bilateral and multilateral trade negotiations. In the process of taking measures to accede to WTO some important studies have to be conducted and as such implication of joining the World Trade Organization on Agriculture, Manufacturing and service sector are being studied with financial help from the European Union (EU). On the other hand, legal aspect of import licensing assessment was completed and experience sharing meeting was held with domestic and foreign participants.

With loan secured from the World Bank and with support from United Nations Development Program (UNDP) selection of consultants for Integrated Framework (IF) telecommunication and financial sectors studies have been started in the last fiscal year. Besides, efforts are being

strengthened to benefit from the African Growth and Opportunity Act (AGOA) and everything but Arms (**EBA**) initiatives.

The Ministry of Trade and Industry is coordinating the negotiation process of EPA with European Union. Accordingly, a development fund request matrix was prepared to solicit for Ethiopia's development issues negotiation by coordinating the National Development and Trade Policy Forum. A national negotiation document has been prepared as well.

The Government of Ethiopia has given utmost emphasis to promote export. During the next five years Ethiopia's export trade is targeted to grow on average from 20-25% per annum.

The 2005/06 fiscal year registered a record US\$1.008 billion against the plan of 1.2 billion (an 84.8% performance). The achievement was a 23.1% increase over the 2004/05 fiscal year performance. Share of coffee export from total export revenue was 36.3% and pulses, oilseeds and spice had a 25.3% share. Together with leather and leather products almost two-thirds of the total revenue from export was covered by the above indicated commodities.

In 2005/06 some export commodities had shown improvement in volume and revenue wise. Floriculture export increased from 83 million stems in 2004/05 to 186 million in 2005/06. Accordingly revenue increased from US\$12.6 million to US\$21.9 million. Cotton export increased from 1,228 tons in 2004/05 to 6,177 tons in 2005/06. As a result, revenue obtained from cotton export increased more than 3 fold. Export of sugar had been intentionally withheld in order to satisfy domestic demand. Through EBA market access from the European Union only 14,000 tons of raw sugar had been exported. There was a downturn in the export of fruits and vegetables both in volume and revenue terms.

The target for export revenue in 2004/05 was US\$1.5 billion. According to the annual plan for this sector, coffee export will take the lion's share in revenue, which will be around half a billion US\$.

The next important export commodities are pulses, oilseeds and spice, leather and leather products, floriculture, chat, meat and live animals, gold, and textile and apparel.

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

The Government is also on the verge of implementing the findings of the Diagnostic Trade Integration Study (DTIS), which include recommendations in the areas of diversification, removal of trade constraints, and strengthening the capacity of trade support organizations.

These efforts have given impetus to the expansion of services, trade, industry, and construction. Moreover, there are some real success stories in new businesses. For example, with the streamlining of procedures for business ventures, and especially the increased ease of access to land, there has been a significant investment expansion in horticulture during the past 2 to 3 years. Investment in this sector is estimated to be worth 2.6 billion Birr and land coverage of

1,787.6 hectares. This has resulted in the creation of many jobs for the rural poor, especially for young women. As at end of 2005/06, Some 35,000 people were employed in the flower growing industry, out of which 75% were women.

5.8. Urban Development & Construction

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

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

The strategy has four pillars:

- a) Support for small and micro enterprises and job creation;
- b) Integrated housing development;
- c) Improved access to land, infrastructure, and services; and
- d) Promoting urban-rural and urban-urban linkages.

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

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

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

- Preparatory work for the construction of 60,500 housing units in 2006/07 has been completed;
- Completion of the low cost housing construction work that started earlier in Addis Ababa, Adama, Dire Dawa, Awassa, and others;
- Priority has been given to preparatory works to launch the Urban and Industrial Development package. The preparatory work has focused on building implementation capacity that include institutional capacity for regions and municipalities, design of working systems and procedures, training and recruitment of professionals, feasibility study, supply of construction materials, land preparation and financing, etc.
- In regard to micro and small enterprise development, the activities undertaken in 2005/06 include:
 - Preparation of detail plan for the program; and,
 - Preparatory work for full-scale implementation of the program.

These activities in the main relate to building implementation capacity of the sub-sector which focus on devising working systems and procedures, conduct training, etc.;

- Given that the construction industry plays a critical role in urban development, the Ministry of Works and Urban Development has undertaken a number of activities to enrich and fine-tune the already prepared construction policy document. The policy is about to be submitted to the appropriate Government body for approval. The policy is expected to be put in to effect during the 2006/07 fiscal year;
- In an effort to standardize the activities of the construction industry, the Draft National Building Code Proclamation has been prepared and submitted to the appropriate Government body for approval. Model Rules and Regulation to facilitate implementation of the policy is also already prepared;
- In an effort to maintain international standards and quality of building construction works, particular focus has been made on public buildings to render them efficient, planned and purpose- oriented. Special attention will be given to federal ministries that have not had enough office space; and,
- Maintaining the quality and standard of buildings has remained a challenge that needs to be addressed in the subsequent years of the PASDEP.

As indicated above, the road network contributes to rural–urban linkages, and the spatial dimensions of regional development. It is also worth looking from the perspective of urban-rural linkages and their contribution to the intensification of small towns through creating demand for agricultural produce.

5.9. Employment

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

It is known that about 84% of the population in Ethiopia is engaged in agricultural activity which means that the sector is the main source of employment. But recent developments have shown that the prospects for employment generation in other sectors is promising and many new jobs have been created due to conducive investment environment as well as appropriate policy and strategies designed by the Government. Also there is a focus on strengthening the MSEs as a source for creating the opportunity for employment generation for those not engaged in the agricultural sector. In 2005/06, a total of up to 124,711 new employment opportunities have been created, generally in different sectors. Achievements in the areas of textile and garment, metal and woodwork, food processing, construction, municipality services as well as low cost housing could also be cited. This has greatly contributed towards reducing the unemployment rate in Addis Ababa and elsewhere in urban areas of the country.

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

Youth Focused Package: Although it does not fully fall within the time frame of the first year of PASDEP implementation (2005/06), Youth-Focused Local Development Programs in the making include: the plan to construct 4,352 class rooms and 360 libraries in primary schools; 3,904 class rooms and 166 libraries in high schools; 503 youth centers in selected urban centers; about 503 foot-ball fields and also about 503 volley ball and basketball sport fields. It would also be essential to make the youth beneficiary and to share the cost in these development activities. Besides, the Program would enable female- youth more participative and beneficiaries in every Youth-Focused Local Development Program.

5.10. Capacity Building and Good Governance

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

5.10.1 Civil Service Reform

The main objective of the Civil Service Reform program is to help effectively implement and efficiently enforce government policies, programs and strategies in a transparent and accountable manner. The Public Service Delivery Improvement Policy (PSDIP) was adopted by the Council of Ministers in 2001. In addition, the Government has passed a new Civil Service Law. Most federal civil service reform offices have established Customer Services and Complaints Handling Units and prepared service standards. To improve service delivery, in addition to the Business Process Reform and Public Service Delivery Improvement Policy already completed during SDPRP, performance and service-delivery baselines have been established for (a) core government functions, and (b) key services. In addition, the Ethics and Anti-Corruption Commission has been established. Reforming government procurement systems were launched as well. During PASDEP, a significant number of activities are being implemented in the context of the Civil Service Reform Program such as strengthening the BPR and implementing an improved Performance Planning and Management System (PPMS) in federal institutions and their counterparts in regional states. For instance:

- Based on their 5-year strategic plans, all federal and regional executive bodies have prepared their 2006/07 operational plans and are implementing them;

- Review and updating BPR studies undertaken in previous years is underway in all federal executive bodies and in few selected public enterprises;
- Skill upgrading training on BPR conducted for the regions; and,
- Preparations are being finalized to introduce the Balance of Score Card (BSC) system.

A Public Servants' Code of Conduct and supporting systems are currently under development and will be approved and adopted during the first two years of the PASDEP. Moreover, efforts are being continued to fight against corruption by further institutionalizing, well structured and systematized for the establishment of efficient, independent and appropriately resourced Anti-Corruption bodies. In this regard, MIS and reporting system was developed during the end of SDPRP I period. Ethics and Anti -Corruption policy and training manual was developed in 2005/06 as well.

5.10.2. Justice System Reform Program

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

During the program period of PASDEP, there are targets set to be implemented to strengthen the justice system reform program to achieve further strengthened operational system of law enforcement organs both at the federal and regional level. In this regard, during 2005/06, Prosecution Information System (PIS) installed and tested in two prosecution offices in Addis Ababa, installing an AFIS system at the federal police. The automated prison information system study is also underway to be implemented in coming years of the PASDEP period. ToR developed to undertake a study on establishing a national justice information center to improve publicly available information and data in the justice system during the last period of SDPRP I and in 2005/06. Moreover, during the report period, the implementation of court reform projects in all regional supreme and high courts completed as phased and training of staff continued.

5.10.3 Improved Democratic Governance

Improved democratic governance is trailed activity, which is begun to be implemented in the SDPRP period. Up to the end of 2005/06 fiscal year, the following major progresses were made:

- **Improved Law Making:** Study for enhancing the public consultation mechanism through TV and radio in order to reach out the wider public has been completed and report produced. The training for improved administration and operation of law enforcement organs is underway. Moreover, several activities have been carried out to build the capacity of the House of Peoples Representatives during 2005/06 implementation period that include:
 - Study of parliament's law making procedure completed;
 - Parliament's working system and procedure redesigning started;
 - Parliamentary secretariat organizational framework revised;
 - MPs trained in parliamentary process and procedures; and,
 - The parliament equipped with necessary audiovisual and IT equipments.

With respect to strengthening the federation council, the following achievements are performed:

- Study on the organizational framework of HoF started and its implementation will continue in 2006/07 and on;
 - Council members (25%) trained which will continue until the end of the PASDEP period; and,
 - IT equipment for HoF secretariat procured and installed.
-
- **Human Rights:** A human rights Commission and Ombudsmen's Office have been established, Commissioner and Ombudsmen appointed as well. Efforts will continue to strengthen the institution with the establishment of systems and procedures during the PASDEP period. With respect to this, during 2005/06, progresses had been achieved in which it can be observed from the two objectives of Human Right Commission and the Institute of the Ombudsman's Office. With respect to the Institute of the Ombudsman's Office (IOO), one of the expected outputs during the program period had been strengthening the organizational structure of the institute. Accordingly, during 2005/06, the organizational structure prepared and submitted to the parliament for approval and budget allocated for activities. In order to start the design of the working system of the institute, vacancy announced for staff recruitment in June 2006 and to start the design of the working system, the required budget secured, the terms of reference and bidding document prepared for the manual and the guide line, and technical team organized. To increase the awareness of the citizens on the function and mandate of the office, brochure prepared and distributed, consultation forum established with major stakeholders (parliament, judiciary human right institution, civil society ...etc). With respect to the strengthening the Human Rights Commission, effective and efficient

organizational structure provided (created) and submitted to the parliament for approval, roles and responsibilities of the staff determined, strategic plan study completed and adopted, and the five years strategic plan of the EHRC designed based on the completed study. To promote the citizens awareness about their rights and the role of the commission, three national conferences conducted on birth registration, the role of Government Organizations (GOs), None-Government Organizations (NGOs), and parliament members in the promotion and protection of human rights. Moreover awareness programs developed and partnership with GOs and NGOs secured. Publication and dissemination of leaflets on the rights of women and children achieved. In addition conference programs developed;

- **Elections:** National and regional elections were held in 2005. Over 25 million citizens participated in the election. During 2005/06 fiscal year, the blue print of the study to start reorganization of the NEBE had been prepared;
- **Transparency and Judicial Independence:** Names and qualifications of approved judges have been publicly announced. Furthermore, study on judicial independence, transparency and accountability completed to start and establish system of transparency and accountability in conducting judicial business;
- **Consultation:** The Government consulted with different groups in society, and held public debate over policies to a level which did not take place in Ethiopia before; and
- **Women's Empowerment:** The National Action Plan (NAP) on gender has been formulated. The Government has also taken steps to improve the condition of women, including passing laws to protect women's rights.

5.10.4 Decentralization

The stated objectives of the Government's decentralization policy are to improve the quality of service delivery and to empower local communities to take more responsibility for determining their own priorities. Hence, a Fiscal Decentralization Strategy was prepared in 2004. This Document provides a clear overview of the goals and strategies, the fiscal instrument that the Government is employing, and some of the challenges that would arise in as a consequence of efforts to create accountable local governments in urban and rural areas. The Document also lays out a balance between transfers and regional revenue mobilization efforts. Between 40-60% of all government expenditures have been transferred to the local level, together with full responsibility for managing social services and increasing shares of capital investment starting in 2001. Continued efforts are being made to improve block-grant formula used to allocate resource to the regions and to strengthen urban governance structures. A preparatory work has been carried out to commence and develop an improved prototype formula by accessing the existing *woreda* block-grant allocation system. A National Urban Development Policy is currently being drafted as well. Moreover, efforts have been wedged to expand the participation of the rural population in development, in building democratic system as well as to function within an organized administration. A manual has also been prepared and put into effect to encourage and secure adequate participation of the public in all activities.

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

5.11. Gender and Development

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

The Government will continue to emphasize gender equality in the process of decentralization and empowerment, and will take measures to reduce violence against women including enactment of protective legislation. In addition, the pursuit of the HEWP is part of an effort to reduce the very high number of maternal deaths, which constitute a major element of gender-based poverty in Ethiopia.

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

Chapter VI

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

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

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

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

Some of the survey results so far issued by CSA include: WMSs¹³, HICESs, the Demography and Health Survey (DHSs), labor force survey, and the Ethiopian Agricultural Sample Enumeration (EASE). The Third National Housing and Population Census launched on May 2007 is also expected to strengthen the M&E system through the provision of comprehensive and up to date socio-economic data for policy analysis and planning.

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

¹³ The recent (2004/05) WMS report is already issued.

piloting will be undertaken in two branch offices before it is made operational across all the 25 branch offices.

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

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

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

Furthermore, MoFED collaborates with the World Bank on specific and specialized analytical works on poverty and welfare with focus on gender, urban poverty (employment creation), and rural-urban linkages, etc. In terms of sharing relevant information and making documents prepared by the Ministry available to the public, MoFED posts its publications on www.mofaed.org¹⁴. The English and Amharic version of the PASDEP are also being printed to make hard copies available to interested parties.

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

The challenge therefore is in terms of: (i) better integrating the wealth of routine data already generated by various federal and regional institutions in to the common M&E system, so that the findings are known to all actors and can be fed in to policy discussions; (ii) the need to

¹⁴ Documents such as the MDGs Needs Assessment Synthesis Report, APRs of the SDPRP, and both the English and Amharic versions of the PASDEP are posted on the website. The draft PPA Report has also been posted on the World Bank's website and is the most widely cited document.

follow and properly utilize existing M&E structures; (iii) better dissemination of the findings of M&E so that they feed in to the thinking of senior policy-makers; (iv) greater gender desegregation of data, and effective use of the data for planning and policy analysis; and (v) the need to further tune national surveys and censuses and official administrative data sources towards monitoring requirements of PASDEP/MDGs.

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

Moreover, the focus on the M&E system to track the medium-term development agenda and progress towards the MDG targets is further supported by the formulation and adoption of the M&E Action Plan entitled **“Strengthening SDPRP and Ethiopian MDGs Monitoring and Evaluation Action Plan”** encompassing the period 2004/05-2007/08. The Action Plan is designed to monitor input and process indicators across levels of government (e.g. public spending, adoption of reforms) as a measure of implementation; monitor output indicators (e.g. education, health, infrastructure) at various levels of aggregation (household, *woredas*, national) as a measure of institutional efficiency; monitor developmental outcomes and final objectives to track overall progress; relate performance to indicators of reform processes for decentralization and capacity building to provide information on the effectiveness of the reform process in improving outcomes; and evaluate impact to determine the effectiveness of key government policies and programs in reaching desired objectives. Box 6.1 below captures the salient elements of the successes in the course of implementing the Ethiopian M&E system.

Box 6.1 Success Story in the Ethiopian M&E System

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

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

Chapter VII

Challenges, Opportunities, and the Way Forward

7.1. Taking Stock of Challenges and Opportunities

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

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

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

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

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

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

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

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

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

Tackling these constraints in partnership with development stakeholders is necessary to ensure success in the attainment of the PASDEP targets and hence the MDGs. Political commitment and cautious implementation of the development policies and strategies are also contributing

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

7.2. The Key Messages

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

- a) To eradicate poverty and end hunger, high and sustained growth is critical for Ethiopia. This can be achieved through commercialization of smallholder agriculture, MSE development and diversified exports. Strengthening rural urban linkages is also essential for sustained rural growth. The Government recognizes that there is no room for compliancy. Ethiopia has to sustain the recent high growth rate for lasting impact on poverty;
- b) Macroeconomic stability has been a positive feature of the Ethiopian economy although recent inflationary pressure has become a concern insofar as it affects low-income earners in urban areas. Accordingly, the Government has already started taking measures through distributing grain at subsidized prices to low-income urban residents. However, the Government believes that this is a short run transitory phenomenon caused to a larger extent by demand pressures and is a sign of the on-going economic transformation as the economy takes-off. The way out in the long-run is by enhancing productivity of small holder farmers and at the same time expanding the modern sector to create more jobs and there by improving income earning capacity of our people. The various programs in the pipe-line as outlined above are meant to address this challenge;
- c) Medium-term programs such as the SDPRP and its successor plan (the PASDEP) are important vehicles towards reaching the MDGs. Taking note of the good performance to date and given the ambitious and still well thought out programs being implemented in the areas of food security and rural development, Health Extension Package (HEP), Urban Housing Programs, Universal Access Program for Water Supply, rural roads, electricity, telecommunication, women and youth packages, and MSE development; the Government believes that Ethiopia's development effort is well grounded and has a good chance of meeting the MDGs during the remaining **eight** years. The hitherto progress towards the MDGs targets is indicated by the achievements in outcome indicators by the end of the first year of the PASDEP implementation (2005/06) while the achievements by the end of the SDPRP period (2004/05) are taken as a baseline for the PASDEP as depicted in Annex Table 1.2 below;
- d) The Government has recognized that financing is a critical challenge in implementing the PASDEP. As has been witnessed during the first two years of implementing the PASDEP (2005/06 and 2006/07), external finance (ODA) that passes through the budget has been levelling off even compared to the trend (business as usual) as projected in the PASDEP. As the Government enters in to the third year of implementing the

PASDEP (2007/08), there is an urgent need to scale up ODA towards full-scale implementation of the PASDEP and hence MDGs consistent with Monterrey, Gleneagles, and Blair's Commission Report;

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

Annexes

Annex Matrix Table 1: Selected MDGs Indicators Synchronized With PASDEP Targets and Progress to Date (2005/06)

MDGs	Component	Selected Targets	Base Line (2004/05)	Outturn (2005/06)	PASDEP Target (End of 2009/10)
Goal 1	Eradicate extreme poverty and hunger	GDP growth rate	10.6	9.6	7.3 (period average)
		Percentage of people who are below the poverty line	39	36.6	29.2
		Percentage of people who are below the food poverty line	38	35.6	27.6
		Percentage of stunted children	47	40.5	22.6
		Percentage of wasted children	8	5.9	1.5
Goal 2	Achieve universal primary education	Gross primary enrolment (1 to 8) (%)	79.8	91.3	109.7
		Grade 5 completion rate	57	63	136.6
		Grade 8 completion rate	34	42	62.7
		Pupil: text book ratio	2:1	1.5:1	1:1
		Primary 1-4 Student Section Ration	71	70	50
		Primary 5-8 Student Section Ration	68.	68	50
		Pupil: teacher ratio			
		Primary 1-4	71	64	54
		Primary 5-8	55	55	45
Goal 3	Promote gender equality and empower women	Girls to boys ratio			
		Primary 1-4	0.87	0.90	0.97
		Primary 5-8	0.69		1
Goal 4	Reduce child mortality	Child mortality	140/1,000 (2003/04)	123/1,000	85/1,000
		DPT 3 coverage	70	75.6	80
Goal 5	Improve maternal health	Maternal mortality	871/100,000 (2003/04)	673/100,000	600/100,000
		Proportion of birth attended by trained health personnel	9	15.1	32
		CPR	15	35.6	80
		Percentage of HIV positive pregnant women receiving complete course of ARV	42	?	50
		Percentage of people with advanced HIV receiving ART	10	?	70
		Proportion of households in malaria exposed areas with 2 bed nets, properly utilized	1	43	100
		Proportion of patients cured from TB	76	74.2	85
Goal 7	Ensure environmental sustainability	Access to safe drinking water	42	47.3	84.5
		Percentage of land covered by forest	3.6		9.0
		Provision of housing and basic services (%)	30		65
		Reducing slum areas (%)	70		35
Goal 8	Develop a Global Partnership for Development	Net ODA to LDCs, as percentage of OECD/DAC donors' gross national income	0.2	?	?

Annex MatrixTable 2: Overview of PASDEP Targets

Sector/Indicator	Base Line (Achievements by end of 2004/05)	PASDEP Target (2009/10)
Macro Economy		
GDP growth rate (%)	10.6	Period average of 7.3% per annum
Gross domestic investment as % of DGP	20.5	26.1
Gross domestic saving as % of GDP	3.7	13.1
Export of goods & services as % of GDP	15.8	19.7
Imports of goods & services as % of GDP	34.3	31.2
Domestic revenue as % of GDP	15.8	18.7
Tax revenue as % of GDP	12.5	17.0
Total expenditure as % of GDP	25.2	27.0
Total poverty-oriented expenditure as % of GDP	14.2	22.3
Capital expenditure as % of GDP	11.8	15.8
Poverty/Welfare		
Total poverty head count (%)	39	29
Food poverty head count (%)	38	28
Agriculture		
Growth of agricultural value added (%)	13.4	Period average of 6.2% per annum
% Share of agriculture & allied activities in GDP	46.2	43.9
Major crops production (million tons)	16.7	38.2 (level by end of 2009/10)
Meat production (1,000 metric tons)	566	837 (level by end of 2009/10)
Meat export (1,000 metric tons)	8	62 (level by end of 2009/10)
Industry		
Growth rate of industry value added (%)	8.1	Period average 11.5% per annum
Share of industry in GDP (%)	13.6	16.5
Export		
Revenue generated from agricultural exports (in US\$ millions)	546	1,515
Revenue generated from industrial export (leather and leather products) (in US\$ millions)	63.73	500
Revenue generated from mining (in million Birr)	20	44.7
Human Development		
Gross primary enrolment (1 to 8) (%)	79.8	109.7
Primary school completion rate (%)	34	63
Ratio of girls to boys (in primary school)	0.84	0.97
Pupil: text book ratio	2:1	1:1

Sector/Indicator	Base Line (Achievements by end of 2004/05)	PASDEP Target (2009/10)
Pupil: class room ratio	1:69	1:50
Grade 1 drop out rate	22.4	6.3
Primary health services coverage (%)	70	100
Infant mortality rate	77/1,000	45/1,000
Maternal mortality rate	871/100,000	600/100,000
CPR (%)	15	80
Pregnant women with access to treatment to prevent mother to child transmission of HIV/AIDS (%)	0.56	0.52
DPT 3 vaccination coverage (%)	70	80
Share of births attended by skilled health personnel (%)	9	32
Population with access to potable water in rural areas (within 1.5 km) (%)	35	80
Infrastructure Development		
Average Time taken to all-weather road (hours)	5.0	3.2
Road density (km/1,000 km ²)	33.2	54.1
Roads in acceptable condition (%)	64	84
Population with access to electricity (%)	16	50
Mobile users density (per 100)	0.56	8.1
Telephone density/fixed lines (per 100)	0.85	3.87
Population with access to telecommunication center/services (within 5 km radius) (%)	6	100
Number of <i>kebeles</i> with telephone access	3,000	15,000
Fixed telephone subscribers (in millions)	0.62	3.23
Mobile Telephone subscribers (in millions)	0.411	6.761
Internet service subscribers	17,375	193,100
Irrigated land out of the total irrigable land (%)	5	8
Mining		
Increase regional geological mapping coverage (%)	38	53
Increase hydro geological mapping coverage (%)	27	42
Increase engineering geology coverage (%)	7	15
Increase geophysics/gravity coverage (%)	65	80
Urban Development		
Reduce urban unemployment rate in towns with 50,000+ populations (%)	40	20
Provision of housing and basic services (%)	30	65
Number of new houses built		100,000 (yearly average)
Provision of land and infrastructure		3,800 hectares/annum
Reduction of slum areas (%)	70	35
Number of micro and small enterprises		12,000 per annum